

GARTNER INC
Form 10-Q
May 02, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

Commission File Number 1-14443

Gartner, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	04-3099750
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

P.O. Box 10212	06902-7700
56 Top Gallant Road	(Zip Code)
Stamford, CT	
(Address of principal executive offices)	

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

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

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

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

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

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

As of April 24, 2013, 93,751,149 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)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$269,063	\$ 299,852
Fees receivable, net of allowances of \$6,120 and \$6,400, respectively	441,405	463,968
Deferred commissions	82,929	87,933
Prepaid expenses and other current assets	81,643	75,713
Total current assets	875,040	927,466
Property, equipment and leasehold improvements, net	88,508	89,089
Goodwill	516,525	519,506
Intangible assets, net	10,477	11,821
Other assets	76,845	73,395
Total Assets	\$1,567,395	\$ 1,621,277
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$180,896	\$ 287,763
Deferred revenues	736,696	692,237
Current portion of long-term debt	57,500	90,000
Total current liabilities	975,092	1,070,000
Long-term debt	147,500	115,000
Other liabilities	125,646	129,604
Total Liabilities	1,248,238	1,314,604
Stockholders' Equity		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.0005 par value, 250,000,000 shares authorized; 156,234,415 shares issued for both periods	78	78
Additional paid-in capital	689,182	679,871
Accumulated other comprehensive income, net	2,763	5,968
Accumulated earnings	945,157	908,482
Treasury stock, at cost, 62,494,184 and 62,873,100 common shares, respectively	(1,318,023)	(1,287,726)
Total Stockholders' Equity	319,157	306,673
Total Liabilities and Stockholders' Equity	\$1,567,395	\$ 1,621,277

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

Condensed Consolidated Statements of Operations

(Unaudited; in thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Research	\$ 310,331	\$ 274,620
Consulting	72,633	74,563
Events	23,790	19,988
Total revenues	406,754	369,171
Costs and expenses:		
Cost of services and product development	163,737	146,463
Selling, general and administrative	180,478	162,518
Depreciation	7,100	5,895
Amortization of intangibles	1,334	739
Acquisition and integration charges	100	—
Total costs and expenses	352,749	315,615
Operating income	54,005	53,556
Interest expense, net	(2,436)	(2,195)
Other income (expense), net	211	(978)
Income before income taxes	51,780	50,383
Provision for income taxes	15,105	16,162
Net income	\$36,675	\$34,221
Income per common share:		
Basic	\$0.39	\$0.37
Diluted	\$0.38	\$0.36
Weighted average shares outstanding:		
Basic	93,595	93,416
Diluted	95,537	96,199

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited; in thousands)

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 36,675	\$ 34,221
Other comprehensive (loss) income, net of tax:		
Interest rate swap (cash flow hedge) – gain	561	32
Defined benefit pension plans – actuarial gain (loss)	23	(54)
Foreign currency translation adjustments	(3,789)	2,676
Other comprehensive (loss) income	(3,205)	2,654
Comprehensive income	\$ 33,470	\$ 36,875

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,	
	2013	2012
Operating activities:		
Net income	\$36,675	\$34,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	8,434	6,634
Stock-based compensation expense	12,342	10,939
Excess tax benefits from stock-based compensation	(13,219)	(13,784)
Deferred taxes	(1,872)	(1,664)
Amortization and write-off of debt issue costs	858	509
Changes in assets and liabilities, net of acquisition:		
Fees receivable, net	17,851	39,695
Deferred commissions	4,113	3,665
Prepaid expenses and other current assets	(4,467)	(6,105)
Other assets	(6,467)	(2,141)
Deferred revenues	51,019	34,822
Accounts payable, accrued, and other liabilities	(85,574)	(88,112)
Cash provided by operating activities	19,693	18,679
Investing activities:		
Additions to property, equipment and leasehold improvements	(9,648)	(7,118)
Cash used in investing activities	(9,648)	(7,118)
Financing activities:		
Proceeds from stock issued under stock plans	1,955	5,524
Proceeds from debt issuance	200,000	47,793
Payments for debt issuance costs	(3,553)	—
Payments on debt	(200,000)	(7,500)
Purchases of treasury stock	(48,527)	(77,157)
Excess tax benefits from stock-based compensation	13,219	13,784
Cash used by financing activities	(36,906)	(17,556)
Net increase in cash and cash equivalents	(26,861)	(5,995)
Effects of exchange rates on cash and cash equivalents	(3,928)	2,241
Cash and cash equivalents, beginning of period	299,852	142,739
Cash and cash equivalents, end of period	\$269,063	\$138,985

See the accompanying notes to the condensed consolidated financial statements.

GARTNER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 — Business and Basis of Presentation

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

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

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

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

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

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

Adoption of new accounting rules. The Company adopted new accounting rules in the three months ended March 31, 2013 related to accumulated other comprehensive income (see Note 2 — Comprehensive Income) and balance sheet offsetting of receivables and payables arising from derivative contracts (see Note 10 — Derivatives and Hedging). The adoption of these new rules resulted in additional disclosures only.

Note 2 — Comprehensive Income

On January 1, 2013, the Company adopted FASB Accounting Standards Update (“ASU”) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, an amendment to FASB ASC Topic 220, Comprehensive Income. ASU 2013-02 requires entities to prospectively disclose additional information about changes in accumulated other comprehensive income (“AOCI”) balances by component and items reclassified out of AOCI to income during the period. ASU 2013-02 does not change the existing requirement to present the components of comprehensive income in the financial statements and is intended to improve the transparency of reclassification amounts and their impact on the financial statements. The information required by ASU 2013-02 is presented below.

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The changes in AOCI by component (net of tax) for the three months ended March 31, 2013 are presented in the following table (in thousands) (1):

	Interest Rate Swap (Cash Flow Hedge)	Defined Benefit Pension Plans	Foreign Currency Translation Adjustments	Total
Balance – December 31, 2012	\$ (6,010)	\$ (1,578)	\$ 13,556	\$5,968
Changes during the period:				
Other comprehensive (loss) income before reclassifications	(4)	17	(3,789)	(3,776)
Reclassifications from AOCI to income (2), (3)	565	6	—	571
Other comprehensive income (loss) for the period	561	23	(3,789)	(3,205)
Balance – March 31, 2013	\$ (5,449)	\$ (1,555)	\$ 9,767	\$2,763

(1) Amounts in parentheses represent debits.

The hedge reclassification amount was recorded in Interest expense, net and is net of \$0.4 million of income tax (2) benefit recorded in the Provision for income taxes. See Note 10 – Derivatives and Hedging for information regarding the hedge.

(3) The pension reclassification amount was recorded in SG&A and had an immaterial tax effect. See Note 12 – Employee Benefits for information regarding the Company’s defined benefit pension plans.

Note 3 — Earnings per Share

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

	Three Months Ended March 31,	
	2013	2012
Numerator:		
Net income used for calculating basic and diluted earnings per share	\$ 36,675	\$ 34,221
Denominator:		
Weighted average number of common shares used in the calculation of basic earnings per share	93,595	93,416
Common stock equivalents associated with stock-based compensation plans (1)	1,942	2,783
Shares used in the calculation of diluted earnings per share	95,537	96,199
Basic earnings per share	\$ 0.39	\$ 0.37
Diluted earnings per share	\$ 0.38	\$ 0.36

For the three months ended March 31, 2013 and 2012, 0.2 million and 0.6 million of common stock equivalents, (1) 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-based and performance-based restricted stock units, and common stock equivalents. At March 31, 2013, the Company had 6.0 million shares of its common stock, par value \$.0005 per share (the "Common Stock") available for awards of stock-based compensation under its 2003 Long-Term Incentive Plan.

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

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

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

Stock-Based Compensation Expense

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

Award type:	Three Months Ended March 31,	
	2013	2012
Stock appreciation rights	\$ 1.8	\$ 1.6
Common stock equivalents	0.1	0.1
Restricted stock units	10.4	9.2
Total	\$ 12.3	\$ 10.9

Amount recorded in:	Three Months Ended March 31,	
	2013	2012
Cost of services and product development	\$ 5.6	\$ 5.3
Selling, general and administrative	6.7	5.6
Total stock-based compensation expense (1)	\$ 12.3	\$ 10.9

(1) Includes charges of \$7.1 million and \$3.0 million for the three months ended March 31, 2013 and 2012, respectively, for awards to retirement-eligible employees since these awards vest on an accelerated basis.

As of March 31, 2013, the Company had \$61.5 million of total unrecognized stock-based compensation cost, which is expected to be expensed over the remaining weighted-average service period of approximately 2.7 years.

Stock-Based Compensation Awards

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

Stock Appreciation Rights

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

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

The following table summarizes changes in SARs outstanding during the three months ended March 31, 2013:

	SARs (in millions)	Per Share Weighted- Average Exercise Price	Per Share Weighted- Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2012	2.0	\$ 24.59	\$ 9.04	4.10 years
Granted	0.4	49.37	14.88	6.87 years
Forfeited	—	—	—	n/a
Exercised	(0.1)	20.25	7.58	n/a
Outstanding at March 31, 2013 (1), (2)	2.3	\$ 28.62	\$ 10.00	4.41 years
Vested and exercisable at March 31, 2013 (2)	1.3	\$ 20.42	\$ 7.73	3.42 years

n/a=not applicable.

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- (1) As of March 31, 2013, 1.0 million of the SARs outstanding were unvested. The Company expects that substantially all of these unvested awards will vest in future periods.
- (2) Total SARs outstanding had an intrinsic value of \$58.6 million. SARs vested and exercisable had an intrinsic value of \$44.5 million.

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

	Three Months Ended March 31, 2013 2012	
Expected dividend yield (1) Expected	0%	0%