GARTNER INC
Form 10-Q
May 05, 2011

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 March 31, 2011

OR

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

Commission File Number 1-14443

GARTNER, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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 þ No o

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 þ   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o

(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 o No þ

As of April 29, 2011, 97,260,173 shares of the registrant s common shares were outstanding.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 109,003	$ 120,181
Fees receivable, net	345,035	364,818
Deferred commissions	69,981	71,955
Prepaid expenses and other current assets	92,221	64,148
Total current assets	616,240	621,102
Property, equipment and leasehold improvements, net	45,443	47,614
Goodwill	514,676	510,265
Intangible assets, net	11,059	13,584
Other assets	87,956	93,093
Total Assets	$ 1,275,374	$ 1,285,658
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 143,517	$ 247,733
Deferred revenues	558,034	523,263
Current portion of long-term debt	82,667	40,156
Total current liabilities	784,218	811,152
Long-term debt	172,500	180,000
Other liabilities	108,626	107,450
Total Liabilities	1,065,344	1,098,602
Stockholders Equity		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued or outstanding		
Common stock, $.0005 par value, 250,000,000 shares authorized; 156,234,415 shares issued for both periods	78	78
Additional paid-in capital	619,771	611,782
Accumulated other comprehensive income, net	16,288	14,638
Accumulated earnings	634,868	605,677
Treasury stock, at cost, 58,976,006 and 60,245,718 common shares, respectively	(1,060,975)	(1,045,119)
Total Stockholders Equity	210,030	187,056
Total Liabilities and Stockholders Equity	$ 1,275,374	$ 1,285,658

See the accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues:		
Research	$ 243,435	$ 210,673
Consulting	70,630	71,639
Events	15,502	13,521
Total revenues	329,567	295,833
Costs and expenses:		
Cost of services and product development	133,316	123,046
Selling, general and administrative	141,672	130,568
Depreciation	6,271	6,584
Amortization of intangibles	2,527	2,926
Acquisition and integration charges		3,511
Total costs and expenses	283,786	266,635
Operating income	45,781	29,198
Interest expense, net	(2,784)	(3,384)
Other (expense) income, net	(382)	1,752
Income before income taxes	42,615	27,566
Provision for income taxes	13,424	8,163
Net income	$ 29,191	$ 19,403
Income per common share:		
Basic	$ 0.30	$ 0.20
Diluted	$ 0.29	$ 0.19
Weighted average shares outstanding:		
Basic	96,442	95,693
Diluted	99,451	99,649

See the accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating activities:		
Net income	$ 29,191	$ 19,403
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization of intangibles	8,798	9,510
Stock-based compensation expense	9,162	9,159
Excess tax benefits from stock-based compensation	(20,613)	(5,188)
Deferred taxes	(10,986)	(873)
Amortization of debt issue costs	595	272
Changes in assets and liabilities:		
Fees receivable, net	25,744	8,799
Deferred commissions	3,065	5,866
Prepaid expenses and other current assets	(9,167)	(2,520)
Other assets	(1,344)	(6,442)
Deferred revenues	25,404	30,651
Accounts payable, accrued, and other liabilities	(84,512)	(76,603)
Cash used by operating activities	(24,663)	(7,966)
Investing activities:		
Additions to property, equipment and leasehold improvements	(3,705)	(3,412)
Acquisitions (net of cash received)		(11,696)
Cash used in investing activities	(3,705)	(15,108)
Financing activities:		
Proceeds from stock issued for stock plans	14,058	6,714
Proceeds from debt issuance	40,011	52,000
Payments on debt	(5,000)	(14,000)
Purchases of treasury stock	(51,896)	(35,172)
Excess tax benefits from stock-based compensation	20,613	5,188
Cash provided by financing activities	17,786	14,730
Net decrease in cash and cash equivalents	(10,582)	(8,344)
Effects of exchange rates on cash and cash equivalents	(596)	(2,317)
Cash and cash equivalents, beginning of period	120,181	116,574
Cash and cash equivalents, end of period	$ 109,003	$ 105,913

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Business and Basis of Presentation

Business. Gartner, Inc. is a global information technology research and advisory company founded in 1979 with its headquarters in Stamford, Connecticut. Gartner, Inc. delivers its principal products and services through three business segments: Research, Consulting, and Events.

Basis of presentation. 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 Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X on Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes of Gartner, Inc. filed in its Annual Report on Form 10-K for the year ended December 31, 2010.

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. In the opinion of management, all normal recurring accrua 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 months ended March 31, 2011 may not be indicative of the results of operations for the remainder of 2011.

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.

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

Management continuously evaluates and revises its estimates using historical experience and other factors, including the general economic environment and actions it may take in the future. 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. As a result, differences between our estimates and actual results could be material and would be reflected in the Company s consolidated financial statements in future periods.

Note 2 Comprehensive Income

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

	Three Months Ended March 31,	
	2011	**2010**
Net income:	$ 29,191	$ 19,403
Other comprehensive income (loss), net of tax effect:		
Foreign currency translation adjustments	852	(2,540)
Unrealized gains on interest rate swaps	831	678
Amortization of pension deferred gain	(33)	(59)
Other comprehensive income (loss)	1,650	(1,921)
Comprehensive income	$ 30,841	$ 17,482

6

Note 3 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):

	Three Months Ended March 31,	
	2011	2010
Numerator:		
Net income used for calculating basic and diluted earnings per share	$ 29,191	$ 19,403
Denominator:		
Weighted average number of common shares used in the calculation of basic earnings per share	96,442	95,963
Common stock equivalents associated with stock-based compensation plans (1)	3,009	3,686
Shares used in the calculation of diluted earnings per share	99,451	99,649
Basic earnings per share	$ 0.30	$ 0.20
Diluted earnings per share	$ 0.29	$ 0.19

(1) For the three months ended March 31, 2011 and 2010, 1.2 million and 0.5 million of common stock equivalents, respectively, were not included in the computation of diluted earnings 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 currently awards stock-settled stock appreciation rights, service- and performance-based restricted stock units, and common stock equivalents. At March 31, 2011, the Company had approximately 6.4 million shares of its common stock, par value $.0005 per share (the Common Stock) available for awards of stock-based compensation under its 2003 Long-Term Incentive Plan.

The Company accounts for stock-based compensation 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 exercise, release 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 complex and subjective assumptions, including the expected life of the stock compensation awards and the Common Stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the amount of employee forfeitures and the likelihood of the achievement of certain performance targets. The assumptions used in calculating the fair value of stock 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):

Award type:	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Stock appreciation rights (SARs)	$ 1.5	$ 1.7
Common stock equivalents (CSEs)	0.1	0.1
Restricted stock units (RSUs)	7.6	7.4
Total	$ 9.2	$ 9.2

Stock-based compensation expense was recognized in the Consolidated Statements of Operations as follows (in millions):