

GARTNER INC  
Form 10-Q  
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File Number 1-14443

Gartner, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

04-3099750

(I.R.S. Employer  
Identification Number)

P.O. Box 10212

56 Top Gallant Road

Stamford, CT

(Address of principal executive offices)

06902-7700

(Zip Code)

Registrant's telephone number, including area code: (203) 316-1111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Edgar Filing: GARTNER INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
No

As of October 28, 2013, 92,177,533 shares of the registrant's common shares were outstanding.

---

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>21</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>32</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>33</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>34</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>34</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>34</u>
<u>ITEM 6. EXHIBITS</u>	<u>35</u>

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## GARTNER, INC.

## Condensed Consolidated Balance Sheets

(Unaudited; in thousands)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$374,521	\$299,852
Fees receivable, net of allowances of \$6,100 and \$6,400, respectively	392,174	463,968
Deferred commissions	77,390	87,933
Prepaid expenses and other current assets	91,070	75,713
Total current assets	935,155	927,466
Property, equipment and leasehold improvements, net	90,198	89,089
Goodwill	518,555	519,506
Intangible assets, net	7,535	11,821
Other assets	76,955	73,395
Total Assets	\$1,628,398	\$1,621,277
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$224,873	\$287,763
Deferred revenues	754,120	692,237
Current portion of long-term debt	65,000	90,000
Total current liabilities	1,043,993	1,070,000
Long-term debt	140,000	115,000
Other liabilities	122,770	129,604
Total Liabilities	1,306,763	1,314,604
Stockholders' Equity		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.0005 par value, 250,000,000 shares authorized; 156,234,415 shares issued for both periods	78	78
Additional paid-in capital	707,439	679,871
Accumulated other comprehensive income, net	6,734	5,968
Accumulated earnings	1,029,865	908,482
Treasury stock, at cost, 64,059,116 and 62,873,100 common shares, respectively	(1,422,481	) (1,287,726 )
Total Stockholders' Equity	321,635	306,673
Total Liabilities and Stockholders' Equity	\$1,628,398	\$1,621,277

See the accompanying notes to the condensed consolidated financial statements.



## GARTNER, INC.

## Condensed Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Research	\$316,518	\$284,048	\$938,082	\$836,970
Consulting	70,149	71,731	228,710	222,970
Events	24,038	18,627	96,714	81,119
Total revenues	410,705	374,406	1,263,506	1,141,059
Costs and expenses:				
Cost of services and product development	161,735	151,143	503,376	458,853
Selling, general and administrative	181,546	164,888	547,653	492,627
Depreciation	7,258	6,301	21,375	18,378
Amortization of intangibles	1,351	1,362	4,089	3,029
Acquisition and integration charges	72	944	278	2,126
Total costs and expenses	351,962	324,638	1,076,771	975,013
Operating income	58,743	49,768	186,735	166,046
Interest expense, net	(2,124	) (2,209	) (6,704	) (6,557
Other income (expense), net	5	(748	) (64	) (1,802
Income before income taxes	56,624	46,811	179,967	157,687
Provision for income taxes	18,430	15,436	58,584	50,607
Net income	\$38,194	\$31,375	\$121,383	\$107,080
Income per common share:				
Basic	\$0.41	\$0.34	\$1.30	\$1.15
Diluted	\$0.40	\$0.33	\$1.28	\$1.12
Weighted average shares outstanding:				
Basic	92,689	93,522	93,286	93,429
Diluted	94,355	95,611	95,100	95,791

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

## Condensed Consolidated Statements of Comprehensive Income

(Unaudited; in thousands)

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2013	2012	2013	2012	
Net income	\$38,194	\$31,375	\$121,383	\$107,080	
Other comprehensive income, net of tax:					
Interest rate swap (cash flow hedge) – gain (loss)	261	(282	) 1,636	(683	)
Defined benefit pension plans – actuarial gain (loss)	6	(51	) 30	(157	)
Foreign currency translation adjustments	4,109	5,383	(900	) 3,720	
Other comprehensive income	4,376	5,050	766	2,880	
Comprehensive income	\$42,570	\$36,425	\$122,149	\$109,960	

See the accompanying notes to the condensed consolidated financial statements.

## GARTNER, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2013	2012
Operating activities:		
Net income	\$121,383	\$107,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	25,464	21,407
Stock-based compensation expense	27,049	28,021
Excess tax benefits from stock-based compensation	(18,412)	(20,366)
Deferred taxes	4,989	(3,268)
Amortization and write-off of debt issue costs	2,107	1,512
Changes in assets and liabilities, net of acquisition:		
Fees receivable, net	69,732	54,157
Deferred commissions	10,055	13,202
Prepaid expenses and other current assets	(20,840)	(18,803)
Other assets	(3,064)	2,429
Deferred revenues	64,662	60,681
Accounts payable, accrued, and other liabilities	(41,056)	(37,301)
Cash provided by operating activities	242,069	208,751
Investing activities:		
Additions to property, equipment and leasehold improvements	(27,772)	(30,800)
Acquisition (net of cash acquired)	—	(10,336)
Cash used in investing activities	(27,772)	(41,136)
Financing activities:		
Proceeds from stock issued under stock plans	4,539	10,560
Proceeds from debt issuance	203,750	22,500
Payments for debt issuance costs	(3,553)	—
Payments on debt	(203,750)	(22,500)
Purchases of treasury stock	(157,251)	(89,300)
Excess tax benefits from stock-based compensation	18,412	20,366
Cash used by financing activities	(137,853)	(58,374)
Net increase in cash and cash equivalents	76,444	109,241
Effects of exchange rates on cash and cash equivalents	(1,775)	3,411
Cash and cash equivalents, beginning of period	299,852	142,739
Cash and cash equivalents, end of period	\$374,521	\$255,391

See the accompanying notes to the condensed consolidated financial statements.



GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 — Business and Basis of Presentation

**Business.** Gartner, Inc. is a global information technology research and advisory company founded in 1979 with its headquarters in Stamford, Connecticut. Gartner delivers its products and services globally through three business segments: Research, Consulting, and Events. When used in these notes, the terms “Gartner,” “Company,” “we,” “us,” or “our” refer to Gartner, Inc. and its consolidated subsidiaries.

**Basis of presentation.** The accompanying interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”), as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (“ASC”) Topic 270 for interim financial information and with the applicable instructions of the U.S. Securities & Exchange Commission (“SEC”) Rule 10-01 of Regulation S-X on Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of the Company filed in its Annual Report on Form 10-K for the year ended December 31, 2012.

The fiscal year of Gartner represents the twelve-month calendar period from January 1 through December 31. In the opinion of management, all normal recurring accruals and adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented herein have been included. The results of operations for the three and nine months ended September 30, 2013 may not be indicative of the results of operations for the remainder of 2013.

**Principles of consolidation.** The accompanying interim condensed consolidated financial statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Use of estimates.** The preparation of the accompanying interim condensed consolidated financial statements requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, goodwill, intangible assets, and other long-lived assets, as well as tax accruals and other liabilities. In addition, estimates are used in revenue recognition, income tax expense, performance-based compensation charges, depreciation and amortization, and the allowance for losses. Management believes its use of estimates in these interim condensed consolidated financial statements is reasonable.

Management continuously evaluates and revises its estimates using historical experience and other factors, including the general economic environment and actions it may take in the future. Management adjusts these estimates when facts and circumstances dictate. However, these estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on management’s best judgment at a point in time. As a result, differences between our estimates and actual results could be material and would be reflected in the Company’s consolidated financial statements in future periods.

**Adoption of new accounting rules.** The Company adopted new accounting rules in the nine months ended September 30, 2013 related to accumulated other comprehensive income (see Note 2 — Comprehensive Income) and balance sheet offsetting of receivables and payables arising from derivative contracts (see Note 10 — Derivatives and Hedging). The adoption of these new rules resulted in additional disclosure only.

Note 2 — Comprehensive Income

On January 1, 2013, the Company adopted FASB Accounting Standards Update (“ASU”) 2013-2, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, an amendment to FASB ASC Topic 220, Comprehensive Income. ASU 2013-2 requires entities to prospectively disclose additional information about changes in accumulated other comprehensive income (“AOCI”) balances by component and items reclassified out of AOCI to income during the period. ASU 2013-2 does not change the existing requirement to present the components of comprehensive income in the financial statements and is intended to improve the transparency of reclassification amounts and their impact on the financial statements. The information required by ASU 2013-2 is presented below.

7

---

The changes in AOCI by component (net of tax) are presented in the following tables (in thousands) (1):

For the three months ended September 30, 2013:

	Interest Rate Swap (Cash Flow Hedge)	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Total
Balance – June 30, 2013	\$(4,635	) \$(1,554	) \$8,547	\$2,358
Changes during the period:				
Other comprehensive income (loss) before reclassifications	(360	) —	4,109	3,749
Reclassifications from AOCI to income (2), (3)	621	6	—	627
Other comprehensive income for the period	261	6	4,109	4,376
Balance – September 30, 2013	\$(4,374	) \$(1,548	) \$12,656	\$6,734

For the nine months ended September 30, 2013:

	Interest Rate Swap (Cash Flow Hedge)	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Total
Balance – December 31, 2012	\$(6,010	) \$(1,578	) \$13,556	\$5,968
Changes during the period:				
Other comprehensive income (loss) before reclassifications	(153	) 17	(900	) (1,036
Reclassifications from AOCI to income (2), (3)	1,789	13	—	1,802
Other comprehensive income (loss) for the period	1,636	30	(900	) 766
Balance – September 30, 2013	\$(4,374	) \$(1,548	) \$12,656	\$6,734

(1) Amounts in parentheses represent debits (deferred losses).

(2) The reclassifications related to the interest rate swap (cash flow hedge) were recorded in Interest expense, net and exclude \$0.4 million and \$1.2 million of tax benefit reflected in the Provision for income taxes for the three and nine months ended September 30, 2013, respectively. See Note 10 – Derivatives and Hedging for information regarding the hedge.

(3) The reclassifications related to defined benefit pension plans were recorded in Selling, general and administrative expense and had an immaterial tax effect. See Note 12 – Employee Benefits for information regarding the Company's defined benefit pension plans.

## Note 3 — Earnings per Share

The following table sets forth the calculations of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income used for calculating basic and diluted earnings per share	\$38,194	\$31,375	\$121,383	\$107,080
Denominator:				
Weighted average number of common shares used in the calculation of basic earnings per share	92,689	93,522	93,286	93,429
Common stock equivalents associated with stock-based compensation plans (1)	1,666	2,089	1,814	2,362
Shares used in the calculation of diluted earnings per share	94,355	95,611	95,100	95,791
Basic earnings per share	\$0.41	\$0.34	\$1.30	\$1.15
Diluted earnings per share	\$0.40	\$0.33	\$1.28	\$1.12

Certain common stock equivalents were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. These shares totaled 0.4 million for both the three months ended (1) September 30, 2013 and 2012 and 0.3 million and 0.7 million for the nine months ended September 30, 2013 and 2012, respectively.

## Note 4 — Stock-Based Compensation

The Company grants stock-based compensation awards as an incentive for employees and directors to contribute to the Company's long-term success. The Company currently awards stock-settled stock appreciation rights, service-based and performance-based restricted stock units, and common stock equivalents. At September 30, 2013, the Company had 6.1 million shares of its common stock, par value \$.0005 per share (the "Common Stock") available for awards of stock-based compensation under its 2003 Long-Term Incentive Plan.

The Company accounts for stock-based compensation awards in accordance with FASB ASC Topics 505 and 718, as interpreted by SEC Staff Accounting Bulletins No. 107 ("SAB No. 107") and No. 110 ("SAB No. 110"). Stock-based compensation expense is based on the fair value of the award on the date of grant, which is then recognized as expense over the related service period, net of estimated forfeitures. The service period is the period over which the related service is performed, which is generally the same as the vesting period. Currently the Company issues treasury shares upon the exercise, release or settlement of stock-based compensation awards.

Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the input of certain complex and subjective assumptions, including the expected life of the stock compensation awards and the Common Stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the amount of employee forfeitures and the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair value of stock-based compensation awards and the associated periodic expense represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems

it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of expense may need to be adjusted and future stock-based compensation expense could be materially different from what has been recorded in the current period.

## Stock-Based Compensation Expense

The Company recognized the following amounts of stock-based compensation expense by award type and expense category in the periods indicated (in millions):

Award type:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock appreciation rights	\$1.1	\$2.4	\$4.1	\$5.0
Common stock equivalents	0.1	0.1	0.4	0.4
Restricted stock units	6.2	6.7	22.5	22.6
Total	\$7.4	\$9.2	\$27.0	\$28.0

Amount recorded in:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of services and product development	\$3.2	\$3.5	\$12.0	\$12.0
Selling, general and administrative	4.2	5.7	15.0	16.0
Total stock-based compensation expense (1)	\$7.4	\$9.2	\$27.0	\$28.0

(1) Includes charges of \$1.8 million and \$1.5 million for the three months ended September 30, 2013 and 2012, respectively, for awards to retirement-eligible employees since these awards vest on an accelerated basis. The nine months ended September 30, 2013 and 2012 include retirement-eligible charges of \$10.6 million and \$4.7 million, respectively.

As of September 30, 2013, the Company had \$48.4 million of total unrecognized stock-based compensation cost, which is expected to be expensed over the remaining weighted-average service period of approximately 2.3 years.

## Stock-Based Compensation Awards

The following disclosures provide information regarding the Company's stock-based compensation awards, all of which are classified as equity awards in accordance with FASB ASC Topic 505:

## Stock Appreciation Rights

Stock-settled stock appreciation rights (SARs) permit the holder to participate in the appreciation of the Common Stock. SARs are settled in shares of Common Stock by the employee once the applicable vesting criteria have been met. SARs vest ratably over a four-year service period and expire seven years from the grant date. The fair value of SARs awards is recognized as compensation expense on a straight-line basis over four years. SARs have only been awarded to the Company's executive officers.

When SARs are exercised, the number of shares of Common Stock issued is calculated as follows: (1) the total proceeds from the SARs exercise (calculated as the closing price of the Common Stock on the date of exercise less the exercise price of the SARs, multiplied by the number of SARs exercised) is divided by (2) the closing price of the Common Stock as reported on the New York Stock Exchange on the exercise date. The Company withholds a portion of the shares of Common Stock issued upon exercise to satisfy minimum statutory tax withholding requirements. SARs recipients do not have any stockholder rights until after actual shares of Common Stock are issued in respect of the award, which is subject to the prior satisfaction of the vesting and other criteria relating to such grants.



The following table summarizes changes in SARs outstanding during the nine months ended September 30, 2013:

	SARs (in millions)	Per Share Weighted- Average Exercise Price	Per Share Weighted- Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2012	2.0	\$24.59	\$9.04	4.10 years
Granted	0.4	49.37	14.88	6.37
Forfeited	—	—	—	n/a
Exercised	(0.4	) 18.80	7.02	n/a
Outstanding at September 30, 2013 (1), (2)	2.0	\$30.11	\$10.46	4.18
Vested and exercisable at September 30, 2013 (2)	1.0	\$21.00	\$7.98	3.17 years

n/a=not applicable.

(1) As of September 30, 2013, 1.0 million of the SARs outstanding were unvested. The Company expects that substantially all of these unvested awards will vest in future periods.

(2) Total SARs outstanding had an intrinsic value of \$59.3 million. SARs vested and exercisable had an intrinsic value of \$39.8 million.

The fair value of the SARs was estimated on the date of grant using the Black-Scholes-Merton valuation model with the following weighted-average assumptions:

	Nine Months Ended September 30,		
	2013	2012	
Expected dividend yield (1)	—	% —	%
Expected stock price volatility (2)	35	% 40	%
Risk-free interest rate (3)	0.8	% 0.8	%
Expected life in years (4)	4.5	4.6	

(1) The dividend yield assumption is based on the history and expectation of the Company's dividend payouts. Historically, Gartner has not paid cash dividends on its Common Stock.

(2) The determination of expected stock price volatility was based on both historical Common Stock prices and implied volatility from publicly traded options in the Common Stock.

(3) The risk-free interest rate is based on the yield of a U.S. Treasury security with a maturity similar to the expected life of the award.

(4) The expected life represents the Company's weighted-average estimate of the period of time the SARs are expected to be outstanding (defined as the period between the service inception date and the expected exercise date), which is based on historical exercise data.

Restricted Stock Units



Restricted stock units (RSUs) give the awardee the right to receive shares of Common Stock when the vesting conditions are met and the restrictions lapse, and each RSU that vests entitles the awardee to one common share. RSU awardees do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until the shares are released. The fair value of RSUs is determined on the date of grant based on the closing price of the Common Stock as reported by the New York Stock Exchange on that date. Service-based RSUs vest ratably over four years and are expensed on a straight-

line basis over four years. Performance-based RSUs are subject to the satisfaction of both performance and service conditions, vest ratably over four years, and are expensed on an accelerated basis.

The following table summarizes the changes in RSUs outstanding during the nine months ended September 30, 2013:

	Restricted Stock Units (RSUs) (in millions)	Per Share Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	2.5	\$27.95
Granted (1)	0.6	49.82
Vested and released	(1.3	) 22.47
Forfeited	—	—
Outstanding at September 30, 2013 (2), (3)	1.8	\$38.74

(1) The 0.6 million RSUs granted in 2013 consisted of 0.3 million performance-based RSUs awarded to executives and 0.3 million service-based RSUs awarded to non-executive employees and certain board members. The 0.3 million performance-based RSUs represents the target amount of the award for the year, which is tied to an increase in the Company's subscription-based Research contract value ("CV") for 2013. The final number of performance-based RSUs that will be granted to executives in 2013 ranges from 0% to 200% of the target amount, with the final number dependent on the actual increase in CV for the year as measured on December 31, 2013. If the specified minimum level of achievement is not met, the performance-based RSUs will be forfeited in their entirety, and any compensation expense previously recorded will be reversed.

(2) The Company expects that substantially all of the outstanding awards will vest in future periods.

(3) The weighted-average remaining contractual term of the outstanding RSUs is approximately 1.2 years.

#### Common Stock Equivalents

Common stock equivalents (CSEs) are convertible into Common Stock and each CSE entitles the holder to one common share. Members of our Board of Directors receive directors' fees payable in CSEs unless they opt to receive up to 50% of the fees in cash. Generally, the CSEs have no defined term and are converted into common shares when service as a director terminates unless the director has elected an accelerated release. The fair value of the CSEs is determined on the date of grant based on the closing price of the Common Stock as reported by the New York Stock Exchange on that date. CSEs vest immediately and as a result are recorded as expense on the date of grant.

The following table summarizes the changes in CSEs outstanding during the nine months ended September 30, 2013:

	Common Stock Equivalents (CSEs)	Per Share Weighted Average Grant Date Fair Value
Outstanding at December 31, 2012	100,545	\$16.89
Granted	7,449	57.45
Converted to common shares	(5,975	) 57.44

Outstanding at September 30, 2013	102,019	\$17.48
-----------------------------------	---------	---------

#### Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the “ESP Plan”) under which eligible employees are permitted to purchase Common Stock through payroll deductions, which may not exceed 10% of an employee’s compensation (or a maximum of \$23,750

12

---

in any calendar year), at a price equal to 95% of the closing price of the Common Stock as reported by the New York Stock Exchange at the end of each offering period.

At September 30, 2013, the Company had 1.2 million shares available for purchase under the ESP Plan. The ESP Plan is considered non-compensatory under FASB ASC Topic 718, and as a result the Company does not record stock-based compensation expense for employee share purchases. The Company received \$3.3 million and \$2.9 million in cash from purchases under the ESP Plan during the nine months ended September 30, 2013 and 2012, respectively.

#### Note 5 — Segment Information

The Company manages its business through three reportable segments: Research, Consulting and Events. Research consists primarily of subscription-based research products, access to research inquiry, peer networking services, and membership programs. Consulting consists primarily of consulting, measurement engagements, and strategic advisory services. Events consists of various symposia, conferences, and exhibitions.

The Company evaluates reportable segment performance and allocates resources based on gross contribution margin. Gross contribution, as presented in the table below, is defined as operating income excluding certain Cost of services and product development expenses, Selling, general and administrative expense, depreciation, amortization of intangibles, and acquisition and integration charges. Certain bonus and fringe benefit costs included in consolidated Cost of services and product development are not allocated to segment expense. The accounting policies used by the reportable segments are the same as those used by the Company. There are no intersegment revenues.

The Company does not identify or allocate assets, including capital expenditures, by reportable segment. Accordingly, assets are not reported by segment because the information is not available by segment and is not reviewed in the evaluation of segment performance or in making decisions in the allocation of resources.

The following tables present information about the Company's reportable segments (in thousands):

Three Months Ended September 30, 2013	Research	Consulting	Events	Consolidated
Revenues	\$316,518	\$70,149	\$24,038	\$410,705
Gross contribution	220,329	21,114	7,095	248,538
Corporate and other expenses				(189,795 )
Operating income				\$58,743
Three Months Ended September 30, 2012	Research	Consulting	Events	Consolidated
Revenues	\$284,048	\$71,731	\$18,627	\$374,406
Gross contribution	193,540	24,380	4,511	222,431
Corporate and other expenses				(172,663 )
Operating income				\$49,768
Nine Months Ended September 30, 2013	Research	Consulting	Events	Consolidated
Revenues	\$938,082	\$228,710	\$96,714	\$1,263,506
Gross contribution	648,954	76,836	37,318	763,108
Corporate and other expenses				(576,373 )
Operating income				\$186,735
Nine Months Ended September 30, 2012	Research	Consulting	Events	Consolidated
Revenues	\$836,970	\$222,970	\$81,119	\$1,141,059
Gross contribution	571,547	79,886	32,867	684,300
Corporate and other expenses				(518,254 )
Operating income				\$166,046



Edgar Filing: GARTNER INC - Form 10-Q

The following table provides a reconciliation of total segment gross contribution to net income for the periods indicated (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Total segment gross contribution	\$ 248,538	\$ 222,431	\$ 763,108	\$ 684,300
Costs and expenses:				
Cost of services and product development - unallocated (1)	(432	) (832	) 2,978	2,094
Selling, general and administrative	181,546	164,888	547,653	492,627
Depreciation and amortization	8,609	7,663	25,464	21,407
Acquisition and integration charges	72	944	278	2,126
Operating income	58,743	49,768	186,735	166,046
Interest expense and other	2,119	2,957	6,768	8,359
Provision for income taxes	18,430	15,436	58,584	50,607
Net income	\$ 38,194	\$ 31,375	\$ 121,383	\$ 107,080

(1) The unallocated amounts consist of certain bonus and related fringe costs recorded in Consolidated cost of services and product development expense that are not allocated to segment expense. The Company's policy is to only allocate bonus and related fringe charges to segments for up to 100% of the segment employee's target bonus. Amounts above 100% are absorbed by corporate.

Note 6 — Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and identifiable intangible net assets acquired. The evaluation of goodwill is performed in accordance with FASB ASC Topic 350, which requires an annual assessment of potential goodwill impairment at the reporting unit level. A reporting unit can be an operating segment or a business if discrete financial information is prepared and reviewed by management. The Company has three reporting units: Research, Consulting, and Events.

The following table presents changes to the carrying amount of goodwill by reporting unit during the nine months ended September 30, 2013 (in thousands):

	Research	Consulting	Events	Total
Balance, December 31, 2012 (1)	\$377,225	\$100,349	\$41,932	\$519,506
Foreign currency translation adjustments and other (2)	(901	) (59	) 9	(951
Balance, September 30, 2013	\$376,324	\$100,290	\$41,941	\$518,555

(1)The Company does not have any accumulated goodwill impairment losses.

(2)Includes the impact of foreign currency translation and certain immaterial goodwill adjustments.



## Amortizable Intangible Assets

The following tables present reconciliations of the carrying amounts of amortizable intangible assets as of the dates indicated (in thousands):

September 30, 2013	Trade Name	Customer Relationships	Content	Software	Total	
Gross cost, December 31, 2012	\$6,019	\$10,562	\$3,447	\$2,124	\$22,152	
Foreign currency translation adjustments	—	(278	) 29	8	(241	)
Gross cost	6,019	10,284	3,476	2,132	21,911	
Accumulated amortization (1)	(4,492	) (7,784	) (1,161	) (939	) (14,376	)
Balance, September 30, 2013	\$1,527	\$2,500	\$2,315	\$1,193	\$7,535	
December 31, 2012	Trade Name	Customer Relationships	Content	Software	Total	
Gross cost	\$6,019	\$10,562	\$3,447	\$2,124	\$22,152	
Accumulated amortization (1)	(3,531	) (5,896	) (497	) (407	) (10,331	)
Balance, December 31, 2012	\$2,488	\$4,666	\$2,950	\$1,717	\$11,821	

(1) Intangible assets are being amortized against earnings over the following periods: Trade name—2 to 5 years; Customer relationships—4 years; Content—4 years; Software—3 years.

Aggregate amortization expense related to intangible assets was \$1.4 million for both the three months ended September 30, 2013 and 2012 and \$4.1 million and \$3.0 million for the nine months ended September 30, 2013 and 2012, respectively.

The estimated future amortization expense by year from amortizable intangibles is as follows (in thousands):

2013 (remaining three months)	\$1,360
2014	3,555
2015	1,940
2016	680
	\$7,535

## Note 7 — Debt

## 2013 Credit Agreement

On March 7, 2013, the Company entered into a new credit arrangement (the “2013 Credit Agreement”) with a syndication of banks led by JPMorgan Chase to take advantage of favorable financing conditions and obtain additional liquidity through a larger revolving credit facility. The 2013 Credit Agreement provides for a five-year, \$150.0 million term loan and a \$600.0 million revolving credit facility. In addition, the 2013 Credit Agreement contains an expansion feature by which the term loan and revolving credit facility may be increased, at the Company’s option and under certain conditions, by up to an additional \$250.0 million in the aggregate.

The term loan will be repaid in 16 consecutive quarterly installments commencing June 30, 2013, plus a final payment due on March 7, 2018, and may be prepaid at any time without penalty or premium (other than applicable breakage



costs) at the Company's option. The revolving credit facility may be used for loans, and up to \$40.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and re-borrowed until March 7, 2018, at which time all amounts borrowed must be repaid.

On March 7, 2013, the Company drew down \$150.0 million from the term loan and \$50.0 million from the revolving credit facility which was used to repay amounts outstanding under the Company's prior credit arrangement, which was terminated in connection with the refinancing. Future amounts to be drawn down under the revolving credit facility will be used for general working capital purposes. The Company recorded a charge of \$0.3 million for capitalized debt issuance costs related to the termination of the

previous credit arrangement, which was recorded in Interest expense, net in the Condensed Consolidated Statements of Operations. The Company incurred \$3.6 million in debt issuance costs related to the new credit facility, which was capitalized and is being amortized to interest expense over the term of the 2013 Credit Agreement.

Amounts borrowed under the 2013 Credit Agreement bear interest at a rate equal to, at Gartner's option, either (i) the greatest of: the Administrative Agent's prime rate; the average rate on overnight federal funds plus 1/2 of 1%; and the Eurodollar rate (adjusted for statutory reserves) plus 1%, in each case plus a margin equal to between 0.25% and 0.75% depending on Gartner's leverage ratio as of the end of the four consecutive fiscal quarters most recently ended, or (ii) the Eurodollar rate (adjusted for statutory reserves) plus a margin equal to between 1.25% and 1.75%, depending on Gartner's leverage ratio as of the end of the four consecutive fiscal quarters most recently ended.

The 2013 Credit Agreement contains certain customary restrictive loan covenants, including, among others, financial covenants requiring a maximum leverage ratio, a minimum interest expense coverage ratio, and covenants limiting Gartner's ability to incur indebtedness, grant liens, make acquisitions, be acquired, dispose of assets, pay dividends, repurchase stock, make capital expenditures, make investments and enter into certain transactions with affiliates. The 2013 Credit Agreement contains customary events of default that include, among others, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, cross defaults to certain other indebtedness, bankruptcy and insolvency events, ERISA defaults, material judgments, and events constituting a change of control. The occurrence of an event of default will increase the applicable rate of interest by 2.0%, allows the lenders to terminate their obligations to lend under the 2013 Credit Agreement and could result in the acceleration of Gartner's obligations under the credit facility and an obligation of any or all of the guarantors to pay the full amount of Gartner's obligations under the credit facility. As of September 30, 2013, the Company was in full compliance with the loan covenants.

The following table provides information regarding the Company's total outstanding borrowings:

Description:	Amount Outstanding September 30, 2013 (In thousands)	Contractual Annualized Interest Rate September 30, 2013	Amount Outstanding December 31, 2012 (In thousands)
Term loans (1)	\$146,250	1.62	% \$150,000
Revolver loans (1), (2)	53,750	1.62	% 50,000
Other (3)	5,000	3.00	% 5,000
Total	\$205,000		\$205,000

Both the term and revolver loan rates consisted of a floating Eurodollar base rate of 0.24% plus a margin of 1.38%.

However, the Company has an interest rate swap contract which converts the floating Eurodollar base rate to a (1) 2.26% fixed base rate on the first \$200.0 million of Company borrowings (see below). As a result, the Company's effective annual interest rate on the \$200.0 million of outstanding term and revolver debt as of September 30, 2013, including the swap and margin, was 3.64%.

(2) The Company had approximately \$543.0 million of available borrowing capacity on the revolver (not including the expansion feature) as of September 30, 2013.

(3) The Company borrowed \$5.0 million through a State of Connecticut economic development program in December 2012. The loan has a 10 year maturity and bears a 3.0% fixed rate of interest. Principal payments are deferred for the first five years and the loan may be repaid at any point by the Company without penalty. The loan has a principal forgiveness provision in which up to \$2.5 million of the loan may be forgiven if the Company meets

certain employment targets in Connecticut during the first five years of the loan.

#### Interest Rate Swap

The Company has a \$200.0 million notional fixed-for-floating interest rate swap contract which it designates as a hedge of the forecasted interest payments on the Company's variable rate borrowings. Under the swap terms, the Company pays a base fixed rate of 2.26% and in return receives a floating Eurodollar base rate on \$200.0 million of notional borrowings. The swap matures in September 2015.

The Company accounts for the interest rate swap as a cash flow hedge in accordance with FASB ASC Topic 815. Since the swap is hedging forecasted interest payments, changes in the fair value of the swap are recorded in OCI as long as the swap continues to be a highly effective hedge of the designated interest rate risk. Any ineffective portion of change in the fair value of the hedge is recorded in earnings. The swap continued to be a highly effective hedge of the forecasted interest payments as of September 30, 2013. The interest rate swap had a negative fair value to the Company of \$7.3 million and \$10.0 million at September 30, 2013 and December 31, 2012, respectively, which is deferred and classified in OCI, net of tax effect.

#### Letters of Credit

The Company had \$9.7 million of letters of credit and related guarantees outstanding at September 30, 2013. The Company enters into these instruments in the ordinary course of business to facilitate transactions with customers and others.

#### Note 8 — Equity

##### Share Repurchase Program

The Company has a \$500.0 million share repurchase program, of which \$83.6 million remained available for share repurchases as of September 30, 2013. Repurchases may be made from time-to-time through open market purchases, private transactions, tender offers or other transactions. The amount and timing of repurchases will be subject to the availability of stock, prevailing market conditions, the market price of the stock, the Company's financial performance and other conditions. Repurchases may also be made from time-to-time in connection with the settlement of the Company's shared-based compensation awards. Repurchases may be funded from operating cash flow or borrowings. The Company's share repurchase activity is included in the following table:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Number of shares repurchased (1)	1,016,978	95,833	2,859,246	2,260,093
Cost of repurchased shares (in thousands)	\$59,252	\$4,626	\$157,251	\$89,300

The average purchase price for the shares was \$58.26 and \$55.00 for the three and nine months ended (1) September 30, 2013, respectively, and \$48.27 and \$39.51 for the three and nine months ended September 30, 2012, respectively.

#### Note 9 — Income Taxes

The provision for income taxes was \$18.4 million for the three months ended September 30, 2013 compared to \$15.4 million in the three months ended September 30, 2012. The effective tax rate was 32.5% for the three months ended September 30, 2013 and 33.0% for the same period in 2012. The quarter-over-quarter decrease in the effective tax rate was primarily due to a change in the estimated annual mix of pre-tax income by jurisdiction during the third quarter of 2012, which increased the effective rate for that period.

The provision for income taxes was \$58.6 million for the nine months ended September 30, 2013 compared to \$50.6 million in the nine months ended September 30, 2012. The effective tax rate was 32.6% for the nine months ended September 30, 2013 and 32.1% for the same period in 2012. The increase in the effective tax rate was primarily due to the benefit of certain nonrecurring state tax credits recognized in 2012, and to a lesser extent, the net impact of certain

federal and state tax law changes impacting the 2013 period.

As of September 30, 2013 and December 31, 2012, the Company had gross unrecognized tax benefits of \$18.5 million and \$17.6 million, respectively. The unrecognized tax benefits relate primarily to the utilization of certain tax attributes. It is reasonably possible that the gross unrecognized tax benefits will decrease by \$5.7 million within the next 12 months, due to anticipated closure of audits and the expiration of certain statutes of limitation. The Company classifies uncertain tax positions not expected to be settled within one year as long term liabilities. As of September 30, 2013 and December 31, 2012, the Company had Other liabilities of \$12.8 million and \$13.1 million, respectively, related to uncertain tax positions.

In July 2013 the Internal Revenue Service closed its audit of the Company's federal income tax returns for the 2008 and 2009 tax years. The resolution of the audit did not result in any material adjustments to the Company's consolidated financial statements.

## Note 10 — Derivatives and Hedging

The Company enters into a limited number of derivative contracts to offset the potentially negative economic effects of interest rate and foreign exchange movements. The Company accounts for its outstanding derivative contracts in accordance with FASB ASC Topic 815, which requires all derivatives, including derivatives designated as accounting hedges, to be recorded on the balance sheet at fair value. The following tables provide information regarding the Company's outstanding derivatives contracts (in thousands, except for number of outstanding contracts) as of the dates indicated:

September 30, 2013

Derivative Contract Type	Number of Outstanding Contracts	Notional Amounts	Fair Value Asset (Liability), Net (3)	Balance Sheet Line Item	Unrealized Loss Recorded in OCI
Interest rate swap (1)	1	\$200,000	\$(7,291)	) Other liabilities	\$(4,374)
Foreign currency forwards (2)	32	15,000	(52)	) Accrued Liabilities	—
Total	33	\$215,000	\$(7,343)	)	\$(4,374)

December 31, 2012

Derivative Contract Type	Number of Outstanding Contracts	Notional Amounts	Fair Value Asset (Liability), Net (3)	Balance Sheet Line Item	Unrealized Loss Recorded in OCI
Interest rate swap (1)	1	\$200,000	\$(10,000)	) Other liabilities	\$(6,010)
Foreign currency forwards (2)	68	76,100	4	) Current assets	—
Total	69	\$276,100	\$(9,996)	)	\$(6,010)

This swap has been designated, and is accounted for, as a cash flow hedge of the forecasted interest payments on (1) borrowings (see Note 7 — Debt). As a result, changes in fair value of this swap are deferred and are recorded in OCI, net of tax effect.

The Company has foreign exchange transaction risk since it typically enters into transactions in the normal course of business that are denominated in foreign currencies that differ from the local functional currency. The Company (2) enters into short-term foreign currency forward exchange contracts to offset the economic effects of these foreign currency transaction risks. These forward exchange contracts are accounted for at fair value with realized and unrealized gains and losses recognized in Other expense, net. Substantially all of the contracts outstanding at September 30, 2013 matured by the end of October 2013.

(3) See Note 11 — Fair Value Disclosures for the determination of the fair value of these instruments.

The Company's derivative counterparties are all large investment grade financial institutions. The Company did not have any collateral arrangements with its derivative counterparties, and none of the derivative contracts contained credit-risk guarantees.

The following table provides information regarding derivative gains and losses that have been recognized in the Condensed Consolidated Statements of Operations for the periods indicated (in thousands):

	Three Months Ended	Nine Months Ended
--	--------------------	-------------------

Edgar Filing: GARTNER INC - Form 10-Q

Amount recorded in:	September 30,		September 30,		
	2013	2012	2013	2012	
Interest expense, net (1)	\$1,034	\$907	\$2,981	\$2,657	
Other expense (income), net (2)	(20	) 36	138	(563	)
Total expense, net	\$1,014	\$943	\$3,119	\$2,094	

(1) Consists of interest expense from an interest rate swap contract.

(2) Consists of realized and unrealized gains and losses on foreign currency forward contracts.

## Note 11 — Fair Value Disclosures

The Company's financial instruments include cash equivalents, fees receivable from customers, accounts payable, and accruals which are normally short-term in nature. The Company believes the carrying amounts of these financial instruments reasonably approximate their fair value due to their short-term nature. The Company's financial instruments also include its outstanding borrowings. The Company believes the carrying amount of the outstanding borrowings reasonably approximates their fair value since the rate of interest on the borrowings reflect current market rates of interest for similar instruments with comparable maturities.

FASB ASC Topic 820 provides a framework for the measurement of fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of assets and liabilities. Classification within the hierarchy is based upon the lowest level of input that is significant to the resulting fair value measurement. The valuation hierarchy contains three levels. Level 1 measurements consist of quoted prices in active markets for identical assets or liabilities. Level 2 measurements include significant other observable inputs such as quoted prices for similar assets or liabilities in active markets; identical assets or liabilities in inactive markets; observable inputs such as interest rates and yield curves; and other market-corroborated inputs. Level 3 measurements include significant unobservable inputs, such as internally-created valuation models.

The Company has a limited number of assets and liabilities recorded in its Consolidated Balance Sheets that are remeasured to fair value on a recurring basis, and the Company does not currently utilize Level 3 valuation inputs to remeasure any of its assets or liabilities. In addition, the Company typically does not transfer assets or liabilities between different levels of the fair value hierarchy.

The Company's assets and liabilities remeasured to fair value are presented in the following table for the periods indicated (in thousands):

Description:	Fair Value September 30, 2013	Fair Value December 31, 2012
Assets:		
Deferred compensation plan assets (1)	\$30,983	\$27,795
Foreign currency forward contracts (2)	11	204
	\$30,994	\$27,999
Liabilities:		
Deferred compensation plan liabilities (1)	\$34,741	\$31,260
Foreign currency forward contracts (2)	63	200
Interest rate swap contract (3)	7,291	10,000
	\$42,095	\$41,460

The Company has a deferred compensation plan for the benefit of certain highly compensated employees. The assets consist of investments in money market and mutual funds, and company-owned life insurance contracts, all (1) of which are valued based on Level 1 or Level 2 valuation inputs. The related deferred compensation plan liabilities are recorded at fair value, or the estimated amount needed to settle the liability, which the Company also considers to be based on a Level 2 input.

The Company enters into foreign currency forward exchange contracts to hedge the effects of adverse fluctuations (2) in foreign currency exchange rates. Valuation of the foreign currency forward contracts is based on observable foreign currency exchange rates in active markets, which the Company considers a Level 2 input.



The Company has an interest rate swap contract which hedges the forecasted interest payments on its borrowings (see Note 7 — Debt). To determine the fair value of this over-the-counter financial instrument, the Company relies on a mark-to-market valuation prepared by a third-party broker. The valuation is based on observable interest rates (3) from recently executed market transactions or broker quotes corroborated by other observable market data. Accordingly, the fair value of the swap is determined under a Level 2 input. The Company independently corroborates the reasonableness of the swap valuation prepared by the third-party broker through the use of an electronic quotation service.

#### Disclosures about Offsetting of Assets and Liabilities

On January 1, 2013, the Company adopted FASB ASU No. 2013-1, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, which updates FASB ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. These rules require certain disclosures of assets and liabilities resulting from derivative transactions, repurchase agreements, and securities lending arrangements. Among the required disclosures are the gross amounts of assets and liabilities resulting from these transactions, amounts potentially subject to offset under master netting arrangements, and resulting amounts recorded in the balance sheets.

The Company enters into a limited number of derivatives transactions but does not enter into repurchase agreements or securities lending transactions. In addition, the Company does not enter into master netting arrangements and receivables or payables that result from derivatives transactions are recorded gross in the Company's Consolidated Balance Sheets. Information regarding the Company's derivatives contracts and related amounts recorded in the Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012 are included in the fair value table above.

#### Note 12 — Employee Benefits

##### Defined Benefit Pension Plans

The Company has defined-benefit pension plans in several of its international locations. Benefits paid under these plans are based on years of service and level of employee compensation. The Company's defined benefit pension plans are accounted for in accordance with FASB ASC Topics 715 and 960. Net periodic pension expense was \$0.8 million and \$0.6 million for the three months ended September 30, 2013 and 2012, respectively, and \$2.4 million and \$1.8 million for the nine months ended September 30, 2013 and 2012, respectively.

#### Note 13 — Commitments and Contingencies

##### Contingencies

The Company is involved in legal proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position, cash flows, or results of operations when resolved in a future period.

The Company has various agreements that may obligate us to indemnify the other party with respect to certain matters. Generally, these indemnification clauses are included in contracts arising in the normal course of business under which we customarily agree to hold the other party harmless against losses arising from a breach of representations related to such matters as title to assets sold and licensed or certain intellectual property rights. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of the Company's obligations and the unique facts of each particular agreement. Historically, payments made by us under these agreements have not been material. As of September 30, 2013, the Company did not have any material payment obligations under any such indemnification agreements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of the following Management's Discussion and Analysis ("MD&A") is to help facilitate the understanding of significant factors influencing the quarterly operating results, financial condition and cash flows of Gartner, Inc. Additionally, the MD&A also conveys our expectations of the potential impact of known trends, events or uncertainties that may impact future results. You should read this discussion in conjunction with our condensed consolidated financial statements and related notes included in this report and in our Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 10-K"). Historical results and percentage relationships are not necessarily indicative of operating results for future periods. References to "Gartner," "the Company," "we," "our," and "us" in this MD&A are to Gartner, Inc. and its consolidated subsidiaries.

### U.S. Government Shutdown

The two week shutdown of the U.S. Government in October 2013 did not have an impact on the Company's results of operations for the quarter ended September 30, 2013 and we do not anticipate a significant impact in the fourth quarter of 2013. U.S. Government officials have agreed to work together to reach a broader, longer-term agreement on fiscal issues beyond the temporary agreement reached in October to fund the government through early 2014 and raise the federal debt ceiling. We cannot predict the outcome of these discussions and issues nor the timing or specifics of a resolution, if any, and failure to reach an agreement could have a material impact on our business and operations as well as those of our customers. See the "Risk Factors" section of the 2012 10-K for further discussion.

### Forward-Looking Statements

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements other than statements of historical fact, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. In some cases, forward-looking statements can be identified by the use of words such as "may," "will," "expect," "should," "could," "believe," "plan," "anticipate," "estimate," "predict," "potential," "continue," or other words of similar meaning.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Factors That May Affect Future Performance" and elsewhere in this Quarterly Report and in the 2012 10-K. Readers should not place undue reliance on these forward-looking statements, which reflect management's opinion only as of the date on which they were made. Except as required by law, we disclaim any obligation to review or update these forward-looking statements to reflect events or circumstances as they occur. Readers should review carefully any risk factors described in the 2012 10-K.

## BUSINESS OVERVIEW

Gartner, Inc. (NYSE: IT) is the world's leading information technology research and advisory company. We deliver the technology-related insight necessary for our clients to make the right decisions, every day. From CIOs and senior IT leaders in corporations and government agencies, to business leaders in high-tech and telecom enterprises and professional services firms, to supply chain professionals and technology investors, we are the valuable partner to clients in over 13,422 distinct organizations. We work with clients to research, analyze and interpret the business of IT within the context of their individual roles. Founded in 1979, Gartner is headquartered in Stamford, Connecticut, U.S.A., and as of September 30, 2013, we had 5,891 associates, including 1,470 research analysts and consultants, and clients in 85 countries.

The foundation for all Gartner products and services is our independent research on IT and supply chain issues. The findings from this research are delivered through our three business segments — Research, Consulting and Events:

Research provides objective insight on critical and timely technology and supply chain initiatives for CIOs, other IT professionals, supply chain leaders, technology companies and the investment community through reports, briefings, proprietary tools, access to our analysts, peer networking services and membership programs that enable our clients to make better decisions about their IT and supply chain investments.

Consulting provides customized solutions to unique client needs through on-site, day-to-day support, as well as proprietary tools for measuring and improving IT performance with a focus on cost, performance, efficiency, and quality.

Events provide IT, supply chain and business professionals the opportunity to attend various symposia, conferences and exhibitions to learn, contribute and network with their peers. From our flagship event Symposium/ITxpo, to summits focused on specific technologies and industries, to experimental workshop-style seminars, our events distill the latest Gartner research into applicable insight and advice.

For more information regarding Gartner and our products and services, visit [www.gartner.com](http://www.gartner.com).

## BUSINESS MEASUREMENTS

We believe the following business measurements are important performance indicators for our business segments:

BUSINESS SEGMENT	BUSINESS MEASUREMENTS
Research	<p>Contract value represents the value attributable to all of our subscription-related research products that recognize revenue on a ratable basis. Contract value is calculated as the annualized value of all subscription research contracts in effect at a specific point in time, without regard to the duration of the contract.</p> <p>Client retention rate represents a measure of client satisfaction and renewed business relationships at a specific point in time. Client retention is calculated on a percentage basis by dividing our current clients, who were also clients a year ago, by all clients from a year ago.</p> <p>Wallet retention rate represents a measure of the amount of contract value we have retained with clients over a twelve-month period. Wallet retention is calculated on a percentage basis by dividing the contract value of clients, who were clients one year earlier, by the total contract value from a year earlier, excluding the impact of foreign currency exchange. When wallet retention exceeds client retention, it is an indication of retention of higher-spending clients, or increased spending by retained clients, or both.</p>
Consulting	<p>Consulting backlog represents future revenue to be derived from in-process consulting, measurement and strategic advisory services engagements.</p> <p>Utilization rate represents a measure of productivity of our consultants. Utilization rates are calculated for billable headcount on a percentage basis by dividing total hours billed by total hours available to bill.</p> <p>Billing Rate represents earned billable revenue divided by total billable hours.</p> <p>Average annualized revenue per billable headcount represents a measure of the revenue generating ability of an average billable consultant and is calculated periodically by multiplying the average billing rate per hour times the utilization percentage times the billable hours available for one year.</p>
Events	<p>Number of events represents the total number of hosted events completed during the period.</p> <p>Number of attendees represents the total number of people who attend events.</p>

EXECUTIVE SUMMARY OF OPERATIONS AND FINANCIAL POSITION

We have executed a consistent growth strategy since 2005 to drive double-digit revenue and earnings growth. The fundamentals of our strategy are to create extraordinary research insight, deliver innovative and highly differentiated product offerings, build a strong sales capability, provide world class client service with a focus on client engagement and retention, and continuously improve our operational effectiveness.

We had total revenues of \$410.7 million in the third quarter of 2013, an increase of 10% compared to the third quarter of 2012 on a reported basis and 11% adjusted for foreign exchange impact. Revenues increased by double-digits in our Research and Events segments but declined slightly in Consulting. For a more complete discussion of our results by segment, see Segment Results

below. We had net income of \$38.2 million in the third quarter of 2013, an increase of 22% compared to third quarter 2012. Diluted earnings per share was \$0.40 per share in third quarter of 2013 compared to \$0.33 per share in third quarter 2012.

Our operating cash flow increased 16%, to \$242.1 million for the nine months ended September 30, 2013 compared to \$208.8 million for the same period in 2012, and we had \$374.5 million of cash and cash equivalents at September 30, 2013. We believe that our liquidity is adequate to fund our current plans. We continue to enhance shareholder value through our share repurchase plan, and we repurchased 2.9 million shares of our Common Stock for a total cost of \$157.3 million during the nine months ended September 30, 2013.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the application of appropriate accounting policies and the use of estimates. Our significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements of Gartner, Inc. contained in the 2012 10-K. Management considers the policies discussed below to be critical to an understanding of our financial statements because their application requires complex and subjective management judgments and estimates. Specific risks for these critical accounting policies are also described below.

The preparation of our financial statements requires us to make estimates and assumptions about future events. We develop our estimates using both current and historical experience, as well as other factors, including the general economic environment and actions we may take in the future. We adjust such estimates when facts and circumstances dictate. However, our estimates may involve significant uncertainties and judgments and cannot be determined with precision. In addition, these estimates are based on our best judgment at a point in time and as such these estimates may ultimately differ materially from actual results. Also, on-going changes in our estimates could be material and would be reflected in the Company's consolidated financial statements in future periods.

Our critical accounting policies are as follows:

**Revenue recognition** — Revenue is recognized in accordance with the requirements of U.S. GAAP as well as SEC Staff Accounting Bulletins No. 101, Revenue Recognition in Financial Statements (“SAB 101”), and SEC Staff Accounting Bulletin No. 104, Revenue Recognition (“SAB 104”). Revenue is only recognized once all required criteria for revenue recognition have been met. Revenue by significant source is accounted for as follows:

• **Research revenues** are derived from subscription contracts for research products and are deferred and recognized ratably over the applicable contract term. Fees from research reprints are recognized when the reprint is delivered.

• **Consulting revenues** are principally generated from fixed fee and time and material engagements. Revenues from fixed fee contracts are recognized on a proportional performance basis. Revenues from time and materials engagements are recognized as work is delivered and/or services are provided. Revenues related to contract optimization contracts are contingent in nature and are only recognized upon satisfaction of all conditions related to their payment.

• **Events revenues** are deferred and recognized upon the completion of the related symposium, conference or exhibition.

The majority of research contracts are billable upon signing, absent special terms granted on a limited basis from time to time. All research contracts are non-cancelable and non-refundable, except for government contracts that may have cancellation or fiscal funding clauses. It is our policy to record the entire amount of the contract that is billable as a fee receivable at the time the contract is signed with a corresponding amount as deferred revenue, since the contract represents a legally enforceable claim.

Uncollectible fees receivable — We maintain an allowance for losses which is composed of a bad debt allowance and a sales reserve. Provisions are charged against earnings, either as a reduction in revenues or an increase to expense. The measurement of likely and probable losses and the allowance for losses is based on historical loss experience, aging of outstanding receivables, an assessment of current economic conditions and the financial health of specific clients. This evaluation is inherently judgmental and requires estimates. These valuation reserves are periodically re-evaluated and adjusted as more information about the ultimate collectability of fees receivable becomes available. Circumstances that could cause our valuation reserves to increase include changes in our clients' liquidity and credit quality, other factors negatively impacting our clients' ability to pay their obligations as they come due, and the effectiveness of our collection efforts.



The following table provides our total fees receivable, along with the related allowance for losses, as of the date indicated (in thousands):

	September 30, 2013	December 31, 2012
Total fees receivable	\$398,274	\$470,368
Allowance for losses	(6,100	) (6,400
Fees receivable, net	\$392,174	\$463,968

Goodwill and other intangible assets — Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and identifiable intangible net assets acquired. Goodwill is not amortized against earnings, but is periodically evaluated for impairment in accordance with FASB ASC Topic 350, which requires goodwill to be assessed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, an impairment evaluation of our amortizable intangible assets may also be performed on a periodic basis should events or circumstances indicate potential impairment. If we determine that the fair value of a reporting unit or an intangible asset is less than its related carrying amount, we must recognize an impairment charge against earnings. Among the factors we consider important that could trigger an impairment review are the following:

- ⊗ Significant under-performance relative to historical or projected future operating results;
- ⊗ Significant changes in the manner of our use of acquired assets or the strategy for our overall business;
- ⊗ Significant negative industry or general economic trends;
- ⊗ Significant decline in our stock price for a sustained period; and
- ⊗ Our market capitalization relative to net book value.

The determination of the estimated fair value of our reporting units, whether based on a quantitative or qualitative assessment, contains judgments and assumptions regarding future trends and events, with both the precision and reliability of the resulting estimates subject to uncertainty. As a result, if the Company deems it necessary in the future to modify its judgments and assumptions, or if actual results are materially different from our expectations, then the estimated reporting unit values could change, potentially resulting in goodwill impairment charges in future periods. We completed the required annual goodwill impairment assessment as of September 30, 2013 utilizing a qualitative approach and concluded that the fair values of our reporting units continued to exceed their respective carrying amounts.

Accounting for income taxes — As we prepare our consolidated financial statements, we estimate our income taxes in each of the jurisdictions where we operate. This process involves estimating our current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We record a valuation allowance to reduce our deferred tax assets when future realization is in question. We consider the availability of loss carryforwards, existing deferred tax liabilities, future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event we determine that we are able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment is made to reduce the valuation allowance and increase income in the period such determination is made. Likewise, if we determine that we will not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the valuation allowance is charged against income in the period such determination is made.

Accounting for stock-based compensation — The Company accounts for stock-based compensation in accordance with FASB ASC Topics 505 and 718, as interpreted by SEC Staff Accounting Bulletins No. 107 (“SAB No. 107”) and No. 110 (“SAB No. 110”). The Company recognizes stock-based compensation expense, which is based on the fair value of the award on the date of grant, over the related service period, net of estimated forfeitures (see Note 4 — Stock-Based Compensation in the Notes to the Condensed Consolidated Financial Statements).

Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards requires the input of certain complex and subjective assumptions, including the expected life of the stock-based compensation awards and the Company’s Common Stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the rate of employee forfeitures and the likelihood of the achievement of certain performance targets.

The assumptions used in calculating the fair value of stock-based compensation awards and the associated periodic expense represent management's best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and the Company deems it necessary in the future to modify the assumptions it made or to use different assumptions, or if the quantity and nature of the Company's stock-based compensation awards changes, then the amount of periodic stock-based compensation expense may need to be adjusted which could be materially different from what has been recorded in the current period.

Restructuring and other accruals — We may record accruals for severance costs, costs associated with excess facilities that we have leased, contract terminations, asset impairments, the integration of acquired businesses, and other costs as a result of on-going actions we undertake to streamline our organization, reposition certain businesses and reduce ongoing costs, or acquire other companies. Estimates of costs to be incurred to complete these actions, such as future lease payments, sublease income, the fair value of assets, and severance and related benefits, are based on assumptions at the time the actions are initiated. These accruals may need to be adjusted to the extent actual costs differ from such estimates. In addition, these actions may be revised due to changes in business conditions that we did not foresee at the time such plans were approved. We also record accruals during the year for our various employee cash incentive programs. Amounts accrued at the end of each reporting period are based on our estimates and may require adjustment as the ultimate amount paid for these incentives are sometimes not known with certainty until the end of our fiscal year.

## RESULTS OF OPERATIONS

## Overall Results

The following tables summarize the changes in selected income and expense lines in our interim Condensed Consolidated Statements of Operations for the periods indicated (in thousands):

	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Income Increase (Decrease) \$	Increase (Decrease) %	
Total revenues	\$410,705	\$374,406	\$36,299	10	%
Costs and expenses:					
Cost of services and product development	161,735	151,143	(10,592)	(7)	)
Selling, general and administrative	181,546	164,888	(16,658)	(10)	)
Depreciation	7,258	6,301	(957)	(15)	)
Amortization of intangibles	1,351	1,362	11	1	)
Acquisition and integration charges	72	944	872	92	)
Operating income	58,743	49,768	8,975	18	)
Interest expense, net	(2,124)	(2,209)	85	4	)
Other income (expense), net	5	(748)	753	>100	)
Provision for income taxes	18,430	15,436	(2,994)	(19)	)
Net income	\$38,194	\$31,375	\$6,819	22	%
	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Income Increase (Decrease) \$	Increase (Decrease) %	
Total revenues	1,263,506	\$1,141,059	\$122,447	11	%
Costs and expenses:					
Cost of services and product development	503,376	458,853	(44,523)	(10)	)
Selling, general and administrative	547,653	492,627	\$(55,026)	(11)	)
Depreciation	21,375	18,378	(2,997)	(16)	)
Amortization of intangibles	4,089	3,029	(1,060)	(35)	)
Acquisition and integration charges	278	2,126	1,848	87	)
Operating income	186,735	166,046	20,689	12	)
Interest expense, net	(6,704)	(6,557)	(147)	(2)	)
Other expense, net	(64)	(1,802)	1,738	96	)
Provision for income taxes	58,584	50,607	(7,977)	(16)	)
Net income	\$121,383	\$107,080	\$14,303	13	%

Total revenues for the three months ended September 30, 2013 increased \$36.3 million, or 10% compared to the same quarter in 2012. Excluding the unfavorable impact of foreign currency translation, total quarterly revenues increased 11%. For the nine month periods, total revenues increased to \$1,263.5 million in 2013, an 11% increase over 2012. Excluding the impact of foreign exchange, total year-to-date 2013 revenues also increased 11% over 2012. Please refer to the section of this MD&A below entitled "Segment Results" for a discussion of revenues and results by segment.

Cost of services and product development increased \$10.6 million, or 7%, in the third quarter of 2013 compared to the third quarter of 2012. The increase was primarily due to \$12.0 million in higher payroll and related benefits costs due to increased headcount

and merit salary increases. We also had \$2.0 million in additional conference expense as the number of events increased in the 2013 quarter. These increased expenses were partially offset by the favorable impact of foreign currency translation. Cost of services and product development as a percentage of revenues was 39% and 40% for the third quarter of 2013 and 2012, respectively.

For the nine month periods, Cost of services and product development expense increased \$44.5 million, or 10%, in 2013 compared to the same period in 2012. Consistent with the quarterly increase, the additional charge was primarily due to higher payroll and benefit costs due to increased headcount and merit salary increases, and to a lesser extent, higher conference expenses. These increases were partially offset by favorable currency impact. Cost of services and product development as a percentage of revenues was 40% in both the 2013 and 2012 periods.

Selling, general and administrative (“SG&A”) expense increased \$16.7 million, or 10% quarter-over-quarter. The increase was primarily due to higher payroll and related benefits costs, which was partially offset by favorable foreign currency impact. The higher payroll costs resulted from additional headcount, higher sales commissions, and merit salary increases. The increased headcount includes our investment in additional quota-bearing sales associates, which increased approximately 15%, to 1,605 at September 30, 2013. SG&A expense increased 11%, or \$55.0 million, in the nine months ended September 30, 2013 compared to the same period in the prior year. Consistent with the quarter increase, the additional charges were primarily driven by higher payroll and benefit costs.

Depreciation expense increased in the three and nine months ended September 30, 2013 compared to the same periods in 2012 due to additional depreciation on leasehold improvements resulting from two renovated buildings on our Stamford headquarters campus being placed into service.

Amortization of intangibles decreased slightly quarter-over-quarter but increased 35% in the nine months ended September 30, 2013 due to the addition of intangibles from the June 2012 acquisition of Ideas International Limited.

Acquisition and integration charges relate to the acquisition of Ideas International Limited and include legal, consulting, severance, and other costs.

Operating income increased \$9.0 million, or 18%, quarter-over-quarter. Operating income as a percentage of revenues increased by 1 point quarter-over-quarter, to 14% in the third quarter of 2013 compared to 13% in the third quarter of 2012, primarily due to a higher segment contribution in the Research segment. For the nine month periods, operating income increased \$20.7 million in 2013, or 12%. As a percentage of revenues, operating income was 15% for both nine month periods.

Interest expense, net declined slightly quarter-over-quarter. For the nine month periods, interest expense, net increased 2% in the 2013 period, which was primarily due to a write-off of capitalized debt issuance costs related to our debt refinancing.

Other expense, net consists of net foreign currency exchange gains and losses.

The provision for income taxes was \$18.4 million for the three months ended September 30, 2013 compared to \$15.4 million in the three months ended September 30, 2012. The effective tax rate was 32.5% for the three months ended September 30, 2013 and 33.0% for the same period in 2012. The quarter-over-quarter decrease in the effective tax rate was primarily due to a change in the estimated annual mix of pre-tax income by jurisdiction during the third quarter of 2012, which increased the effective rate for that period.

The provision for income taxes was \$58.6 million for the nine months ended September 30, 2013 compared to \$50.6 million in the nine months ended September 30, 2012. The effective tax rate was 32.6% for the nine months ended

September 30, 2013 and 32.1% for the same period in 2012. The increase in the effective tax rate was primarily due to the benefit of certain nonrecurring state tax credits recognized in 2012, and to a lesser extent, the net impact of certain federal and state tax law changes impacting the 2013 period.

Net income increased 22% quarter-over-quarter while diluted earnings per share increased by 21% due to the higher net income. For the nine month periods, net income increased 13% while diluted earnings per share increased 14%, due to the higher net income and to a lesser extent, a slightly lower number of weighted average shares outstanding.

## SEGMENT RESULTS

We evaluate reportable segment performance and allocate resources based on gross contribution margin. Gross contribution is defined as operating income excluding certain Cost of services and product development charges, SG&A expenses, Depreciation, Acquisition and integration charges, and Amortization of intangibles. Gross contribution margin is defined as gross contribution as a percentage of revenues.

The following sections present the results of our three business segments:

## Research

	As Of And For The Three Months Ended September 30, 2013	As Of And For The Three Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Nine Months Ended September 30, 2013	As Of And For The Nine Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)	
Financial Measurements:									
Revenues (1)	\$316,518	\$284,048	\$32,470	11 %	\$938,082	\$836,970	\$101,112	12 %	
Gross contribution (1)	\$220,329	\$193,540	\$26,789	14 %	\$648,954	\$571,547	\$77,407	14 %	
Gross contribution margin	70 %	68 %	2 points	—	69 %	68 %	1 point	—	
Business Measurements:									
Contract value (1)	\$1,326,733	\$1,174,700	\$152,033	13 %					
Client retention	82 %	83 %	(1) point	—					
Wallet retention	97 %	99 %	(2) points	—					

(1) Dollars in thousands.

Research segment revenues increased 11% quarter-over-quarter and 12% excluding the foreign exchange impact. The segment gross contribution margin increased by 2 points, to 70%, due to the higher revenues and the operating leverage in this business. When comparing the nine months ended September 30, 2013 to the same period in 2012, revenues increased 12% in 2013, and 13% adjusted for the impact of foreign exchange. The segment gross contribution increased 1 point to 69%, again due to the higher revenues and the operating leverage in this business.

Research contract value at September 30, 2013 increased 13% compared to September 30, 2012 and increased 12% excluding the foreign exchange impact. Contract value increased by double-digits across all of the Company's client sizes and almost every industry segment. We also had double-digit growth across all of our geographic regions. At September 30, 2013, client retention was 82% and wallet retention was 97%.



Edgar Filing: GARTNER INC - Form 10-Q

Consulting

	As Of And For The Three Months Ended September 30, 2013	As Of And For The Three Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Nine Months Ended September 30, 2013	As Of And For The Nine Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)
Financial Measurements:								
Revenues (1)	\$70,149	\$71,731	\$(1,582 )	(2 )%	\$228,710	\$222,970	\$5,740	3 %
Gross contribution (1)	\$21,114	\$24,380	\$(3,266 )	(13 )%	\$76,836	\$79,886	\$(3,050 )	(4 )%
Gross contribution margin Business Measurements:	30	% 34	% (4) points	—	34	% 36	% (2) points	—
Backlog (1)	\$96,509	\$106,100	\$(9,591 )	(9 )%				
Billable headcount	516	499	17	3 %				
Consultant utilization	58	% 64	% (6) points	—	63	% 67	% (4) points	—
Average annualized revenue per billable headcount (1)	\$374	\$415	\$(41 )	(10 )%	\$402	\$425	\$(23 )	(5 )%

(1)Dollars in thousands.

Consulting revenues decreased 2% quarter-over-quarter and 1% excluding the impact of foreign exchange. The revenue decline was due to lower utilization in our core consulting business. The gross contribution margin declined by 4 points quarter-over-quarter, driven by lower consultant utilization and additional costs from higher headcount.

For the nine month periods, Consulting revenues increased 3% in 2013, both as reported and when adjusted for foreign currency impact. The increase was due to higher contract optimization revenues and to a lesser extent, higher core consulting revenues. These increases were partially offset by slightly lower strategic advisory service (SAS) revenues. The gross contribution margin declined by 2 points due to lower utilization and additional headcount.

Backlog was \$96.5 million at September 30, 2013, a 9% decrease compared to September 30, 2012 as the third quarter of 2012 was a particularly strong quarter for bookings. Backlog at September 30, 2013 increased 3% compared to June 30, 2013 as the Company experienced a modest increase in bookings in the most recent quarter.

Events

	As Of And For The Three Months Ended September 30, 2013	As Of And For The Three Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)	As Of And For The Nine Months Ended September 30, 2013	As Of And For The Nine Months Ended September 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)
--	---	---	------------------------	--------------------------------------	--	--	------------------------	--------------------------------------

Edgar Filing: GARTNER INC - Form 10-Q

Financial

Measurements:

Revenues (1)	\$24,038	\$18,627	\$ 5,411	29	%	\$96,714	\$81,119	\$15,595	19	%
Gross contribution (1)	\$7,095	\$4,511	\$ 2,584	57	%	\$37,318	\$32,867	\$4,451	14	%
Gross contribution margin	30	% 24	% 6 points	—		39	% 41	% (2) points	—	

Business

Measurements:

Number of events	16	14	2	14	%	53	48	5	10	%
Number of attendees	6,353	5,566	787	14	%	24,200	23,759	441	2	%

(1) Dollars in thousands.

Events revenues increased \$5.4 million quarter-over-quarter, or 29%. Excluding the unfavorable impact of foreign currency translation, revenues increased 31%. We held 16 events in the third quarter of 2013, which consisted of 11 ongoing events, 1 new event launch and 4 events that were moved into the quarter that had been held in a different quarter in 2012. Two events that were held in the third quarter of 2012 were moved to another quarter in 2013, and one was discontinued. Approximately \$3.3 million of the revenue increase was due to the timing of the events schedule as discussed above, while \$2.1 million of the increase was due to the ongoing events. The overall number of attendees increased 14% and exhibitors increased 36%, while average revenue per attendee increased 11% and exhibitors increased 1%. The gross contribution margin increased 6 points, primarily due to a higher contribution from our ongoing events, and to a lesser extent due to timing, as the events that were moved into the third quarter of 2013 had higher margins than the events that were moved out/discontinued.

For the nine month periods, Events revenues increased \$15.6 million in 2013 when compared to 2012, or 19%. Adjusted for the unfavorable impact of foreign currency translation, revenues increased 20%. We held 53 events through September 30, 2013, which consisted of 45 ongoing events, 5 new event launches, and 3 events moved in. Three events held in 2012 were discontinued.

Approximately \$10.0 million of the revenue increase was due to our ongoing events and \$5.6 million was due to the new events and the events moved into the quarter. The overall number of attendees and exhibitors increased 2% and 25%, respectively, while average revenue increased 16% for attendees but declined slightly for exhibitors. The gross contribution margin decreased 2 points due to a number of factors, including higher operating expenses from several events that were upgraded or moved to larger facilities and lower contributions from the event launches compared to the events that were discontinued.

## LIQUIDITY AND CAPITAL RESOURCES

We finance our operations primarily through cash generated from our on-going operating activities. At September 30, 2013, we had \$374.5 million of cash and cash equivalents and \$543.0 million of available borrowing capacity under our revolving credit facility (without the expansion feature). Our cash and cash equivalents are held in numerous locations throughout the world, with approximately 64% held outside the United States at September 30, 2013. We believe that we have adequate liquidity and that the cash we expect to earn from our on-going operating activities, our existing cash balances, and the borrowing capacity we have under our revolving credit facility will be sufficient for our currently anticipated needs.

The following table summarizes the changes in the Company's cash and cash equivalents (in thousands):

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Cash Increase (Decrease)
Cash provided by operating activities	\$242,069	\$208,751	\$33,318
Cash used in investing activities	(27,772)	(41,136)	13,364
Cash used by financing activities	(137,853)	(58,374)	(79,479)
Net increase in cash and cash equivalents	76,444	109,241	(32,797)
Effects of exchange rates	(1,775)	3,411	(5,186)
Beginning cash and cash equivalents	299,852	142,739	157,113
Ending cash and cash equivalents	\$374,521	\$255,391	\$119,130

Operating

Operating cash flow increased by \$33.3 million, or 16%, when comparing the nine months ended September 30, 2013 to the same period in 2012. The increase was primarily due to the higher net income in the 2013 period, as well as additional receivable collections and other positive working capital changes. These increases were partially offset by higher cash payments for bonus, commissions, and taxes.

#### Investing

Cash used in our investing activities decreased by \$13.4 million when comparing the nine months ended September 30, 2013 to September 30, 2012. The decrease was due to the \$10.3 million of cash used in the 2012 period for the acquisition of Ideas International and to a lesser extent, higher capital expenditures in the 2012 period.

## Financing

We used \$137.9 million of cash in our financing activities in the nine months ended September 30, 2013 period compared to \$58.4 million in the same period in 2012, an increase in cash used of \$79.4 million, primarily due to additional cash used for share repurchases, which totaled \$157.3 million in the 2013 period. We also had lower cash proceeds realized from option exercises and our ESP Plan in the 2013 period, and we paid \$3.6 million in fees related to our debt refinancing in the 2013 period.

## OBLIGATIONS AND COMMITMENTS

### 2013 Credit Agreement

The Company has a five-year credit arrangement that it entered into in March 2013 that provides for a \$150.0 million term loan and a \$600.0 million revolving credit facility (the “2013 Credit Agreement”). Under the revolving credit facility, amounts may be borrowed, repaid, and re-borrowed through the maturity date of the agreement in March 2018. The credit arrangement contains an expansion feature by which the term loan and revolving credit facility may be increased, at the Company’s option and under certain conditions, up to an additional \$250.0 million in the aggregate. The Company had \$200.0 million outstanding under the 2013 Credit Agreement as of September 30, 2013, which included \$146 million outstanding under the term loan and \$54 million outstanding under the revolver.

The term loan will be repaid in 16 consecutive quarterly installments which commenced on June 30, 2013, plus a final payment due on March 7, 2018, and may be prepaid at any time without penalty or premium at the Company’s option. The revolving credit facility may be used for loans, and up to \$40.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and re-borrowed until March 7, 2018, at which time all amounts borrowed must be repaid. See Note 7 — Debt herein in the Notes to the Condensed Consolidated Financial Statements for additional information regarding the 2013 Credit Agreement.

### Off-Balance Sheet Arrangements

Through September 30, 2013, we have not entered into any off-balance sheet arrangements or transactions with unconsolidated entities or other persons.

## BUSINESS AND TRENDS

Our quarterly and annual revenues, operating income, and cash flows fluctuate as a result of many factors, including: the timing of our Symposium/ITxpo series that normally occurs during the fourth calendar quarter, as well as our other events; the amount of new business generated; the mix of domestic and international business; domestic and international economic conditions; changes in market demand for our products and services; changes in foreign currency rates; the timing of the development, introduction and marketing of new products and services; competition in the industry; the payment of performance compensation; and other factors. The potential fluctuations in our operating income could cause period-to-period comparisons of operating results not to be meaningful and could provide an unreliable indication of future operating results.

## FACTORS THAT MAY AFFECT FUTURE PERFORMANCE

We operate in a very competitive and rapidly changing environment that involves numerous risks and uncertainties, some of which are beyond our control. A description of the risk factors associated with our business is included under “Risk Factors” contained in Item 1A. of our 2012 Annual Report on Form 10-K which is incorporated herein by reference.

## RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting rules issued by the various U.S. standard setting and governmental authorities that have not yet become effective and may impact our Consolidated Financial Statements in future periods are described below, together with our assessment of the potential impact they may have on our Consolidated Financial Statements and related disclosures in future periods:

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 addresses the diversity in practice that exists for the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU No. 2013-11 is effective for the Company's fiscal quarter ending March 31, 2014. ASU 2013-11 impacts balance sheet presentation only. The Company is currently evaluating the impact of the new rule but believes the balance sheet impact will not be material.

In March 2013, the FASB issued ASU No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU No. 2013-05 provides updated guidance to resolve diversity in practice concerning the release of the cumulative foreign currency translation adjustment into net income when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. When a company ceases to have a controlling financial interest in a subsidiary within a foreign entity, the company should recognize any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary had resided. Upon the partial sale of an equity method investment that is a foreign entity, the company should release into earnings a pro rata portion of the cumulative translation adjustment. Upon the partial sale of an equity method investment that is not a foreign entity, the company should release into earnings the cumulative translation adjustment if the partial sale represents a complete or substantially complete liquidation of the foreign entity that holds the equity method investment.

ASU No. 2013-05 is effective for the Company's fiscal quarter ending March 31, 2014. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE RISK

We have exposure to changes in interest rates arising from borrowings under our 2013 Credit Agreement. At September 30, 2013, we had \$146 million outstanding under the term loan and \$54 million outstanding under the revolver. Borrowings under this facility are floating rate, which may be either prime-based or Eurodollar-based. The rate paid for these borrowings includes a base floating rate plus a margin between 0.25% and 0.75% on prime borrowings and between 1.25% and 1.75% on Eurodollar-based borrowings.

We have an interest rate swap contract which effectively converts the floating base rate on the first \$200.0 million of our borrowings to a 2.26% fixed rate. The Company only hedges the base interest rate risk on the first \$200.0 million of its outstanding borrowings. Accordingly, we are exposed to interest rate risk on borrowings in excess of \$200.0 million. A 25 basis point increase or decrease in interest rates would change pre-tax annual interest expense on the additional revolver borrowing capacity under the 2013 Credit Agreement (not including the expansion feature) by approximately \$1.4 million.

#### FOREIGN CURRENCY RISK

We have customers in numerous countries, and 46% of our revenues for the fiscal year ended December 31, 2012 were derived from sales outside of the U.S. As a result, we conduct business in numerous currencies other than the U.S. dollar. Among the major foreign currencies in which we conduct business are the Euro, the British Pound, the Japanese Yen, the Australian dollar, and the Canadian dollar. Our foreign currency exposure results in both translation risk and transaction risk:

##### Translation Risk

We are exposed to foreign currency translation risk since the functional currencies of our foreign operations are generally denominated in the local currency. Translation risk arises since the assets and liabilities that we report for our foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates, and these exchange rates fluctuate over time. These foreign currency translation adjustments are deferred and are recorded as a component of stockholders' equity and do not impact our operating results.

A measure of the potential impact of foreign currency translation on our Condensed Consolidated Balance Sheets can be determined through a sensitivity analysis of our cash and cash equivalents. At September 30, 2013, we had \$374.5 million of cash and cash equivalents, 64% of which was denominated in foreign currencies. If the foreign exchange rates of the major currencies in which we operate changed in comparison to the U.S. dollar by 10%, the amount of cash and cash equivalents we would have reported on September 30, 2013, could have increased or decreased by approximately \$18.5 million.

Because our foreign subsidiaries generally operate in a local functional currency that differs from the U.S. dollar, revenues and expenses in these foreign currencies translate into higher or lower revenues and expenses in U.S. dollars as the U.S. dollar continuously weakens or strengthens against these other currencies. Therefore, changes in exchange rates may affect our consolidated revenues and expenses (as expressed in U.S. dollars) from foreign operations. Historically, this impact on our consolidated earnings has not been material since foreign currency movements in the major currencies in which we operate tend to impact our revenues and expenses fairly equally.



## Transaction Risk

We have foreign exchange transaction risk since we typically enter into transactions in the normal course of business that are denominated in foreign currencies that differ from the local functional currency in which the foreign subsidiary operates. We typically enter into foreign currency forward exchange contracts to offset the effects of foreign currency transaction risk. These contracts are normally short term in duration and unrealized and realized gains and losses are recognized in current period earnings. At September 30, 2013, we had 32 outstanding foreign currency forward contracts with a total notional amount of \$15.0 million and an immaterial net unrealized loss. Substantially all of these outstanding contracts matured by the end of October 2013.

## CREDIT RISK

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of short-term, highly liquid investments classified as cash equivalents, accounts receivable, and interest rate swap contracts. The majority of the Company's cash and cash equivalents, its interest rate swap contract, and its foreign exchange contracts are with large investment grade commercial banks that are participants in the Company's 2013 Credit Agreement. Accounts receivable balances deemed to be collectible from customers have limited concentration of credit risk due to our diverse customer base and geographic dispersion.

## ITEM 4. CONTROLS AND PROCEDURES

We have established disclosure controls and procedures that are designed to ensure that the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported in a timely manner. Specifically, these controls and procedures ensure that the information is accumulated and communicated to our executive management team, including our chief executive officer and our chief financial officer, to allow timely decisions regarding required disclosure.

Management conducted an evaluation, as of September 30, 2013, of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material Company information required to be disclosed by us in reports filed under the Exchange Act.

In addition, there have been no changes in the Company's internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are involved in legal and administrative proceedings and litigation arising in the ordinary course of business. We believe that the potential liability, if any, in excess of amounts already accrued from all proceedings, claims and litigation will not have a material effect on our financial position or results of operations when resolved in a future period.

## ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is included under “Risk Factors” contained in Item 1A. of the 2012 10-K and is incorporated herein by reference.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the period covered by this report.

## Issuer Purchases of Equity Securities

The Company has a \$500.0 million share repurchase program that it may utilize to acquire shares of Common Stock. Repurchases may be made from time-to-time through open market purchases, private transactions, tender offers or other transactions and repurchased shares are placed into treasury. The amount and timing of repurchases will be subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company’s financial performance, legal restrictions and other conditions. Repurchases may also be made from time-to-time in connection with the settlement of the Company’s shared-based compensation awards. Repurchases will be funded from cash flow from operations and borrowings under the Company’s 2013 Credit Agreement. The following table provides detail related to repurchases of our Common Stock during the nine months ended September 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Approximate Dollar Value of Shares that may yet be Purchased Under our Share Repurchase Program (in thousands)
2013 (1)			
January	1,841	\$50.07	
February	774,917	49.32	
March	200,185	51.02	
Total	976,943	\$49.67	
April	1,060	\$56.23	
May	392,840	57.41	
June	471,425	56.97	
Total	865,325	\$57.17	
July	84,812	\$59.12	
August	776,688	58.27	

Edgar Filing: GARTNER INC - Form 10-Q

September	155,478	57.76	
Total	1,016,978	\$58.26	\$83,600

(1) The Company paid \$59.3 million and \$157.3 million in cash for share repurchases in the three and nine months ended September 30, 2013, respectively.

34

---

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
31.1	Certification of chief executive officer under Rule 13a — 14(a)/15d — 14(a).
31.2	Certification of chief financial officer under Rule 13a — 14(a)/15d — 14(a).
32	Certification under 18 U.S.C. 1350.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, and (v) the Notes to Condensed Consolidated Financial Statements.

Items 3, 4, and 5 of Part II are not applicable and have been omitted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Gartner, Inc.

Date: November 7, 2013

/s/ Christopher J. Lafond

Christopher J. Lafond

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)