

GARTNER INC  
Form 10-Q  
October 30, 2009

**Table of Contents**

**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, 2009**

**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

06902-7700  
(Zip Code)

(Address of principal executive offices)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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)

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 23, 2009, 95,552,860 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, 2009 and December 31, 2008</u>                               | 3    |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008</u> | 4    |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u>           | 5    |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                            | 6    |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>                   | 19   |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                                              | 30   |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>                                                                                 | 30   |
| <u>PART II. OTHER INFORMATION</u>                                                                                      |      |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>                                                                                       | 31   |
| <u>ITEM 1A. RISK FACTORS</u>                                                                                           | 31   |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                                             | 31   |
| <u>ITEM 6. EXHIBITS</u>                                                                                                | 31   |
| <u>EX-31.1</u>                                                                                                         |      |
| <u>EX-31.2</u>                                                                                                         |      |
| <u>EX-32</u>                                                                                                           |      |

**Table of Contents****PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS****GARTNER, INC.****Condensed Consolidated Balance Sheets**  
**(Unaudited, in thousands)**

|                                                                                                            | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| <b>Assets</b>                                                                                              |                                   |                                  |
| Current assets:                                                                                            |                                   |                                  |
| Cash and cash equivalents                                                                                  | \$ 112,778                        | \$ 140,929                       |
| Fees receivable, net                                                                                       | 251,050                           | 318,511                          |
| Deferred commissions                                                                                       | 44,316                            | 52,149                           |
| Prepaid expenses and other current assets                                                                  | 47,563                            | 42,935                           |
| Total current assets                                                                                       | 455,707                           | 554,524                          |
| Property, equipment and leasehold improvements, net                                                        | 52,362                            | 61,869                           |
| Goodwill                                                                                                   | 406,333                           | 398,737                          |
| Intangible assets, net                                                                                     | 930                               | 2,015                            |
| Other assets                                                                                               | 81,508                            | 75,920                           |
| <b>Total Assets</b>                                                                                        | <b>\$ 996,840</b>                 | <b>\$ 1,093,065</b>              |
| <b>Liabilities and Stockholders' Equity (Deficit)</b>                                                      |                                   |                                  |
| Current liabilities:                                                                                       |                                   |                                  |
| Accounts payable and accrued liabilities                                                                   | \$ 174,799                        | \$ 219,381                       |
| Deferred revenues                                                                                          | 401,410                           | 395,278                          |
| Current portion of long-term debt                                                                          | 120,000                           | 177,750                          |
| Total current liabilities                                                                                  | 696,209                           | 792,409                          |
| Long-term debt                                                                                             | 145,000                           | 238,500                          |
| Other liabilities                                                                                          | 80,807                            | 83,472                           |
| <b>Total Liabilities</b>                                                                                   | <b>922,016</b>                    | <b>1,114,381</b>                 |
| <b>Stockholders' Equity (Deficit)</b>                                                                      |                                   |                                  |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding                  |                                   |                                  |
| Common stock, \$.0005 par value, 250,000,000 shares authorized; 156,234,416 shares issued for both periods | 78                                | 78                               |
| Additional paid-in capital                                                                                 | 583,708                           | 570,667                          |
| Accumulated other comprehensive income (loss), net                                                         | 10,387                            | (1,741)                          |
| Accumulated earnings                                                                                       | 483,676                           | 426,428                          |
| Treasury stock, at cost, 60,684,804 and 62,353,575 common shares, respectively                             | (1,003,025)                       | (1,016,748)                      |
| <b>Total Stockholders' Equity (Deficit)</b>                                                                | <b>74,824</b>                     | <b>(21,316)</b>                  |
| <b>Total Liabilities and Stockholders' Equity (Deficit)</b>                                                | <b>\$ 996,840</b>                 | <b>\$ 1,093,065</b>              |

See the accompanying notes to the condensed consolidated financial statements.

**Table of Contents****GARTNER, INC.**Condensed Consolidated Statements of Operations  
(Unaudited, in thousands, except per share data)

|                                                   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Revenues:                                         |                                             |             |                                            |             |
| Research                                          | \$ 185,718                                  | \$ 199,646  | \$ 557,325                                 | \$ 589,415  |
| Consulting                                        | 65,708                                      | 80,404      | 205,341                                    | 253,129     |
| Events                                            | 16,043                                      | 17,656      | 48,307                                     | 89,200      |
| Total revenues                                    | 267,469                                     | 297,706     | 810,973                                    | 931,744     |
| Costs and expenses:                               |                                             |             |                                            |             |
| Cost of services and product development          | 118,120                                     | 128,490     | 351,864                                    | 415,569     |
| Selling, general and administrative               | 115,049                                     | 127,707     | 345,980                                    | 387,373     |
| Depreciation                                      | 6,363                                       | 6,427       | 19,176                                     | 19,000      |
| Amortization of intangibles                       | 416                                         | 400         | 1,220                                      | 1,215       |
| Total costs and expenses                          | 239,948                                     | 263,024     | 718,240                                    | 823,157     |
| Operating income                                  | 27,521                                      | 34,682      | 92,733                                     | 108,587     |
| Interest expense, net                             | (4,914)                                     | (4,997)     | (13,105)                                   | (14,672)    |
| Other expense, net                                | (127)                                       | (860)       | (2,505)                                    | (487)       |
| Income before income taxes                        | 22,480                                      | 28,825      | 77,123                                     | 93,428      |
| Provision for income taxes                        | 2,413                                       | 10,044      | 19,875                                     | 29,926      |
| Income from continuing operations                 | 20,067                                      | 18,781      | 57,248                                     | 63,502      |
| Income from discontinued operations, net of taxes |                                             |             |                                            | 6,723       |
| Net income                                        | \$ 20,067                                   | \$ 18,781   | \$ 57,248                                  | \$ 70,225   |
| Income per common share:                          |                                             |             |                                            |             |
| Basic:                                            |                                             |             |                                            |             |
| Income from continuing operations                 | \$ 0.21                                     | \$ 0.20     | \$ 0.61                                    | \$ 0.66     |
| Income from discontinued operations               |                                             |             |                                            | 0.07        |
| Income per share                                  | \$ 0.21                                     | \$ 0.20     | \$ 0.61                                    | \$ 0.73     |
| Diluted:                                          |                                             |             |                                            |             |
| Income from continuing operations                 | \$ 0.21                                     | \$ 0.19     | \$ 0.59                                    | \$ 0.63     |
| Income from discontinued operations               |                                             |             |                                            | 0.07        |
| Income per share                                  | \$ 0.21                                     | \$ 0.19     | \$ 0.59                                    | \$ 0.70     |
| Weighted average shares outstanding:              |                                             |             |                                            |             |
| Basic                                             | 94,872                                      | 94,539      | 94,380                                     | 95,725      |
| Diluted                                           | 97,657                                      | 98,552      | 96,885                                     | 99,750      |

See the accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

**GARTNER, INC.**  
Condensed Consolidated Statements of Cash Flows  
(Unaudited, in thousands)

|                                                                                   | <b>Nine Months Ended<br/>September 30,</b> |                   |
|-----------------------------------------------------------------------------------|--------------------------------------------|-------------------|
|                                                                                   | <b>2009</b>                                | <b>2008</b>       |
| <b><i>Operating activities:</i></b>                                               |                                            |                   |
| Net income                                                                        | \$ 57,248                                  | \$ 70,225         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                            |                   |
| Gain on disposal of discontinued operations                                       |                                            | (7,061)           |
| Depreciation and amortization of intangibles                                      | 20,396                                     | 20,215            |
| Stock-based compensation expense                                                  | 19,477                                     | 18,315            |
| Excess tax benefits from stock-based compensation                                 | (1,685)                                    | (14,888)          |
| Deferred taxes                                                                    | 451                                        | (3,867)           |
| Amortization of debt issue costs                                                  | 1,161                                      | 872               |
| Changes in assets and liabilities:                                                |                                            |                   |
| Fees receivable, net                                                              | 78,251                                     | 45,159            |
| Deferred commissions                                                              | 9,613                                      | 8,909             |
| Prepaid expenses and other current assets                                         | (3,534)                                    | (13,566)          |
| Other assets                                                                      | (5,964)                                    | (892)             |
| Deferred revenues                                                                 | (8,844)                                    | 19,532            |
| Accounts payable, accrued, and other liabilities                                  | (48,930)                                   | (5,533)           |
| <b><i>Cash provided by operating activities</i></b>                               | <b>117,640</b>                             | <b>137,420</b>    |
| <b><i>Investing activities:</i></b>                                               |                                            |                   |
| Additions to property, equipment and leasehold improvements                       | (11,125)                                   | (18,280)          |
| Proceeds from sale of discontinued operations                                     |                                            | 7,847             |
| <b><i>Cash used in investing activities</i></b>                                   | <b>(11,125)</b>                            | <b>(10,433)</b>   |
| <b><i>Financing activities:</i></b>                                               |                                            |                   |
| Proceeds from stock issued for stock plans                                        | 11,011                                     | 43,094            |
| Proceeds from debt issuance                                                       |                                            | 180,000           |
| Payments for debt issuance costs                                                  |                                            | (801)             |
| Payments on debt                                                                  | (151,250)                                  | (149,500)         |
| Purchases of treasury stock                                                       | (3,733)                                    | (176,308)         |
| Excess tax benefits from stock-based compensation                                 | 1,685                                      | 14,888            |
| <b><i>Cash used by financing activities</i></b>                                   | <b>(142,287)</b>                           | <b>(88,627)</b>   |
| <b>Net (decrease) increase in cash and cash equivalents</b>                       | <b>(35,772)</b>                            | <b>38,360</b>     |
| <b>Effects of exchange rates on cash and cash equivalents</b>                     | <b>7,621</b>                               | <b>(3,134)</b>    |
| <b>Cash and cash equivalents, beginning of period</b>                             | <b>140,929</b>                             | <b>109,945</b>    |
| <b>Cash and cash equivalents, end of period</b>                                   | <b>\$ 112,778</b>                          | <b>\$ 145,171</b> |

See the accompanying notes to the condensed consolidated financial statements.





**Table of Contents**

**GARTNER, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**Note 1 Basis of Presentation**

The fiscal year of Gartner, Inc. (the Company) represents the period from January 1 through December 31. When used in these notes, the terms Company, we, us, or our refer to Gartner, Inc. and its consolidated subsidiaries. These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, as defined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 270 for interim financial information and with the instructions to 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 Gartner, Inc. filed in its Annual Report on Form 10-K for the year ended December 31, 2008.

In the opinion of management, all adjustments (consisting of normal recurring 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, 2009 may not be indicative of the results of operations for the remainder of 2009.

*Principles of consolidation.* The accompanying interim condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Investments in companies in which the Company owns less than 50% but have the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. All other investments for which the Company does not have the ability to exercise significant influence are accounted for under the cost method of accounting.

*Use of estimates.* The preparation of the accompanying interim condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 the interim condensed consolidated financial statements to be reasonable.

Management evaluates its estimates on an ongoing basis using historical experience and other factors, including the general economic environment and actions it may take in the future. We adjust such 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 our best judgment at a point in time and as such these estimates may ultimately differ from actual results. The recent global credit crisis and economic downturn, volatile foreign currency rates, and cuts in travel, marketing and technology budgets have combined to increase the risks and uncertainty inherent in such estimates. These external factors may increase the risks the Company faces in developing estimates in particular relating to the collection of receivables, the achievement of the performance targets on performance-based compensation elements, and the valuation of goodwill. Changes in those estimates resulting from continuing weakness in the economic environment or other factors beyond our control could be material and would be reflected in the Company's financial statements in future periods.

*Reclassifications.* Effective January 1, 2009, the Company has reclassified certain amounts presented in its interim Condensed Consolidated Statements of Operations, as follows:

**Other revenues** The Company has eliminated its previously reported Other revenue line. The Other revenue line primarily consisted of fees earned from Research reprints and other miscellaneous products, and these revenues and related expenses are now included in the Research segment. The Company made this change because the Other revenue has declined in magnitude, from approximately \$14.4 million in 2006, or about 1.4% of total revenues in that year, to about \$8.3 million in 2008, about half a percent of total revenues in that year, and this trend is continuing. The revenue decline reflects the Company's decision to discontinue certain of these products.



**Table of Contents**

**Expense reclassifications** Certain expenses that were formerly classified as Selling, general & administrative (SG&A) expense are now included in Cost of services and product development (COS). These reclassifications reflect changes in the way we service and deliver value to our Research clients and related changes in work responsibilities of certain departments and associates.

Prior periods have been reclassified in order to be consistent with the current period presentation. See Note 6 Segment Information for additional information.

**Codification of accounting standards.** On September 30, 2009, the Company adopted SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (the Codification). The Codification combines the previous U.S. GAAP hierarchy which included four levels of authoritative accounting literature distributed among a number of different sources. The Codification does not by itself create new accounting standards but instead reorganizes thousands of pages of existing U.S. GAAP accounting rules into approximately 90 accounting topics. All existing accounting standard documents are superseded by the Codification and all other accounting literature not included in the Codification is now considered nonauthoritative. The Codification explicitly recognizes the rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under federal securities laws as authoritative GAAP for SEC registrants. The Codification is now the single source of authoritative nongovernmental accounting standards in the U.S.

As a result of the Codification, the references to authoritative accounting pronouncements included herein in this Quarterly Report on Form 10-Q now refer to the Codification topic section rather than a specific accounting rule as was past practice.

**Subsequent events.** The Company has evaluated the potential impact of subsequent events on the accompanying interim condensed consolidated financial statements through October 30, 2009, the date of public issuance of this Quarterly Report on Form 10-Q.

#### Note 2 Discontinued Operations

The Company sold its Vision Events business in the quarter ended March 31, 2008 for \$11.4 million in cash and realized net cash proceeds from the sale of approximately \$7.8 million. Vision Events had been part of the Company's Events segment. In accordance with the requirements of FASB Accounting Standards Codification (ASC) Topic 205-20, the results for the Vision Events business have been reported separately in discontinued operations. For the nine months ended September 30, 2008, income from discontinued operations, net of taxes, was \$6.7 million, which consisted of a \$7.0 million net gain on sale and a \$(0.3) million operating loss.

#### Note 3 Comprehensive Income

The components of Comprehensive income include net income, foreign currency translation adjustments, realized and unrealized gains or losses on interest rate swaps, and unrealized gains and losses on defined benefit pension plans. Amounts recorded in Comprehensive income are as follows:

|                                                                | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|----------------------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                                | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Net income:                                                    | \$ 20,067                                   | \$ 18,781   | \$ 57,248                                  | \$ 70,225   |
| Other comprehensive income (loss), net of tax:                 |                                             |             |                                            |             |
| Foreign currency translation adjustments                       | 3,722                                       | (6,003)     | 9,682                                      | (5,150)     |
| Unrealized gain (loss) on interest rate swaps                  | 851                                         | (401)       | 2,772                                      | 1,326       |
| Amortization of realized gain on terminated interest rate swap | (51)                                        | (96)        | (188)                                      | (311)       |
| Amortization of pension unrealized gain                        | (48)                                        | (19)        | (138)                                      | (57)        |
| Other comprehensive income (loss)                              | 4,474                                       | (6,519)     | 12,128                                     | (4,192)     |
| Comprehensive income                                           | \$ 24,541                                   | \$ 12,262   | \$ 69,376                                  | \$ 66,033   |

Note 4 Computation of Earnings Per Share

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

7

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**Table of Contents**

|                                                                                              | <b>Three Months Ended<br/>September 30,<br/>2009      2008</b> |           | <b>Nine Months Ended<br/>September 30,<br/>2009      2008</b> |           |
|----------------------------------------------------------------------------------------------|----------------------------------------------------------------|-----------|---------------------------------------------------------------|-----------|
| Numerator:                                                                                   |                                                                |           |                                                               |           |
| Net income used for calculating basic and diluted earnings per share                         | \$ 20,067                                                      | \$ 18,781 | \$ 57,248                                                     | \$ 70,225 |
| Denominator:                                                                                 |                                                                |           |                                                               |           |
| Weighted average number of common shares used in the calculation of basic earnings per share | 94,872                                                         | 94,539    | 94,380                                                        | 95,725    |
| Common stock equivalents associated with stock-based compensation plans                      | 2,785                                                          | 4,013     | 2,505                                                         | 4,025     |
| Shares used in the calculation of diluted earnings per share (1)                             | 97,657                                                         | 98,552    | 96,885                                                        | 99,750    |
| Basic earnings per share (2)                                                                 | \$ 0.21                                                        | \$ 0.20   | \$ 0.61                                                       | \$ 0.73   |
| Diluted earnings per share (2)                                                               | \$ 0.21                                                        | \$ 0.19   | \$ 0.59                                                       | \$ 0.70   |

(1) For the three months ended September 30, 2009 and 2008, 1.2 million and 0.5 million, respectively, of common stock equivalents were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the nine months ended September 30, 2009 and 2008, 3.0 million and 1.3 million, respectively, of common stock equivalents

were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

- (2) Basic and diluted earnings per share for the nine months ended September 30, 2008 includes \$0.07 per share from discontinued operations.

#### Note 5 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's stock compensation awards include stock-settled stock appreciation rights, restricted stock, service- and performance-based restricted stock units, common stock equivalents, and stock options. At September 30, 2009, the Company had approximately 7.4 million shares of common stock available for awards of stock-based compensation under its 2003 Long-Term Incentive Plan, which includes 4.0 million additional shares approved by stockholders at the Company's 2009 Annual Meeting of Stockholders.

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). Stock-based compensation expense is based on the fair value of the award on the date of grant, which is recognized 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. At the present time, the Company issues treasury shares upon the release, exercise or settlement of stock-based compensation awards.

Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock 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 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 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 (in millions) in the periods indicated:

| Award type: | Three Months Ended |               | Nine Months Ended |               |
|-------------|--------------------|---------------|-------------------|---------------|
|             | September 30,      | September 30, | September 30,     | September 30, |
|             | 2009               | 2008          | 2009              | 2008          |

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|                                  |        |        |         |         |
|----------------------------------|--------|--------|---------|---------|
| Restricted stock                 | \$     | \$ 0.1 | \$      | \$ 0.3  |
| Restricted stock units (RSUs)    | 5.3    | 4.0    | 15.8    | 13.3    |
| Common stock equivalents (CSEs)  | 0.1    | 0.1    | 0.3     | 0.3     |
| Stock appreciation rights (SARs) | 1.0    | 0.8    | 3.4     | 2.5     |
| Options                          |        | 0.2    |         | 1.9     |
| Total (1), (2)                   | \$ 6.4 | \$ 5.2 | \$ 19.5 | \$ 18.3 |

(1) The three months ended September 30, 2009 and 2008 include \$0.1 million for charges related to retirement-eligible employees. The nine months ended September 30, 2009 and 2008 includes \$1.7 million and \$1.4 million, respectively, for charges related to retirement-eligible employees.



**Table of Contents**

(2) The three months ended September 30, 2009 and 2008 includes \$3.0 million and \$2.4 million, respectively, recorded in Cost of services and product development, and \$3.4 million and \$2.8 million, respectively, recorded in SG&A. The nine months ended September 30, 2009 and 2008 includes \$9.5 million and \$8.0 million, respectively, recorded in Cost of Services and product development, and \$10.0 million and \$10.3 million, respectively, recorded in SG&A.

As of September 30, 2009, the Company had \$46.3 million of total unrecognized stock-based compensation cost, which is expected to be recognized as stock-based compensation expense over the remaining weighted-average service period of approximately 2.1 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) are settled in common shares and are similar to options as they permit the holder to participate in the appreciation of the Company's common stock. SARs may be settled in common shares by the employee once the applicable vesting criteria have been met. When SARs are exercised, the number of Gartner common shares issued is calculated as follows: (1) the total proceeds from the SARs exercise (the closing price of Gartner 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 Gartner common stock on the exercise date. The Company will withhold a portion of the common shares issued upon exercise to satisfy minimum statutory tax withholding requirements. SARs recipients do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until after actual common shares are issued in respect of the award, which is subject to the prior satisfaction of the vesting and other criteria relating to such grants. At the present time, SARs are awarded only to the Company's executive officers.

The Company determines the fair value of SARs on the date of grant using the Black-Scholes-Merton valuation model. The SARs generally vest ratably over a four-year service period and expire seven years from the grant date. A summary of the changes in SARs outstanding for the nine months ended September 30, 2009, follows:

|                                                  | <b>SARs<br/>in<br/>millions</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date<br/>Fair<br/>Value</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> |
|--------------------------------------------------|---------------------------------|----------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------|
| Outstanding at December 31, 2008                 | 2.1                             | \$ 17.42                                           | \$ 6.61                                                           | 5.12 years                                                         |
| Granted                                          | 1.0                             | 11.15                                              | 4.97                                                              | 6.62 years                                                         |
| Forfeited or expired                             | (0.1)                           | 16.19                                              | 6.21                                                              | na                                                                 |
| Exercised                                        |                                 |                                                    |                                                                   | na                                                                 |
| Outstanding at September 30, 2009 (1)            | 3.0                             | \$ 15.42                                           | \$ 6.09                                                           | 4.98 years                                                         |
| Vested and exercisable at September 30, 2009 (1) | 1.1                             | \$ 16.65                                           | \$ 6.51                                                           | 4.05 years                                                         |

na=not applicable

(1) At September 30, 2009, SARs outstanding had an intrinsic value of \$10.2 million. SARs vested and exercisable had an intrinsic value of \$2.6 million.

The fair value of the Company's SARs was determined on the date of grant using the Black-Scholes-Merton valuation model with the following weighted-average assumptions for the periods indicated:

|                                     | <b>Nine Months Ended<br/>September 30,</b> |                 |
|-------------------------------------|--------------------------------------------|-----------------|
|                                     | <b>2009 (1)</b>                            | <b>2008 (1)</b> |
| Expected dividend yield (2)         | 0%                                         | 0%              |
| Expected stock price volatility (3) | 50%                                        | 36%             |
| Risk-free interest rate (4)         | 2.3%                                       | 2.8%            |
| Expected life in years (5)          | 4.8                                        | 4.7             |



**Table of Contents**

- (1) No SARs were granted during the three months ended September 30, 2009 or 2008.
- (2) 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.
- (3) The determination of expected stock price volatility was based on both historical Gartner common stock prices and implied volatility from publicly traded options in Gartner common stock.
- (4) 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.

- (5) The expected life in years is based on the simplified calculation provided for in SEC Staff Accounting Bulletin No. 107. The simplified method determines the expected life in years based on the vesting period and contractual terms as set forth when the award is made. The Company continues to use the simplified method for awards of stock-based compensation since it does not have the necessary historical exercise and forfeiture data to determine an expected life for SARs as permitted by SEC Staff Accounting Bulletin No. 110.

*Restricted Stock, Restricted Stock Units, and Common Stock Equivalents*

Restricted stock awards give the awardee the right to vote and to receive dividends and distributions on these shares; however, the awardee may not sell the restricted shares until all restrictions on the release of the shares have lapsed and the shares are released.

Restricted stock units (RSUs) give the awardee the right to receive Gartner common shares 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 after the common shares are released.

Common stock equivalents (CSEs) are convertible into Gartner common shares, and each CSE entitles the holder to one common share. Certain members of our Board of Directors receive directors' fees payable in CSEs unless they opt for cash payment. Generally, the CSEs are converted when service as a director terminates unless the director has elected accelerated release.

The fair value of restricted stock, RSUs, and CSEs is determined on the date of grant based on the closing price of the Company's common stock as reported by the New York Stock Exchange on that date. The fair value of these awards is recognized as compensation expense as follows: (i) outstanding restricted stock awards vest based on the achievement of a market condition and are expensed on a straight-line basis over approximately three years; (ii) service-based RSUs vest ratably over four years and are expensed on a straight-line basis over four years; (iii) performance-based RSUs are subject to both performance and service conditions, vest ratably over four years, and are expensed on an accelerated basis; and (iv) CSEs vest immediately and are recorded as expense on the date of grant.

A summary of the changes in restricted stock, RSUs and CSEs during the nine months ended September 30, 2009, follows:

|                                            |            | Weighted-                                 |                                        | Weighted-                                 | Common                         | Weighted-                                 |
|--------------------------------------------|------------|-------------------------------------------|----------------------------------------|-------------------------------------------|--------------------------------|-------------------------------------------|
|                                            | Restricted | Average<br>Grant<br>Date<br>Fair<br>Value | Restricted<br>Stock<br>Units<br>(RSUs) | Average<br>Grant<br>Date<br>Fair<br>Value | Stock<br>Equivalents<br>(CSEs) | Average<br>Grant<br>Date<br>Fair<br>Value |
| Outstanding at December 31, 2008           | 200,000    | \$ 7.30                                   | 2,614,847                              | \$ 18.40                                  | 158,511                        | na                                        |
| Granted (1), (2)                           |            |                                           | 2,114,047                              | 11.23                                     | 21,685                         | 14.21                                     |
| Vested or released                         |            |                                           | (883,164)                              | 17.93                                     | (48,118)                       | na                                        |
| Forfeited                                  |            |                                           | (142,177)                              | 15.43                                     |                                |                                           |
| Outstanding at September 30, 2009 (3), (4) | 200,000    | \$ 7.30                                   | 3,703,553                              | \$ 14.53                                  | 132,078                        | na                                        |

na=not available

(1) The 2.1 million RSUs granted during the nine months ended September 30, 2009 consist of 1.0 million performance-based RSUs awarded to executives and 1.1 million service-based RSUs awarded to non-executive employees.

The 1.0 million performance-based RSUs represent the target amount of

the award. The actual number of RSUs that will ultimately be granted will be between 0% and 200% of the target amount, depending on the level of achievement of the

**Table of Contents**

performance metric. The performance metric is tied to the annual percentage change in the Company's subscription-based contract value for 2009. If the specified minimum level of achievement is not met, the performance-based RSUs will be forfeited in their entirety, and any compensation expense already recorded will be reversed.

- (2) CSEs represent fees paid to directors. The CSEs vest when granted and are convertible into common shares when the director leaves the Board of Directors or earlier if the director elects to accelerate the release.
- (3) Vesting on the 200,000 shares of restricted stock held by our CEO is subject to a market condition as follows: (i) 100,000 shares will vest when the Company's common stock trades at an average price of \$25 or more each trading



day for sixty consecutive trading days; and (ii) 100,000 shares will vest when the Company's common stock trades at an average price of \$30 or more each trading day for sixty consecutive trading days. There is no remaining unamortized cost on these shares.

- (4) The weighted-average remaining contractual term of the RSUs is 1.52 years. The restricted stock awards and the CSEs have no defined contractual term.

#### *Stock Options*

Historically the Company granted stock options to employees that allowed them to purchase shares of the Company's common stock at a certain price. The Company has not made significant stock option grants since 2005. All outstanding options are fully vested and there is no remaining unamortized cost. The Company received approximately \$9.0 million in cash from option exercises in the nine months ended September 30, 2009.

A summary of the changes in stock options outstanding in the nine months ended September 30, 2009, follows:

|                                   | <b>Options<br/>in<br/>millions</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(in millions)</b> |
|-----------------------------------|------------------------------------|----------------------------------------------------|--------------------------------------------------------------------|------------------------------------------------------------|
| Outstanding at December 31, 2008  | 6.1                                | \$ 10.78                                           | 3.56 years                                                         | \$ 42.8                                                    |
| Expired                           | (0.2)                              | 18.10                                              | na                                                                 | na                                                         |
| Exercised                         | (0.9)                              | 10.25                                              | na                                                                 | na                                                         |
| Outstanding at September 30, 2009 | 5.0                                | \$ 10.67                                           | 3.19 years                                                         | \$ 38.1                                                    |

na=not applicable  
Employee Stock Purchase Plan

The Company has an employee stock purchase plan (the ESPP Plan ) under which eligible employees are permitted to purchase Gartner common stock through payroll deductions, which may not exceed 10% of an employee's compensation (or \$23,750 in any calendar year), at a price equal to 95% of the common stock price as reported by the New York Stock Exchange at the end of each offering period.

At September 30, 2009, the Company had approximately 1.6 million shares available for purchase under the ESPP Plan. The ESPP Plan is considered non-compensatory under FASB ASC Topic 718, and as a result the Company does not record compensation expense related to employee share purchases. The Company received approximately \$2.0 million in cash from share purchases under the Plan in the nine months ended September 30, 2009.

**Note 6 Segment Information**

The Company manages its business in three reportable segments: Research, Consulting and Events. Research consists primarily of subscription-based research products, access to research inquiry, as well as 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.

**Table of Contents**

The Company evaluates reportable segment performance and allocates resources based on gross contribution margin. Gross contribution, as presented below, is defined as operating income excluding certain Cost of services and product development and SG&A expenses, depreciation, amortization of intangibles, and Other charges. Certain bonus and fringe charges 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.

The Company does not identify or allocate assets, including capital expenditures, by operating segment. Accordingly, assets are not reported by segment because the information is not available and is not reviewed in the evaluation of segment performance or in making decisions in the allocation of resources. There are no inter-segment revenues.

On January 1, 2009 the Company eliminated the previously reported Other revenue line. The Other revenue line primarily consisted of fees earned from Research reprints and other miscellaneous products, and these revenues and related expenses are now being included in the Research segment. In addition, certain expenses that were formerly classified as Selling, general & administrative (SG&A) expense are now reported in Cost of sales and product development (COS) and are included in the Research segment. Prior periods presented below have been reclassified in order to be consistent with the current period presentation. For the three months ended September 30, 2008, these actions increased Research segment revenue by \$1.9 million, increased Research segment expense by \$4.9 million, and decreased Research segment gross contribution by \$3.0 million. For the nine months ended September 30, 2008, these actions increased Research segment revenue by \$6.3 million, increased Research segment expense by \$15.6 million, and decreased Research segment gross contribution by \$9.3 million.

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

|                                               | Research   | Consulting | Events    | Consolidated |
|-----------------------------------------------|------------|------------|-----------|--------------|
| <b>Three Months Ended September 30, 2009:</b> |            |            |           |              |
| Revenues                                      | \$ 185,718 | \$ 65,708  | \$ 16,043 | \$ 267,469   |
| Gross contribution                            | 122,611    | 23,658     | 5,934     | 152,203      |
| Corporate and other expenses                  |            |            |           | (124,682)    |
| Operating income                              |            |            |           | \$ 27,521    |

|                                               | Research   | Consulting | Events    | Consolidated |
|-----------------------------------------------|------------|------------|-----------|--------------|
| <b>Three Months Ended September 30, 2008:</b> |            |            |           |              |
| Revenues                                      | \$ 199,646 | \$ 80,404  | \$ 17,656 | \$ 297,706   |
| Gross contribution                            | 130,426    | 32,884     | 5,457     | 168,767      |
| Corporate and other expenses                  |            |            |           | (134,085)    |
| Operating income                              |            |            |           | \$ 34,682    |

|                                              | Research   | Consulting | Events    | Consolidated |
|----------------------------------------------|------------|------------|-----------|--------------|
| <b>Nine Months Ended September 30, 2009:</b> |            |            |           |              |
| Revenues                                     | \$ 557,325 | \$ 205,341 | \$ 48,307 | \$ 810,973   |
| Gross contribution                           | 366,807    | 78,314     | 16,300    | 461,421      |
| Corporate and other expenses                 |            |            |           | (368,688)    |
| Operating income                             |            |            |           | \$ 92,733    |

|                                              | Research | Consulting | Events | Consolidated |
|----------------------------------------------|----------|------------|--------|--------------|
| <b>Nine Months Ended September 30, 2008:</b> |          |            |        |              |

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|                              |            |            |           |            |
|------------------------------|------------|------------|-----------|------------|
| Revenues                     | \$ 589,415 | \$ 253,129 | \$ 89,200 | \$ 931,744 |
| Gross contribution           | 377,115    | 104,756    | 37,075    | 518,946    |
| Corporate and other expenses |            |            |           | (410,359)  |
| Operating income             |            |            |           | \$ 108,587 |

Note 7 Goodwill and Intangible Assets

*Goodwill*

Changes in the carrying amount of goodwill, by reporting segment, are as follows:

12

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**Table of Contents**

|                | <b>Balance<br/>December<br/>31,<br/>2008</b> | <b>Currency<br/>Translation<br/>Adjustments</b> | <b>Balance<br/>September<br/>30,<br/>2009</b> |
|----------------|----------------------------------------------|-------------------------------------------------|-----------------------------------------------|
| Research       | \$ 280,161                                   | \$ 5,723                                        | \$ 285,884                                    |
| Consulting     | 84,048                                       | 1,769                                           | 85,817                                        |
| Events         | 34,528                                       | 104                                             | 34,632                                        |
| Total goodwill | \$ 398,737                                   | \$ 7,596                                        | \$ 406,333                                    |

*Intangible Assets*

The following table presents the Company's intangible assets subject to amortization (in thousands):

|                           | <b>Customer<br/>Relationships</b> | <b>Noncompetitive<br/>Agreements</b> | <b>Total</b> |
|---------------------------|-----------------------------------|--------------------------------------|--------------|
| <b>September 30, 2009</b> |                                   |                                      |              |
| Gross cost                | \$ 7,700                          | \$ 420                               | \$ 8,120     |
| Accumulated amortization  | (6,930)                           | (260)                                | (7,190)      |
| Net                       | \$ 770                            | \$ 160                               | \$ 930       |

|                          | <b>Customer<br/>Relationships</b> | <b>Noncompetitive<br/>Agreements</b> | <b>Total</b> |
|--------------------------|-----------------------------------|--------------------------------------|--------------|
| <b>December 31, 2008</b> |                                   |                                      |              |
| Gross cost               | \$ 7,700                          | \$ 278                               | \$ 7,978     |
| Accumulated amortization | (5,775)                           | (188)                                | (5,963)      |
| Net                      | \$ 1,925                          | \$ 90                                | \$ 2,015     |

Amortization expense was \$0.4 million for both the three months ended September 30, 2009 and 2008 and \$1.2 million for both the nine months ended September 30, 2009 and 2008. The estimated future amortization expense for purchased intangibles is as follows (in thousands):

|                               |        |
|-------------------------------|--------|
| 2009 (remaining three months) | \$ 417 |
| 2010                          | 513    |
|                               | \$ 930 |

## Note 8 Liabilities

*Other Charges*

The following table summarizes the activity related to the liability for excess facilities costs recorded as Other charges in the Condensed Consolidated Statements of Operations in prior periods (in thousands):

|                                         |          |
|-----------------------------------------|----------|
| Accrued liability at December 31, 2007  | \$ 7,776 |
| Payments                                | (3,052)  |
| Accrued liability at September 30, 2008 | \$ 4,724 |

|                                         |          |
|-----------------------------------------|----------|
| Payments during remainder of 2008       | (1,065)  |
| Accrued liability at December 31, 2008  | 3,659    |
| Payments                                | (2,257)  |
| Accrued liability at September 30, 2009 | \$ 1,402 |

- (1) The costs for  
excess facilities  
will be paid as  
the leases expire  
through 2011.

Note 9 Debt

*Credit Agreement*

The Company has a Credit Agreement dated as of January 31, 2007, that provides for a \$300.0 million revolving credit facility and a five-year, \$180.0 million term loan (the "original term loan"). On April 9, 2008, the Company entered into a First Amendment (the "First Amendment") with the lenders to the Credit Agreement, which provided for a new \$150.0 million term loan (the "2008 term loan"). The revolving credit facility may be increased up to an additional \$100.0 million at the discretion of the Company's lenders (the "expansion feature"), for a total revolving credit facility of \$400.0 million. However, the \$100.0 million expansion feature may or

**Table of Contents**

may not be available to the Company depending upon prevailing credit market conditions. To date, the Company has not sought to borrow under the expansion feature.

The following table provides information regarding amounts outstanding under the Company's Credit Agreement as of September 30, 2009:

| <b>Description:</b>    | Amount<br>Outstanding<br>(in<br>thousands) | Annualized<br>Effective<br>Interest<br>Rate (2) |
|------------------------|--------------------------------------------|-------------------------------------------------|
| Original Term Loan (1) | \$ 135,000                                 | 5.81%                                           |
| 2008 Term Loan (1)     | 80,000                                     | 1.29%                                           |
| Revolver (3)           | 50,000                                     | 1.04%                                           |
| Total                  | \$ 265,000                                 |                                                 |

(1) During the nine months ended September 30, 2009, the Company repaid \$22.5 million of the original term loan and \$18.8 million of the 2008 term loan pursuant to the normal amortization schedules. In addition, the Company prepaid \$40.0 million of the 2008 term loan on September 30, 2009.

(2) The rate on the original term loan consisted of the interest rate swap rate (see below) plus a margin of 0.75%. The rate on the 2008

term loan consisted of a three-month LIBOR base rate plus a margin of 1.00%, while the revolver consisted of a one-month LIBOR base rate plus a margin of 0.75%.

- (3) The Company had approximately \$248.0 million of available borrowing capacity on the revolver (not including the expansion feature) as of September 30, 2009.

Borrowings under the Credit Agreement carry interest rates that are either Prime-based or LIBOR-based. Interest rates under these borrowings include a base rate plus a margin between 0.00% and 0.75% on Prime-based borrowings and between 0.625% and 1.75% on LIBOR-based borrowings. Generally, the Company's borrowings have been LIBOR-based. The revolving loans may be borrowed, repaid and reborrowed until January 31, 2012, at which time all amounts borrowed must be repaid. The revolver borrowing capacity is reduced for both amounts outstanding and for letters of credit.

The original term loan will be repaid in 18 consecutive quarterly installments, with the final payment due on January 31, 2012. The 2008 term loan is co-terminus with the original term loan and will be repaid in 16 consecutive quarterly installments that commenced on June 30, 2008, with a final payment due on January 31, 2012. Both term loans may be prepaid at any time without penalty or premium at the option of Gartner.

The Credit Agreement contains certain customary restrictive loan covenants, including, among others, financial covenants requiring a maximum leverage ratio, a minimum fixed charge coverage ratio, and a minimum annualized contract value 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, and make investments. The Company was in full compliance with its debt covenants as of September 30, 2009. A failure to comply with these covenants in the future could result in acceleration of all amounts outstanding under the Credit Agreement, which would materially impact our financial condition unless accommodations could be negotiated with our lenders.

#### *Interest Rate Swap Contracts*

The Company has two interest rate swap contracts:

#### *Swap designated as a hedge*

The Company has an interest rate swap contract that hedges the base interest rate risk on its original term loan. The effect of the swap is to convert the floating base rate on the term loan to a fixed rate. Under the swap terms, the Company pays a fixed rate of 5.06% on the original term loan and in return receives a three-month LIBOR rate. The



three-month LIBOR rate received on the swap matches the base rate paid on the term loan since the Company optionally selects a three-month LIBOR rate on the term loan. The notional amount of the interest rate swap declines over time and constantly matches the outstanding amount of the term loan. Other critical terms of the swap and the term loan also match.

**Table of Contents**

The Company accounts for the interest rate swap on its original term loan as a cash flow hedge in accordance with FASB ASC Topic 815. Since the swap is hedging the forecasted interest payments on the term loan and qualifies as a cash flow hedge, changes in the fair value of the swap are recorded in Other comprehensive income as long as the swap continues to be a highly effective hedge of the base interest rate risk on the term loan. Any ineffective portion of change in the fair value of the hedge is recorded in earnings. At September 30, 2009, there was no ineffective portion of the hedge. The interest rate swap had a negative fair value of approximately \$7.9 million at September 30, 2009, which is recorded in Other comprehensive income, net of tax effect.

*Swap not designated as a hedge*

On September 30, 2009, the Company discontinued hedge accounting on an interest rate swap contract that previously hedged the 2008 term loan. In addition, on the same date the Company prepaid \$40.0 million of the outstanding amount of the 2008 term loan.

The interest rate swap had a negative fair value of \$3.3 million as of September 30, 2009. In accordance with the hedge accounting rules, the \$3.3 million was recorded in Other comprehensive income as a deferred loss. However, because of the \$40.0 million loan prepayment, and in accordance with the requirements of FASB ASC Topic 815, the Company has reclassified \$1.1 million of the deferred loss from Other comprehensive income to Interest expense, net in the current period. The remaining \$2.2 million deferred loss in Other comprehensive income will be amortized to interest expense through maturity of the 2008 term loan.

The interest rate swap will remain outstanding until maturity in January 2012. In future periods the interest rate swap will be marked-to-market with subsequent changes in fair value recorded in current period earnings.

*Letters of Credit*

The Company issues letters of credit and related guarantees in the ordinary course of business to facilitate transactions with customers and others. At September 30, 2009, the Company had outstanding letters of credit and guarantees of approximately \$2.0 million.

**Note 10 Equity and Stock Programs***Share Repurchases*

The Company has a \$250.0 million authorized stock repurchase program, of which \$78.6 million remained available as of September 30, 2009. Repurchases are made from time-to-time through open market purchases and are subject to the availability of stock, prevailing market conditions, the trading price of the stock, the Company's financial performance and other conditions. Repurchases are also made from time-to-time in connection with the settlement of shared-based compensation awards. Repurchases may be funded from cash flow from operations and borrowings under the Company's Credit Agreement.

The Company's share repurchase activity was as follows:

|                                            | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                            | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Number of shares repurchased               | 4,531                                       | 1,026,017   | 305,482                                    | 8,437,517   |
| Cost of repurchased shares (in thousands): | \$ 75                                       | \$ 24,800   | \$ 3,734                                   | \$ 175,500  |

**Note 11 Income Taxes**

The provision for income taxes on continuing operations was \$2.4 million for the three months ended September 30, 2009 compared to \$10.0 million in the prior year quarter. The effective tax rate was 10.7% for the three months ended September 30, 2009 and 34.8% for the same period in 2008. The decrease in the effective tax rate was primarily due to the impact of certain discrete items as well as a change in the estimated mix of pre-tax income by jurisdiction.

Discrete items in the three months ended September 30, 2009 include the release of approximately \$3.4 million of reserves and \$0.5 million of related interest reserves due to the expiration of the relevant statutes of limitation.

The provision for income taxes on continuing operations was \$19.9 million for the nine months ended September 30, 2009 as compared to \$29.9 million for the nine months ended September 30, 2008. The effective tax rate was 25.8% for the nine months ended September 30, 2009 and 32.0% for the nine months ended September 30, 2008. The

decrease in the effective tax rate for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 was primarily due to the impact of

**Table of Contents**

certain discrete items as well as a change in the estimated mix of pre-tax income by jurisdiction.

Discrete items in the nine months ended September 30, 2009 include the release of approximately \$3.4 million of reserves and \$0.5 million of related interest reserves due to the expiration of the relevant statutes of limitation.

Discrete items in the nine months ended September 30, 2008 include the release of approximately \$2.0 million of reserves due to the expiration of the relevant statutes of limitation, offset in part by increases to reserves for various items including state income tax audit settlements and intercompany charges. The Company also released net interest reserves of \$0.1 million related to the 2008 discrete items.

As of September 30, 2009 and December 31, 2008, the Company had gross unrecognized tax benefits of \$14.4 million and \$16.3 million, respectively. It is reasonably possible that the gross unrecognized tax benefits will be decreased by \$0.3 million within the next 12 months due primarily to settlements of outstanding audits. As of September 30, 2009 and December 31, 2008, the Company had Other liabilities of \$14.1 million and \$14.2 million, respectively, related to long term uncertain tax positions.

The Internal Revenue Service ( IRS ) commenced an audit of the Company s 2007 tax year early in 2009. The audit is ongoing and the IRS has not proposed any adjustments at this time. The Company believes that it has recorded reserves sufficient to cover exposures related to such review. However, the resolution of such matters involves uncertainties and there are no assurances that the ultimate resolution will not exceed the amounts we have recorded. Additionally, the results of an audit could have a material effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

During the first and second quarters of 2009, the Company s subsidiaries in Japan and Brazil repatriated approximately \$4.0 million and \$4.5 million of earnings, respectively. The Company does not expect any additional U.S. tax as a result of such repatriations. The Company may repatriate additional earnings from subsidiaries outside the U.S. to the extent it does not incur a significant additional U.S. tax liability.

#### Note 12 Derivatives and Hedging

The Company typically enters into a limited number of derivative contracts to offset the potentially negative 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, whether designated as hedges or not, to be recorded on the balance sheet at fair value.

Information regarding the Company s derivatives activity as of, and for, the nine months ended September 30, 2009 follows (in thousands, except for number of outstanding contracts):

| <b>Derivative Contract Type</b>  | <b>Number<br/>of<br/>Outstanding<br/>Contracts</b> | <b>Contract<br/>Notional<br/>Amount</b> | <b>Fair Value<br/>Asset<br/>(Liability)<br/>(4)</b> | <b>Balance<br/>Sheet<br/>Line Item<br/>Other<br/>Liabilities<br/>Other<br/>Current<br/>Assets</b> | <b>Gain<br/>(Loss)<br/>Recognized<br/>in<br/>Earnings<br/>(5)</b> | <b>Gain<br/>(Loss)<br/>Recorded<br/>in<br/>OCI (6)</b> |
|----------------------------------|----------------------------------------------------|-----------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------|
| Interest Rate Swap (1)           | 1                                                  | \$ 135,000                              | \$ (7,890)                                          | Liabilities                                                                                       | \$ 188                                                            | \$(4,730)                                              |
| Interest Rate Swap (2)           | 1                                                  | 120,000                                 | (3,260)                                             | Liabilities                                                                                       | (1,091)                                                           | (2,170)                                                |
| Foreign Currency Forwards<br>(3) | 13                                                 | 59,772                                  | 150                                                 | Assets                                                                                            | 1,160                                                             |                                                        |
| Total                            | 15                                                 | \$314,772                               | \$(11,000)                                          |                                                                                                   | \$ 257                                                            | \$(6,900)                                              |

(1) The Company  
designates and

accounts for this interest rate swap as a cash flow hedge (see Note 9 Debt).

(2) On September 30, 2009, the Company discontinued hedge accounting on this interest rate swap (see Note 9 Debt).

(3) 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 currencies in which the Company and its subsidiaries operate. The Company may enter into foreign currency forward exchange contracts to offset the effects of this foreign currency transaction risk. These contracts are normally short term in duration. Both

realized and  
unrealized gains  
and losses are  
recognized in  
earnings since  
the Company  
does not  
designate these  
contracts as  
hedges for  
accounting  
purposes.

(4) See Note 13  
Fair Value  
Disclosures for  
the  
determination of  
the fair value of  
these  
instruments.

(5) The \$0.3 million  
represents the  
net gain  
recorded in  
earnings for the  
nine months  
ended  
September 30,  
2009 for  
derivative  
contracts. The  
gain/loss on the  
swaps is  
recorded in  
Interest  
expense, net and  
represents the  
amounts  
reclassified  
from Other  
comprehensive  
income (OCI) to  
earnings during  
the period. The  
gain on the  
foreign currency  
forward  
contracts is  
recorded in



**Table of Contents**

Other income  
(expense), net  
and represents  
the net amount  
of realized and  
unrealized gains  
and losses  
recorded during  
the period.

- (6) Represents the  
tax-adjusted  
amount  
recorded in OCI  
as of  
September 30,  
2009.

At September 30, 2009, the Company's derivative counterparties were 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 related contingent features.

**Note 13 Fair Value Disclosures**

The Company's financial instruments include cash and 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 approximates their fair value.

At September 30, 2009, the Company had \$265.0 million of outstanding floating rate debt which is carried at amortized cost. The Company believes the carrying amount of the debt reasonably approximates its fair value as the rate of interest on the term loans and revolver are floating rate which reflect current market rates of interest for similar instruments with comparable maturities.

FASB ASC Topic 820 provides a framework for measuring fair value and a valuation hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. 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 Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.

Level 2 Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the asset or liability being measured.

Level 3 Valuation inputs are unobservable and significant to the fair value measurement.

The following table presents Company assets and liabilities measured at fair value on a recurring basis (in thousands):

| <b>Description:</b>                    | <b>Fair Value<br/>September 30,<br/>2009</b> |
|----------------------------------------|----------------------------------------------|
| Assets:                                |                                              |
| Deferred compensation assets (1)       | \$ 18,805                                    |
| Foreign currency forward contracts (2) | 150                                          |
|                                        | \$ 18,955                                    |



## Liabilities:

|                                  |    |        |
|----------------------------------|----|--------|
| Interest rate swap contracts (3) | \$ | 11,150 |
|----------------------------------|----|--------|

- (1) The Company has a supplemental deferred compensation arrangement for the benefit of certain highly compensated officers, managers and other key employees. The plan's assets consist of investments in money market and mutual funds, and company-owned life insurance. The money market and mutual funds consist of cash equivalents or securities traded in active markets, which the Company considers the fair value of these assets to be based on a Level 1 input. The value of the Company-owned life insurance is based on indirectly observable prices which the Company considers to be Level 2 inputs.

- (2) The Company periodically enters into foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates (see Note 12 Derivatives and Hedging). Valuation of the foreign currency forward contracts is based on foreign currency exchange rates in active markets; thus the Company measures the fair value of these contracts under a Level 2 input.
- (3) The Company has two interest rate swap contracts (see Note 9 Debt). To determine the fair value of the swaps, the Company relies on mark-to-market valuations prepared by third-party brokers based on observable interest rate yield curves. Accordingly, the fair value of the swaps is determined under a Level 2 input.



**Table of Contents**

Note 14 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 accounts for material defined benefit plans in accordance with FASB ASC Topics 715 and 960. Net periodic pension expense was \$0.5 million for both the three months ended September 30, 2009 and 2008, and \$1.3 million and \$1.6 million for the nine months ended September 30, 2009 and 2008, respectively. None of these plans have plan assets as defined under FASB ASC Topic 960.

Note 15 Contingencies

We are 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 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, 2009, the Company did not have any indemnification agreements that would require material payments.

## Table of Contents

### **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, 2008. Historical results and percentage relationships are not necessarily indicative of operating results for future periods.

References to the Company, we, our, and us are to Gartner, Inc. and its subsidiaries.

Effective January 1, 2009, the Company has reclassified certain amounts presented in the interim Condensed Consolidated Statements of Operations. The Company eliminated its previously reported Other revenue line. The Other revenue line primarily consisted of fees earned from Research reprints and other miscellaneous products, and these revenues and related expenses are now included in the Research segment. In addition, certain expenses that were formerly classified in Selling, general & administrative are now included in Cost of services and product development and are included in Research segment expense. Prior periods have been reclassified in order to be consistent with the current period presentation. See Note 1 Basis of Presentation and Note 6 Segment Information in the Notes to the accompanying interim condensed consolidated financial statements for additional information.

#### **Forward-Looking Statements**

In addition to historical information, this Quarterly Report contains 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, expects, should, believes, plans, anticipates, estimates, predicts, 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 report and in our Annual Report on Form 10-K for the year ended December 31, 2008. 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 also should review carefully any risk factors described in other reports filed by us with the Securities and Exchange Commission.

#### **BUSINESS OVERVIEW**

Gartner, Inc. is the world's leading information technology research and advisory company that helps executives use technology to build, guide and grow their enterprises. We offer independent and objective research and analysis on the information technology, computer hardware, software, communications and related technology industries. We provide comprehensive coverage of the IT industry to almost 10,000 client organizations, including approximately 400 of the Fortune 500 companies, across 80 countries. Our client base consists primarily of CIOs and other senior IT and executives from a wide variety of business enterprises, government agencies and the investment community. We have three business segments: Research, Consulting and Events.

**Research** provides insight for CIOs, IT professionals, technology companies and the investment community through reports and briefings, access to our analysts, as well as peer networking services and membership programs designed specifically for CIOs and other senior executives.

**Consulting** consists primarily of consulting, measurement engagements and strategic advisory services (paid one-day analyst engagements) ( SAS ), which provide assessments of cost, performance, efficiency and quality focused on the IT industry.

**Events** consists of various symposia, conferences and exhibitions focused on the IT industry.



**Table of Contents**

**BUSINESS MEASUREMENTS**

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

**BUSINESS SEGMENT**

**BUSINESS MEASUREMENTS**

Research

**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.

**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.

**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.

**Number of executive program members** represents the number of paid participants in executive programs.

Consulting

**Consulting backlog** represents future revenue to be derived from in-process consulting, measurement and strategic advisory services engagements.

**Utilization rates** represent 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.

**Billing Rate** represents earned billable revenue divided by total billable hours.

**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.

Events

**Number of events** represents the total number of hosted events completed during the period.

**Number of attendees** represents the number of people who attend events.

**EXECUTIVE SUMMARY OF OPERATIONS AND FINANCIAL POSITION**

The cornerstones of our strategy are to focus on producing extraordinary research content, deliver innovative and highly differentiated product offerings, enhance our sales capability, provide world class client service, and improve our operational effectiveness.

We had total revenues of \$267.5 million in the three months ended September 30, 2009, a decline of 10%, or about \$30.2 million, compared to the prior year quarter. Revenues declined in all 3 of our business segments. Excluding the impact of foreign currency translation, revenues were down about 7.5%. Revenues for the nine months ended

September 30, 2009 declined approximately 13% from the prior year, but adjusted for the impact of foreign currency translation, was down about 8%.

We had income from continuing operations of \$20.1 million in the third quarter of 2009, an increase of 7% from the prior year quarter. Diluted earnings per share from continuing operations increased 11%, to \$0.21 per share. For the nine months ending September 30, 2009, income from continuing operations declined 10% compared to the prior year. The nine month decline reflects lower profitability in our Events and Consulting segments.

Research revenues were down 7% quarter-over-quarter, to \$185.7 million in the third quarter of 2009 from \$199.6 million in the prior year quarter. In spite of the 7% decline in revenues, we had a 1 point increase in the gross contribution margin. Similarly, revenues for the nine month period were down 5%, but the contribution margin increased by 2 points. The improved contribution margins were primarily driven by the tight cost controls we have implemented. The impact of foreign currency translation had a significantly negative impact on Research revenues in 2009, and excluding this impact, revenues were down 4% quarter-over-quarter and less than 1% for the nine month periods. As of September 30, 2009, research contract value was almost \$743.0 million, client retention was 77%, and wallet retention was 85%.



## **Table of Contents**

Consulting revenues declined 18% and 19% for the three and nine months ended September 30, 2009, respectively, compared to the prior year periods. Excluding the unfavorable impact of foreign currency translation, revenues declined 16% and 14%, respectively. The segment contribution margin declined for both the three and nine month periods, primarily due to the lower revenue performance. Consultant utilization was 64% for the three months ended September 30, 2009, while backlog was \$84.7 million as of September 30, 2009.

Events revenues decreased 9% in the third quarter of 2009 compared to the prior year due to the impact of discontinued events and lower revenue from our on-going events. We held 15 events in the third quarter of 2009 compared to 16 in prior year period. For the nine months ending September 30, 2009, revenues declined by 46% compared to the prior year, due to the same factors impacting the quarter. In spite of lower revenues the quarter-over-quarter segment contribution margin improved by 6 points but declined 8 points when comparing the nine month periods.

For a more detailed discussion of our segment results, see Segment Results below.

We repaid \$81.3 million of our term loans and we had approximately \$118.0 million of operating cash flow in the nine months ended September 30, 2009. Our cash and cash equivalents totaled \$112.8 million as of September 30, 2009, and we had approximately \$248.0 million of available borrowing capacity under our revolving credit facility. We believe we have a strong cash position and adequate borrowing capacity.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements requires the application of appropriate accounting policies and the use of estimates. The policies discussed below are considered by management to be critical to an understanding of Gartner's financial statements because their application requires significant management judgments and estimates. Specific risks for these critical accounting policies are described below.

**Revenue recognition** We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ( SAB 101 ), and SEC Staff Accounting Bulletin No. 104, Revenue Recognition ( SAB 104 ). 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. Revenues from research products are deferred and recognized ratably over the applicable contract term. Fees from research reprints are recognized when the reprint is shipped.

Consulting revenues are principally generated from fixed fee and time and material engagements. Revenue from fixed fee contracts is recognized on a percentage of completion basis. Revenues from time and materials engagements is 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, which have not produced material cancellations to date. 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.

For those government contracts that permit termination, we bill the client the full amount billable under the contract but only record a receivable equal to the earned portion of the contract. In addition, we only record deferred revenue on these government contracts when cash is received. Deferred revenues attributable to government contracts were \$58.2 million and \$61.6 million at September 30, 2009 and December 31, 2008, respectively. In addition, at September 30, 2009 and December 31, 2008, we had not recognized uncollected receivables or deferred revenues relating to government contracts that permit termination of \$11.2 million and \$12.1 million, respectively.

**Uncollectible fees receivable** The allowance for losses is composed of a bad debt and a sales and allowance reserve. Provisions are charged against earnings, either as a reduction to revenues or an increase to expense. The measurement of likely and probable losses

**Table of Contents**

and the allowance for uncollectible fees receivable 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 material estimates. These valuation reserves are periodically re-evaluated and adjusted as more information about the ultimate collectibility 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 (in thousands):

|                       | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-----------------------|-----------------------------------|----------------------------------|
| Total fees receivable | \$ 258,450                        | \$ 326,311                       |
| Allowance for losses  | (7,400)                           | (7,800)                          |
| Fees receivable, net  | \$ 251,050                        | \$ 318,511                       |

**Impairment of goodwill and other intangible assets** The evaluation of goodwill is performed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350. Among other requirements, this rule requires an ongoing annual assessment of goodwill impairment. The evaluation of other intangible assets is performed on a periodic basis. These assessments require management to estimate the fair values of our reporting units based on estimates of future business operations and market and economic conditions in developing long-term forecasts. If we determine that the fair value of any reporting unit is less than its carrying amount, we must recognize an impairment charge for the associated goodwill of that reporting unit against earnings in our financial statements. Goodwill is evaluated for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger a review for impairment include 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 economic trends;

Significant decline in our stock price for a sustained period; and

Our market capitalization relative to net book value.

Due to the numerous variables associated with our judgments and assumptions relating to the valuation of the reporting units and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty, and as additional information becomes known, we may change our estimates.

**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 5 Stock-Based Compensation in the Notes to the Consolidated Financial Statements).

Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock compensation awards and the Company's

**Table of Contents**

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 achievement of certain performance targets. The assumptions used in calculating the fair value of stock 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 compensation expense could be materially different from what has been recorded in the current period.

**Loss and other accruals** We may record charges for severance costs, lease costs associated with excess facilities, contract terminations and asset impairments as a result of actions we undertake to streamline our organization, reposition certain businesses and reduce ongoing costs. 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. To the extent actual costs differ from those estimates, the amount accrued may need to be adjusted. 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. Additionally, we record charges for estimated incentive compensation costs during each year. 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 until after year end.

**RESULTS OF OPERATIONS****Overall Results**

The impact of foreign currency exchange continues to have a substantially negative effect on our revenues and we continue to maintain tight cost controls across our businesses.

The following table summarizes the changes in selected line items in our interim Condensed Consolidated Statements of Operation for the periods indicated (dollars in thousands):

|                                        | Three<br>Months<br>Ended<br>September<br>30,<br>2009 | Three<br>Months<br>Ended<br>September<br>30,<br>2008 | Dollar<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | Nine<br>Months<br>Ended<br>September<br>30,<br>2009 | Nine<br>Months<br>Ended<br>September<br>30,<br>2008 | Dollar<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|----------------------------------------|------------------------------------------------------|------------------------------------------------------|----------------------------------|--------------------------------------|-----------------------------------------------------|-----------------------------------------------------|----------------------------------|--------------------------------------|
| Total revenues                         | \$ 267,469                                           | \$ 297,706                                           | \$ (30,237)                      | (10)%                                | \$ 810,973                                          | \$ 931,744                                          | \$ (120,771)                     | (13)%                                |
| Costs and expenses:                    |                                                      |                                                      |                                  |                                      |                                                     |                                                     |                                  |                                      |
| Cost of services & product development | 118,120                                              | 128,490                                              | 10,370                           | 8%                                   | 351,864                                             | 415,569                                             | 63,705                           | 15%                                  |
| Selling, general and administrative    | 115,049                                              | 127,707                                              | 12,658                           | 10%                                  | 345,980                                             | 387,373                                             | 41,393                           | 11%                                  |
| Depreciation                           | 6,363                                                | 6,427                                                | 64                               | 1%                                   | 19,176                                              | 19,000                                              | (176)                            | (1)%                                 |
| Amortization of intangibles            | 416                                                  | 400                                                  | (16)                             | (4)%                                 | 1,220                                               | 1,215                                               | (5)                              |                                      |
| Operating income                       | 27,521                                               | 34,682                                               | (7,161)                          | (21)%                                | 92,733                                              | 108,587                                             | (15,854)                         | (15)%                                |
| Interest expense, net                  | (4,914)<br>(127)                                     | (4,997)<br>(860)                                     | 83<br>733                        | 2%<br>85%                            | (13,105)<br>(2,505)                                 | (14,672)<br>(487)                                   | 1,567<br>(2,018)                 | 11%<br>>(100)%                       |

|                                                            |           |           |          |     |           |           |             |         |
|------------------------------------------------------------|-----------|-----------|----------|-----|-----------|-----------|-------------|---------|
| Other expense,<br>net                                      |           |           |          |     |           |           |             |         |
| Provision for<br>income taxes                              | 2,413     | 10,044    | 7,631    | 76% | 19,875    | 29,926    | 10,051      | 34%     |
| Income from<br>continuing<br>operations                    | 20,067    | 18,781    | 1,286    | 7%  | 57,248    | 63,502    | (6,254)     | (10)%   |
| Income from<br>discontinued<br>operations, net<br>of taxes |           |           |          |     |           | 6,723     | (6,723)     | >(100)% |
| Net income                                                 | \$ 20,067 | \$ 18,781 | \$ 1,286 | 7%  | \$ 57,248 | \$ 70,225 | \$ (12,977) | (18)%   |

Total revenues for the three months ended September 30, 2009 decreased \$30.2 million, or 10%, compared to the same quarter in 2008. Revenues declined in all three of our business segments and the impact of foreign currency continued to have a substantially negative impact on our revenues. Excluding the negative impact of foreign currency, total revenues for the three months ended September 30, 2009 were down about 7.5% over the prior year quarter. When comparing the nine months ended September 30, 2009 to the same period in the prior year, total revenues were down \$120.8 million, or 13%, with revenues down in all three of our business segments. Excluding the impact of foreign currency, total revenues were down about 8% for the nine month period.

## **Table of Contents**

Please refer to the section of this MD&A below entitled **Segment Results** for a further discussion of revenues and results by segment.

Cost of services and product development decreased 8% quarter-over-quarter, or \$10.4 million, with about \$4.5 million of the decrease due to favorable foreign currency impact. We also had lower travel and internal meeting charges of \$3.2 million and \$1.2 million in lower personnel costs. Cost of services and product development as a percentage of sales increased by 1 point, to 44% from 43%, primarily due to lower utilization and billing rates in our Consulting business.

For the nine months ended September 30, 2009, Cost of services and product development expense decreased by about \$63.7 million, or 15%. The favorable impact of foreign currency translation reduced expense by about \$24.5 million. We had lower conference expenses of \$13.3 million due to discontinued events and tight cost controls. We also had reduced travel and internal meeting charges of \$13.7 million and lower personnel costs of about \$6.5 million. The remaining \$5.7 million reduction was spread across a number of other expense categories. Cost of services and product development as a percentage of sales declined by 2 points, to 43% from 45%, primarily due to tight expense controls across our businesses.

Selling, general and administrative ( SG&A ) expense decreased \$12.7 million quarter-over-quarter, or 10%. The favorable impact of foreign currency translation reduced expense by about \$5.0 million. We also had about \$4.5 million of lower expenses related to reduced travel, internal meeting, and recruiting costs, reflecting our tight focus on cost controls. The remaining \$3.2 million reduction reflects lower personnel and other costs.

For the nine months ended September 30, 2009, SG&A expense decreased by about \$41.4 million, or 11%, compared to the same period in 2008. Consistent with the quarter-over-quarter decline, the impact of foreign currency translation reduced expense by about \$23.0 million and we had lower travel, internal meeting, and recruiting costs of about \$15.0 million. The remaining \$3.4 million reduction was spread across a number of other expense categories.

Depreciation expense decreased 1% quarter-over-quarter but increased 1% when comparing the nine month periods. Capital spending decreased to \$11.1 million in 2009 from \$18.3 million in 2008, a 39% decline, which reflects the Company's reduced capital expenditures plan for 2009.

Amortization of intangibles was \$0.4 million for the third quarters of both 2009 and 2008 and \$1.2 million for the nine months ended September 30, 2009 and 2008.

Operating Income decreased 21% quarter-over-quarter, to \$27.5 million in the three months ended September 30, 2009. For the nine months ended September 30, 2009, operating income was down 15% over the same period in the prior year, to \$92.7 million.

Operating income as a percentage of revenues was down 2 points quarter-over-quarter primarily due to lower profitability in our Consulting segment. For the nine months ended September 30, 2009, operating income as a percentage of revenues was essentially flat in spite of lower overall revenues, primarily due to the tight expense controls we have implemented across our operations.

Please refer to the section of this MD&A entitled **Segment Results** below for a further discussion of revenues and results by segment.

Interest Expense, Net declined 2% and 11% for the three and nine months ended September 30, 2009 compared to the prior year periods. The three and nine months ended September 30, 2009 includes \$1.1 million of expense related to the discontinuance of hedge accounting on an interest rate swap contract (See Note 9 Debt in the accompanying Notes to the interim condensed consolidated financial statements for additional information). Excluding the \$1.1 million charge, Interest expense, net would have declined approximately 23% and 18% for the three and nine month periods, respectively. The decline in the three month periods was primarily due to a reduction in the weighted-average amount of debt outstanding, while the decline for the nine month periods was due to a reduction in the weighted-average amount of debt outstanding and to a lesser extent, a decline in the weighted-average rate.

Other (Expense) Income, Net primarily consists of net foreign currency exchange gains and losses.

Provision For Income Taxes on continuing operations was \$2.4 million for the three months ended September 30, 2009 compared to \$10.0 million in the prior year quarter. The effective tax rate was 10.7% for the three months ended September 30, 2009 and 34.8% for the same period in 2008. The decrease in the effective tax rate was primarily due to the impact of certain discrete items as well as a change in the estimated mix of pre-tax income by jurisdiction.

Discrete items in the three months ended September 30, 2009 include

24

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**Table of Contents**

the release of approximately \$3.4 million of reserves and \$0.5 million of related interest reserves due to the expiration of the relevant statutes of limitation.

The provision for income taxes on continuing operations was \$19.9 million for the nine months ended September 30, 2009 as compared to \$29.9 million for the nine months ended September 30, 2008. The effective tax rate was 25.8% for the nine months ended September 30, 2009 and 32.0% for the nine months ended September 30, 2008. The decrease in the effective tax rate was primarily due to the impact of certain discrete items as well as a change in the mix of pre-tax income by jurisdiction.

Discrete items in the nine months ended September 30, 2009 include the release of approximately \$3.4 million of reserves and \$0.5 million of related interest reserves due to the expiration of the relevant statutes of limitation.

Discrete items in the nine months ended September 30, 2008 include the release of approximately \$2.0 million of reserves due to the expiration of the relevant statutes of limitation, offset in part by increases to reserves for various items including state income tax audit settlements and intercompany charges. The Company also released net interest reserves of \$0.1 million related to the 2008 discrete items.

Income From Discontinued Operations, Net of Taxes, includes the results of the Company's Vision Events business, which we sold in early 2008. The \$6.7 million of income for the nine months ended September 30, 2008 includes a net gain on sale of approximately \$7.0 million and a \$(0.3) million operating loss.

Net Income was \$20.1 million and \$18.8 million for the three months ending September 30, 2009 and 2008, respectively, an increase of 7%, or \$1.3 million. The quarterly increase was primarily driven by a substantially lower effective tax rate in the 2009 period which offset lower income from operations.

Net income declined 18%, or \$13.0 million, when comparing the nine months ended September 30, 2009 with the same period in 2008. The decline was primarily driven by reduced gross contributions by our three business segments in the 2009 period and a \$6.7 million net gain from the sale of the Company's former Vision Events business in the 2008 period.

Basic earnings per share from continuing operations increased \$0.01 per share quarter-over-quarter but decreased \$0.05 per share when comparing the nine month periods. Diluted earnings per share from continuing operations was up \$0.02 per share quarter-over-quarter but decreased \$0.04 per share for the nine month periods.

**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, Amortization of intangibles, and Other charges. Gross contribution margin is defined as gross contribution as a percentage of revenues.

The following sections present the results of our three segments:

*Research*

|                                | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2009 | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2009 | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Financial Measurements:</b> |                                                                                 |                                                                                 |                                      |                                      |                                                                |                                                                |                                      |                                      |
| Revenues (1)                   | \$ 185,718                                                                      | \$ 199,646                                                                      | \$ (13,928)                          | (7)%                                 | \$ 557,325                                                     | \$ 589,415                                                     | \$ (32,090)                          | (5)%                                 |
| Gross contribution (1)         | \$ 122,611                                                                      | \$ 130,426                                                                      | \$ (7,815)                           | (6)%                                 | \$ 366,807                                                     | \$ 377,115                                                     | \$ (10,308)                          | (3)%                                 |
|                                | 66%                                                                             | 65%                                                                             | 1 point                              |                                      | 66%                                                            | 64%                                                            | 2 points                             |                                      |

Gross  
contribution  
margin

**Business**

**Measurements:**

|                       |            |            |             |      |
|-----------------------|------------|------------|-------------|------|
| Contract value (1)    | \$ 742,885 | \$ 812,210 | \$ (69,325) | (9)% |
| Client retention      | 77%        | 81%        | (4) points  |      |
|                       |            |            | (12)        |      |
| Wallet retention      | 85%        | 97%        | points      |      |
| Exec. program members | 3,469      | 3,707      | (238)       | (6)% |

25

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**Table of Contents**

(1) Dollars in thousands.

Research revenues declined 7% on a quarter-over-quarter basis, but excluding the unfavorable effect of foreign currency translation, Research revenues were down about 4%. Research revenues declined 5% when comparing the nine month periods, but excluding the unfavorable impact of foreign currency, Research revenues declined less than 1%.

In spite of lower revenues in both the three and nine month periods of 2009, the contribution margin increased for both periods, up 1 point quarter-over-quarter and 2 points when comparing the nine month periods. The improved margin for both periods was primarily driven by the tight cost controls we have implemented.

Research contract value decreased 9% as of September 30, 2009 compared to September 30, 2008, but excluding the impact of foreign currency translation, research contract value was down 4%.

*Consulting*

|                                | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2009 | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2009 | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Financial Measurements:</b> |                                                                                 |                                                                                 |                                      |                                      |                                                                |                                                                |                                      |                                      |
| Revenues (1)                   | \$ 65,708                                                                       | \$ 80,404                                                                       | \$ (14,696)                          | (18)%                                | \$ 205,341                                                     | \$ 253,129                                                     | \$ (47,788)                          | (19)%                                |
| Gross contribution (1)         | \$ 23,658                                                                       | \$ 32,884                                                                       | \$ (9,226)                           | (28)%                                | \$ 78,314                                                      | \$ 104,756                                                     | \$ (26,442)                          | (25)%                                |
| Gross contribution margin      | 36%                                                                             | 41%                                                                             | (5) points                           |                                      | 38%                                                            | 41%                                                            | (3) points                           |                                      |

**Business Measurements:**

|                                                       |           |            |             |       |        |        |            |       |
|-------------------------------------------------------|-----------|------------|-------------|-------|--------|--------|------------|-------|
| Backlog (1)                                           | \$ 84,747 | \$ 110,141 | \$ (25,394) | (23)% |        |        |            |       |
| Billable headcount                                    | 449       | 494        | (45)        | (9)%  |        |        |            |       |
| Consultant utilization                                | 64%       | 69%        | (5) points  |       | 68%    | 72%    | (4) points |       |
| Average annualized revenue per billable headcount (1) | \$ 389    | \$ 440     | \$ (51)     | (12)% | \$ 401 | \$ 463 | (62)       | (13)% |

(1) Dollars in thousands.

The 18% quarter-over-quarter revenue decline was due to lower revenues in our core consulting and strategic advisory services (SAS) businesses. The revenue decrease in core consulting reflects both lower headcount and utilization, and to a lesser extent, a lower billing rate. The decreased SAS revenue reflects less SAS days fulfilled. Excluding the unfavorable effects of foreign currency translation, Consulting revenues decreased about 16% quarter-over-quarter. The gross contribution margin declined by 5 points quarter-over-quarter primarily due to lower utilization and a lower billing rate in core consulting, and to a lesser extent, lower SAS days, which generally has a higher margin than core consulting.

Consulting revenues declined 19% when comparing the nine month periods, with lower revenues in core consulting, SAS, and to a lesser extent, in our contract optimization business. Consistent with the quarter-over-quarter results, the nine month results reflect lower headcount, utilization, and billing rates in core consulting and fewer SAS days fulfilled. Excluding the unfavorable impact of foreign currency, overall Consulting revenues were down about 14%. The 3 point decline in the contribution margin for the nine month periods reflects lower revenue in our SAS and contract optimization businesses. These businesses generally have higher margins than core consulting. Consistent with the quarter-over-quarter decline, the nine month decline also reflects lower utilization and billing rates in core consulting.

**Table of Contents***Events*

|                                | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2009 | As Of<br>And<br>For The<br>Three<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2009 | For The<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2008 | Percentage<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <b>Financial Measurements:</b> |                                                                                 |                                                                                 |                                      |                                      |                                                                |                                                                |                                      |                                      |
| Revenues (1)                   | \$ 16,043                                                                       | \$ 17,656                                                                       | \$ (1,613)                           | (9)%                                 | \$ 48,307                                                      | \$ 89,200                                                      | \$ (40,893)                          | (46)%                                |
| Gross contribution (1)         | \$ 5,934                                                                        | \$ 5,457                                                                        | \$ 477                               | 9%                                   | \$ 16,300                                                      | \$ 37,075                                                      | \$ (20,775)                          | (56)%                                |
| Gross contribution margin      | 37%                                                                             | 31%                                                                             | 6 points                             |                                      | 34%                                                            | 42%                                                            | (8) points                           |                                      |
| <b>Business Measurements:</b>  |                                                                                 |                                                                                 |                                      |                                      |                                                                |                                                                |                                      |                                      |
| Number of events               | 15                                                                              | 16                                                                              | (1)                                  | (6)%                                 | 41                                                             | 53                                                             | (12)                                 | (23)%                                |
| Number of attendees            | 5,413                                                                           | 6,179                                                                           | (766)                                | (12)%                                | 14,976                                                         | 25,308                                                         | (10,332)                             | (41)%                                |

(1) Dollars in thousands.

The 9% quarter-over-quarter revenue decrease was due to the impact of discontinued events and a decline in revenues from our on-going events. Excluding the unfavorable impact of foreign currency translation, revenues were down about 6%.

We held 15 events in the three months ended September 30, 2009 compared to 16 held in 2008. About \$3.1 million of the revenue decline was due to 5 discontinued events while on-going events revenue was down \$2.6 million.

Offsetting these declines was a \$3.1 million net revenue increase due to timing as our events calendar resulted in 3 events being moved into the quarter and two moved out. We also had \$1.0 of additional revenue in the third quarter of 2009 from new event launches. While the number of attendees was down 12% the number of exhibitors was down only slightly.

Events revenue was down \$40.9 million, or 46% for the nine months due to the same factors impacting the quarter-over-quarter analysis. We held 41 events in the nine months ended September 30, 2009, a decline of 12 events compared to the prior year.

The 41 events held in 2009 consisted of 36 on-going events, 3 new events and 2 events moved into the third quarter of 2009 that were held in the fourth quarter in 2008. Approximately \$21.2 million of the revenue decrease was due to 17 discontinued events, including our Spring Symposium which was a significant event, while \$21.6 million was due to a decline in revenue from our on-going events. These declines were slightly offset by \$1.9 million in higher revenue from the timing of our events schedule, new event launches, and other miscellaneous events revenues. The number of attendees at our 36 on-going events was down 22% while the number of exhibitors was down 28%.

The gross contribution margin was up 6 points quarter-over-quarter primarily due to a higher margin on the events that were moved into the quarter than the margin on the events moved out of the quarter and the events that were discontinued. For the nine month periods the margin was down 8 points primarily due to two factors. We had lower

profitability from our 36 on-going events, reflecting the lower attendee and exhibitor revenue discussed earlier, as well as the impact of the discontinued events.

#### **LIQUIDITY AND CAPITAL RESOURCES**

We finance our operations primarily through cash generated from our on-going operating activities. As of September 30, 2009, we had over \$112.0 million of cash and cash equivalents and \$248.0 million of available borrowing capacity under our revolving credit facility (not including the \$100.0 million expansion feature). Our cash and cash equivalents are held in numerous locations throughout the world, with approximately 87% held outside the United States as of September 30, 2009. During the nine months ended September 30, 2009, we repaid \$151.3 million of our debt, thus reducing the amount outstanding under our Credit Agreement by 36%.

We believe 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 expected short-term and foreseeable long-term operating needs.

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

|                                       | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> | <b>Dollar<br/>Increase<br/>(Decrease)</b> |
|---------------------------------------|---------------------------------------------------------|---------------------------------------------------------|-------------------------------------------|
| Cash provided by operating activities | \$ 117,640                                              | \$ 137,420                                              | \$ (19,780)                               |
| Cash used by investing activities     | (11,125)                                                | (10,433)                                                | (692)                                     |
| Cash used in financing activities     | (142,287)                                               | (88,627)                                                | (53,660)                                  |
| Net (decrease) increase               | (35,772)                                                | 38,360                                                  | (74,132)                                  |

**Table of Contents**

|                                     | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> | <b>Dollar<br/>Increase<br/>(Decrease)</b> |
|-------------------------------------|---------------------------------------------------------|---------------------------------------------------------|-------------------------------------------|
| Effects of exchange rates           | 7,621                                                   | (3,134)                                                 | 10,755                                    |
| Beginning cash and cash equivalents | 140,929                                                 | 109,945                                                 | 30,984                                    |
| Ending cash and cash equivalents    | \$ 112,778                                              | \$ 145,171                                              | \$ (32,393)                               |

*Operating*

Our operating cash flow decreased by 14%, or \$19.8 million, due to several factors. We had a decline of approximately \$13.0 million in cash from our core operations along with a \$10.0 decline in working capital. We also had \$9.0 million in higher severance payments due to the workforce reduction announced in early January 2009. These declines in our operating cash flow were partially offset by about \$13.0 million of improved cash flows due to lower interest payments on our debt and reduced bonus and tax payments.

*Investing*

Cash used by investing activities in the nine months ended September 30, 2009 consisted of \$11.1 million of capital expenditures, a decline of 39% when compared to the \$18.2 million of capital expenditures in the same period in 2008. The decline reflects the Company's tight focus on reducing costs. The \$10.4 million of cash used in the prior year period included the \$18.2 million in capital expenditures offset by net cash proceeds from the sale of our Vision Events business of \$7.8 million.

*Financing*

We used \$53.7 million of additional cash in our financing activities in the nine months ended September 30, 2009 compared to the same period in the prior year, due to payments on our debt and less cash realized from option exercises.

We used \$151.3 million of cash to repay debt in the nine months ended September 30, 2009, compared to net additional borrowings of about \$29.7 million in the prior year, a reduction of \$181.0 million. We also had about \$45.2 million in lower cash proceeds from option exercises and related excess tax benefits in 2009 due to a lower average stock price. Together these two items resulted in approximately \$226.2 of additional cash used in financing activities.

Substantially offsetting the additional \$226.2 million of cash used to repay debt and the reduced proceeds from option exercises was a large decrease in the amount of cash used to repurchase our shares of \$172.5 million, resulting in the \$53.7 million of net additional cash used in financing activities.

**OBLIGATIONS AND COMMITMENTS***Credit Agreement*

At September 30, 2009, we had \$265.0 million outstanding under our Credit Agreement, which includes two amortizing term loans and a \$300.0 million revolving credit facility. The revolving credit facility may be increased up to an additional \$100.0 million at our lenders' discretion (the "expansion feature"), for a total revolving credit facility of \$400.0 million. However, the \$100.0 million expansion feature may or may not be available to us depending upon prevailing credit market conditions.

The term loans are being repaid in consecutive quarterly installments plus a final payment due on January 31, 2012, and may be prepaid at any time without penalty or premium at our option. The revolving loans may be borrowed, repaid and reborrowed until January 31, 2012, at which time all amounts borrowed must be repaid. On September 30, 2009 we prepaid \$40.0 million on our 2008 term loan. See Note 9 Debt in the accompanying Notes to the interim condensed consolidated financial statements for additional information regarding the Company's Credit Agreement.

*Off-Balance Sheet Arrangements*

Through September 30, 2009, 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 revenue, operating income, and cash flow fluctuate as a result of many factors, including: the timing of our Symposium/ITxpo series that normally occurs during the fourth calendar quarter, and other events; the amount of new business generated; the mix of domestic and international business; 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; 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.



**Table of Contents**

**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 2008 Annual Report on Form 10-K which is incorporated herein by reference.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

The following accounting standards have recently been issued by the FASB and Emerging Issues Task Force (EITF). If the standard was issued prior to the Codification, the standard's sequential designation has been used. See Note 1 Basis of Presentation in the Notes to the accompanying interim condensed consolidated financial statements for additional information regarding the Codification.

In September 2009, the FASB ratified ASC Accounting Standards Update (ASU) 2009-14, *Certain Revenue Arrangements That Include Software Elements*. Under ASU 2009-14, all tangible products containing both software and non-software components, that function together to deliver the product's essential functionality, will no longer be within the scope of rules governing Software revenue recognition (formerly known as SOP 97-2). This means that entities that sell joint hardware and software products that meet the scope exception (i.e., essential functionality) will be required to follow the guidance in ASU 2009-13 below. The Update provides a list of items to consider when determining whether the software and non-software components function together to deliver a product's essential functionality. We are currently evaluating the impact of this Update but do not believe it will have any significant impact on the Company's consolidated financial statements.

In September 2009, the FASB ratified ASU 2009-13, *Revenue Arrangements with Multiple Deliverables*. ASU 2009-13 requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company itself or other vendors. ASU 2009-13 eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. As a result, the new guidance is expected to allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under current requirements. ASU 2009-13 will be effective for Gartner beginning in the first quarter of fiscal year 2012. Early adoption is permitted. We are currently evaluating the impact of this Update but do not believe it will have any significant impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, (SFAS No. 167), which amends FASB Interpretation No. 46 (revised December 2003) to address the elimination of the concept of a qualifying special purpose entity. SFAS No. 167 also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity and the obligation to absorb losses of the entity or the right to receive benefits from the entity. Additionally, SFAS No. 167 provides more timely and useful information about an enterprise's involvement with a variable interest entity. SFAS No. 167 will become effective in the first quarter of 2010. We are currently evaluating the impact of this standard but do not believe it will have any significant impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140* (SFAS No. 166). SFAS No. 166 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity's continuing involvement in and exposure to the risks related to transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact of this standard but do not believe it will have any significant impact on the Company's consolidated financial statements.

**Table of Contents**

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

*Interest Rate Risk*

We have exposure to changes in interest rates resulting from the \$215.0 million outstanding on our two term loans and \$50.0 million outstanding on our revolver as of September 30, 2009. All of these borrowings are floating rate, which may be either prime-based or LIBOR-based. Interest rates under these borrowings include a base rate plus a margin currently between 0.00% and 0.75% on prime borrowings and between .625% and 1.75% on LIBOR-based borrowings.

As of September 30, 2009, the annualized interest rates on the original term loan, the 2008 term loan, and the revolver were 1.04%, 1.29%, and 1.04%, respectively. The rates on the original and 2008 term loans consisted of a three-month LIBOR base rate plus margins of 0.75% and 1.00%, respectively. The rate on the revolver consisted of a one-month LIBOR base rate plus a margin of 0.75%.

We have an interest rate swap contract which effectively converts the floating base rate on the original term loan to a fixed rate. Including the effect of the interest rate swap, the annualized interest rate on the original term loan was 5.81% as of September 30, 2009.

The Company does not hedge the interest rate risk on the revolver. In addition, on September 30, 2009 the Company discontinued the use of hedge accounting on an interest rate swap that previously hedged the 2008 term loan. Accordingly, we are exposed to interest rate risk on the revolver and the 2008 term loan. A 25 basis point increase or decrease in interest rates would change pre-tax annual interest expense on the \$300.0 million revolver and the \$80.0 million outstanding on the 2008 term loan by approximately \$1.0 million.

*Foreign Currency Exchange Risk*

We face two risks related to foreign currency exchange: translation risk and transaction risk.

We are exposed to foreign currency translation risk since amounts invested in our foreign operations are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in the stockholders' equity section of the Consolidated Balance Sheets. Our foreign subsidiaries generally collect revenues and pay expenses in currencies other than the United States dollar. Since the functional currencies of our foreign operations are generally denominated in the local currency of our subsidiaries, the foreign currency translation adjustments are reflected as a component of stockholders' equity and do not impact operating results. Revenues and expenses in foreign currencies translate into higher or lower revenues and expenses in U.S. dollars as the U.S. dollar weakens or strengthens against other currencies. Therefore, changes in exchange rates may affect our consolidated revenues and expenses (as expressed in U.S. dollars) from foreign operations.

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 local functional currencies in which the Company and its subsidiaries operate. From time to time the Company may enter into foreign currency forward exchange contracts to offset the effects of this foreign currency transaction risk. These contracts are normally short term in duration. Unrealized and realized gains and losses are recognized in earnings. At September 30, 2009, we had 13 foreign currency forward contracts outstanding with a total notional amount of \$59.8 million and an unrealized gain of approximately \$0.2 million. All of these contracts matured by the end of October 2009.

*Concentration of 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 equivalent investments and its two interest rate swap contracts are with investment grade commercial banks that are participants in the Company's 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 "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.

**Table of Contents**

Management conducted an evaluation, as of September 30, 2009, 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 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 our 2008 Annual Report on Form 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 \$250.0 million authorized stock repurchase program, of which \$78.6 million remained available as of September 30, 2009. The following table provides detail related to repurchases of our common stock for treasury in the nine months ended September 30, 2009 under this program:

| Period      | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>Per<br>Share | Approximate<br>Dollar Value of<br>Shares that<br>may<br>yet be<br>Purchased<br>Under our<br>Share |
|-------------|----------------------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------------|
|             |                                              |                                          | Repurchase<br>Program<br>(in thousands)                                                           |
| <b>2009</b> |                                              |                                          |                                                                                                   |
| January     | 753                                          | \$ 15.32                                 |                                                                                                   |
| February    | 184,247                                      | 11.51                                    |                                                                                                   |
| March       | 1,694                                        | 10.23                                    |                                                                                                   |
| Total       | 186,694                                      | \$ 11.51                                 |                                                                                                   |
| April       | 196                                          | \$ 13.51                                 |                                                                                                   |
| May         | 113,750                                      | 13.21                                    |                                                                                                   |
| June        | 311                                          | 15.05                                    |                                                                                                   |

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|           |         |    |       |           |
|-----------|---------|----|-------|-----------|
| Total     | 114,257 | \$ | 13.21 |           |
| July      | 1,265   | \$ | 15.84 |           |
| August    | 2,322   |    | 16.38 |           |
| September | 944     |    | 17.40 |           |
| Total     | 4,531   | \$ | 16.44 | \$ 78,647 |

**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.                                      |

31

**Table of Contents**

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 October 30, 2009

/s/ Christopher J. Lafond  
Christopher J. Lafond  
Executive Vice President and Chief  
Financial Officer (Principal Financial and  
Accounting Officer)

32