GARTNER INC
Form 10-Q
July 31, 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 June 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 July 24, 2007, 105,517,056 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)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 102,838	$ 67,801
Fees receivable, net	303,508	328,383
Deferred commissions	43,520	46,822
Prepaid expenses and other current assets	65,792	41,027
Total current assets	515,658	484,033
Property, equipment and leasehold improvements, net	60,653	59,715
Goodwill	410,956	408,545
Intangible assets, net	4,613	5,978
Other assets	87,625	81,522
Total Assets	$ 1,079,505	$ 1,039,793
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 177,905	$ 208,002
Deferred revenues	377,183	375,881
Current portion of long-term debt	193,500	220,000
Total current liabilities	748,588	803,883
Long-term debt	166,500	150,000
Other liabilities	83,956	59,592
Total Liabilities	999,044	1,013,475
Stockholders Equity		
Preferred stock		
Common stock	78	78
Additional paid-in capital	539,506	544,686
Unearned compensation, net	(636)	(2,208)
Accumulated other comprehensive income, net	18,098	13,097
Accumulated earnings	271,244	249,004
Treasury stock, at cost	(747,829)	(778,339)
Total Stockholders Equity	80,461	26,318
Total Liabilities and Stockholders Equity	$ 1,079,505	$ 1,039,793

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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Research	$ 163,753	$ 138,321	$ 322,553	$ 275,413
Consulting	83,555	83,663	159,822	159,556
Events	53,005	58,599	79,932	73,094
Other	3,178	3,510	5,381	6,959
Total revenues	303,491	284,093	567,688	515,022
Costs and expenses:				
Cost of services and product development	144,211	137,283	267,924	242,632
Selling, general and administrative	120,523	106,701	236,269	206,168
Depreciation	6,012	6,098	11,747	11,758
Amortization of intangibles	596	3,416	1,125	6,799
META integration charges				1,450
Other charges	9,084		9,084	
Total costs and expenses	280,426	253,498	526,149	468,807
Operating income	23,065	30,595	41,539	46,215
Interest expense, net	(5,398)	(4,479)	(11,661)	(8,842)
Other income (expense), net	1,814	173	1,776	(521)
Income before income taxes	19,481	26,289	31,654	36,852
Provision for income taxes	5,433	8,045	9,414	10,838
Net income	$ 14,048	$ 18,244	$ 22,240	$ 26,014
Income per common share:				
Basic	$ 0.13	$ 0.16	$ 0.21	$ 0.23
Diluted	$ 0.13	$ 0.16	$ 0.20	$ 0.22
Weighted average shares outstanding:				
Basic	104,259	113,525	103,890	113,646
Diluted	109,571	115,743	108,941	115,911

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)

	Six Months Ended June 30,	
	2007	2006
Operating activities:		
Net income:	$ 22,240	$ 26,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of intangibles	12,872	18,557
Stock-based compensation expense	13,407	6,997
Excess tax benefits from stock-based compensation	(13,726)	(3,653)
Deferred taxes	(349)	(2,302)
Amortization and writeoff of debt issue costs	914	403
Changes in assets and liabilities:		
Fees receivable, net	28,012	32,829
Deferred commissions	3,690	12,278
Prepaid expenses and other current assets	(22,955)	(413)
Other assets	(6,540)	(572)
Deferred revenues	(3,030)	1,568
Accounts payable and accrued liabilities	9,158	(58,727)
Cash provided by operating activities	43,693	32,979
Investing activities:		
Additions to property, equipment and leasehold improvements	(12,430)	(7,978)
Other investing activities, net	9	(209)
Cash used in investing activities	(12,421)	(8,187)
Financing activities:		
Proceeds from interest rate swap termination	1,167	
Proceeds from stock issued for stock plans	27,522	22,073
Proceeds from debt issuance	405,000	
Payments for debt issuance costs	(1,257)	
Payments on debt	(415,000)	(16,666)
Purchases of treasury stock	(29,690)	(37,025)
Excess tax benefits from stock-based compensation	13,726	3,653
Cash provided (used) in financing activities	1,468	(27,965)
Net increase (decrease) in cash and cash equivalents	32,740	(3,173)
Effects of exchange rates on cash and cash equivalents	2,297	1,958
Cash and cash equivalents, beginning of period	67,801	70,282
Cash and cash equivalents, end of period	$ 102,838	$ 69,067

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 six months ended June 30, 2007 may not be indicative of the results of operations for the remainder of 2007. 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 six months ended June 30, 2007 and 2006 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income	$ 14,048	$ 18,244	$ 22,240	$ 26,014
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	2,883	2,935	3,648	3,207
Unrealized gain on interest rate swap	1,469	860	384	2,117
Realized gain on interest rate swap (a)	(128)		905	
Amortization of pension unrealized loss	32		64	
Other comprehensive income	4,256	3,795	5,001	5,324
Comprehensive income	$ 18,304	$ 22,039	$ 27,241	$ 31,338

(a) The six months ended June 30, 2007 is net of approximately $0.2 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 June 30,		Six Months Ended June 30,	
2007	2006	2007	2006

Numerator:				
Net income used for calculating basic and diluted income per share	$ 14,048	$ 18,244	$ 22,240	$ 26,014
Denominator:				
Weighted average number of common shares used in the calculation of basic income per share	104,259	113,525	103,890	113,646
Common stock equivalents associated with stock-based compensation plans	5,312	2,218	5,051	2,265

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Shares used in the calculation of diluted income per share	109,571	115,743	108,941	115,911
Basic income per share	$ 0.13	$ 0.16	$ 0.21	$ 0.23
Diluted income per share	$ 0.13	$ 0.16	$ 0.20	$ 0.22

For the three months ended June 30, 2007 and 2006, 0.6 million and 2.2 million options and stock appreciation rights, respectively, were not included in the computation of diluted income per share because the effect would have been anti-dilutive.

For the six months ended June 30, 2007 and 2006, 0.5 million and 2.0 million options and stock appreciation rights, 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Amount recorded in:				
Costs of services and product development expense	$ 3,500	$ 2,600	$ 6,100	$ 4,000
Selling, general, and administrative expense	4,300	1,900	7,300	3,000
Total stock-based compensation expense	$ 7,800	$ 4,500	$ 13,400	$ 7,000

As of June 30, 2007, the Company had $50.5 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 2.6 years. For the six months ended June 30, 2007, excess tax benefits realized from the exercise of stock-based compensation awards was $13.7 million, compared to $3.7 million in the prior year period. 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 six months ended June 30, 2007 follows:

Weighted

	Options in millions	Weighted Average Exercise Price	Average Remaining Contractual Term
Outstanding at December 31, 2006	12.8	$ 11.10	5.17 years
Granted			
Forfeited or expired	(0.1)	11.41	nm
Exercised (1)	(2.2)	11.49	nm
Outstanding at June 30, 2007 (2)	10.5	$ 11.01	4.84 years
Vested and exercisable at June 30, 2007 (2)	8.8	$ 10.99	4.70 years

nm=not meaningful

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(1) The Company received approximately $26.1 million in cash from stock option exercises in the first six months of 2007. Options exercised during the first six months of 2007 had an intrinsic value of approximately $30.0 million

(2) At June 30, 2007, options outstanding and options vested and exercisable had aggregate intrinsic values of $141.9 million and $120.1 million, respectively.

A summary of the changes in stock-settled stock appreciation rights (SARs) outstanding during the six months ended June 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 June 30, 2007 (2)	1.8	$ 17.07	$6.71	6.14 years
Vested and exercisable at June 30, 2007	0.3	$ 14.44	$6.01	5.87 years

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

(2) At June 30, 2007, SARs outstanding had an aggregate intrinsic value of $13.6 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 weighted-average assumptions in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (1)	2007	2006
Expected dividend yield (2)	0%		0%	0%
Expected stock price volatility (3)	30%		33%	40%
Risk-free interest rate (4)	4.6%		4.7%	4.7%
Expected life in years (5)	4.5		4.7	4.8

(1) No awards were made in this period.

(2) 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.

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

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

(5) 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.

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 approximately three years; (ii) service-based RSUs vest ratably over four years and are expensed on a straight-line basis over four years; (iii) performance-based RSUs are subject to both performance and service conditions, vest

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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 six months ended June 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		$
Granted (1), (2)			1,054,634	22.13	8,961	24.55
Vested or settled (2), (3)	(311,000)		(401,415)	14.16	(8,961)	24.55
Forfeited			(32,680)	15.01		
Nonvested at June 30, 2007 (3), (4)	200,000	$7.30	2,142,159	$18.05		$

(1) The 1,054,634 RSUs included 516,243 performance-based RSUs awarded to executives and 538,391 service-based RSUs awarded to executive and non-executive staff. The performance-based RSUs are 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 will expire, and any compensation expense already recorded will be reversed.

(2) Director fees are paid to directors in CSEs. The CSEs vest immediately and are convertible into common shares when the director leaves the Board of Directors.

(3) During 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 also 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 1.98 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 June 30, 2007:					
Revenues	$ 163,753	$ 83,555	$ 53,005	$ 3,178	$ 303,491
Gross Contribution	102,574	34,310	22,613	2,405	161,902
Corporate and other expenses					(138,837)
Operating income					$ 23,065
Three Months Ended June 30, 2006:					
Revenues	$ 138,321	$ 83,663	$ 58,599	$ 3,510	$ 284,093
Gross Contribution	83,913	37,040	26,591	2,861	150,405
Corporate and other expenses					(119,810)
Operating income					$ 30,595
Six Months Ended June 30, 2007:					
Revenues	$ 322,553	$ 159,822	$ 79,932	$ 5,381	$ 567,688
Gross Contribution	201,876	62,345	36,784	4,056	305,061
Corporate and other expenses					(263,522)
Operating income					$ 41,539
Six Months Ended June 30, 2006:					
Revenues	$ 275,413	$ 159,556	$ 73,094	$ 6,959	$ 515,022
Gross Contribution	168,400	70,866	33,018	5,675	277,959
Corporate and other expenses					(231,744)
Operating income					$ 46,215

Note 6 Goodwill and Intangible Assets

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

	Balance December 31, 2006	Currency Translation Adjustments	Adjustments (1)	Balance June 30, 2007
Research	$ 282,467	$ 2,194	$ (180)	$ 284,481
Consulting	87,666	379	(24)	88,021
Events	36,330	49	(7)	36,372

Other		2,082					2,082
Total goodwill	$	408,545	$	2,622	$	(211)	$ 410,956

(1) During the second quarter of 2007, the Company adjusted a lease obligation (See Note 7 Other Charges and EITF 95-3 Liabilities), resulting in a reduction of $0.2 million of recorded goodwill.

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

	Customer Relationships	Other	Total
June 30, 2007			
Gross cost	$ 7,700	$ 951	$ 8,651
Accumulated amortization	(3,465)	(573)	(4,038)
Net	$ 4,235	$ 378	$ 4,613

	Customer Relationships	Other	Total
December 31, 2006			
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 $0.6 million and $3.4 million for the three month periods ended June 30, 2007 and 2006, respectively. For the six month periods ended June 30, 2007 and 2006, amortization expense for intangibles was $1.1 million and $6.8 million, respectively.

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

2007 (remaining six months)	$ 985
2008	1,610
2009	1,610
2010	408
	$ 4,613

Note 7 Other Charges and EITF 95-3 Liabilities

Other Charges

In the second quarter of 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 will be paid by the Company, and an aggregate of $12.0 million will be paid by the Company s insurers. The $8.7 million charge includes $8.5 million for the settlement of the claim and approximately $0.2 million of related legal expenses. 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. The decision to exit APAC consulting resulted in a reduction of 39 consultants, of which 32 received termination benefits included in the $2.7 million charge. 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.

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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	(107)	226	3	122
Payments	(2,268)	(3,128)	(138)	(5,534)
Accrued liability at June 30, 2006	1,216	17,693	452	19,361
Currency translation and reclassifications	(6)	58	(123)	(71)
Payments during the remainder of 2006	(529)	(2,721)	(329)	(3,579)
Accrued liability at December 31, 2006	681	15,030		15,711
Charges (a)	2,682		8,681	11,363
Currency translation and reclassifications	(79)	203		124
Adjustment for excess facility		(2,280)		(2,280)
Payments	(1,230)	(2,822)		(4,052)
Accrued liability at June 30, 2007	$ 2,054	$ 10,131	$ 8,681	$ 20,866

(a) The $8.7 million charge recorded in the second quarter of 2007 includes $8.5 million for the settlement of the claim and approximately $0.2 million of related legal expenses. The Company had also recorded a charge 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 Statement of Operations.

The Company expects to pay the $9.5 million Expert Choice claim in August 2007 and the remaining workforce reduction costs to 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 six months ended June 30, 2007 (in thousands):

	Balance December 31, 2006	Adjustments (1)	Payments (2)	Balance June 30, 2007
Lease terminations	$ 3,211	$ (185)	$ (1,638)	$ 1,388
Costs to exit activities	255		(36)	219
Tax contingencies	503			503
	$ 3,969	$ (185)	$ (1,674)	$ 2,110

(1) During the second quarter of 2007, the Company reduced a lease obligation due to revised subleasing assumptions. The offset was to goodwill (see Note 6 Goodwill and Intangible Assets).

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

The Company expects the remaining exit costs to be paid in 2007, while the lease obligations will be paid over their respective contract periods through 2012. 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 will be 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 related to 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 $45.0 million of the revolver in the second quarter of 2007, and as of June 30, 2007, had $180.0 million outstanding on the term loan and $180.0 outstanding on the revolver. As of June 30, 2007, the annualized interest rate on this debt was approximately 6.36%, which includes a base rate of 5.36% plus a margin of 1.0%. The Company had approximately $117.0 million of remaining borrowing capacity under the revolver as of June 30, 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 $180.0 million at June 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 approximately 5.06% as of June 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 June 30, 2007, there was no ineffective portion of the hedge as defined under SFAS No. 133. The interest rate swap had a positive fair value of approximately $1.4 million at June 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 replaces 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 1,307,772 shares of its common stock in the first six months of 2007 under the new program at a cost of approximately $29.7 million. During the first six months of 2006, the Company repurchased 2,564,550 shares of its common stock under its prior repurchase program, which included 1,000,000 shares repurchased directly from Silver Lake Partners and affiliates.

Note 10 Income Taxes

The provision for income taxes was $5.4 million for the second quarter of 2007 as compared to $8.0 million for the second quarter of 2006. The effective tax rate for the second quarter of 2007 was 27.9% as compared to 30.6% for the second quarter of 2006. The decrease in the rate is primarily due to the impact of certain discrete items that occurred in the second quarter of 2007 which included the release of valuation allowances that had previously been established for net operating losses in certain Asian countries. As a result of the Company s decision to exit from consulting operations in Asia (see Note 7 Other Charges and EITF 95-3 Liabilities), the Company now believes that it is more likely than not that these assets will be realized. The discrete items also included the receipt of $1.8 million of income

related to the settlement of a claim (see Note 12 Claim Settlement). There was no tax cost associated with the settlement. The impact of these items was offset, in part, by an increase to the effective tax rate related to differences in the estimated mix of pre-tax income by jurisdiction.

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 (Note 7 Other Charges and EITF 95-3 Liabilities). This item did not have a material impact on the effective tax rate for the quarter.

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 as of January 1, 2007 will reverse prior to December 31, 2007.

FIN 48 also requires companies to reclassify uncertain tax positions not expected to be settled within one year to long term liabilities. Therefore, 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 six months ended June 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 and $0.7 million for the second quarters of 2007 and 2006, respectively, and $1.4 million and $1.5 million for the first six months of 2007 and 2006, respectively.

Note 12 Claim Settlement

In the second quarter of 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 June 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

hosting symposia, conferences and exhibitions.

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

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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.

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 $14.0 million in the second quarter of 2007, or $0.13 per diluted share, compared to $0.20 per diluted share for the prior year period. Net income and diluted earnings per share for the second quarter of 2007 include net pre-tax charges and non-operating items of approximately $7.2 million, or about $(0.04) per share, net of tax. Among these items was a charge related to the settlement of previously disclosed litigation involving Expert Choice, Inc.

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We continue to focus on executing our strategy of investing in our sales capability, and our sales force of 765 associates is up approximately 25% over the prior year quarter, and we have added 102 sales associates through June 30, 2007. The Research segment continues to benefit strongly from this continued investment in our sales force, with revenue up 18% in the second quarter of 2007, to $163.8 million, and is up 17% year-over-year. Contract value at June 30, 2007 was $683.0 million, up 19% from June 30, 2006, and was up 15% excluding the impact of foreign currency. The $683.0 million of contract value represents a new record level for Gartner, 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 103%, respectively.
Revenue from our Consulting segment was $83.6 million in the second quarter of 2007, compared to $83.7 million in the prior year quarter. Consulting backlog at June 30, 2007 was $108.8 million, which is up about 9% from June 30, 2006. While our revenue was basically flat, our key metrics continued to improve in the quarter. The consultant utilization rate increased 6 points, to 73% in the current quarter from 67% in the second quarter of 2006, reflecting improved engagement management. While the average hourly billing rate was down slightly from the prior year quarter, the average annualized revenue per billable headcount was up from the prior year. Billable headcount was 487 at June 30, 2007, which is down about 5% year-over-year, primarily due to the exit from Asia discussed above.
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. Events revenue for the second quarter of 2007 as compared to the prior year was impacted by a shift in our events schedule. Four events that were held in the first quarter of 2007 were held in the second quarter in 2006. As a result, we held 27 events in the second quarter of 2007 and 33 in the prior year period and revenue was down 10% year-over-year. Adjusted for this shift in our events calendar, quarterly revenue was up approximately 2%. We held 39 events in both the first half of 2007 and 2006, and our year-over-year events revenue was up 9%.
We also continue to focus on enhancing shareholder value through the continued evolution of our capital structure. In the first half of 2007 we closed on a new credit facility which increased our total debt capacity to $480.0 million, and our Board of Directors approved a new $200.0 million share buyback program. We repurchased 1.3 million shares in the first half of 2007 under this program. We ended the quarter with $102.8 million of cash

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 $45.3 million and $47.9 million at June 30, 2007 and December 31, 2006, respectively. As regards government contracts that permit termination, at June 30, 2007 and December 31, 2006, the Company had not recognized uncollected receivables or deferred revenues of $8.2 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 June 30, 2007 were $303.5 million, which is net of an allowance for losses of approximately $7.8 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.

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 7% in the second quarter of 2007, to $303.5 million compared to $284.1 million for the second quarter of 2006, and increased $52.7 million, or 10%, when comparing the first six months of 2007 to the first six months of 2006, to $567.7 million from $515.0 million. Excluding the effects of foreign currency translation, revenues for the second quarter and year-to-date 2007 would have increased 4% and 8%, 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 $6.9 million, or 5%, to $144.2 million in the second quarter of 2007 from $137.3 million in the second quarter of 2006, and increased $25.3 million, or 10%, when comparing the first six months of 2007 with the first six months of 2006, to $267.9 million from $242.6 million. Excluding the effects of foreign currency translation, cost of services and product development would have increased 2% and 7%, respectively. Cost of services and product development increased 5% for the second quarter of 2007 primarily due to the impact of foreign exchange, which added $4.0 million of expense, merit salary increases, and additional charges for stock-based compensation expense under SFAS No. 123(R). As a percentage of sales, cost of services and product development was 48% for both the second quarter of 2007 and 2006.

Cost of services and product development increased 10%, or $25.3 million, for the first six months of 2007 compared to the prior year. The increase was primarily due to the impact of foreign currency, which added about $10.3 million of expense, approximately $6.6 million of merit salary increases, $4.0 million of higher event fulfillment costs driven by higher events revenue, and additional stock-based compensation under SFAS No. 123(R) of about $2.0 million. For the first six months of 2007 and 2006, cost of services and product development as a percentage of sales was 47% for both periods.

Selling, general and administrative expenses increased $13.8 million, or 13%, to $120.5 million in the second quarter of 2007 from $106.7 million in the second quarter of 2006. SG&A expenses increased $30.1 million, or 15% to $236.3 million from $206.2 million when comparing the first six months of 2007 to the first six months of 2006. Excluding the effects of foreign currency translation, SG&A expense would have increased by 10% and 12% for the quarter and year-over-year periods, respectively. The increase in SG&A expenses on a year-to-date and quarterly basis resulted primarily from increased investment in our sales organization. We now have 765 quota-bearing sales associates, a 25% increase over the prior year, with 49 added in the second quarter of 2007 and 102 added in the first

half of 2007.

In addition to higher compensation costs related to the increased sales headcount, SG&A expense was up on a quarter and year-to-date basis due to the impact of foreign exchange, which added $3.0 million and $5.6 million of expense, respectively. We had increased recruiting and relocation expenses related to the increased sales headcount, as well as $2.5 million and $4.3 million of additional charges for stock-based compensation under SFAS 123(R) for the three and six months ended June 30, 2007, respectively, compared to the same periods in the prior year.

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Depreciation expense for the second quarter of 2007 decreased slightly, to $6.0 million, compared to $6.1 million for the second quarter 2006 and was $11.7 million for the first six months of 2007 and 2006.
Amortization of intangibles was $0.6 million in the second quarter of 2007 compared to $3.4 million in the prior year quarter. Amortization of intangibles during the first six months of 2007 was $1.1 million compared to $6.8 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 and zero and $1.5 million for the three and six months ending June 30, 2006, respectively. These expenses related primarily to severance, and for consulting, accounting, and tax services.
other charges in the three and six months ending June 30, 2007 were approximately $9.1 million, which included charges of $8.7 million related to 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 six months ended June 30, 2006.
interest expense, net was $5.4 million and $4.5 million for the three months ended June 30, 2007 and 2006, respectively, and $11.7 million and $8.8 million for the six months ended June 30, 2007 and 2006, respectively. The increase in our interest expense was primarily due to approximately $144.0 million and $139.0 million of additional weighted-average debt outstanding in the three and six months ended June 30, 2007, respectively, compared to the same periods in the prior year, respectively. The additional interest expense resulting from higher average amounts of debt outstanding was partially offset by a slight decline in rates. For the first six 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 for the second quarter and first six months of 2007 was $1.8 million, due to a gain from settlement of a claim for $1.8 million. For the second quarter and first six months of 2006, Other income (expense), net consisted primarily of net foreign currency exchange gains and losses.
provision for income taxes was $5.4 million for the second quarter of 2007 as compared to $8.0 million for the second quarter of 2006. The effective tax rate for the second quarter of 2007 was 27.9% as compared to 30.6% for the second quarter of 2006. The decrease in the rate is primarily due to the impact of certain discrete items that occurred in the second quarter of 2007 which included the release of valuation allowances that had previously been established for net operating losses in certain Asian countries. As a result of the Company s decision to exit from consulting operations in Asia, the Company now believes that it is more likely than not that these assets will be realized. The discrete items also included the receipt of $1.8 million of income related to the settlement of a claim. There was no tax cost associated with the settlement. The impact of these items was offset, in part, by an increase to the effective tax rate related to differences in the estimated mix of pre-tax income by jurisdiction.
In addition to the discrete items noted above, the Company also recorded a charge of $8.7 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 for the quarter.

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 second quarter of 2007, to $163.8 million, from $138.3 million in the second quarter of 2006. For the six months ended June 30, 2007, Research revenues increased $47.1 million or 17%, to $322.5 million compared to $275.4 million for the same period of 2006. For both the second quarter and year-to-date periods of 2007 we had growth across our entire product portfolio. Excluding the impact of foreign currency, revenue was up about 16% and 15% over the prior year quarter and year-to-date periods, respectively.
Research gross contribution of $102.6 million for the second quarter of 2007 increased 22% from $83.9 million for the second quarter of 2006, while gross contribution margin for the second quarter of 2007 increased 2 points, to 63% from 61% in the

prior year period. For the six months ended June 30, 2007, gross contribution increased to $201.9 million, from $168.4 million in the comparable prior year period, a 20% increase, while the contribution margin increased 2 points, to 63% from 61%. The quarter and year-over-year contribution margin improved due to operating leverage from our stronger revenue performance.

At June 30, 2007, contract value was $683.0 million, up 19% from $574.4 million at June 30, 2006, driven by increases in both core research and Executive Programs. Adjusted for the impact of foreign currency translation, contract value was up about 15% year-over-year. At June 30, 2007, our research client retention rate remained strong, at 82%, and was up from 80% at June 30, 2006. Wallet retention was 103% at June 30, 2007, up from 90% at June 30, 2006. Our Executive Program membership was 3,605 at June 30, 2007, which is up about 4% compared to the 3,451 members at June 30, 2006.

Consulting

Consulting revenues were $83.6 million and $159.8 million for the three and six months ended June 30, 2007, compared to $83.7 million and $159.6 million for the same periods in the prior year. Excluding the favorable impact of foreign currency translation, revenues for the three and six months ended June 30, 2007 were down 3% for both periods, primarily driven by lower SAS revenue and lower billable headcount. Billable headcount was 487 at June 30, 2007, compared to 513 at June 30, 2006, a 5% decrease. The reduced billable headcount reflects our decision to exit our consulting business in Asia.

Consulting gross contribution of $34.3 million for the second quarter of 2007 decreased 7%, from $37.0 million for the second quarter of 2006, while contribution margin for the second quarter of 2007 decreased to 41% from 44% in the prior year quarter. Gross contribution of $62.3 million for the first six months of 2007 decreased 12%, from $70.9 million for the same period of 2006, while contribution margin decreased to 39% in 2007 from 44% in the prior year period.

The decrease in gross contribution and gross contribution margin for both the quarter and year-to-date periods was driven by lower SAS revenue performance, as well as approximately $2.0 million and $5.0 million, respectively, of higher quarterly and year-to-date costs related to additional investment in senior level resources.

The consultant utilization rate was 73% and 70% for the three and six month periods ended June 30, 2007, respectively, compared to 67% for both the same periods in the prior year. The billing rate remained above $350 per hour for both the second quarter of 2007 and first six months of 2007. Our average annualized revenue per billable headcount was approximately $430,000 for the first half of 2007, approximately the same as the prior year period, but was over $450,000 for the second quarter of 2007 compared to approximately $409,000 in the prior year quarter.

Consulting backlog, which represents future revenues to be recognized from in-process consulting, measurement and SAS, was $108.8 million compared to $100.0 million at June 30, 2006.

Events

Events revenues during the second quarter of 2007 were down 10%, declining to $53.0 million from $58.6 million in the prior year quarter, which was primarily due to timing, as four on-going events that were held in the second quarter of 2006 were held in 2007 in the first quarter. In total, we held 27 events in the second quarter of 2007 compared to 33 in the prior year. Adjusted for the impact of events timing, revenue was up approximately 2% year-over-year. Foreign exchange had an immaterial impact on revenue. Attendance at events was 12,842 for the three month period ended June 30, 2007, compared to 13,905 in the comparable prior year period, an 8% decrease, reflecting the shift in the events calendar. Adjusted for the timing of events, attendance was up 11% year-over-year.

For the six months ended June 30, 2007, Events revenues increased 9%, or $6.8 million, to $79.9 million compared to $73.1 million for the same period of 2006, with 39 events held in both periods. The increased revenue was primarily due to the addition of two new events in 2007 and an increase in both attendee volume and ticket prices. The impact of foreign currency translation was immaterial. Attendance at events was 20,234 for the six month period ended June 30, 2007, compared to 18,131 in the comparable prior year period, a 12% increase.

Gross contribution was $22.6 million, or 43% of revenues, for the second quarter of 2007, compared to $26.6 million, or 45% of revenues, for the second quarter of 2006. The 2 point decrease in gross contribution margin was mainly due to the timing shift and some softness in our Vision events. Gross contribution of $36.8 million for the first six months of 2007 increased from $33.0 million compared to 2006, and gross contribution margin increased by 1 point, to 46%

from 45%.

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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities totaled $43.7 million for the six months ended June 30, 2007, compared to cash provided of $33.0 million for the six months ended June 30, 2006, a $10.7 million increase. The increase in cash flow from operating activities was primarily due to an increase in cash from our core operations and lower cash payments for severance and other charges.

Cash used in investing activities was $12.4 million for the six months ended June 20, 2007, compared to $8.2 million in the prior year period. The increase was due to a year-over-year increase in capital expenditures.

Cash provided by financing activities totaled $1.5 million for the six months ended June 30, 2007, compared to cash used of $28.0 million in the six months ended June 30, 2006, a decrease of $29.4 million in cash used. The decrease was due to several reasons, including an increase in excess tax benefits from stock compensation, less cash used for share repurchases and debt repayments, and higher proceeds from option exercises.

Excess tax benefits from stock compensation increased approximately $10.0 million, to $13.7 million in the first six months of 2007 compared to $3.7 million in the same period of 2006. We decreased our use of cash to repurchase shares by $7.3 million, as we repurchased $29.7 million of our common stock in the first six months of 2007 compared to $37.0 million in the prior year period. On a net basis, we repaid $10.0 million of debt in the first six months of 2007 compared to $16.7 million for the same period in 2006, a $6.7 million decrease. We received proceeds from stock issued for stock plans and our employee stock purchase plan of $27.5 million in the six months ended June 30, 2007, compared to $22.0 million in 2006, a $5.5 million increase.

OBLIGATIONS AND COMMITMENTS

The Company has entered into a settlement agreement in which it is required to pay $9.5 million (see Part II, Item I. Legal Proceedings, for additional information). The Company anticipates that the $9.5 million will be paid in August 2007.

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 $360.0 million outstanding under this borrowing arrangement as of June 30, 2007.

Off-Balance Sheet Arrangements

Through June 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

We operate in a very competitive and rapidly changing environment that involves numerous risks and uncertainties, some of which are beyond our control. In addition, we and our clients are affected by the economy. A description of the risk factors associated with our business is included under Risk Factors contained in Item 1A. of our 2006 Annual Report on Form 10-K and is incorporated herein by reference.

RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair

value

measurements. The statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 will be effective for Gartner beginning in 2008. The Company is in the process of evaluating the impact, if any, SFAS No. 157 will have on the Company s financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS No. 159). This standard permits an entity to choose to measure certain financial instruments and other items at fair value. The fair value option permits a company to choose to measure eligible items at fair value at specified election dates. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings after adoption. SFAS No. 159 will be effective for Gartner beginning in 2008. The Company is in the process of evaluating the impact, if any, SFAS No. 159 will have on the Company s financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of June 30, 2007, we have exposure to changes in interest rates since we had $180.0 million outstanding on our term loan and $180.0 million outstanding on our revolver, both of which are floating rate. Borrowings 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.

We have an interest rate swap contract which effectively converts the base floating interest rate on the term loan to a fixed rate. Accordingly, the base interest rate on the term loan is effectively capped at 5.06%. However, we are still exposed to interest rate risk on the revolver. A 25 basis point increase or decrease in interest rates would change pre-tax annual interest expense on the revolver by approximately $0.7 million when fully utilized.

Investment Risk

None.

Foreign Currency Exchange Risk

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

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

We are exposed to foreign currency transaction risk since we enter into foreign currency forward exchange contracts to offset the effects of adverse fluctuations in foreign currency exchange rates. These instruments are typically short term and are reflected at fair value with unrealized and realized gains and losses recorded in earnings. At June 30, 2007, we had seven foreign currency forward contracts outstanding with a total notional amount of approximately $48.0 million and an immaterial net unrealized loss. All of these contracts expired by the end of July 2007.

ITEM 4. CONTROLS AND PROCEDURES

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

Management conducted an evaluation, as of June 30, 2007, of the effectiveness of the design and operation of our disclosure controls and procedures, under the supervision and with the participation of our chief executive officer and chief financial officer. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that the Company s disclosure controls and procedures are effective in alerting them in a timely manner to material Company information required to be disclosed by us in reports filed under the Act.
In addition, there have been no changes in the Company s internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has entered into a settlement agreement 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 will be paid by the Company, and an aggregate of $12.0 million will be paid by the Company s insurers.

In addition to the matter discussed above, 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.

ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is included under Risk Factors contained in Item 1A. of our 2006 Annual Report on Form 10-K and is incorporated herein by reference.

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

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

Issuer Purchases of Equity Securities

We have a $200.0 million common share repurchase program. The following table provides detail related to repurchases of our common stock for treasury in 2007 under this program:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Approximate Dollar Value of Shares that may yet be Purchased Under our Share Repurchase Program (inthousands)
2007			
January		$	
February	639,300	21.90	
March	417,000	21.58	
Total	1,056,300	$ 21.77	
April	450	$ 25.37	
May	250,850	26.59	
June	200	26.61	
Total	251,500	$ 26.59	$ 170.3

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2007 Annual Meeting of Stockholders of Gartner, Inc. was held on June 5, 2007. A total of 91,957,517 shares of the Company s Common Stock were present or represented by proxy at the meeting. This represented 88.39% of the Company s shares outstanding. The following matters were voted on and approved:

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1. Proposal 1 Election of Directors to a one year term:

Name	Votes For	Votes Withheld
Michael J. Bingle	70,930,911	21,026,604
Richard J. Bressler	86,300,895	5,656,620
Russell P. Fradin	86,311,420	5,646,095
Anne Sutherland Fuchs	86,302,343	5,655,172
William O. Grabe	71,036,622	20,920,893
Eugene A. Hall	75,572,508	16,385,007
Max D. Hopper	66,351,572	25,605,943
John R. Joyce	65,586,479	26,371,036
Stephen G. Pagliuca	66,158,055	25,799,460
James C. Smith	86,275,820	5,681,695
Jeffrey W. Ubben	70,968,824	20.998,691

2. Proposal 2 Approval of Executive Performance Bonus Plan: 66,984,855 for, 12,860,305 against, 4,869,691 abstain, and 7,242,666 broker non-vote.

3. Proposal 3 Ratify Selection of KPMG LLP as independent registered public accounting firm for fiscal 2007: 91,771,373 for, 150,318 against, and 35,824 abstain.

ITEM 6. EXHIBITS

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
31.1	Certification of chief executive officer under Rule 13a 14(a)/15d-14(a) of the Exchange Act.
31.2	Certification of chief financial officer under Rule 13a 14(a)/15d-14(a) of the Exchange Act.
32	Certification under 18 U.S.C. Section 1350.

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

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SIGNATURE

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

Gartner, Inc.

Date July 31, 2007

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