GARTNER INC
Form 10-Q
October 30, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

Commission File Number 1-14443

Gartner, Inc.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-3099750 (I.R.S. Employer Identification Number)
P.O. Box 10212 56 Top Gallant Road Stamford, CT (Address of principal executive offices)	06902-7700 (Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o

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

As of October 26, 2007, 104,346,952 shares of the registrant s common shares were outstanding.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

GARTNER, INC.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 117,708	$ 67,801
Fees receivable, net	314,844	328,383
Deferred commissions	38,697	46,822
Prepaid expenses and other current assets	59,569	41,027
Total current assets	530,818	484,033
Property, equipment and leasehold improvements, net	67,094	59,715
Goodwill	414,838	408,545
Intangible assets, net	4,111	5,978
Other assets	89,221	81,522
Total Assets	$ 1,106,082	$ 1,039,793
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 179,328	$ 208,002
Deferred revenues	402,080	375,881
Current portion of long-term debt	205,000	220,000
Total current liabilities	786,408	803,883
Long-term debt	162,000	150,000
Other liabilities	86,424	59,592
Total Liabilities	1,034,832	1,013,475
Stockholders Equity		
Preferred stock		
Common stock	78	78
Additional paid-in capital	541,689	544,686
Unearned compensation, net	(511)	(2,208)
Accumulated other comprehensive income, net	20,706	13,097
Accumulated earnings	283,739	249,004
Treasury stock, at cost	(774,451)	(778,339)
Total Stockholders Equity	71,250	26,318
Total Liabilities and Stockholders Equity	$ 1,106,082	$ 1,039,793

See the accompanying notes to the condensed consolidated financial statements.

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GARTNER, INC.

Condensed Consolidated Statements of Operations

(Unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Research	$ 170,218	$ 144,126	$ 492,771	$ 419,539
Consulting	73,838	69,502	233,660	229,058
Events	26,713	24,111	106,645	97,205
Other	2,350	3,621	7,731	10,580
Total revenues	273,119	241,360	840,807	756,382
Costs and expenses:				
Cost of services and product development	127,211	116,259	395,135	358,891
Selling, general and administrative	115,564	99,814	351,833	305,982
Depreciation	6,255	5,840	18,002	17,598
Amortization of intangibles	509	3,484	1,634	10,283
META integration charges				1,450
Other charges			9,084	
Total costs and expenses	249,539	225,397	775,688	694,204
Operating income	23,580	15,963	65,119	62,178
Interest expense, net	(5,223)	(3,848)	(16,884)	(12,690)
Other income (expense), net	303	(541)	2,079	(1,062)
Income before income taxes	18,660	11,574	50,314	48,426
Provision for income taxes	6,166	1,966	15,580	12,804
Net income	$ 12,494	$ 9,608	$ 34,734	$ 35,622
Income per common share:				
Basic	$ 0.12	$ 0.08	$ 0.33	$ 0.31
Diluted	$ 0.11	$ 0.08	$ 0.32	$ 0.31
Weighted average shares outstanding:				
Basic	104,728	113,523	104,169	113,602
Diluted	109,197	116,255	109,034	116,009

See the accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2007	2006
Operating activities:		
Net income:	$ 34,734	$ 35,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	19,636	27,881
Stock-based compensation expense	19,224	11,740
Excess tax benefits from stock-based compensation	(15,059)	(5,720)
Deferred taxes	(3,591)	(3,839)
Amortization and writeoff of debt issue costs	1,156	606
Changes in assets and liabilities:		
Fees receivable, net	23,636	36,519
Deferred commissions	9,148	12,460
Prepaid expenses and other current assets	(17,212)	(8,064)
Other assets	(5,111)	41
Deferred revenues	14,101	21,717
Accounts payable and accrued liabilities	1,833	(54,241)
Cash provided by operating activities	82,495	74,722
Investing activities:		
Additions to property, equipment and leasehold improvements	(18,585)	(13,152)
Other investing activities, net	12	(304)
Cash used in investing activities	(18,573)	(13,456)
Financing activities:		
Proceeds from interest rate swap termination	1,167	
Proceeds from stock issued for stock plans	32,111	33,012
Proceeds from debt issuance	445,000	
Payments for debt issuance costs	(1,257)	
Payments on debt	(448,000)	(26,666)
Purchases of treasury stock	(65,725)	(53,510)
Excess tax benefits from stock-based compensation	15,059	5,720
Cash used in financing activities	(21,645)	(41,444)
Net increase in cash and cash equivalents	42,277	19,822
Effects of exchange rates on cash and cash equivalents	7,630	2,809
Cash and cash equivalents, beginning of period	67,801	70,282
Cash and cash equivalents, end of period	$ 117,708	$ 92,913

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Basis of Presentation

These interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Gartner, Inc. (Gartner or the Company) filed in its Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management s knowledge and judgments. 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 have been included. The results of operations for the three and nine months ended September 30, 2007, may not be indicative of the results of operations for the remainder of the fiscal year. Certain prior year amounts have been reclassified to conform to the current year presentation. Sales tax collected from customers remitted to governmental authorities is presented on a net basis in the Condensed Consolidated Statements of Operations.

Note 2 Comprehensive Income

The components of comprehensive income, net of tax effect, for the three and nine months ended September 30, 2007 and 2006 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	$ 12,494	$ 9,608	$ 34,734	$ 35,622
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	4,723	2,217	8,371	5,424
Unrealized (loss) gain on interest rate swap	(2,018)	(1,449)	(1,634)	668
Realized gain on interest rate swap (a)	(130)		775	
Amortization of pension unrealized loss	33		97	
Other comprehensive income	2,608	768	7,609	6,092
Comprehensive income	$ 15,102	$ 10,376	$ 42,343	$ 41,714

(a) The nine months ended September 30, 2007 is net of approximately $0.4 million reclassified to earnings.

Note 3 Computations of Income per Share of Common Stock

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

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2007	2006	2007	2006
Numerator:				
Net income used for calculating basic and diluted income per share	$ 12,494	$ 9,608	$ 34,734	$ 35,622
Denominator:				
Weighted average number of common shares used in the calculation of basic income per share	104,728	113,523	104,169	113,602
Common stock equivalents associated with stock-based compensation plans	4,469	2,732	4,865	2,407

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Shares used in the calculation of diluted income per share	109,197	116,255	109,034	116,009
Basic income per share	$ 0.12	$ 0.08	$ 0.33	$ 0.31
Diluted income per share	$ 0.11	$ 0.08	$ 0.32	$ 0.31

For the three months ended September 30, 2007 and 2006, 0.7 million and 2.2 million share equivalents, respectively, were not included in the computation of diluted income per share because the effect would have been anti-dilutive.
For the nine months ended September 30, 2007 and 2006, 0.5 million and 1.9 million share equivalents, respectively, were not included in the computation of diluted income per share because the effect would have been anti-dilutive.

Note 4 Stock-Based Compensation

The Company grants stock-based compensation awards as an incentive for employees and directors to contribute to the Company s long-term success. The Company s awards include stock options, stock-settled stock appreciation rights, restricted stock, service- and performance-based restricted stock units, and common stock equivalents.

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards 123(R), Share-Based Payment (SFAS No. 123(R)), as interpreted by SEC Staff Accounting Bulletin No. 107 (SAB No. 107). Under SFAS No. 123(R), 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. All of the Company s stock-based compensation awards are classified as equity awards in accordance with SFAS No. 123(R). The Company recognized the following amounts of stock-based compensation expense under SFAS No. 123(R) in the Condensed Consolidated Statement of Operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Amount recorded in:	2007	2006	2007	2006
Costs of services and product development expense	$ 2,400	$ 2,100	$ 8,500	$ 6,100
Selling, general, and administrative expense	3,400	2,600	10,700	5,600
Total stock-based compensation expense	$ 5,800	$ 4,700	$ 19,200	$ 11,700

As of September 30, 2007, the Company had $46.4 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 2.4 years. For the nine months ended September 30, 2007, excess tax benefits realized from the exercise of stock-based compensation awards was $15.1 million, compared to $5.7 million in the same period of the prior year. Currently, the Company issues treasury shares upon the exercise or settlement of stock-based compensation awards.

Stock Options and Stock Appreciation Rights

A summary of the changes in stock options outstanding during the nine months ended September 30, 2007 follows:

Weighted
Average

	Options in millions	Weighted Average Exercise Price	Remaining Contractual Term
Outstanding at December 31, 2006	12.8	$ 11.10	5.17 years
Granted			
Forfeited or expired	(0.1)	11.29	nm
Exercised (1)	(2.7)	11.37	nm
Outstanding at September 30, 2007 (2)	10.0	$ 11.02	4.60 years
Vested and exercisable at September 30, 2007 (2)	8.7	$ 11.03	4.52 years

nm=not meaningful

(1) The Company received approximately $30.7 million in cash from stock option exercises in the first nine months of 2007. Options exercised during the first nine months of 2007 had an intrinsic value of approximately $35.4 million.

(2) At September 30, 2007, options outstanding and options vested and exercisable had aggregate intrinsic values of $134.5 million and $116.2 million, respectively.

A summary of the changes in stock-settled stock appreciation rights (SARs) outstanding during the nine months ended September 30, 2007 follows:

	SARs in millions	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2006	1.2	$ 14.48	$6.02	6.38 years
Granted (1)	0.6	21.93	8.00	6.99 years
Forfeited or expired				
Exercised				
SARs outstanding at September 30, 2007 (2)	1.8	$ 17.07	$6.71	5.89 years
Vested and exercisable at September 30, 2007	0.3	$ 14.48	$6.01	5.63 years

(1) SARs generally vest ratably over a four-year service period and expire in seven years.

(2) At September 30, 2007, SARs outstanding had an aggregate intrinsic value of $13.3 million, and SARs vested and exercisable had an intrinsic value of $2.9 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (5)	2006	2007	2006
Expected dividend yield (1)		0%	0%	0%
Expected stock price volatility (2)		39%	33%	40%
Risk-free interest rate (3)		4.8 %	4.7 %	4.7 %
Expected life in years (4)		4.75	4.70	4.81

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

(2) Expected stock price volatility was based on both historical Gartner common stock prices and implied volatility from publicly traded options in Gartner common stock.

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

(4) The expected life in years was based on the simplified calculation provided for in SAB 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.

(5) There were no grants during this period.

Restricted Stock, Restricted Stock Units, and Common Stock Equivalents

The fair value of restricted stock, restricted stock units (RSUs), and common stock equivalents (CSEs) is determined on the date of grant based on the market price of the Company s common stock. The fair value of these awards is recognized as compensation expense as follows: (i) restricted stock awards generally vest based on the achievement of

a market condition and are expensed on a straight-line basis over 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 as required by SFAS No. 123(R); and (iv) CSEs vest immediately and are recorded as expense on the date of grant.

A summary of the changes in restricted stock, restricted stock units, and common stock equivalents during the nine months ended September 30, 2007, is presented in the table below:

	Restricted Stock	Weighted-Average Grant Date Fair Value	Restricted Stock Units (RSUs)	Weighted-Average Grant Date Fair Value	Common Stock Equivalents (CSEs)	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2006	511,000	$8.81	1,521,620	$14.13		$
Awarded (1), (2)			1,063,578	22.14	13,511	24.79
Vested or settled (2), (3)	(311,000)	9.67	(405,040)	14.16	(13,511)	24.79
Forfeited			(54,120)	20.49		
Nonvested at September 30, 2007 (3), (4)	200,000	$7.30	2,126,038	$18.07		$

(1) The 1,063,578 RSUs included 516,243 performance-based RSUs awarded to executives and 547,335 service-based RSUs awarded to executives and non-executive staff. The performance-based RSUs vest subject to a performance condition tied to an annual increase in the Company s subscription-based contract value for 2007. With respect to the performance condition, the 516,243 performance-based RSUs granted represent the target amount, and the number of RSUs that will ultimately vest will be between 0% and 200% of the target amount depending on which performance level is achieved. If the specified minimum performance condition is not met, the performance-based RSUs expire immediately, and any compensation expense already recorded will be reversed.
(2) Director fees paid to directors in CSEs vest immediately and are convertible into common shares when the director leaves the Board of Directors.
(3) In the second quarter of 2007, 300,000 shares of the restricted stock vested based on the achievement of a specified market condition and 11,000 shares vested based on the achievement of the specified service condition. Vesting on the remaining 200,000 shares of restricted stock is subject to the achievement of a specified market condition, as follows: (i) 100,000 shares vest when the Company s common stock trades at an average price of $25 or more for sixty consecutive trading days; and (ii) 100,000 shares vest when the Company s common stock trades at an average price of $30 or more for sixty consecutive trading days.
(4) The weighted-average remaining contractual term of the RSUs is 1.73 years. The restricted stock has no defined contractual term.

Note 5 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.

The Company evaluates reportable segment performance and allocates resources based on gross contribution margin. Gross contribution is defined as operating income excluding certain Cost of services and product development and selling, general and administrative expenses, depreciation, META integration charges, amortization of intangibles, and Other charges. Certain costs included in consolidated Cost of services and product development are not allocated to segment expense, primarily web maintenance and customer relationship database costs, and certain bonus and fringe charges. 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.

The following tables present information about the Company s reportable segments (in thousands). The Other column includes certain revenues and other expenses unallocated to reportable segments, expenses allocated to operations that do not meet the segment reporting quantitative threshold, and other charges. There are no inter-segment revenues:

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	Research	Consulting	Events	Other	Consolidated
Three Months Ended September 30, 2007:					
Revenues	$ 170,218	$ 73,838	$ 26,713	$ 2,350	$ 273,119
Gross Contribution	110,796	27,819	9,494	1,808	149,917
Corporate and other expenses					(126,337)
Operating income					$ 23,580
Three Months Ended September 30, 2006:					
Revenues	$ 144,126	$ 69,502	$ 24,111	$ 3,621	$ 241,360
Gross Contribution	89,835	25,636	9,442	2,911	127,824
Corporate and other expenses					(111,861)
Operating income					$ 15,963
Nine months Ended September 30, 2007:					
Revenues	$ 492,771	$ 233,660	$ 106,645	$ 7,731	$ 840,807
Gross Contribution	312,672	90,164	46,278	5,864	454,978
Corporate and other expenses					(389,859)
Operating income					$ 65,119
Nine Months Ended September 30, 2006:					
Revenues	$ 419,539	$ 229,058	$ 97,205	$ 10,580	$ 756,382
Gross Contribution	258,235	96,502	42,460	8,586	405,783
Corporate and other expenses					(343,605)
Operating income					$ 62,178

Note 6 Goodwill and Intangible Assets

The changes in the carrying amount of goodwill, by reporting segment, for the nine months ended September 30, 2007 are as follows:

	Balance December 31, 2006	Currency Translation Adjustments	Adjustments (1)	Balance September 30, 2007
Research	$ 282,467	$ 5,693	$ (282)	$ 287,878
Consulting	87,666	798	(38)	88,426
Events	36,330	132	(10)	36,452

Other	2,082			2,082
Total goodwill	$ 408,545	$ 6,623	$ (330)	$ 414,838

(1) The Company reduced goodwill by approximately $0.3 million due to adjustment of certain lease obligations from the META acquisition (see Note 7 Other Charges and EITF 95-3 Liabilities).

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

September 30, 2007	Customer Relationships	Other	Total
Gross cost	$ 7,700	$ 984	$ 8,684
Accumulated amortization	(3,850)	(723)	(4,573)
Net	$ 3,850	$ 261	$ 4,111

December 31, 2006	Customer Relationships	Other	Total
Gross cost	$ 7,700	$ 1,265	$ 8,965
Accumulated amortization	(2,695)	(292)	(2,987)
Net	$ 5,005	$ 973	$ 5,978

The Other category includes noncompete agreements and trademarks. Amortization expense for intangibles was $0.5 million and $3.5 million for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, amortization expense for intangibles was $1.6 million and $10.3 million, respectively.

The estimated future amortization expense on purchased intangibles is as follows (in thousands):

2007 (remaining three months)	$ 478
2008	1,612
2009	1,603
2010	418
	$ 4,111

Note 7 Other Charges and EITF 95-3 Liabilities

Other Charges

The Company did not record any Other charges in the three months ended September 30, 2007.

For the nine months ended September 30, 2007, the Company recorded Other charges of approximately $9.1 million, which included charges of $8.7 million related to a litigation settlement and $2.7 million related to a restructuring. Offsetting these charges was a credit of $2.3 million related to an excess facility.

The $8.7 million charge relates to a settlement agreement the Company entered into with Expert Choice, Inc. and the Company s insurance carriers to settle all claims, causes of action and disputes arising out of the litigation entitled Expert Choice, Inc. v. Gartner, Inc., U.S. District Court, District of Connecticut, Civil Docket 3:03cv02234. The settlement agreement provided for full and complete mutual releases among the parties, dismissal of the litigation and resolved all disputes between the parties. The total amount of the settlement was $21.5 million, of which $9.5 million was paid by the Company, and an aggregate of $12.0 million was paid by the Company s insurers. The Company had previously accrued $1.0 million toward the settlement of this claim.

The Company also recorded a restructuring charge of $2.7 million for termination costs related to the Company s decision to exit from consulting operations in Asia, which resulted in a reduction of 31 consultants. In addition, the Company also recorded a credit of approximately $2.3 million to reduce an accrual related to an excess facility, which was returned to service. The Company had recorded the original accrual for this excess facility in 2002.

The Company did not record any Other charges in 2006.

The following table summarizes the activity related to the liability for restructuring programs recorded as Other charges in the Condensed Consolidated Statements of Operations (in thousands):

	Workforce Reduction Costs	Excess Facilities Costs	Asset Impairments And Other	Total
Accrued liability at December 31, 2005	$ 3,591	$ 20,595	$ 587	$ 24,773
Currency translation and reclassifications	(118)	353	(104)	131
Payments	(2,638)	(4,583)	(138)	(7,359)
Accrued liability at September 30, 2006	835	16,365	345	17,545
Currency translation and reclassifications	5	(69)	(16)	(80)
Payments during the remainder of 2006	(159)	(1,266)	(329)	(1,754)
Accrued liability at December 31, 2006	681	15,030		15,711
Charges during 2007 (a)	2,682		8,681	11,363
Adjustment for excess facility		(2,280)		(2,280)
Currency translation and reclassifications	(68)	173		105
Payments	(2,862)	(4,034)	(8,681)	(15,577)
Accrued liability at September 30, 2007	$ 433	$ 8,889	$	$ 9,322

(a) The $8.7 million charge was recorded in the second quarter of 2007 and includes $8.5 million for the settlement of the Expert Choice claim and approximately $0.2 million of related legal expenses. The Company had also recorded an accrual of $1.0 million related to the Expert Choice claim in 2003 which was recorded in Selling, general and administrative expense in the

Condensed
Consolidated
Statements of
Operations. The
Company paid
$9.5 million in
settlement of the
Expert Choice
claim in
August 2007

The Company expects that the remaining workforce reduction costs will be paid during 2007, while costs for excess facilities will be paid as the leases expire, through 2011. The Company intends to fund these payments from existing cash.

EITF 95-3 Liabilities

The Company has certain liabilities recorded under Emerging Issues Task Force Issue 95-3, Recognition of Liabilities in Connection with a Purchase Combination (EITF 95-3) related to the Company s purchase of META in 2005. The following table provides the activity under EITF 95-3 for the nine months ended September 30, 2007 (in thousands):

	Balance December 31, 2006	Adjustments (1)	Payments (2)	Balance September 30, 2007
Lease obligations	$3,211	$ (330)	$(2,881)	$
Costs to exit activities	255		(35)	220
Tax contingencies	503			503
	$3,969	$ (330)	$(2,916)	$ 723

(1) During the second quarter of 2007, the Company reduced a lease obligation by $0.2 million due to revised subleasing assumptions, and in the third quarter of 2007 reduced the liability by $0.1 million due to the settlement of a lease obligation. The offset of $0.3 million was a reduction of goodwill recorded on the META acquisition (see Note 6 Goodwill and Intangible Assets).

(2) Includes $1.0 million, $0.7 million, and $1.2 million paid in the first, second, and third quarters of 2007, respectively.

The Company expects the remaining exit costs to be paid in 2007. The Company is uncertain at this time regarding the timing of payment of the remaining tax contingencies.

Note 8 Debt

On January 31, 2007, the Company refinanced its existing borrowing arrangements by entering into a five-year, $180.0 million term loan and a $300.0 million revolving credit facility which may be increased, at Gartner s option, by up to an additional $100.0 million, for a total revolving credit facility of $400.0 million (the Credit Agreement). The term loan will be repaid in 18 consecutive quarterly installments commencing September 30, 2007, plus a final payment due on January 31, 2012, and may be prepaid at any time without penalty or premium at the option of Gartner. The revolving credit facility may be used for loans, and up to $15.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and reborrowed until January 31, 2012, at which time all amounts borrowed must be repaid. Borrowings under the Credit Agreement may be either prime-based or Libor-based. Interest rates under these borrowings include a base rate plus a margin between 0.00% and 0.25% on prime borrowings and between .625% and 1.25% on Libor borrowings. Generally, the Company s borrowings are Libor-based.

The Company incurred approximately $1.3 million of debt issuance costs related to the refinancing, which is being amortized to interest expense over the term of the new debt. In addition, the Company also expensed approximately $0.3 million in the first quarter of 2007 of previously capitalized debt issuance costs.

Also on January 31, 2007, and in conjunction with the refinancing, the Company drew down $190.0 million from the revolving facility and $180.0 million from the term loan facility under the new Credit Agreement and repaid $370.0 million outstanding under its prior borrowing arrangement, which was terminated. In conjunction with the refinancing, the Company also terminated its existing interest rate swap contract which resulted in a realized gain of approximately $1.2 million. In accordance with the requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), the gain was recorded in other comprehensive income and will be amortized to interest expense.

The Company repaid $3.0 million of the term loan in the third quarter of 2007. The Company had $190.0 million outstanding on the revolver and $177.0 million outstanding on the term loan on September 30, 2007. The annualized interest rate on this debt was 6.06% on September 30, 2007, which consisted of a base rate of 5.19% plus a margin of 0.87%. The Company had approximately $107.0 million of remaining borrowing capacity under the existing $300.0 million revolving credit facility as of the end of the third quarter of 2007.

In conjunction with the refinancing, the Company entered into an interest rate swap agreement that hedges the base interest rate risk on the term loan. The swap effectively converts the floating base rate on the term loan to a fixed rate. Under the swap terms, the Company pays a 5.06% fixed rate and in return receives a three-month floating LIBOR rate. The three-month LIBOR rate on the swap matches the base rate paid on the term loan since both use three-month LIBOR. The swap had an initial notional value of $180.0 million which declines as payments are made on the term loan so that the amount outstanding under the term loan and the notional amount of the swap will always be equal. The swap had a notional amount of $177.0 million at September 30, 2007, which was the same as the outstanding amount of the term loan. Including the impact of the interest rate swap, the annualized effective interest rate on the term loan was 5.06% as of September 30, 2007.

The Company accounts for the swap as a cash flow hedge in accordance with SFAS No. 133 which requires all derivatives, whether designated as hedges or not, to be recorded on the balance sheet at fair value. Since the swap qualifies as a cash flow hedge under SFAS No. 133, changes in the fair value of the swap will be recorded in other comprehensive income as long as the swap continues to effectively hedge the base interest rate risk on the term loan. Any ineffective portion of changes in the fair value of the hedge will be recorded in earnings. At September 30, 2007, there was no ineffective portion of the hedge as defined under SFAS No. 133. The interest rate swap had a negative fair value of approximately $1.9 million at September 30, 2007, which is recorded in other comprehensive income.

Note 9 Equity and Stock Programs

In February 2007, the Company s Board of Directors authorized a new program to repurchase up to $200.0 million of Gartner common stock. The program replaced the $100.0 million share repurchase program approved in October 2005. Repurchases will be made from time-to-time through open market purchases or in privately negotiated transactions. Repurchases 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 will be funded from cash flow from operations and possible borrowings under the Company s credit arrangement. The Company repurchased 2,903,672 shares of its common stock in the first nine months of 2007 under the new program at a cost of approximately $65.7 million.

During the first nine months of 2006, the Company repurchased 3,631,950 shares of its common stock under its prior repurchase program at a cost of approximately $53.5 million, which includes 1,000,000 shares repurchased directly from Silver Lake.

Note 10 Income Taxes

The provision for income taxes was $6.2 million for the third quarter of 2007 as compared to $2.0 million for the third quarter of 2006. The effective tax rate for the third quarter of 2007 was 33.1% as compared to 17.0% for the third quarter of 2006. The increase in the effective tax rate is primarily due to differences in the estimated mix of pre-tax income by jurisdiction and the impact of certain discrete items that occurred in the third quarter of 2006, to include the writeoff of shares of a foreign subsidiary.

In addition to the discrete items noted above, the Company also recorded a charge of $8.6 million in the second quarter of 2007 related to a settlement agreement the Company entered into with Expert Choice, Inc (See Note 7 Other Charges and EITF 95-3 Liabilities). This item did not have a material impact on the effective tax rate.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109, Accounting for Income Taxes, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded
disclosure with respect to the uncertainty in income taxes. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption.

The Company adopted FIN 48 on January 1, 2007. As a result of the implementation the Company decreased its reserves for uncertain tax positions by approximately $1.4 million and decreased its deferred tax assets by approximately $1.4 million. Because the amounts were offsetting, there was no adjustment to the beginning balance of retained earnings on the balance sheet. As of the adoption date of January 1, 2007, the Company had gross unrecognized tax benefits of $25.1 million. Of this amount, $20.0 million would favorably affect the effective income tax rate if recognized in future periods. It is reasonably possible that $5.5 million of unrecognized tax benefits will reverse within the next 12 months.

FIN 48 also requires companies to reclassify uncertain tax positions not expected to be settled within one year to long term liabilities. Therefore, upon adoption, Accounts Payable and Accrued Liabilities decreased by approximately $19.6 million and Other Liabilities increased by approximately $19.6 million.

Upon adoption of FIN 48, we have elected an accounting policy to classify accrued interest and penalties related to unrecognized tax benefits in our income tax provision. Previously, our policy was to classify interest and penalties as an operating expense in arriving at pretax income. The Company has $0.1 million of accrued interest and penalties recorded as of January 1, 2007 related to the unrecognized tax benefits.

There have been no significant changes to the above amounts in the nine months ended September 30, 2007.

The number of years with open tax audits varies depending on the tax jurisdiction. Generally, our statutes are open for tax years ended September 30, 1999 and forward. Our major taxing jurisdictions include the U.S. (federal and state), the United Kingdom, Italy, Denmark, and Canada.

The Company received Examination Reports from the Internal Revenue Service (IRS) in October 2005 and October 2006 in connection with audits of the Company s federal income tax returns for the tax years ended September 30, 1999 through December 31, 2004. The IRS proposed adjustments relating primarily to the valuation of intangible assets licensed by Gartner to a foreign subsidiary and the calculation of payments made pursuant to a cost sharing arrangement between Gartner and
a foreign subsidiary. Gartner appealed the initial findings and has reached a settlement on the issues with the IRS Appeals Office. With respect to the audits, the Company had recorded provisions in prior periods based on estimates of the amount for which the claim would be settled. Based on the outcome of our negotiations, we released reserves and recorded a benefit of $1.5 million in 2006. The Company has considered the impact of the adoption of FIN 48 on the settlement of the IRS examination and there is no material impact on the consolidated financial statements.

Note 11 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 Statement of Financial Accounting Standards No. 87, Employers Accounting for Pensions , as amended (SFAS No. 87). None of these plans have plan assets as defined under SFAS No. 87.

Net periodic pension expense was $0.6 million for both the third quarters of 2007 and 2006, and $2.0 million and $2.1 million for the first nine months of 2007 and 2006, respectively.

Note 12 Claim Settlement

For the nine months ended September 30, 2007, the Company received cash proceeds of $1.8 million related to the settlement of a claim. The $1.8 million was recorded as a gain in Other expense, net in the Condensed Consolidated Statements of Operations.

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Note 13 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, 2007, we did not have any indemnification agreements that would require material payments.

ITEM 2. MANAGEMENT S DISCUSSION 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 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, 2006. 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.

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, anticipa estimates, predicts, potential, continue, or other words of similar meaning. Forward-looking statements are subject 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, 2006. 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.

OVERVIEW

Gartner, Inc. is a leading research and advisory firm 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 approximately 10,000 client organizations, including approximately 400 Fortune 500 companies, across 75 countries. Our client base consists primarily of CIOs and other senior IT and business executives from a wide variety of enterprises, government agencies and the investment community.

We employ a diversified business model that utilizes and leverages the breadth and depth of our research intellectual capital while enabling us to maintain and grow our market-leading position and brand franchise. The foundation for our business model is our ability to create and distribute our unique, proprietary research content as broadly as possible via:

- published reports and briefings,
- consulting and advisory services, and

In early 2005, we undertook an initiative to better utilize the intellectual capital associated with our core research product. Our diversified business model provides multiple entry points and synergies that facilitate increased client spending on our research, consulting and events. A critical part of our long-term strategy is to increase business volume with our most valuable clients, identifying relationships with the greatest sales potential and expanding those relationships by offering strategically relevant research and analysis. We also seek to extend the Gartner brand name to develop new client relationships, and augment our sales capacity and expand into new markets around the world. In addition, we seek to increase our revenue and operating cash flow through more effective pricing of our products and services. These initiatives have created additional revenue streams through more effective packaging, campaigning and cross-selling of our products and services.

We intend to maintain a balance between (1) pursuing opportunities and applying resources with a strict focus on growing our three core businesses and (2) generating profitability through a streamlined cost structure.
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.

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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. 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

We had net income of $12.5 million in the third quarter of 2007, or $0.11 per diluted share, compared to $0.08 per diluted share for the prior year period. For the first nine months of 2007, diluted per share earnings was up $0.01, to $0.32 per diluted share from $0.31 per diluted share in the prior year. The $0.32 per diluted share for the first nine months of 2007 includes a net charge of $(0.04) we recorded in the second quarter of 2007 for certain non-operating and other items. We generated $82.5 million of operating cash flow in the first nine months of 2007, up 10% over the $74.7 for the prior year period, and we ended the quarter with $117.7 million in cash. We continue to buyback our common shares under our $200.0 million repurchase program, and we have repurchased approximately 2.9 million shares in 2007.

In our Research business we continue to focus on executing our strategy of investing in our sales capability, introduce innovative offerings, and improving client service and retention. Our sales force of 798 associates is up approximately

20% over the prior year end, and we have added 135 net sales associates this year through September 30. The Research segment continues to benefit strongly from this continued investment in our sales force, with both revenue and contract value up. Revenue was up 18% in the third quarter of 2007 over the prior year quarter, to $170.2 million. On a year-over-year basis revenue was up 17%, with growth occurring across our entire research portfolio.
Research contract value was $704.7 million at September 30, 2007, up 18% from September 30, 2006, and was up 14% excluding the impact of foreign currency. The $704.7 million of contract value represents a new record level for Gartner and is the first time we have hit the $700.0 million mark, reflecting the successful execution of our strategy to accelerate the growth of

our research business by productively growing our sales force. Both our research client retention rate and wallet retention rate remained strong at 82% and 102%, respectively, and this is the third consecutive quarter with wallet retention over 100%.

In our Consulting business we continue to focus on improving profitability by targeting the most profitable accounts and geographies. Revenue from our Consulting segment was $73.8 million in the third quarter of 2007, compared to $69.5 million in the prior year quarter. Consulting backlog at September 30, 2007 was $108.6 million, which is up slightly from September 30, 2006. The consultant utilization rate increased 3 points, to 64% in the current quarter from 61% in the third quarter of 2006, reflecting improved engagement management and reduced headcount. While the average hourly billing rate was flat, the average annualized revenue per billable headcount was up from the prior year. Billable headcount was 469 at September 30, 2007, which is down about 9% year-over-year, primarily due to the exit from our Asian consulting operations in the second quarter of 2007.

Our Events business strategy is to continue to focus on managing the Events portfolio by retaining successful events and introducing promising new events that will yield greater profitability. Although growth in our Events business was slower than our expectations, both quarterly and year-over-year revenues were up by double-digits. Events revenue for the third quarter of 2007 was up 11%, with 22 events held in the quarter as compared to 17 in the prior year quarter. We held 61 events in the first nine months of 2007 compared to 56 in the prior year, and our year-over-year events revenue was up 10%, while attendance was up 11%.

CRITICAL ACCOUNTING 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 (SAB) No. 101, Revenue Recognition in Financial Statements, and SAB No. 104, Revenue Recognition. 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;

- Consulting revenues are 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;

- Events revenues are deferred and recognized upon the completion of the related symposium, conference or exhibition;

- Other revenues consist primarily of fees from research reprints and software licensing. Reprint fees are recognized when the reprint is shipped. Fees from software licensing are recognized when a signed non-cancelable software license exists, delivery has occurred, collection is probable, and the fees are fixed or determinable.

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 have a 30-day cancellation clause, but 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 $51.9 million and $47.9 million at September 30, 2007 and December 31, 2006, respectively. In addition, at September 30, 2007 and December 31, 2006, the Company had not recognized uncollected receivables or deferred revenues, relating to government contracts

that permit termination, of $13.0 million and $9.6 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. The measurement of likely and probable losses 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. Trade receivables at September 30, 2007 were $314.8 million, which is net of an allowance for losses of approximately $8.1 million. Trade receivables at December 31, 2006 were $328.4 million, net of an allowance for losses of approximately $8.7 million.

Impairment of goodwill and other intangible assets The evaluation of goodwill is performed in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. This standard requires ongoing annual assessments of goodwill impairment. The evaluation of other intangible assets is performed on a periodic basis. These assessments require management to estimate the fair value 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, to earnings in our financial statements. The amount of the impairment is based upon the implied fair value of the reporting unit compared to the carrying amount of goodwill. 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 carryovers, 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 would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged against income in the period such determination was made.

We operate in numerous foreign taxing jurisdictions and our level of operations and profitability in each jurisdiction could have an impact upon the amount of income taxes that we provide in any given year. In addition, our tax filings for various tax years are subject to audit by the tax authorities in jurisdictions where we conduct business. These audits may result in assessments of additional taxes. We have provided for the amounts we believe will ultimately result from these audits. However, resolution of these matters involves uncertainties and there are no assurances that the ultimate resolution will not exceed the amounts provided.

Accounting for stock-based compensation We account for awards of stock-based compensation in accordance with Statement of Financial Accounting Standards 123(R), Share-Based Payment (SFAS No. 123(R)), as interpreted by SEC Staff Accounting Bulletin No. 107 (SAB No. 107). In accordance with SFAS No. 123(R), the Company recognizes stock-based compensation expense, which is based on the fair value of the award on the date of grant, over the related service period, net of estimated forfeitures (see Note 4 Stock-Based Compensation in the Notes to the Condensed Consolidated Financial Statements).

Determining the appropriate fair value model and calculating the fair value of stock 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 for some awards,

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.

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Contingencies and other loss reserves and accruals We may record accruals 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, reserve levels may need to be adjusted against earnings. 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 accruals 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 associated with these incentives are sometimes not known until after year-end.

RESULTS OF OPERATIONS

Overall Results

Total revenues increased 13% in the third quarter of 2007, to $273.1 million compared to $241.4 million for the third quarter of 2006, and increased $84.4 million, or 11%, when comparing the first nine months of 2007 to the first nine months of 2006, to $840.8 million from $756.4 million. Excluding the favorable effects of foreign currency translation, total revenues for the third quarter and year-to-date 2007 would have increased 10% and 9%, respectively. Please refer to the section of this MD&A entitled Segment Results for a further discussion of revenues by segment.

Cost of services and product development increased $10.9 million, or 9%, to $127.2 million in the third quarter of 2007 from $116.3 million in the third quarter of 2006, and increased $36.2 million, or 10%, when comparing the first nine months of 2007 with the first nine months of 2006, to $395.1 million from $358.9 million. Excluding the unfavorable effects of foreign currency translation, Cost of services and product development would have increased 7% for both the three and nine months ended September 30, 2007.

The 9% increase in the third quarter of 2007 compared to the prior year was primarily due to the impact of foreign exchange, which added $3.3 million of expense, about $5.1 million of merit salary, bonus, and benefit increases, and $2.4 million in higher events fulfillment costs. As a percentage of sales, Cost of services and product development declined 1 point, to 47% in the third quarter of 2007 from 48% in the same period in 2006.

Cost of services and product development increased 10%, or $36.2 million, for the first nine months of 2007 compared to the prior year. The increase was primarily due to the impact of foreign currency, which added about $10.7 million of expense, $14.3 million of merit salary, bonus, and benefit increases, $6.3 million of higher event fulfillment costs driven by higher events revenue, and additional stock-based compensation under SFAS No. 123(R) of about $2.2 million. For the nine months ended September 30, 2007 and 2006, Cost of services and product development as a percentage of sales was 47% for both periods.

Selling, general and administrative expenses (SG&A) increased $15.8 million, or 16%, to $115.6 million in the third quarter of 2007 from $99.8 million in the third quarter of 2006. SG&A expenses increased $45.9 million, or 15% to $351.8 million from $306.0 million when comparing the first nine months of 2007 to the first nine months of 2006. Excluding the unfavorable effects of foreign currency translation, SG&A expense would have increased by 13% and 12% for the quarter and year-over-year periods, respectively. The increase in SG&A expenses on a quarterly and year-to-date basis resulted primarily from increased investment in our sales organization, with expenses up approximately $10.0 and $26.0 million over the prior year periods, respectively. We now have 798 quota-bearing sales associates, a 20% increase over the prior year-end, with 135 net new sales associates added in the first nine months of 2007.

In addition to higher compensation costs related to the increased investment in our sales capacity, SG&A expense was also up on a quarter and year-to-date basis due to the impact of foreign exchange, which added $3.0 million and $8.7 million of expense, respectively. We also had increased recruiting and relocation expenses related to the increased sales headcount, as well as approximately $1.0 million of additional charges for stock-based compensation under SFAS No. 123(R) for both the three and nine months ended September 30, 2007, respectively.

Depreciation expense for the third quarter of 2007 increased to $6.3 million, compared to $5.8 million for the third quarter of 2006, and was $18.0 million and $17.6 million for the first nine months of 2007 and 2006, respectively, driven by additional capital expenditures. For the nine months ended September 30, 2007 and 2006, capital

expenditures were $18.6 million and $13.2 million, respectively. The Company anticipates that capital expenditures for the full year 2007 will be approximately $25.0 million, compared to $21.1 million and $22.4 million in 2006 and 2005, respectively.

Amortization of intangibles was $0.5 million in the third quarter of 2007 compared to $3.5 million in the prior year quarter. Amortization of intangibles during the first nine months of 2007 was $1.6 million compared to $10.3 million in the prior year period. Both of the decreases were due to certain intangibles becoming fully amortized.

Meta integration charges were zero in 2007. For the three and nine months ended September 30, 2006, these charges were zero and $1.5 million, respectively. These expenses related primarily to severance, and for consulting, accounting, and tax services.

Other charges in the three and nine months ending September 30, 2007 were zero and $9.1 million, respectively. The nine months ending September 30, 2007 includes charges of $8.7 million for the Expert Choice litigation settlement and $2.7 million of restructuring costs related to the Company s exit from consulting operations in Asia. Offsetting these charges was a credit of $2.3 million related to an excess facility which the Company returned to service.

Other charges were zero for the three and nine months ended September 30, 2006.

Interest expense, net was $5.2 million and $3.8 million for the three months ended September 30, 2007 and 2006, respectively, and $16.9 million and $12.7 million for the nine months ended September 30, 2007 and 2006, respectively.

The increase in our interest expense was primarily due to additional weighted-average debt outstanding in the three and nine months ended September 30, 2007, respectively, compared to the same periods in the prior year. The increased interest expense from additional debt was partially offset by a slight decline in rates and higher interest income. For the first nine months of 2007, we also had $0.5 million of additional interest expense related to the amortization and write-off of debt issuance costs from our debt refinancing in early 2007.

Other income (expense), net was $0.3 million and $(0.5) million for the third quarter of 2007 and 2006, respectively, and was $2.1 million and $(1.1) million for the nine months ending September 30, 2007 and 2006, respectively. The nine months ended September 30, 2007 includes a gain from the settlement of a claim for $1.8 million. The majority of the Other income (expense), net balances consist of net foreign currency exchange gains and losses.

Provision for income taxes was $6.2 million for the third quarter of 2007 as compared to $2.0 million for the third quarter of 2006. The effective tax rate for the third quarter of 2007 was 33.1% as compared to 17.0% for the third quarter of 2006. The increase in the effective tax rate is primarily due to differences in the estimated mix of pre-tax income by jurisdiction and the impact of certain discrete items that occurred in the third quarter of 2006, to include the writeoff of shares of a foreign subsidiary.

In addition to the discrete items noted above, the Company also recorded a charge of $8.6 million in the second quarter of 2007 related to a settlement agreement the Company entered into with Expert Choice, Inc. This item did not have a material impact on the effective tax rate.

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, and Selling, general and administrative expenses, depreciation, META integration charges, amortization of intangibles and Other charges. Gross contribution margin is defined as gross contribution as a percentage of revenues.

Research

Revenue in our Research business was up 18% in the third quarter of 2007, to $170.2 million, from $144.1 million in the third quarter of 2006. For the nine months ended September 30, 2007, Research revenues increased $73.2 million or 17%, to $492.8 million compared to $419.5 million for the same period of 2006. For both the third quarter and year-to-date periods of 2007, we had growth across our entire product portfolio and in all of our geographic regions. Excluding the favorable impact of foreign currency, revenue was up about 15% over both the prior year quarter and year-to-date periods, respectively.

Research gross contribution of $110.8 million for the third quarter of 2007 increased 23%, from $89.8 million for the third quarter of 2006, while gross contribution margin for the third quarter of 2007 increased 3 points, to 65% from 62% in the prior year period. For the nine months ended September 30, 2007, gross contribution increased to $312.7 million, from $258.2 million in the comparable prior year period, a 21% increase, while the contribution margin increased 1 point, to 63% from 62%. Both the quarter and year-over-year contribution margin improved primarily due to operating leverage from our stronger revenue performance.

At September 30, 2007, contract value was $704.7 million, up 18% from $597.8 million at September 30, 2006 and 10% from the $640.3 million at December 31, 2006. The year-over-year increase was driven by increases in both core research and

Executive Programs, and reflects the great success of our new product offerings. Adjusted for the favorable impact of foreign currency translation, contract value was up about 14% year-over-year. At September 30, 2007, our research client retention rate remained strong at 82%, and was up from 81% at September 30, 2006. Wallet retention was 102% at September 30, 2007, up from 93% at September 30, 2006. Our Executive Program membership was 3,635 at September 30, 2007, which is up about 4% compared to 3,487 members at September 30, 2006.

Consulting

Consulting revenues were $73.8 million and $69.5 million for the three months ended September 30, 2007 and 2006, respectively, an increase of $4.3 million or 6%. For the nine months ended September 30, 2007, consulting revenues were $233.7 million compared to $229.1 million for the same period in the prior year, an increase of 2%. Excluding the favorable impact of foreign currency translation, revenues were up 3% for the quarter but were down 1% year-over-year. The quarter-over-quarter improvement reflects better utilization and higher billing rates, while the year-over-year decline reflects lower SAS revenue and reduced billable headcount. Billable headcount was 469 at September 30, 2007, compared to 517 at September 30, 2006, a 9% decrease. The reduced billable headcount primarily reflects our decision to exit our consulting business in Asia.

Consulting gross contribution of $27.8 million for the third quarter of 2007 increased 9%, from $25.6 million for the third quarter of 2006, while contribution margin for the third quarter of 2007 increased to 38% from 37% in the prior year quarter. Gross contribution of $90.2 million for the first nine months of 2007 decreased 7%, from $96.5 million for the same period of 2006, while contribution margin decreased to 39% in 2007 from 42% in the prior year period. The decrease in gross contribution margin for year-to-date period was driven by lower SAS revenue performance and additional investment in senior level resources, while the quarterly improvement was due to improved utilization.

The consultant utilization rate was 64% and 61% for the three month periods ended September 30, 2007 and 2006, respectively, while the nine month rates were 68% and 65%. The billing rate remained above $350 per hour for both the third quarter of 2007 and first nine months of 2007. Our average annualized revenue per billable headcount was about $390,000 and $420,000 for the three and nine months ended September 30, 2007, approximately the same as the prior year periods. Consulting backlog, which represents future revenues to be recognized from in-process consulting, measurement and SAS, increased slightly, to $108.6 million at September 30, 2007, from $107.7 million at September 30, 2006.

Events

Events revenues for the third quarter of 2007 were up 11%, to $26.7 million from $24.1 million in the prior year quarter. We held 22 events in the third quarter of 2007 compared to 17 in the prior year period, a 29% increase. Excluding the favorable impact of foreign exchange, revenues were up about 8% over the prior year quarter, primarily driven by the introduction of new events. Attendance at events was 7,307 for the three month period ended September 30, 2007, compared to 6,578 in the comparable prior year period, an 11% increase.

For the nine months ended September 30, 2007, Events revenues increased 10%, or $9.4 million, to $106.6 million compared to $97.2 million for the same period of 2006. Adjusted for the impact of foreign exchange, revenues were up 7%. We held 61 events held in 2007 and 56 in 2006. The increased revenue was primarily due to the addition of new events in 2007 and an increase in both attendee volume and ticket prices, which was somewhat offset by continued softness in our Vision events. Attendance at events was 27,541 for the nine month period ended September 30, 2007, compared to 24,709 in the comparable prior year period, an 11% increase.

Gross contribution was $9.5 million, or 36% of revenues, for the third quarter of 2007, compared to $9.4 million, or 39% of revenues, for the third quarter of 2006. Gross contribution of $46.3 million for the first nine months of 2007 increased from $42.5 million compared to 2006, while gross contribution margin decreased by 1 point, to 43% from 44%. The quarter and year-to-date decreases in gross contribution margin were mainly due to lower margins on our new events and in our Vision events.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities totaled $82.5 million for the nine months ended September 30, 2007, compared to cash provided of $74.7 million for the nine months ended September 30, 2006, a $7.8 million increase. The increase in cash flow from operating activities was primarily due to an increase in cash from our core operations and improved management of our working capital, and to a lesser extent, lower cash payments for severance and other charges. The

cash flow from operations for

the nine months ended September 30, 2007, includes $9.5 million paid under a legal settlement that was entered into in the second quarter.

Cash used in investing activities was $18.6 million for the nine months ended September 30, 2007, compared to $13.5 million in the prior year period. The increase was due to a year-over-year increase in capital expenditures.

Cash used in financing activities totaled $21.6 million for the nine months ended September 30, 2007, compared to $41.4 million in the nine months ended September 30, 2006, a decrease of $19.8 million. The decrease was primarily due to an increase in excess tax benefits from stock compensation and less cash used for debt repayments.

Excess tax benefits from stock compensation increased approximately $9.4 million, to $15.1 million in the first nine months of 2007 compared to $5.7 million in the same period of 2006, reflecting our higher share price. On a net basis, we repaid $3.0 million of debt in the first nine months of 2007 compared to $26.7 million for the same period in 2006, a $23.7 million decrease.

We increased our use of cash to repurchase shares by $12.2 million, as we repurchased $65.7 million of our common stock in the first nine months of 2007 compared to $53.5 million in the prior year period. We received proceeds from stock issued for stock plans and our employee stock purchase plan of $32.1 million in the nine months ended September 30, 2007, compared to $33.0 million in 2006.

OBLIGATIONS AND COMMITMENTS

We have a Credit Agreement that provides for a five-year, $180.0 million term loan and a $300.0 million revolving credit facility, which may be increased, at Gartner s option, by up to an additional $100.0 million, for a total revolving credit facility of $400.0 million. The term loan will be repaid in 18 consecutive quarterly installments commencing September 30, 2007, plus a final payment due on January 31, 2012, and may be prepaid at any time without penalty or premium at the option of Gartner. The revolving credit facility may be used for loans, and up to $15.0 million may be used for letters of credit. The revolving loans may be borrowed, repaid and reborrowed until January 31, 2012, at which time all amounts borrowed must be repaid. We had a total of $367.0 million outstanding under this borrowing arrangement as of September 30, 2007.

Off-Balance Sheet Arrangements

Through September 30, 2007, 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 the execution of research contracts, the timing of Symposia and other events, as well as the extent of completion of consulting engagements, the amount of new business generated, the mix of domestic and international business, changes in market demand for our products and services, the timing of the development, introduction and marketing of new products and services, and competition in the industry. The potential fluctuations in our operating income could cause period-to-period comparisons of operating results not to be meaningful and could provide an unreliable indication of future operating results.

FACTORS THAT MAY AFFECT FUTURE PERFORMANCE