



ANNUAL REPORT
2004

FINANCIAL HIGHLIGHTS

(In thousands of U.S. dollars except share and per share amounts)	FY2004	FY2003	FY2002
Internet Revenue	\$86,483	\$60,138	\$40,626
Traditional Revenue	\$59,549	\$70,413	\$59,422
Total Revenue	\$146,032	\$130,551	\$100,048
Gross Profit	\$75,731	\$63,699	\$46,578
Gross Margin	51.9%	48.8%	46.6%
Net Income (Loss)	\$29,918	\$11,107	(\$14,793)
Net Income (Loss) Per Share Basic	\$0.53	\$0.21	(\$0.32)
Net Income (Loss) Per Share Fully Diluted	\$0.52	\$0.20	(\$0.32)
Working Capital	\$66,928	\$41,321	\$27,799
Stockholders' Equity	\$165,489	\$118,489	\$103,300
Number of Shares Outstanding – Fully Diluted	57,444,785	54,638,596	46,136,445

"Our vision is to become a seamless, global research firm that blends premier strategic consulting with increasingly innovative and efficient methods of investigation, analysis and application."

— Robert E. Knapp, CEO

DEAR FELLOW STOCKHOLDERS,

Fiscal 2004 was a period of transition, renewal and success for Harris Interactive. Over the past 12 months we turned in a solid performance, expanded our geographic reach, honed the focus of our company, added new talent and completed a long-planned management transition. We carefully navigated through an enormous amount of change without losing momentum. In fact, we continued to gain momentum and moved up two slots to 13th on the 2004 *Inside Research* list of the top U.S. market research firms and up two slots to 15th on the global list. And for the first time, *Inside Research* named us the fastest growing market research firm in the world.

STRONG PERFORMANCE

Fiscal 2004 was a record setter in every aspect. We set new sales booking records during the last three quarters of the year, which pushed total sales for the year up approximately 10%. Our Internet revenue grew 44%, boosting our worldwide revenue nearly 12% over last year. Our operating income (which we believe is the truest measure of performance) grew to over \$13 million – a 76% improvement from the year before. We increased our operating margin by 56%, moving it from 5.9% to 9.2% and delivered almost \$14 million of pretax income to our stockholders.

SOLID LEADERSHIP

One of the great discoveries I made upon arriving in late January was the enormous talent of Gregory T. Novak. Greg, a five-year veteran at Harris Interactive, has served in a variety of capacities from early stage Internet business builder to president of our U.S. operations. Greg is an astute leader, who honed his skills at a number of world-class companies including GE and FMC. In fiscal 2004, Greg and our team of seasoned group presidents led the U.S. business to an approximate 9% sales bookings increase, an 11% revenue increase, a 103% operating profit increase and a 81% increase in operating margin. Every business unit, including our Customer Loyalty Management group which lost a five million dollar client early in the year, met or exceeded its profit goal.

In recognition of this outstanding performance, Greg was promoted to President and COO of Harris Interactive in April.

Opinions are indeed powerful. And those opinions drive the commercial, political and religious forces of the world.

FY2004

7.23 ● **Gregory T. Novak**
Named President
of U.S. Operations,
and **Dr. George H.
Terhanian** Named
President
of HI Europe

8.08 ○ Harris Interactive
Cited World's 17th
Largest Market
Research Firm

9.08 ○ Harris Interactive
Cited World's
Second Fastest
Growing Market
Research Firm

10.22 ○ Q1 Pre-Tax
Net Income
Grows 102%
Year Over Year

12.23 ○ **George Bell,**
Stephen D.
Harlan and
Dr. Subrata K.
Sen Added to
the Board of
Directors

One critical move made under Greg's watch was the formal adoption of a vertical market strategy. These emerging areas of intense industry focus, along with continued strong performance in our service-specific business teams, have shown great promise in driving growth for the firm. Last fiscal year we saw sharp revenue increases in several of these groups, including strategic services, healthcare and the service bureau.

FOCUSED EXPANSION

While the U.S. has been the flagship of our company for years, high Internet penetration rates in Europe now make it possible to bring our unique brand of research to many more clients in the U.K. and on the continent. Dr. George Terhanian, one of the pioneers who helped us introduce Internet-based market research in the U.S., completed his first full year as President of Harris Interactive in Europe. He wasted no time in preparing his pursuit of the estimated \$3 billion Internet research market opportunity in Europe. During the year, he hired experienced leaders in sales, research, finance, human resources and operations – all while growing European Internet sales bookings 157% and Internet revenue 639%.

In March, to create a strong platform for European Internet growth, we acquired Novatris, a Paris-based research firm. Novatris is a premier Internet-based market research provider in France and a top-tier player across much of Western Europe. Within six weeks of signing our agreement, the Novatris database was completely integrated with ours, creating what we believe is the largest online research panel in Europe containing about two million respondents across 14 countries. Our union with Novatris also added management capability and research sophistication. The founders of the firm, Nathalie Perrio-Combeaux and Patrick Van Bloeme, are natural born business builders who have rich experience in developing and delivering all forms of market research to a wide range of global clients. They and their team have brought an enormous amount of spirit and creativity to our firm.

WIRTHLINWORLDWIDE ACQUISITION

As we approached the end of fiscal 2004, we finished preparations for what would become the largest acquisition in the history of our firm. In September, after months of strategic, operational and financial modeling and planning, we joined forces with our friends at WirthlinWorldwide. Headquartered in Reston, Virginia, WirthlinWorldwide was a privately held, \$50 million opinion research and consulting firm with over 250 employees and offices in Washington, D.C., the Midwest, the United Kingdom and China.

Adding WirthlinWorldwide changes the scale of our firm in three important ways: it dramatically expands the list of clients to whom we can cross-sell our Internet services, it strengthens our vertical industry portfolio and it deepens our already accomplished management team.

Dr. Richard B. Wirthlin, former President Ronald Reagan’s key strategist and pollster, and one of the most respected political and business strategists in the U.S., founded the firm in 1964. Today, WirthlinWorldwide is widely recognized as a premier communications strategy and market research group. The company serves a diverse set of 350 clients – 300 of whom are new to Harris Interactive. The addition of the WirthlinWorldwide client list has almost doubled our penetration of the Fortune 500.

WirthlinWorldwide also expands our product portfolio and strengthens our presence in key business sectors including consumer packaged goods, financial services, pharmaceuticals, associations and government. We expect WirthlinWorldwide to add \$40 million in revenue in this fiscal year, bringing us to a total of \$210 to \$215 million in fiscal 2005.

Most importantly, WirthlinWorldwide management is strong. Joining the Harris Interactive executive team are Dr. Dee T. Allsop and David N. Richardson. Over his 20-year career, Dee has created market positioning and communications strategies for some of the world’s largest companies and organizations in the automotive, aerospace, hotel and lodging, and chemical industries. In 2000, the American Association of Political Consultants honored Dee as “Pollster of the Year.” That same year, Dee received the Advertising Research Foundation’s David Ogilvy Award for work he championed in the steel industry. Dave Richardson also has a deep and diverse background having led the New York office and then U.S. operations for WirthlinWorldwide. Prior, Dave led teams at companies including Bank of America and Yankelovich, Skelly & White. Dave was recently named Chairman-Elect of CASRO, the premier association for the U.S. market research industry, and will take over that position in January. Dee and Dave are engaging and energetic leaders who have quickly become our friends and partners.

The WirthlinWorldwide acquisition has added more clients, greater industry penetration and smart, savvy management – all very important elements for our growth. And because our two companies share a common vision of what it takes to become a dominant force in the global market research arena, our integration is well underway. The teams are excited about what we can achieve together.



THE ROAD AHEAD

With strong performance, solid leadership and focused expansion, we are moving steadily toward our goal of becoming one of the world's most important and most technologically advanced market research firms.

Working closely with our Chairman, founder and mentor, Dr. Gordon S. Black, we will press on with our plan: grow our vertical industry practices, expand throughout Europe, move into Asia (a vast, largely untapped opportunity), make additional strategic acquisitions and increase our operating margins. We will continue to combine superb strategic consulting with leading-edge technology. Simply put, we use the Internet like no other market research firm in the world.

As widespread conversion to Internet research drives our growth throughout the world, we will persist in achieving results that continue to revolutionize our industry.

Thanks for your continued support.

Sincerely,



Robert E. Knapp
Chief Executive Officer

06.15 Last U.S.
Telephone
Center Closed

06.15 Third
Consecutive
Quarterly Sales
Bookings
Record Reached
\$44 Million+

06.30 FY2004 Revenue
Topped \$146
Million

06.30 Harris Interactive
Cited 13th
Largest U.S.
Market
Research Firm

06.30 HI Europe Panel
Pushed 2 Million
Mark

CORPORATE OFFICERS AND DIRECTORS

Gordon S. Black, Ph.D.

*Executive Chairman and Founder**

Robert E. Knapp

*Vice Chairman and Chief Executive Officer**

Gregory T. Novak

President and Chief Operating Officer

Leonard R. Bayer

*Executive Vice President, Chief Scientist**

Bruce A. Newman

Chief Financial Officer, Secretary and Treasurer

Minoru Aoo

Managing Director, Harris Interactive Japan

Dennis K. Bham

Executive Vice President, Human Resources

Arthur E. Coles

Group President, Healthcare and Policy Research

Theresa Flanagan

Group President, Customer Loyalty Management

James E. Fredrickson

Senior Vice President, Research Operations

Ronald B. Knight

*Chief of Staff and Group President,
Harris Interactive Service Bureau*

Peter J. Milla

Executive Vice President, Chief Information Officer

Michael E. Peters

Senior Vice President, Global Sales and Marketing

George H. Terhanian, Ph.D.

President, HI Europe and Global Internet Research

David B. Vaden

*Senior Vice President, Corporate Development
and Internet Services*

George Bell

Director

David Brodsky

Director

Stephen D. Harlan

Director

James R. Riedman

Director

Subrata K. Sen

Director

Howard L. Shecter

Director

Antoine G. Treuille

Director

Richard B. Wirthlin, Ph.D.

Director

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