Corporate Executive Board

2003 Annual Report to Shareholders

Corporate Executive Board

Serving More Than 2,100 Lead

Corporate Executive

AB Electrolux • AEGON N.V. • Agilent Technologies Inc. • Alcoa Inc. • Altria Group, Inc. • American Express C

• Banco Bilbao Vizcaya Argentaria, S.A. • Bank of America Corporation • BASF Corporation • Bayerische Mot

Participações S.A. • Cable and Wireless plc • The Canada Life Financial Corp. • Cargill, Inc. • Caterpillar Inc. • Ch

Inc. • The Coca-Cola Co. • Coutts & Co. • Credit Suisse Group • DaimlerChrysler AG • DBS Group Holdings Ltd. •

E.I. du Pont de Nemours and Co. • Electronic Data Systems • Eli Lilly and Co. • Exxon Mobil Corp. • Fannie Mae

Corporation • Harley-Davidson, Inc. • Heineken N.V. • Hewlett-Packard Company • HSBC Holdings plc • ING Groep N

Lloyds TSB Group plc • Lowe's Companies, Inc. • Marriott International, Inc. • McDonald's Corp. • Merck & Co., Inc.

• NIKE, Inc. • Nokia Corp. • Nordea AB • Old Mutual plc • Orion Corp. • PepsiCo, Inc. • The Procter & Gamble C

Transport and Trading Company, p.l.c. • Sony Corp. • Sprint FON Group • Standard Bank of South Africa Inc. • Standar

• Telefónica S.A. • Telstra Corporation Limited • Tesco plc • Time Warner Inc. • Toyota Motor Manufacturing • UAL Corp. • Unileve

1983	1993	1996	1997
Financial Services	Human Resources	Strategy and Research & Development	Information Technology

ing Corporations Around the World

Board Practice Areas

Company • American International Group, Inc. • AMP Ltd. • ANZ Banking Group Ltd.• AT&T Corp. • Aviva plc

toren Werke AG • BCE Inc. (Bell Canada) • BNP Paribas • The Boeing Company • BP p.l.c. • Brasil Telecom

harles Schwab & Co. Inc. • ChevronTexaco Corp. • Chinatrust Commercial Bank • Cisco Systems, Inc. • Citigroup

Deere & Co. • Dell Computer Corp. • Deutsche Bank AG • Diageo plc • Direct Line • The Dow Chemical Co. •

• FedEx Corp. • Fonterra Cooperative Group Ltd. • Ford Motor Co. • Fortis • The Gap, Inc. • General Motors

.V. • International Business Machines Corp. • Johnson & Johnson • J.P. Morgan Chase & Co. • Lion Nathan Ltd. •

• Merrill Lynch & Company, Inc. • Microsoft Corporation • Motorola, Inc. • National Australia Bank Ltd. • NEC Corp.

Co. • Prudential Financial, Inc. • RBC Financial Group • Schlumberger Limited • Sears, Roebuck and Co. • The Shell

d Chartered PLC • Starbucks Corp. • STATOIL • Suncorp-Metway Ltd. • Tata Group • Telefonaktiebolaget L. M. Ericsson

er N.V. PLC • United States Department of Justice • Wachovia Corporation • Wal-Mart Stores, Inc. • Wells Fargo & Company

1997
Sales and Marketing

1998
Finance

1999
Legal and Real Estate

2000
Operations and Procurement

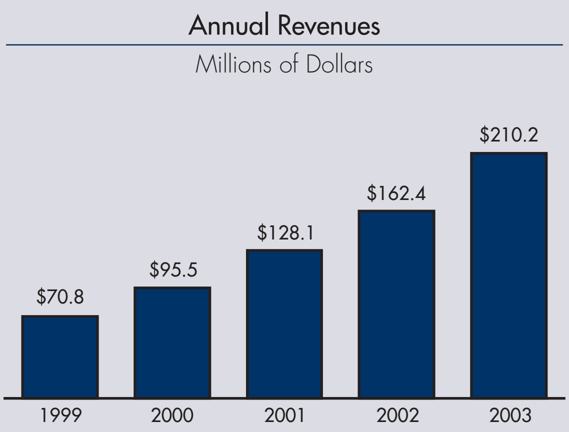
The Corporate Executive Board *in Brief*

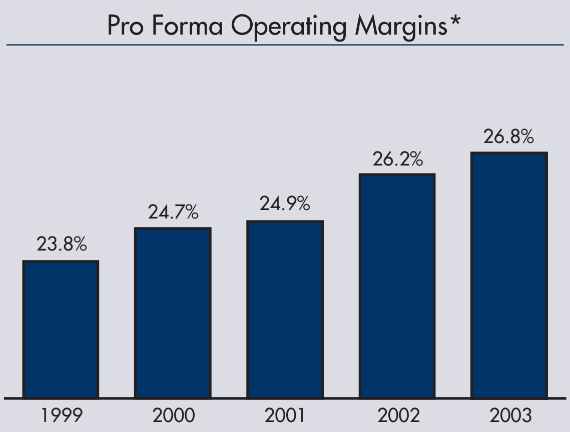
The Corporate Executive Board provides best practices research, decision-support tools, and executive education to a membership of the world's leading corporations and not-for-profit institutions. Our research addresses issues related to corporate strategy, operations, and general management, and we focus on identifying management initiatives, processes, tools, and frameworks that will allow our clients to avoid reinventing the wheel in addressing problems they share in common with their peers. At its best, our work is able to shape strategic debate and to accelerate tactical implementation in even the most progressive organizations.

We provide research and analysis on an annual subscription basis to a membership of more than 2,100 of the world's largest and most prestigious organizations. For a fixed annual fee, members of each subscription program have access to an integrated set of services, including the following:

- Best practices research studies
- Executive education seminars
- Customized research briefs
- Web-based access to the program's content database and decision-support tools

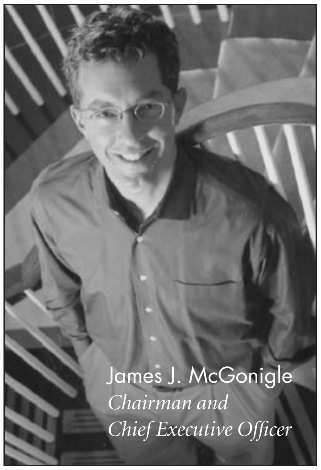
Our business formula combines shared-cost research economics and a membership-based client model, allowing us to provide data and insight at the quality standard of the premier strategy consulting firms but at a fraction of the cost. The formula also creates a closed loop for research. Each year, our clients develop a list of their most pressing business problems and then serve as case studies in our best practices research on these issues. We are guided by a strong sense of stewardship for our members' confidences and financial contributions, and we strive in each interaction to achieve a level of service that is unparalleled in their commercial experience.





* Pro forma presentations are not prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). See page 6 for a reconciliation of GAAP to pro forma presentations.

To Our Shareholders



James J. McGonigle
Chairman and Chief Executive Officer

I am proud to report to you that the Corporate Executive Board (CEB) turned in another extraordinary year of growth and performance in 2003. We demonstrated that in times of recovery, as in the recent economic downturn, the CEB value proposition remains powerful, and the returns to senior executives from avoiding reinventing the wheel on shared challenges remain compelling. We are honored to serve a network of premier companies that has grown steadily since we went public in 1999, and we put forth best efforts every day to be worthy of the confidence our member firms have placed in us.

> "We demonstrated that in times of recovery, as in the recent economic downturn, the CEB value proposition remains powerful, and the returns to senior executives from avoiding reinventing the wheel on shared challenges remain compelling."

Our continuing ability to perform against all our key growth metrics is the result of a combination of strong products, a solid underlying business model, and excellent execution by a staff of unrivaled talent. Our established membership programs continue to grow in line with our expectations, and our new program launches enjoy accelerating market acceptance as we introduce our value proposition to new constituencies across the corporation. We are honored to serve an increasingly global, increasingly diverse membership of executives and are committed to increasing the value we deliver to member organizations each year. By this letter, I would like to call out for you some of the signal accomplishments of the past year in service to the membership and to share our priorities for the year ahead.

Our Fifth Year of Performance as a Public Company

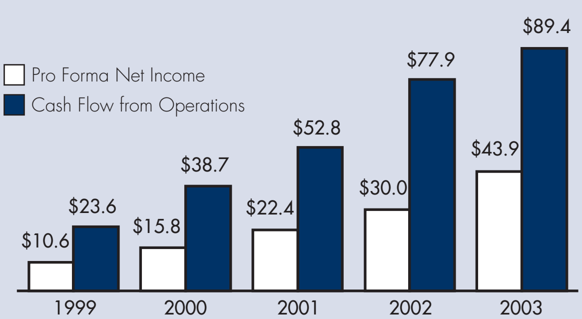
In all of our communications with shareholders, we have emphasized our intention to build in the Corporate Executive Board a more predictable, more scalable growth company. In 2003, for the fifth straight year since our IPO, we delivered well against this standard. Revenues grew to $210.2 million in 2003 from $162.4 million in 2002—a 29 percent increase. The pro forma operating margin continued to improve in 2003, to 26.8 percent, underscoring the operating leverage inherent in our business model and distinguishing us from most other professional service firms. Pro forma net income increased 46 percent to $43.9 million in 2003 from $30.0 million in 2002. Cash flow from operations, reflecting noncash income taxes and increasing deferred revenues, was $89.4 million in 2003, more than double net income. Pro forma earnings per diluted share increased to $1.14 in 2003 from 80 cents in 2002. The pro forma results presented above exclude the noncash income tax charge of $8.2 million recorded within the provision for income taxes for 2003 and exclude $0.7 million in stock option and related expenses for 2002. Reported net income for 2003 rose 21 percent to $35.7 million from $29.6 million in 2002. Reported earnings per diluted share increased to 93 cents in 2003 from 79 cents in 2002.

Stamping Out the CEB Formula

We launched four new research programs across the year, each focused on the most pressing needs of a senior executive constituency in leading corporations and not-for-profit institutions. The HR Measurement Lab was launched at the start of 2003, and the Audit Director Roundtable and Real Estate Executive Board were launched at midyear. As of this writing, these three new programs are closing out their first full year of service. Our final launch of the year, the Applications Executive Council, is a further extension of our fast-growing

Pro Forma Net Income* and Cash Flow from Operations

Millions of Dollars



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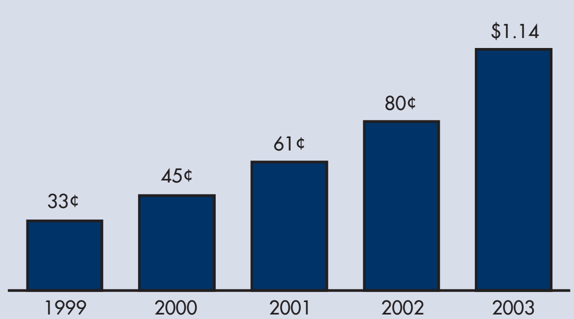
Pro Forma Earnings per Diluted Share*



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The World's Premier Executive Network

8 Practice Areas

2,100 Client Companies

6,400 Program Subscriptions

80,000 Participating Executives

- CEB staff created and delivered record levels of content to our clients last year with 130 new best practices studies, more than 25,000 fast-cycle projects, more than 280 membership meetings, and more than 3,000 on-site executive education sessions
- We also expanded the membership network, adding more than 200 new client companies, and more than 1,100 new program subscriptions
- Across the year, we presented our work to more than 80,000 executives in a variety of meeting formats—an unparalleled level of reach and impact

technology practice. Let me pause a moment and share some more details about this exciting new program.

As with all of our new program launches, the design and research agenda for the Applications Executive Council were directed by a group of charter advisors, including executives from ExxonMobil, Gillette, IBM, and J.P. Morgan Chase. These executives typically control 30 to 40 percent of a company's IT budget and are keen to master both the technology and general management challenges that they share in common with their peers across industry. During the early days of the membership, we hosted a range of teleconferences and member meetings, on topics ranging from overcoming offshore sourcing risks to compressing project scope and build to best practices for getting line executives to agree on applications development priorities and standards. The group just held its first retreat, reserved exclusively for seniormost executives, and we are gratified by the strong reception our content received—more than 80 percent of executives in attendance reported that the session was superior to any other conference or meeting they have attended.

Four new programs in 2003 are identical to the target we announced at the start of the year. For 2004, we are targeting an additional four to five new product launches—from the pipeline of more than 90 concepts maintained by our new business development team. We will continue to discover and pursue growth opportunities with the discipline we have demonstrated to date, favoring adjacent, organic growth consistent with our business model. We calculate the core organic growth opportunity from this activity—assuming only our current Global 4000 target company universe and roughly 20 new programs from this list of 90—to be $3.0 billion, more than 12 times our current revenue size.

Retaining and Deepening Member Relationships

As much as our strong financial performance marked the year, 2003 was even more notable for the retention and deepening of our relationships with member institutions. Our member renewal rate remained consistent with prior years at 90 percent, and our cross-sell ratio grew strongly to 2.99 subscriptions per member institution, up from 2.72 at the end of 2002. We also increased prices modestly to support new service introductions and overall program development. These three key performance measures—member renewal rate, cross-sell ratio, and pricing power—work together to reaffirm the fundamental value of the CEB product in the eyes of our current customers.

> "No other organization we know of comes close to our level of senior executive penetration at the largest companies in the world."

We created and delivered record levels of content to our clients last year: 130 new full-length best practices studies, more than 25,000 fast-cycle projects, 280+ membership meetings, and more than 3,000 on-site executive education sessions, reaching an excess of 80,000 executives in person across the year. The CEB's deep penetration into the executive rank of member institutions is an important measure of our importance to the current and future leaders of these organizations. From this perspective, here's how to think of the expanding reach of the Corporate Executive Board: 8 practice areas encompassing 28 membership programs involving 2,100 client institutions across 6,400 program subscriptions, with direct impact on 80,000 executives. No other organization we know of comes close to our level of senior executive penetration at the largest companies in the world.

Unparalleled Online Reach and Capability

One service delivery channel continues to outstrip the rest in its year-on-year growth performance and very low marginal cost: our suite of online services and capabilities. We now maintain 28 members-only Web sites, separately branded for each program. Online has been our largest content distribution channel over the past several years, with more than 800,000 downloads in 2003, a greater than 35 percent increase from 2002.

> One service delivery channel continues to outstrip the rest in its year-on-year growth performance and very low marginal cost: our suite of online services and capabilities.

This channel is particularly powerful not only for the penetration it enables us to have in member institutions—a depth we could never have achieved in the "offline" world of publications and meetings—but also because of the new capabilities it allows us to introduce into our service offerings for members. For example, our team serving corporate treasurers built a D&O liability insurance benchmarking database and negotiation support calculator. For heads of recruiting, we rolled out a "Smart RFP" system that allows members to more intelligently define requirements in the evaluation and selection of technology vendors. And for operations executives, we rolled out an assessment tool enabling them to pinpoint root causes behind poor forecasting and inventory buildup. The Vice President of Operations at a large chemical company told us, "We did a similar exercise with a consulting firm last year, and it had nowhere near the impact that your tools and peer data have already had on our resource allocation decisions."

Innovations such as these enable us to achieve new levels of impact on members' critical decision processes and continue to increase the relevance and return on investment on membership expenditure each year.

The World's Premier Executive Network

With every new research program we launch and every new member institution we add, we increase the strength of the Corporate Executive Board and its value to our members. The power of this network effect is apparent to those of us who manage this growing set of relationships, and it creates an important asset and a formidable barrier to entry.

> With every new research program we launch and every new member institution we add, we increase the strength of the Corporate Executive Board and its value to our members.

In each of our membership programs, we build a network of the most time-oppressed senior executives at the "brand-name" companies in that particular field or function. Every year, in every program, The Corporate Executive Board research team sets a new agenda in consultation with our members and produces an entirely new slate of best practices content. As our practice areas have grown to encompass the full breadth of the enterprise, our work more and more completely describes a census of large corporate concern. Below are some of the hottest topics we covered in 2003:

- Chief Financial Officers—corporate governance, senior executive compensation, and new best practices in capital budgeting
- Human Resources executives—a new approach to succession management, grounded in a quantitative survey of 276 companies around the world
- Heads of Sales—breakthrough practices in prospect scoring and targeting, most effective approaches to sales-force compensation, and methods for exporting the practices of star performers to the rest of the sales force
- Chief Procurement Officers—a landmark piece of research on efforts to expand their mandate across all meaningful elements of direct and indirect spend
- Chief Information Officers—practices from leading companies engaged in the twin challenge of realizing the return on investment from past technology initiatives and using these insights to enable both IT staff and corporate users to make higher-quality investment decisions in the future

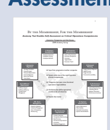
The Corporate Executive Board is uniquely positioned to help our members address these problems because our extensive network, spanning all major functional disciplines of the firm, gives them access to practices that combine deep,

Unparalleled Online Reach and Capability

D&O Benchmarking Tool

"Smart RFP" for Recruiters

Operations Assessment



- The online channel has been our largest—and fastest-growing—for the past several years, with more than 800,000 member downloads in 2003
- The channel is allowing us to extend reach and expand our service offerings; some examples of the latter from 2003 include a D&O liability insurance benchmarking tool for Treasurers; a "smart RFP" for Recruiting; and a capabilities assessment for Operations
- Innovations such as these enable us to achieve new levels of impact on members' critical decision processes and increase membership ROI each year

Living Life on the Steep Part of the Curve

- The Corporate Executive Board repeated its 2002 performance, ranking among the fastest-growing companies in *Fortune*, *Forbes*, and *BusinessWeek*
- We welcome these honors as an acknowledgment of the tremendous performance of our staff in serving our members and as an unpaid advertisement about why we are such an exciting place to work
- Three factors combine to make us a unique career destination: we study the hardest problems facing the world's smartest organizations; our growth ensures that we are always expanding our fields of study; and our meritocracy offers rapid advancement for top talent

function-specific expertise with enterprise-level, general management perspective. We are unique in offering this comprehensive view to our members, and this differentiation drives our ability to grow in value to our members and to our shareholders with each year.

Living Life on the Steep Part of the Curve

Our growth and financial performance have attracted the attention of the business media, and we welcomed a repeat this past year of the triple honors we garnered in 2002. We were again featured in *BusinessWeek's* ranking of "Hot Growth Companies," we reappeared in *Forbes's* "200 Best Small Companies," and we numbered among *Fortune's* "100 Fastest-Growing Companies" for the third consecutive year.

We welcome these honors because they acknowledge the tremendous performance of all CEB staff in conceiving and executing a record of unbroken growth in service to the most demanding member organizations on the planet, and they also help us convey why we are such an exciting place to work.

We offer a compelling employment proposition to staff who join us either from the undergraduate campus or from another corner of the professional-services world: we study the hardest problems facing the most sophisticated organizations on the planet; our growth ensures a continuing variety of challenges and opportunities; and our insistence on meritocracy ensures rapid advancement in an inclusive environment. All of this helps to explain why our offer acceptance rate is more than 85 percent and why our career staff retention is in the top decile in professional services. We staffed more than 225 new positions last year, and we are always eager to speak with high-caliber candidates about the firm and our vision.

Strategic Priorities for Management in 2004

With an established business model, an ambitious growth plan, and a $3 billion organic growth opportunity, the management team and I will remain tightly focused across 2004 on four strategic priorities.

1. Executing focused initiatives supporting our core growth plan, including cross-selling additional programs into member companies that have already established their first CEB membership, penetrating an even-higher percentage of the Global 4000, and strengthening our core product offering
2. Continuing our focus on new product development as we stamp out the CEB formula across new functions and constituencies within the large corporation by launching four to five new programs across the year
3. Producing leading-edge content and matching our research agendas to the most urgent problems facing senior executives as they lead their companies through unpredictable times
4. Recruiting, developing, and retaining the talent we need to support our growth ambitions and taking advantage of our higher profile in the labor market to strengthen our bench of great talent

In closing, I want to pause to recognize the many, many contributions to our strategy, our operations, and our sanity that Rusty Siebert has brought to the Corporate Executive Board across more than a decade as our friend—and across the past five years as a director. Rusty has asked that he not stand for reelection when his term expires this year, and so his active service to us will conclude with our board meeting in May 2004. I want to close this letter by thanking Rusty for his steadfast support of our mission across the years and for his ongoing willingness to serve as an advisor ex officio to CEB.

And to all of our shareholders, we appreciate the trust you have placed in us across this past year, and we are grateful for your continuing support of our efforts and mission.

James J. McGonigle
Chairman and Chief Executive Officer

SELECTED FINANCIAL DATA AND OPERATING DATA

The following table sets forth selected financial and operating data. The selected financial data presented below as of December 31, 1999, 2000, and 2001, and for each of the years in the three-year period ended December 31, 2001, have been derived from our financial statements that have been audited by Arthur Andersen LLP, independent auditors. The selected financial data presented below as of December 31, 2002 and 2003, and for the years then ended, have been derived from our financial statements that have been audited by Ernst & Young LLP, independent auditors. You should read the selected financial data presented below in conjunction with our financial statements, the notes to our financial statements, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(In thousands, except per-share amounts)				
Consolidated Statements of Income Data					
Revenues	$ 70,767	$ 95,491	$128,112	$162,357	$210,211
Costs and expenses					
Cost of services	28,602	36,094	45,738	56,147	70,974
Member relations and marketing	15,525	21,236	30,219	40,768	55,301
General and administrative	8,485	12,021	15,877	17,493	21,632
Depreciation	1,318	2,573	4,412	5,456	5,764
Stock option and related expenses (1) (2)	383	1,371	1,260	668	114
Total costs and expenses	54,313	73,295	97,506	120,532	153,785
Income from operations	16,454	22,196	30,606	41,825	56,426
Other income, net	1,114	2,263	4,283	6,346	7,569
Income before provision for income taxes	17,568	24,459	34,889	48,171	63,995
Provision for income taxes	4,322	9,539	13,257	18,570	28,307
Net income	$ 13,246	$ 14,920	$ 21,632	$ 29,601	$ 35,688
Earnings per share—basic	$ 0.50	$ 0.49	$ 0.64	$ 0.81	$ 0.96
Weighted average shares outstanding—basic	26,446	30,321	34,003	36,722	37,296
Earnings per share—diluted	$ 0.41	$ 0.43	$ 0.59	$ 0.79	$ 0.93
Weighted average shares outstanding—diluted	32,054	34,638	36,465	37,671	38,577

	December 31,				
	1999	2000	2001	2002	2003
	(In thousands)				
Consolidated Balance Sheet Data					
Cash, cash equivalents, and marketable securities	$ 33,074	$ 69,373	$132,469	$225,941	$293,919
Deferred income taxes	8,047	31,348	58,520	59,726	37,673
Total assets	81,764	152,494	257,518	359,581	423,482
Deferred revenues	55,436	71,281	94,683	121,415	154,844
Total stockholders' equity	10,846	65,561	143,984	213,357	241,993

	December 31,				
	1999	2000	2001	2002	2003
Other Operating Data					
Membership programs (3)	12	15	18	22	26
Member institutions	1,480	1,745	1,802	1,930	2,143
Total membership subscriptions	2,790	3,543	4,364	5,257	6,414
Average subscriptions per member institution	1.89	2.03	2.42	2.72	2.99
Client renewal rate (4)	90%	90%	90%	90%	90%
Contract value (in thousands of dollars) (5)	$ 80,633	$108,542	$138,474	$176,533	$227,913

Notes to Selected Financial and Operating Data

(1) In connection with our spin-off from the Advisory Board Company in October 1997, we substituted our stock options for the Advisory Board Company stock options. The terms of the stock option substitution resulted in compensation expense being charged for the intrinsic value of certain stock options. We reflect these charges as stock option expenses over the vesting period of the options. After calendar year 2001, we recognized no additional compensation expense related to these substitution agreements. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Years Ended December 31, 2001, 2002, and 2003—Stock option and related expenses."

(2) For the years ended December 31, 2001, 2002, and 2003, we recognized $1.1 million, $668,000, and $114,000, respectively, in compensation expense reflecting additional Federal Insurance Corporation Act ("FICA") taxes as a result of the taxable income that the employees recognized upon the exercise of nonqualified common stock options, primarily in conjunction with the registered public offerings in March and April 2001 and March 2002 and 2003, respectively.

(3) In January 2004, we launched the Controllers' Leadership Roundtable, an extension of our model into the Finance Practice, and in April 2004, we launched the Communications Executive Council bringing the current number of membership programs to 28.

(4) For the year then ended. Client renewal rate is defined as the percentage of membership institutions renewed, adjusted to reflect reductions in membership institutions resulting from mergers and acquisitions of members.

(5) For the year then ended. Contract value is defined as the aggregate annualized revenue attributed to all agreements in effect at a given date without regard to the remaining duration of any such agreement.

Reconciliation of GAAP to Pro Forma Presentation

	1999		2000		2001		2002		2003	
	in Thousands	% of Annual Revenue	in Thousands	% of Annual Revenue	in Thousands	% of Annual Revenue	in Thousands	% of Annual Revenue	in Thousands	% of Annual Revenue
Pro Forma Operating Margins*										
Income from operations	$ 16,454	23.3%	$ 22,196	23.2%	$ 30,606	23.9%	$ 41,825	25.8%	$ 54,426	26.8%
Stock option and related expenses	383	0.5%	1,371	1.4%	1,260	1.0%	668	0.4%	–	–
Pro forma operating margin	$ 16,837	23.8%	$ 23,567	24.7%	$ 31,866	24.9%	$ 42,493	26.2%	$ 54,426	26.8%

	1999	2000	2001	2002	2003
Pro Forma Net Income (in thousands)*					
Net income	$ 13,246	$ 14,920	$ 21,632	$ 29,601	$ 35,688
Stock option and related expenses, net of tax benefit	289	836	780	410	–
Adjustment for change in tax status	(2,944)	–	–	–	8,192
Pro forma net income	$ 10,591	$ 15,756	$ 22,412	$ 30,011	$ 43,880

	1999	2000	2001	2002	2003
Pro Forma Earnings per Diluted Share*					
Earnings per share—diluted	$ 0.41	$ 0.43	$ 0.59	$ 0.79	$ 0.93
Per share effect of stock option and related expenses, net of tax benefit	0.01	0.02	0.02	0.01	–
Per share effect of adjustment for change in tax status	(0.09)	–	–	–	0.21
Pro forma earnings per share—diluted	$ 0.33	$ 0.45	$ 0.61	$ 0.80	$ 1.14

* Pro forma presentations for the years ended 1999 through 2002 exclude stock option and related expenses and are not prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Company has discontinued reporting pro forma financial results to exclude stock option and related expenses as of the first quarter 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We provide "best practices" research, decision-support tools, and executive education focusing on corporate strategy, operations, and general management issues. Best practices research supports senior executive decision making by identifying and analyzing specific management initiatives, processes, and strategies that have been determined to produce the best results in solving common business problems or challenges. For a fixed annual fee, members of each of our research programs have access to an integrated set of services, including best practices research studies, executive education seminars, customized research briefs, and Web-based access to the program's content database and decision-support tools.

Memberships, which are principally annually renewable agreements, are generally payable by members at the beginning of the contract term. Billings attributable to memberships in our research programs initially are recorded as deferred revenues and then recognized pro rata over the membership contract term, which is typically 12 months. At any time, a member may request a refund of the membership fee for a research program, which is provided on a pro rata basis relative to the remaining term of the membership.

Our growth strategy is to cross-sell additional research programs to existing members, to add new members, and to develop new research programs and decision-support tools. The implementation of our growth strategy can be seen in our operating results. Over the past three years, our revenues have grown at a compound annual growth rate of 30.1 percent, from $95.5 million in 2000 to $210.2 million in 2003, while costs have grown at a compound annual growth rate of 28.0 percent, from $73.3 million in 2000 to $153.8 million in 2003. In addition, our Contract Value has grown at a compound annual growth rate of 28.1 percent over the past three years and was $227.9 million at December 31, 2003. We calculate Contract Value as the aggregate annualized revenue attributed to all agreements in effect at a given point in time, without regard to the remaining duration of any such agreement. Our experience has been that a substantial portion of members renew subscriptions for an equal or higher level each year. See selected Financial Data and Operating Data for additional information with respect to members, subscriptions, and renewals.

Our operating costs and expenses consist of cost of services, member relations and marketing, general and administrative expenses, depreciation, and stock option and related expenses. Cost of services represents the costs associated with the production and delivery of our products and services, including compensation of research personnel and in-house faculty, the production of published materials, the organization of executive education seminars, and all associated support services. Member relations and marketing expenses include the costs of acquiring new members, the costs of maintaining and renewing existing members, compensation expense (including sales commissions), travel, and all associated support services. General and administrative expenses include the costs of human resources and recruiting, finance and accounting, management information systems, facilities management, new product development, and other administrative functions. Depreciation expense includes the cost of depreciation of our property and equipment, which consists of furniture, fixtures and equipment, capitalized software and Web site development costs, and leasehold improvements. Stock option and related expenses include additional payroll taxes for compensation expense relating to the taxable income recognized by employees upon the exercise of nonqualified common stock options.

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,		
	2001	2002	2003
Revenues	100.0%	100.0%	100.0%
Cost of services	35.7	34.6	33.8
Gross profit	64.3	65.4	66.2
Costs and expenses			
Member relations and marketing	23.6	25.1	26.3
General and administrative	12.4	10.8	10.3
Depreciation	3.4	3.4	2.7
Stock option and related expenses	1.0	0.4	0.1
Total costs and expenses	40.4	39.7	39.4
Income from operations	23.9	25.8	26.8
Other income, net	3.3	3.9	3.6
Income before provision for income taxes	27.2	29.7	30.4
Provision for income taxes	10.3	11.4	13.5
Net income	16.9%	18.2%	17.0%

Years Ended December 31, 2001, 2002, and 2003

Revenues. Revenues increased 26.7 percent, from $128.1 million for 2001 to $162.4 million for 2002, and 29.5 percent to $210.2 million for 2003. The largest driver of the increase in revenues during 2001, 2002, and 2003 was the cross-selling of additional subscriptions to existing members. Other drivers contributing to the increase in revenues during 2001, 2002, and 2003 included the introduction of new research programs, price increases, and the addition of new members. The average membership subscription price increased 3.6 percent in 2001, 5.8 percent in 2002, and 5.8 percent in 2003. We introduced three new research programs during 2001 and four new research programs during both 2002 and 2003.

Cost of services. Cost of services increased 22.8 percent, from $45.7 million for 2001 to $56.1 million for 2002, and 26.4 percent to $71.0 million for 2003. The increase in cost of services was principally due to increased compensation costs for new research and executive education staff and an increase in external consulting expenses to support the growth of our existing programs and new program launches. Cost of services as a percentage of revenues decreased from 35.7 percent for 2001 to 34.6 percent for 2002 and to 33.8 percent for 2003. The decrease in costs of services as a percentage of revenues over the three-year period ending December 31, 2003, is due to the leverage inherent in our membership-based model. Because each research program provides our membership with standardized best practices research studies and executive education seminars, new members immediately add to our revenues while only incrementally increasing our operating costs. Cost of services as a percentage of revenues may fluctuate due to the timing of the completion and delivery of best practices research studies, the timing of executive education seminars, and the fixed nature of a portion of the production costs of best practices research studies, as these costs are not significantly affected by growth in the number of membership subscriptions.

Gross profit. Historically, the gross profit as a percentage of revenues, or gross profit margin, has fluctuated based upon the growth in revenues offset by the costs of delivering best practices research studies, the timing of executive education seminars, the hiring of personnel, and the introduction of new membership programs. Accordingly, the gross profit margin for the year ended December 31, 2003, may not be indicative of future results. A number of the factors that impact gross profit margin are discussed in the costs of services description above.

Member relations and marketing. Member relations and marketing costs increased 34.9 percent, from $30.2 million for 2001 to $40.8 million for 2002, and 35.6 percent to $55.3 million for 2003. The year-over-year increases in member relations and marketing costs is principally due to the increase in sales staff and related costs, the increase in travel expenses associated with new sales staff, the increase in commission expense associated with increased revenues, and the increase in member relations personnel and related costs to support our expanding membership base. The increase in member relations and marketing costs as a percentage of revenues over the three-year period ended December 31, 2003, is due primarily to the addition of sales staff and related costs to support our expanding membership base.

General and administrative. General and administrative expenses increased 10.2 percent, from $15.9 million for 2001 to $17.5 million for 2002, and 23.7 percent to $21.6 million for 2003. The year-over-year increases in general and administrative expenses are principally due to the increase in staff and related costs across all functional areas to support our growth. During 2001, we experienced an increase in consulting and training expenses associated with the investments in management information systems software. During 2002, we experienced a decrease in consulting and training expenses as compared to 2001 associated with prior year investments in management information systems software along with a decrease in costs associated with our reduced use of external personnel search firms. During 2003, we experienced an increase in management information system consulting services and other external consultants to support organizational growth. Although general and administrative expenses increased during the period 2001 through 2003, general and administrative expenses as a percentage of revenues decreased over the three-year period ended December 31, 2003, due to the fixed nature of a portion of these costs, which are not significantly affected by growth in revenues.

Depreciation. Depreciation expense increased 23.7 percent, from $4.4 million for 2001 to $5.5 million for 2002, and 5.6 percent to $5.8 million for 2003. The year-over-year increases in depreciation expense were principally due to the additional investment in leasehold improvements for additional office space in Washington, D.C., and the purchase of computer equipment and management information systems software to support organizational growth.

Stock option and related expenses. We recognized $1.1 million, $668,000, and $114,000 in compensation expense during the years ended December 31, 2001, 2002, and 2003, respectively, reflecting additional Federal Insurance Corporation Act ("FICA") taxes as a result of the taxable income that our employees recognized upon the exercise of nonqualified common stock options, primarily in conjunction with the sale of our common stock in the registered public offerings of common stock in March and April 2001 and March 2002 and 2003. Further discussion of the sale of our common stock in the registered public offerings of common stock appears in the liquidity and capital resources section below.

Other income, net. Other income, net, consists primarily of interest income earned on a portfolio of cash and cash equivalents and marketable securities and the realized gain on the sale of marketable securities. Other income, net, increased 48.2 percent, from $4.3 million for 2001 to $6.3 million for 2002, and 19.3 percent to $7.6 million for 2003. The growth in other income, net, was due primarily to the increase in interest income associated with the increased level of cash and cash equivalents and marketable securities. However, the lower relative growth in other income, net, as a percentage of revenues for 2002 and 2003 reflects lower investment returns due to the lower interest rate environment. Cash and cash equivalents and marketable securities increased as a result of cash flows from operating activities and cash flows from financing activities further discussed in the liquidity and capital resources section below.

Provision for income taxes. We recorded a provision for income taxes of $13.3 million, $18.6 million, and $28.3 million for 2001, 2002, and 2003, respectively. The increase in the effective income tax rate from 38.0 percent for 2001 to 38.6 percent for 2002 primarily reflects the decreased benefit from federal income tax incentives associated with the location of our office facilities. The increase in the effective income tax rate to 44.2 percent for 2003 is due primarily to a noncash income tax charge to earnings to write down the value of our deferred tax assets in connection with the recognition of our new status as a Qualified High Technology Company under the New E-Conomy Transformation Act of 2000 (the "Act") adopted by the Office of Tax and Revenue of the Government of the District of Columbia (the " Office of Tax and Revenue").

In October 2003, we received notification from the Office of Tax and Revenue that our certification as a QHTC had been accepted. As a QHTC, our Washington, D.C., statutory income tax rate will be 0.0 percent through 2005 and 6.0 percent thereafter, versus 9.975 percent prior to this qualification, and we are eligible for certain Washington, D.C., income tax credits and other benefits. Accordingly, we recorded a noncash income tax charge to earnings of $8.2 million during the year ended December 31, 2003, for the impact on our deferred tax assets of lowering the Washington, D.C., income tax rate to 0.0 percent, partially offset by the recognition of certain Washington, D.C., income tax credits.

We filed a claim for a refund of sales and use taxes previously paid to the Office of Tax and Revenue on qualifying QHTC purchases under the Act. We subsequently received a notice of refund denial for the claim. This notice of refund denial is inconsistent with the position taken by the QHTC Activity Review Committee of the Office of Tax and Revenue, which approved our QHTC status in October 2003. We plan to appeal the denial for refund of sales and use taxes. At December 31, 2003, we valued our deferred income tax assets and liabilities using the currently enacted federal income tax rate of 35.0 percent and the QHTC Washington, D.C., income tax rate of 0.0 percent. In addition, we have continued to provide for income, sales, and use taxes as if we were a QHTC. If the Office of Tax and Revenue rescinds its acceptance of our QHTC certification or we otherwise determine that such action is likely, we will record a benefit to earnings representing the impact on our existing deferred tax assets of increasing the Washington, D.C., income tax rate to 9.975 percent, offset by the elimination of certain Washington, D.C., income tax credits which, as of December 31, 2003, would have been $2.1 million.

Liquidity and Capital Resources

Cash flows from operating activities. We have financed our operations to date through funds generated from operating activities. Membership subscriptions, which are principally annually renewable agreements, are generally payable by members at the beginning of the contract term. The combination of revenue growth and advance payment of membership subscriptions has historically resulted in net positive cash flows provided by operating activities. We generated net cash flows from operating activities of $52.8 million, $77.9 million, and $89.4 million for 2001, 2002, and 2003, respectively. For 2001, 2002, and 2003, operating cash flows were generated during the period principally by net income, the utilization of tax benefits created by the exercise of common stock options, and the growth in deferred revenues, partially offset by the growth in membership fees receivable. As of December 31, 2002 and 2003, we had cash, cash equivalents, and marketable securities of $225.9 million and $293.9 million, respectively. We expect that our current cash, cash equivalents, and marketable securities balances and anticipated net positive cash flows from operations will satisfy working capital, financing, and capital expenditure requirements for the next 12 months.

Cash flows from investing activities. We used net cash flows in investing activities of $38.6 million, $68.3 million, and $31.6 million during the years ended December 31, 2001, 2002, and 2003, respectively. During 2001, 2002, and 2003, investing cash flows were used within the period to purchase available-for-sale marketable securities, net, of $33.3 million, $65.2 million, and $25.3 million, respectively, and to purchase leasehold improvements for additional office space in Washington, D.C., and computer software and equipment of $5.3 million, $3.1 million, and $6.3 million, respectively.

Cash flows from financing activities. We generated net cash flows from financing activities of $14.5 million and $13.5 million during the years ended December 31, 2001 and 2002, respectively. We used net cash flows in financing activities of $10.6 million during the year ended December 31, 2003. Net cash provided by financing activities during the years ended December 31, 2001 and 2002, was primarily attributed to the receipt of cash for the exercise of stock options in conjunction with the sale of our common stock by our employees and directors in registered public offerings. In March and April 2001 and March 2002 and 2003, 3,035,000 shares, 2,100,000 shares, and 588,000 shares, respectively, of our common stock were sold by selling stockholders in registered public offerings. We did not directly receive any proceeds from the sale of our common stock. However, we did receive cash from the exercise of common stock options in conjunction with the sale of our common stock. Cash flows used in financing activities during the year ended December 31, 2003, were attributed to the repurchase of our common stock. During 2003, we purchased 552,007 shares of our common stock at a total cost of approximately $19.6 million.

We have entered into $0.7 million, $4.0 million, and $2.3 million letter of credit agreements with commercial banks, which expire December 2004, August 2004, and January 2015, respectively, to provide security deposits for certain of our office leases. We pledged certain assets as collateral under the letter of credit agreements. To date, no amounts have been drawn on these agreements.

We lease office facilities in the United States and the United Kingdom expiring on various dates over the next 16 years. Certain lease agreements include provisions for rental escalations and require us to pay for executory costs such as taxes and insurance. Future minimum rental payments under noncancelable operating leases, excluding executory costs, are $117.0 million.

The following summarizes certain of our operating lease obligations at December 31, 2003:

	Payments Due by Period				
	Total	< 1 Year	1–3 Years	4–5 Years	> 5 years
	(In thousands)				
Operating leases	$ 117,028	$ 8,994	$ 23,110	$ 24,373	$ 60,551

We had no other noncancelable contractual financial obligations at December 31, 2003.

Off-balance sheet arrangements. At December 31, 2002 and 2003, we had no off–balance sheet financing or other arrangements with unconsolidated entities or financial partnerships (such as entities often referred to as structured finance or special purpose entities) established for purposes of facilitating off–balance sheet financing or other debt arrangements or for other contractually narrow or limited purposes.

Critical Accounting Policies

We have identified the following policies as critical to our business operations and the understanding of our results of operations. This listing is not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. However, certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and may require the application of significant judgment by our management; as a result, they are subject to an inherent degree of uncertainty. In applying those policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical experience, our observance of trends in the industry, information provided by our members, and information available from other outside sources, as appropriate. For a more detailed discussion on the application of these and other accounting policies, see "Note 3—Summary of significant accounting policies" in our financial statements and related notes. Our critical accounting policies include:

Deferred tax asset. We have deferred income tax assets consisting primarily of net operating loss ("NOL") carryforwards for regular federal income tax purposes generated from the exercise of common stock options. In estimating future tax consequences, Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), generally considers all expected future events in the determination and valuation of deferred tax assets and liabilities. We believe that our future taxable income will be sufficient for the full realization of the deferred income tax assets. However, SFAS 109 does not consider the effect of future changes in existing tax laws or rates in the determination and evaluation of deferred tax assets and liabilities until the new tax laws or rates are enacted. We have established our deferred income tax assets and liabilities using currently enacted tax laws and rates. We will recognize in income an adjustment for the impact of new tax laws or rates or from changes in our tax status on the existing deferred tax assets and liabilities when new tax laws or rates are enacted or the change in our status occurs.

Revenue recognition. Revenues from membership subscriptions are recognized over the term of the related subscription, which generally is 12 months. Membership fees generally are billable, and revenue recognition begins when the member agrees to the terms of the membership. Certain membership fees are billed on an installment basis. Members may request a refund of their membership fees, which is provided on a pro rata basis relative to the length of the remaining membership term. Our policy is to record the full amount of membership fees receivable as an asset and related deferred revenue as a liability when a member agrees to the terms of a membership. Revenues from membership subscriptions were greater than 95 percent of total revenues for each of the years ended December 31, 2001, 2002, and 2003.

Reserve for uncollectible revenue. We record a reserve for uncollectible revenue based upon management's analyses and estimates as to the collectability of our accounts receivable. As part of our analysis, we examine our collections history, the age of the receivables in question, any specific customer collection issues that we have identified, general market conditions, customer concentrations, and current economic trends.

Commission expense recognition. Commission expenses related to the negotiation of new memberships and the renewal of existing memberships are deferred and amortized over the term of the related memberships.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate risk primarily through our portfolio of cash, cash equivalents, and marketable securities, which is designed for safety of principal and liquidity. Cash and cash equivalents include highly liquid U.S. Treasury obligations with maturities of less than three months. Marketable securities consist primarily of U.S. Treasury notes and bonds and insured Washington, D.C., tax-exempt notes and bonds. We perform periodic evaluations of the relative credit ratings related to the cash, cash equivalents, and marketable securities. This portfolio is subject to inherent interest rate risk as investments mature and are reinvested at current market interest rates. We currently do not use derivative financial instruments to adjust our portfolio risk or income profile.

A Note About Forward-Looking Statements

We have made forward-looking statements in this annual report, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed results of operations, business strategies, financing plans, competitive position, and potential growth opportunities. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believes," "expects," "anticipates," "intends," "plans," "estimates," or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this annual report.

You should understand that many important factors could cause our results to differ materially from those expressed in these forward-looking statements. Among the factors that could cause our future results to differ from those reflected in forward-looking statements are the risks discussed in the Form 10-K that we filed with the Securities and Exchange Commission on March 2, 2004, under the heading "Business-Risk Factors." These factors include:

- Our dependence on renewals of our membership-based services
- Our inability to know in advance if new products will be successful
- Difficulties in anticipating market trends
- Our need to attract and retain a significant number of highly skilled employees
- Restrictions on selling our products and services to the health care industry
- Continued consolidation in the financial institution industry
- Fluctuations in operating results
- Our potential inability to protect our intellectual property rights
- Our potential exposure to litigation related to content
- Our potential exposure to loss of revenue resulting from our unconditional service guarantee
- Risks related to our status as a Qualified High Technology Company
- Our previous use of Arthur Andersen LLP as our independent auditors

THE CORPORATE EXECUTIVE BOARD COMPANY
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2002	December 31, 2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 71,346	$ 118,568
Marketable securities	17,030	11,859
Membership fees receivable, net	50,356	63,160
Deferred income taxes	28,806	30,972
Deferred incentive compensation	4,974	7,332
Prepaid expenses and other current assets	3,668	5,933
Total current assets	176,180	237,824
DEFERRED INCOME TAXES	30,920	6,701
MARKETABLE SECURITIES	137,565	163,492
PROPERTY AND EQUIPMENT, NET	14,916	15,465
Total assets	$ 359,581	$ 423,482
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 12,549	$ 12,480
Accrued incentive compensation	9,660	11,072
Deferred revenues	121,415	154,844
Total current liabilities	143,624	178,396
OTHER LIABILITIES	2,600	3,093
Total liabilities	146,224	181,489
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01; 5,000,000 shares authorized, no shares issued and outstanding	–	–
Common stock, par value $0.01; 100,000,000 shares authorized and 37,182,846 and 37,835,075 shares issued as of December 31, 2002 and 2003, respectively, and 37,182,846 and 37,283,068 outstanding as of December 31, 2002 and 2003, respectively	372	378
Additional paid-in-capital	129,846	143,426
Retained earnings	77,844	113,532
Accumulated elements of comprehensive income	5,295	4,277
Treasury stock, zero, and 552,007 shares, at December 31, 2002 and 2003, respectively	–	(19,620)
Total stockholders' equity	213,357	241,993
Total liabilities and stockholders' equity	$ 359,581	$ 423,482

See accompanying notes to consolidated financial statements.

THE CORPORATE EXECUTIVE BOARD COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per-share amounts)

	Year Ended December 31,		
	2001	2002	2003
REVENUES	$ 128,112	$ 162,357	$ 210,211
COST OF SERVICES	45,738	56,147	70,974
GROSS PROFIT	82,374	106,210	139,237
COSTS AND EXPENSES			
Member relations and marketing	30,219	40,768	55,301
General and administrative	15,877	17,493	21,632
Depreciation	4,412	5,456	5,764
Stock option and related expenses (1)	1,260	668	114
Total costs and expenses	51,768	64,385	82,811
INCOME FROM OPERATIONS	30,606	41,825	56,426
OTHER INCOME, NET	4,283	6,346	7,569
INCOME BEFORE PROVISION FOR INCOME TAXES	34,889	48,171	63,995
PROVISION FOR INCOME TAXES	13,257	18,570	28,307
NET INCOME	$ 21,632	$ 29,601	$ 35,688
EARNINGS PER SHARE:			
Basic	$ 0.64	$ 0.81	$ 0.96
Diluted	$ 0.59	$ 0.79	$ 0.93
WEIGHTED AVERAGE SHARES USED IN THE CALCULATION OF EARNINGS PER SHARE			
Basic	34,003	36,722	37,296
Diluted	36,465	37,671	38,577
(1) Composition of stock option and related expenses			
Cost of services	$ 509	$ 343	$ 75
Member relations and marketing	283	148	5
General and administrative	468	177	34
Total	$ 1,260	$ 668	$ 114

See accompanying notes to consolidated financial statements.

THE CORPORATE EXECUTIVE BOARD COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2001	2002	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 21,632	$ 29,601	$ 35,688
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation	4,166	5,456	5,764
Loss on disposition of property and equipment	246	–	–
Deferred income taxes and tax benefits resulting from the exercise of common stock options	13,440	18,349	27,171
Stock option repurchases	(3,140)	–	–
Stock option and related expenses	186	–	–
Amortization of marketable securities premiums, net	478	1,506	2,185
Changes in operating assets and liabilities:			
Membership fees receivable, net	(12,492)	(8,345)	(12,804)
Deferred incentive compensation	(1,389)	(758)	(2,358)
Prepaid expenses and other current assets	(27)	(626)	(2,265)
Accounts payable and accrued liabilities	2,581	1,866	730
Accrued incentive compensation	3,374	3,273	1,412
Deferred revenues	23,402	26,732	33,429
Other liabilities	384	819	493
Net cash flows provided by operating activities	52,841	77,873	89,445
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(5,260)	(3,112)	(6,313)
Purchase of marketable securities	(61,022)	(116,738)	(71,440)
Sales and maturities of marketable securities	27,717	51,564	46,104
Net cash flows used in investing activities	(38,565)	(68,286)	(31,649)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the exercise of common stock options	13,798	12,835	8,292
Proceeds from issuance of common stock under the employee stock purchase plan	704	653	754
Purchase of treasury shares	–	–	(19,620)
Reimbursement of common stock offering costs	375	300	175
Payment of common stock offering costs	(375)	(300)	(175)
Net cash flows provided by (used in) financing activities	14,502	13,488	(10,574)
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,778	23,075	47,222
Cash and cash equivalents, beginning of year	19,493	48,271	71,346
Cash and cash equivalents, end of year	$ 48,271	$ 71,346	$ 118,568

See accompanying notes to consolidated financial statements.

THE CORPORATE EXECUTIVE BOARD COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2001, 2002, and 2003
(In thousands, except share amounts)

	Common Stock		Additional Paid-in-Capital	Deferred Compensation	Retained Earnings	Accumulated Elements of Comprehensive Income	Treasury Stock	Total	Annual Comprehensive Income
	Shares	Amount							
Balance at December 31, 2000	31,144,069	$ 311	$ 38,579	$ (186)	$ 26,611	$ 246	$ –	$ 65,561	
Issuance of common stock upon the exercise of common stock options	3,727,682	38	13,760	–	–	–	–	13,798	–
Issuance of common stock under the employee stock purchase plan	26,309	–	704	–	–	–	–	704	–
Tax benefits related to the exercise of stock options	–	–	41,178	–	–	–	–	41,178	–
Amortization of deferred compensation	–	–	–	186	–	–	–	186	–
Unrealized gains on available-for-sale marketable securities, net of tax	–	–	–	–	–	925	–	925	925
Net income	–	–	–	–	21,632	–	–	$ 21,632	21,632
Balance at December 31, 2001	34,898,060	$ 349	$ 94,221	$ –	$ 48,243	$ 1,171	$ –	$ 143,984	$ 22,557
Issuance of common stock upon the exercise of common stock options	2,259,653	23	12,812	–	–	–	–	12,835	–
Issuance of common stock under the employee stock purchase plan	25,133	–	653	–	–	–	–	653	–
Tax benefits related to the exercise of stock options	–	–	22,160	–	–	–	–	22,160	–
Unrealized gains on available-for-sale marketable securities, net of tax	–	–	–	–	–	4,124	–	4,124	4,124
Net income	–	–	–	–	29,601	–	–	29,601	29,601
Balance at December 31, 2002	37,182,846	$ 372	$ 129,846	$ –	$ 77,844	$ 5,295	$ –	$ 213,357	$ 33,725
Issuance of common stock upon the exercise of common stock options	626,663	6	8,286	–	–	–	–	8,292	–
Issuance of common stock under the employee stock purchase plan	25,566	–	754	–	–	–	–	754	–
Tax benefits related to the exercise of stock options	–	–	4,540	–	–	–	–	4,540	–
Purchase of treasury stock at cost	(552,007)	–	–	–	–	–	(19,620)	(19,620)	–
Unrealized losses on available-for-sale marketable securities, net of tax	–	–	–	–	–	(1,018)	–	(1,018)	(1,018)
Net income	–	–	–	–	35,688	–	–	35,688	35,688
Balance at December 31, 2003	37,283,068	$ 378	$ 143,426	$ –	$ 113,532	$ 4,277	$ (19,620)	$ 241,993	$ 34,670

See accompanying notes to consolidated financial statements.

THE CORPORATE EXECUTIVE BOARD COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Description of operations

The Corporate Executive Board Company (the "Company") provides "best practices" research, decision-support tools, and executive education focusing on corporate strategy, operations, and general management issues. Best practices research supports senior executive decision making by identifying and analyzing specific management initiatives, processes, and strategies that have been determined to produce the best results in solving common business problems or challenges. For a fixed annual fee, members of each of its research programs have access to an integrated set of services, including best practices research studies, executive education seminars, customized research briefs, and Web-based access to the program's content database and decision-support tools.

2) Spin-off

The Company was incorporated on September 11, 1997, under the laws of the State of Delaware. The Company's business was operated as a division of the Advisory Board Company, a Maryland corporation, until October 31, 1997, when the business was contributed to the Company and spun-off to the Advisory Board Company's sole stockholder (the "Spin-Off"). Subsequent to February 2000, the former sole stockholder owns no shares of the Company's common stock.

3) Summary of significant accounting policies

Cash equivalents and marketable securities

Short-term investments and marketable securities that mature within three months of purchase are classified as cash equivalents. Short-term investments and marketable securities with maturities of more than three months are classified as marketable securities. Marketable securities with maturity dates of less than one year are classified as current assets. As of December 31, 2002 and 2003, the Company's marketable securities consisted primarily of U.S. Treasury notes and bonds and Washington, D.C., tax-exempt notes and bonds. The Company classifies its marketable securities as available-for-sale, which are carried at fair value based on quoted market prices. The net unrealized gains and losses on available-for-sale marketable securities are excluded from net income and are included within accumulated elements of comprehensive income. The specific identification method is used to compute the realized gains and losses on the sale of marketable securities. The Company may elect not to hold these marketable securities to maturity and may elect to sell these securities at any time.

Allowance for doubtful accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce membership fees receivable to their expected net realizable value. The Company estimates the amount of the required allowance by reviewing the status of past-due receivables and analyzing historical bad debt trends. The Company charges-off receivables deemed to be uncollectible to the allowance for doubtful accounts. Accounts receivable balances are not collaterized.

Property and equipment

Property and equipment consists of furniture, fixtures and equipment, capitalized software and Web site development costs, and leasehold improvements. Property and equipment are stated at cost, less accumulated depreciation expense. Furniture, fixtures, and equipment are depreciated using the straightline method over the estimated useful lives of the assets, which range from three to seven years. Capitalized software and Web site development costs are depreciated using the straightline method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are depreciated using the straightline method over the shorter of the estimated useful lives of the assets or the lease term. Replacements and major improvements are capitalized. Maintenance and repairs are charged to expense as incurred.

Recovery of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company recognizes an impairment loss when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. The Company believes that no such impairment existed as of December 31, 2002 and 2003.

Revenue recognition

Revenues from membership subscriptions are recognized ratably over the term of the related subscription, which is generally 12 months. Revenues from implementation support memberships are recognized as services are performed, limited by the Company's pro rata refund policy. Membership fees are generally billable, and revenue recognition begins, when the member agrees to the terms of the membership. Certain membership fees are billed on an installment basis. Members may request a refund of their membership fees, which is provided on a pro rata basis relative to the length of the remaining membership term. The Company's policy is to record the full amount of membership fees receivable as an asset and related deferred revenue as a liability when a member agrees to the terms of a membership. Revenues from membership subscriptions were greater than 95 percent of total revenues for each of the years ended December 31, 2001, 2002, and 2003. In addition, as of December 31, 2002 and 2003, approximately $1.7 million and $2.8 million, respectively, of deferred revenues were to be recognized beyond the following 12 months.

Commission expense recognition

Commission expenses related to the negotiation of new memberships and the renewal of existing memberships are deferred and amortized over the term of the related memberships.

Earnings per share

Basic earnings per share was computed by dividing net income by the number of weighted average common shares outstanding during the period. Diluted earnings per share was computed by dividing net income by the number of diluted weighted average common shares outstanding during the period. The number of weighted average common share equivalents outstanding has been determined in accordance with the treasury-stock method. Common share equivalents consist of common shares issuable upon the exercise of outstanding common stock options. A reconciliation of basic to diluted weighted average common shares outstanding is as follows (in thousands):

	Year Ended December 31,		
	2001	**2002**	**2003**
Basic weighted average common shares outstanding	34,003	36,722	37,296
Weighted average common share equivalents outstanding	2,462	949	1,281
Diluted weighted average common shares outstanding	36,465	37,671	38,577

Consolidation and basis of presentation

The consolidated financial statements include accounts of The Corporate Executive Board Company and The Corporate Executive Board Company (UK) Ltd. All significant intercompany transactions and balances have been eliminated in consolidation.

Concentration of credit risk

Financial instruments, which potentially expose the Company to concentration of credit risk, consist primarily of membership fees receivable and cash, cash equivalents, and marketable securities. Concentrations of credit risk with respect to membership fees receivable are limited due to the large number of members and their dispersion across many different industries and countries worldwide. However, the Company may be exposed to a declining membership base in periods of unforeseen market downturns, severe competition, or international developments. The Company performs periodic evaluations of the membership base and related membership fees receivable and establishes allowances for potential credit losses.

The Company generates revenues from members located outside the United States. For the years ended December 31, 2001, 2002, and 2003, approximately 30 percent, 27 percent, and 25 percent of revenues, respectively, were generated from members located outside the United States. Revenues from customers in European countries were approximately 16 percent, 15 percent, and 14 percent for the years ended December 31, 2001, 2002, and 2003, respectively, with no other geographic area representing more than 10 percent of revenues in any period. No individual member accounted for more than 2 percent of revenues for any period presented.

The Company maintains a portfolio of cash, cash equivalents, and marketable securities, which is designed for safety of principal and liquidity. Cash and cash equivalents consist of highly liquid U.S. government and U.S. Treasury obligations that mature within three months of purchase. Marketable securities consist primarily of U.S. Treasury notes and bonds and Washington, D.C., tax-exempt notes and bonds. The Company performs periodic evaluations of the relative credit ratings related to the cash, cash equivalents, and marketable securities.

Foreign currency

The functional currency of the Company's wholly owned subsidiary is its local currency. The financial statements of the subsidiary are translated to U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates during the corresponding period for revenues, expenses, and cash flows. Translation gains and losses as a result of this translation are accumulated as a component of accumulated other comprehensive (loss) income.

Fair value of financial instruments

The fair value of the Company's financial instruments approximates their carrying value due to their short maturity.

Income taxes

Deferred income taxes are determined on the asset and liability method. Under this method, temporary differences arise as a result of the difference between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some or all of the deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax law and tax rates on the date of the enactment of the change. The Company believes that its future taxable income will be sufficient for the full realization of the deferred income tax assets.

Research and development costs

Costs related to the research and development of new company programs are expensed in the period incurred. Research and development costs were immaterial for the years ended December 31, 2001, 2002, and 2003.

Stock-based compensation

At December 31, 2003, the Company had several stock-based employee compensation plans, which are described more fully in Note 11. These plans provide for the granting of stock options and restricted stock to employees and non-employee members of our Board of Directors. The Company accounts for those plans using the intrinsic value method of expense recognition and measurement prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations (collectively, "APB No. 25"). Accordingly, no stock-based compensation cost is reflected in net income, as reported, as all stock options granted under the Company's stock-based employee compensation plans have an exercise price equal to the market value of the underlying common stock on the date of grant.

FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), as amended by FASB Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, established an alternative method of expense recognition for stock-based compensation awards to employees based on fair values. Pro forma information regarding net income is required by SFAS No. 123, as amended, and has been determined as if the Company had accounted for its employee stock options under the fair value method as prescribed by SFAS No. 123, as amended.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation. For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the vesting period. The provisions of SFAS No. 123, as amended, may not necessarily be indicative of future results. A reconciliation of net income, as reported, to pro forma net income is as follows (in thousands, except per-share amounts):

	Year Ended December 31,		
	2001	**2002**	**2003**
Net income, as reported	$ 21,632	$ 29,601	$ 35,688
Deduct: Total stock-based employee compensation expense determined under fair value–based methods for all awards, net of related tax effects	(8,842)	(16,538)	(17,659)
Pro forma net income	$ 12,790	$ 13,063	$ 18,029
Earnings per share			
Basic—as reported	$ 0.64	$ 0.81	$ 0.96
Basic—pro forma	$ 0.38	$ 0.36	$ 0.48
Diluted—as reported	$ 0.59	$ 0.79	$ 0.93
Diluted—pro forma	$ 0.35	$ 0.35	$ 0.47
Assumptions			
Dividend yield	–	–	–
Expected life of option (in years)	5	5	5
Expected volatility	69%	63%	55%
Risk-free interest rate	4.4%	3.1%	2.9%
Weighted-average fair value of options granted	$ 18.85	$ 17.88	$ 16.49

Under the SFAS No. 123 pro forma disclosure provisions, the fair value of options granted subsequent to December 15, 1995, has been estimated using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price characteristics that are significantly different from those of traded options. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock rights.

Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and costs and expenses during the reporting period. Actual results could differ from those estimates.

4) Marketable securities

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

	As of December 31, 2002			
	Market Value	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
U.S. Treasury notes and bonds	$ 75,307	$ 70,654	$ 4,653	$ –
Washington, D.C., tax-exempt notes and bonds	79,288	75,324	3,964	–
	$154,595	$145,978	$ 8,617	$ –

	As of December 31, 2003			
	Market Value	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
U.S. Treasury notes and bonds	$108,598	$106,276	$ 2,756	$ 434
Washington, D.C., tax-exempt notes and bonds	66,753	62,853	3,900	–
	$175,351	$169,129	$ 6,656	$ 434

The following table summarizes marketable securities maturities (in thousands):

	As of December 31, 2003	
	Fair Market Value	**Amortized Cost**
Less than one year	$ 11,859	$ 11,610
Matures in 1 to 5 years	109,369	106,711
Matures in 6 to 10 years	46,156	43,368
Matures after 10 years	7,967	7,440
	$175,351	$169,129

The Company may elect not to hold these marketable securities to maturity and may elect to sell these securities at any time. Gross realized investment gains on the sale of marketable securities were $0.8 million in 2003. There were no gross realized investment gains (losses) on the sale of marketable securities in 2002.

5) Membership fees receivable

Membership fees receivable consist of the following (in thousands):

	As of December 31,	
	2002	2003
Billed membership fees receivable	$ 41,900	$ 45,345
Unbilled membership fees receivable	11,256	20,690
	53,156	66,035
Reserve for uncollectible revenue	(2,800)	(2,875)
Membership fees receivable, net	$ 50,356	$ 63,160

6) Property and equipment

Property and equipment consist of the following (in thousands):

	As of December 31,	
	2002	2003
Furniture, fixtures, and equipment	$ 10,763	$ 14,358
Software and Web site development costs	8,783	9,546
Leasehold improvements	8,189	10,144
	27,735	34,048
Accumulated depreciation	(12,819)	(18,583)
Property and equipment, net	$ 14,916	$ 15,465

7) Income taxes

The provision for income taxes consists of the following (in thousands):

	As of December 31,		
	2001	2002	2003
Current tax expense	$ 18,621	$ 18,418	$ 19,523
Deferred tax (benefit) expense	(5,364)	152	8,784
Provision for income taxes	$ 13,257	$ 18,570	$ 28,307

The provision for income taxes differs from the amount of income taxes determined by applying the U.S. federal income tax statutory rates to income before provision for income taxes as follows:

	Year Ended December 31,		
	2001	2002	2003
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income tax, net of U.S. federal income tax benefit	6.5	6.5	–
Write down of deferred tax assets, net, related to a change in tax status	–	–	12.8
Permanent differences, net	(3.5)	(2.9)	(3.6)
Effective tax rate	38.0%	38.6%	44.2%

See Washington, D.C., income tax incentives below for a discussion of an $8.2 million noncash charge to earnings during the year ended December 31, 2003, for the impact on the Company's deferred tax assets of lowering the Washington, D.C., income tax rate to 0.0 percent associated with a change in the Company's tax status.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities consist of the following (in thousands):

	As of December 31,	
	2002	**2003**
Deferred tax assets		
Accrued incentive compensation agreements	$ 4,007	$ 3,175
Net operating loss carryforwards	54,655	26,615
Deferred revenue	2,603	2,646
Financial reporting reserves	1,161	1,007
Tax credit carryforwards	1,940	8,252
Employee benefits	79	65
Operating leases	1,092	1,083
Total deferred tax assets	65,537	42,843
Deferred tax liabilities		
Unrealized gains on available-for-sale securities	3,322	2,178
Depreciation	426	426
Deferred incentive compensation	2,063	2,566
Total deferred tax liabilities	5,811	5,170
Deferred tax assets, net	$ 59,726	$ 37,673

The Company has deferred income tax assets, consisting primarily of net operating loss ("NOL") carryforwards for regular federal and state income tax purposes generated from the exercise of common stock options. In estimating future tax consequences, Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"), generally considers all expected future events in the determination and valuation of deferred tax assets and liabilities. The Company believes that its future taxable income will be sufficient for the full realization of the deferred income tax assets. However, SFAS 109 does not consider the effect of future changes in existing tax laws or rates in the determination and valuation of deferred tax assets and liabilities until the new tax laws or rates are enacted. We have established our deferred income tax assets and liabilities using currently enacted tax law and rates. The Company will recognize into income an adjustment for the impact of new tax laws or rates or from changes in our tax status on the existing deferred tax assets and liabilities when new tax laws or rates are enacted or the change in status occurs.

The Company has net operating losses that resulted in a deferred tax asset of $54.7 million and $26.6 million at December 31, 2002 and 2003, respectively. The net operating losses expire in the years 2019 through 2023. The Company has realized current tax benefits (reductions of taxes payable) resulting from the use of net operating loss carryforwards of $18.6 million, $18.4 million, and $19.5 million in the years ended December 31, 2001, 2002, and 2003, respectively.

Washington, D.C., income tax incentives

The Office of Tax and Revenue of the Government of the District of Columbia (the "Office of Tax and Revenue") has adopted regulations in accordance with the New E-Conomy Transformation Act of 2000 (the "Act") that modify the income and franchise tax, sales and use tax, and personal property tax regulations, effective April 2001. Specifically, the regulations provide certain credits, exemptions, and other benefits to a Qualified High Technology Company ("QHTC"). In October 2003, the Company received notification from the Office of Tax and Revenue that its certification as a QHTC under the Act had been accepted. As a QHTC, the Company's Washington, D.C., statutory income tax rate will be 0.0 percent through 2005 and 6.0 percent thereafter, versus 9.975 percent prior to this qualification, and the Company is also eligible for certain Washington, D.C., income tax credits and other benefits.

The Company recorded a noncash income tax charge to earnings of $8.2 million during the year ended December 31, 2003, for the impact on its deferred tax assets of lowering the Washington, D.C., income tax rate to 0.0 percent, partially offset by the recognition of certain Washington, D.C., income tax credits.

The Company filed a claim for refund of sales and use taxes previously paid to the Office of Tax and Revenue on qualifying QHTC purchases under the Act. In February 2004, the Company received a notice of refund denial for the claim, which the Company believes is inconsistent with the position taken by the QHTC Activity Review Committee of the Office of Tax and Revenue, which accepted the Company's QHTC status in October 2003. The Company is appealing the denial for refund of sales and use taxes.

At December 31, 2003, the Company valued its deferred income tax assets and liabilities using the currently enacted federal income tax rate of 35.0 percent and the QHTC Washington, D.C., income tax rate of 0.0 percent. In addition, the Company has continued to provide for income, sales, and use taxes as if it were a QHTC. If the Office of Tax and Revenue rescinds its acceptance of the Company's QHTC certification, or the Company otherwise determines that such action is likely, it will record a benefit to earnings representing the impact on its existing deferred tax assets of increasing the Washington, D.C., income tax rate to 9.975 percent, offset by the elimination of certain Washington, D.C., income tax credits which, as of December 31, 2003, would have been $2.1 million.

8) Comprehensive income (loss)

Comprehensive income (loss) is defined as net income (loss) plus the net-of-tax impact of foreign currency items, minimum pension liability adjustments, and unrealized gains and losses on certain investments in debt and equity securities. Comprehensive income for the years ended December 31, 2001, 2002 and 2003, was $22.6 million, $33.7 million and $34.7 million, respectively. The accumulated elements of comprehensive income, net of tax, included within stockholders' equity on the consolidated balance sheets are composed solely of the net change in unrealized gains on available-for-sale marketable securities and translation adjustment of foreign subsidiary. Unrealized gains (loss), net of tax, on available-for-sale marketable securities amounted to $0.9 million, $4.1 million, and ($1.0) million during the years ended December 31, 2001, 2002 and 2003, respectively.

9) Employee benefit plans

Defined contribution 401(k) plan.

The Company sponsors a defined contribution 401(k) Plan (the "Plan") in which the Company's employees participate. Pursuant to the Plan, all employees who have reached the age of 21 are eligible to participate. The employer provides contributions equal to 25 percent of an employee's contribution up to a maximum of 4 percent of base salary. Contributions to the Plan for the participants were $0.3 million, $0.4 million, and $0.5 million during the years ended December 31, 2001, 2002, and 2003, respectively.

Employee stock purchase plan.

In June 2000, the Company established an employee stock purchase plan (the "ESPP"). Under the ESPP, employees authorize payroll deductions from 1 percent to 10 percent of their eligible compensation to purchase shares of the Company's common stock. The ESPP is authorized to issue up to 1,050,000 shares of the Company's common stock. During the years ended December 31, 2001, 2002, and 2003, the Company issued 26,309 shares, 25,133 shares, and 25,566 shares of common stock, respectively, under the ESPP.

10) Public offerings of common stock

In March and April 2001, March 2002, and March 2003, 3,035,000 shares, 2,100,000 shares, and 588,000 shares, respectively, of the Company's common stock were sold in registered public offerings. The Company did not directly receive any proceeds from the sale of its common stock. All of the shares sold in the foregoing offerings were sold by stockholders and option holders. However, the Company did receive cash from the exercise of common stock options in conjunction with the sale of its common stock.

11) Stock option plans

Liquid markets agreements.

In January 2001, the Company paid $3.1 million in accordance with the Liquid Markets Agreements, which were employee stock option agreements created prior to the Spin-Off. The Liquid Markets Agreements were amended by the Company in December 1998. The January 2001 payment represented the final cash commitment related to the amended Liquid Markets Agreements. In addition, there are no stock options available to issue or stock options outstanding under the Liquid Markets Agreements.

Stock-based incentive compensation plan.

In October 1997, the Company adopted the Stock-Based Incentive Compensation Plan (the "1997 Plan"). The 1997 Plan provides for the issuance of options to purchase up to 11,008,000 shares of common stock. Any shares of common stock that, for any reason, are not issued under the 1997 Plan are reserved for issuance pursuant to the 1999 Stock Option Plan (the "1999 Plan"). As of December 31, 2003, 10,569,400 options, net of cancellations, to purchase common stock had been granted under the 1997 Plan and 438,600 options, net of cancellations, to purchase common stock had been granted under the 1999 Plan. The options granted under the 1997 Plan expired in April 2003.

In the year ended December 31, 2001, the Company recognized compensation expense of $0.2 million in accordance with the Substitution Agreements, which were employee stock option agreements created in conjunction with the Spin-Off.

The Substitution Agreements provided for the exchange of The Advisory Board Company stock options for Company stock options issued under the 1997 Plan. The Substitution Agreements resulted in compensation expense being recognized by the Company over the vesting period. There are no earnings charges subsequent to December 31, 2001, related to the Substitution Agreements. In addition, there are no stock options available to issue or stock options outstanding under the Substitution Agreements.

1999 Stock Option Plan

In February 1999, the Company adopted the 1999 Plan, which provides for the issuance of options to purchase up to 3,784,000 shares of common stock plus any options to purchase shares of common stock which, for any reason, are not issued under the 1997 Plan. During 2001, the Company granted 1,358,000 options to purchase common stock under the 1999 Plan at a weighted average exercise price of $31.05 per share. During 2002, the Company granted 16,000 options to purchase common stock under the 1999 Plan at a weighted average exercise price of $32.86 per share. During 2003, the Company granted 225,000 options to purchase common stock under the 1999 Plan at a weighted average exercise price of $31.65 per share. As of December 31, 2003, 4,176,153 options, net of cancellations and including 438,600 shares of common stock carried over from the 1997 Plan, had been granted under the 1999 Plan. The common stock options granted under the 1999 Plan generally become exercisable 25 percent per year beginning one year from the date of grant and expire between February 2009 and March 2013.

2001 Stock Option Plan

In June 2001, the Company adopted the 2001 Stock Option Plan (the "2001 Plan"), which provides for the issuance of options to purchase up to 2,700,000 shares of common stock. During 2001, the Company granted no options to purchase common stock under the 2001 Plan. During 2002, the Company granted 940,000 options to purchase common stock under the 2001 Plan at a weighted average exercise price of $32.37 per share. During 2003, the Company granted 525,000 options to purchase common stock under the 2001 Plan at a weighted average exercise price of $32.30 per share. As of December 31, 2003, 1,420,000 options, net of cancellations, had been granted under the 2001 Plan. The common stock options granted under the 2001 Plan generally become exercisable 25 percent per year beginning one year from the date of grant and expire between August 2011 and March 2013.

2002 Non-Executive Stock Incentive Plan

In March 2002, the Company adopted the 2002 Non-Executive Stock Incentive Plan, as amended (the "2002 Plan"), which provides for the issuance up to 7,300,000 shares of common stock under stock options or restricted stock grants. The 2002 Plan is administered by the Compensation Committee of the Company's Board of Directors. Any person who is an employee or prospective employee of the Company is eligible for the grant of awards under the 2002 Plan, unless such person is an officer or director of the Company. The terms of awards granted under the 2002 Plan, including vesting, forfeiture, and post termination exerciseability are set by the plan administrator, subject to certain restrictions set forth in the 2002 Plan. During 2002, the Company granted 1,115,000 options to purchase common stock under the 2002 Plan at a weighted average exercise price of $32.31 per share. During 2003, the Company granted 1,058,000 options to purchase common stock under the 2002 Plan at a weighted average exercise price of $32.40 per share. As of December 31, 2003, 2,082,625 options, net of cancellations, had been granted under the 2002 Plan. The common stock options granted under the 2002 Plan generally become exercisable 25 percent per year beginning one year from the date of grant and expire between March 2012 and July 2013.

Directors' Stock Option Plan

In December 1998, the Company adopted the Directors' Stock Plan (the "Directors' Plan"), which provides for the issuance of options to purchase up to 860,000 shares of common stock. Pursuant to FASB Interpretation 44, stock incentives granted to non-employee members of our Board of Directors are accounted for under the provisions of APB Opinion 25. During 2001, the Company granted 142,240 options to purchase common stock under the Directors' Plan at a weighted average exercise price of $31.46 per share. During 2002, the Company granted 40,000 options to purchase common stock under the Directors' Plan at a weighted average exercise price of $32.41 per share. During 2003, the Company granted 112,240 options to purchase common stock under the Directors' Plan at a weighted average exercise price of $44.05 per share. As of December 31, 2003, 685,680 options, net of cancellations, to purchase common stock had been granted under the Directors' Plan. The common stock options granted under the Directors' Plan generally become 100 percent exercisable one year from the date of grant and expire between December 2008 and October 2013.

Transactions

The following table summarizes the changes in common stock options for the common stock option plans described above:

	Number of Options	Exercise Price per Share	Weighted Average Exercise Price
Outstanding at December 31, 2000	7,841,136	$0.03–$33.11	$ 7.25
Options granted	1,514,214	26.01– 43.10	31.09
Options canceled	(159,500)	9.50– 41.38	22.16
Options exercised	(3,727,882)	0.03– 30.19	3.71
Outstanding at December 31, 2001	5,467,968	0.03– 43.10	15.78
Options granted	2,111,000	27.62– 36.81	32.34
Options canceled	(293,474)	9.50– 33.63	27.31
Options exercised	(2,266,091)	0.03– 31.00	5.76
Outstanding at December 31, 2002	5,019,403	0.21– 43.10	26.61
Options granted	1,920,240	30.35– 50.55	32.97
Options canceled	(129,348)	9.50– 40.50	29.23
Options exercised	(632,956)	0.21– 32.41	13.44
Outstanding at December 31, 2003	6,177,339	$7.12–$50.55	$29.89

Information with respect to the common stock option plans outstanding at December 31, 2003, is as follows:

Range of Exercise Prices	Number Outstanding as of December 31, 2003	Weighted Average Exercise Price	Average Remaining Contractual Life-Years
$ 7.12– $21.19	947,111	$ 16.89	5.78
26.44– 31.00	1,377,748	30.64	7.38
31.33– 32.30	1,821,740	32.28	9.11
32.41– 50.55	2,030,740	33.29	8.23
$ 7.12– $50.55	6,177,339	$ 29.89	7.93

As of December 31, 2002 and 2003, 1,084,903 and 2,004,974, respectively, common stock options with a weighted average exercise price of $20.15 and $26.34, respectively, were exercisable.

12) Supplemental cash flows disclosures

The Company paid no income taxes during the years ended December 31, 2001 and 2002. During 2003, the Company made estimated income tax payments of approximately $1.0 million. For the years ended December 31, 2001, 2002 and 2003, the Company recognized $41.2 million, $22.2 million, and $4.5 million, respectively, in stockholders' equity for tax deductions associated with the exercise of nonqualified stock options.

13) Commitments and contingencies

Operating leases

The Company leases office facilities in the United States and the United Kingdom expiring on various dates over the next 16 years. Certain lease agreements include provisions for rental escalations and require the Company to pay for executory costs such as taxes and insurance. Future minimum rental payments under noncancelable operating leases, excluding executory costs, are as follows (in thousands):

Year Ending December 31,	
2004	$ 8,994
2005	10,595
2006	12,515
2007	12,806
2008	11,566
Thereafter	60,552
Total	$117,028

Rent expense charged to operations during the fiscal years ended December 31, 2001, 2002, and 2003, was $5.7 million, $7.9 million, and $9.6 million, respectively. The Company entered into $1.3 million, $4.0 million, and $2.3 million letter of credit agreements with commercial banks, which expire June 2004, August 2004, and January 2005, respectively, to provide security deposits for certain of our office leases. The Company pledged certain assets as collateral under the letter of credit agreements. To date, no amounts have been drawn on these agreements.

From time to time, the Company is subject to ordinary routine litigation incidental to its normal business operation. The Company is not currently a party to, and the Company's property is not subject to, any material legal proceedings.

14) Quarterly financial data (unaudited)

Unaudited summarized financial data by quarter for the years ended December 31, 2002 and 2003, is as follows (in thousands, except per-share amounts):

	2002 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 37,023	$ 39,547	$ 41,275	$44,512
Gross profit	23,506	26,531	27,149	29,024
Income before provision for income taxes	9,567	12,241	12,848	13,515
Net income	$ 5,931	$ 7,589	$ 7,837	$ 8,244
Earnings per share				
Basic	$ 0.17	$ 0.20	$ 0.21	$ 0.22
Diluted	$ 0.16	$ 0.20	$ 0.21	$ 0.22

	2003 Quarter Ended			
	March 31	June 30	September 30	December 31
Revenues	$ 47,283	$ 50,339	$ 53,758	$ 58,831
Gross profit	31,165	33,302	35,533	39,237
Income before provision for income taxes	13,756	15,656	16,447	18,136
Net income	$ 8,336	$ 9,487	$ 5,513	$ 12,352
Earnings per share				
Basic	$ 0.22	$ 0.25	$ 0.15	$ 0.33
Diluted	$ 0.22	$ 0.25	$ 0.14	$ 0.32

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of the Corporate Executive Board Company:

We have audited the accompanying consolidated balance sheets of the Corporate Executive Board Company as of December 31, 2002 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of the Corporate Executive Board Company at December 31, 2002 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Baltimore, Maryland
February 2, 2004, except for Note 7, as to which the date is February 27, 2004

The following report is a copy of a report previously issued by Andersen, which report has not been reissued by Andersen.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders of the Corporate Executive Board Company:

We have audited the accompanying balance sheets of the Corporate Executive Board Company as of December 31, 2000 and 2001, and the related statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporate Executive Board Company as of December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Washington, D.C.
January 31, 2002

Executive Officers and Directors

James J. McGonigle
Chief Executive Officer and Chairman of the Board of Directors

Robert C. Hall*
Director; President and Chief Executive Officer,
Harborside Plus, Inc.

Nancy J. Karch*
Director; Director (Senior Partner Emeritus), McKinsey & Company

David W. Kenny*
Director; Chairman and Chief Executive Officer, Digitas, Inc.

Daniel O. Leemon
Executive Vice President and Chief Strategy Officer,
The Charles Schwab Corporation

Thomas L. Monahan III
Director and General Manager, Corporate Practice

Harold L. Siebert
Director; Founder and former Chairman and
Chief Executive Officer, Inforum, Inc.

Michael A. Archer
Chief Marketing Officer

Derek C. M. van Bever
Chief Research Officer

Timothy R. Yost
Chief Financial Officer

*Member of the Audit Committee and Compensation Committee of the Board of Directors.

Corporate Information

Form 10-K/Investor Contact
A copy of the Company's Annual Report on Form 10-K for 2003 (without exhibits) is available from the Company at no charge. Requests for the Annual Report on Form 10-K and other investor contacts should be directed to Timothy R. Yost, Chief Financial Officer, at the Company's corporate office.

Annual Shareholders' Meeting
The annual meeting of shareholders will be held on Wednesday, July 28, 2004, at 9:00 a.m. at the Company's corporate office.

Common Stock and Dividend Information
The common stock of The Corporate Executive Board Company has been traded on the NASDAQ National Market under the symbol EXBD since the initial public offering on February 23, 1999. As of June 1, 2004, there were approximately 20,000 holders of the common stock, including 50 stockholders of record. Commencing with the first quarter of 2004, the Company's Board of Directors has declared a quarterly dividend of $0.075 per share, which is funded with cash generated from operations. Prior to the first quarter of 2004, the Company had not declared or paid any cash dividend on the common stock since the closing of its initial public offering.

Corporate Office
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Washington, DC 20006
+1-202-777-5455
www.executiveboard.com

Registrar and Transfer Agent
Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
+1-800-851-9677

Independent Auditors
Ernst & Young LLP
Baltimore, MD

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ National Market.

	High	Low
2002		
First Quarter	$ 38.10	$ 28.57
Second Quarter	40.20	32.60
Third Quarter	34.68	23.60
Fourth Quarter	35.73	26.70
2003		
First Quarter	$ 36.05	$ 27.95
Second Quarter	43.41	34.85
Third Quarter	48.20	37.60
Fourth Quarter	51.70	44.29

www.executiveboard.com

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