GARTNER INC
Form 10-Q
October 31, 2006

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

(Mark One)

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

For the quarterly period ended September 30, 2006

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 o Accelerated Filer þ Non-accelerated Filer o

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

As of October 25, 2006, 114,092,450 shares of the registrant s common shares were outstanding.

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 92,913	$ 70,282
Fees receivable, net	284,879	313,195
Deferred commissions	31,273	42,804
Prepaid expenses and other current assets	43,882	35,838
Total current assets	452,947	462,119
Property, equipment and leasehold improvements, net	57,482	61,770
Goodwill	408,750	404,034
Intangible assets, net	6,007	15,793
Other assets	88,411	82,901
Total Assets	$ 1,013,597	$ 1,026,617
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 192,004	$ 243,036
Deferred revenues	361,379	333,065
Current portion of long-term debt	60,000	66,667
Total current liabilities	613,383	642,768
Long-term debt	160,000	180,000
Other liabilities	53,542	57,261
Total Liabilities	826,925	880,029
Stockholders Equity		
Preferred stock		
Common stock	78	77
Additional paid-in capital	542,911	511,062
Unearned compensation, net	(2,723)	(6,652)
Accumulated other comprehensive income, net	12,413	6,320
Accumulated earnings	223,274	187,652
Treasury stock, at cost	(589,281)	(551,871)
Total Stockholders Equity	186,672	146,588
Total Liabilities and Stockholders Equity	$ 1,013,597	$ 1,026,617

See the accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Research	$ 144,126	$ 131,896	$ 419,539	$ 392,018
Consulting	69,502	72,747	229,058	215,849
Events	24,111	17,199	97,205	82,203
Other	3,621	3,469	10,580	9,634
Total revenues	241,360	225,311	756,382	699,704
Costs and expenses:				
Cost of services and product development	116,259	112,104	358,891	347,899
Selling, general and administrative	99,814	94,330	305,982	288,603
Depreciation	5,840	6,214	17,598	18,716
Amortization of intangibles	3,484	3,451	10,283	6,849
META integration charges		2,046	1,450	13,619
Other charges		5,980		28,480
Total costs and expenses	225,397	224,125	694,204	704,166
Operating income (loss)	15,963	1,186	62,178	(4,462)
Gain (loss) from investments, net		30		(5,339)
Interest expense, net	(3,848)	(3,120)	(12,690)	(7,783)
Other expense, net	(541)	(169)	(1,062)	(2,531)
Income (loss) before income taxes	11,574	(2,073)	48,426	(20,115)
Provision (benefit) for income taxes	1,966	(352)	12,804	(2,868)
Net income (loss)	$ 9,608	$ (1,721)	$ 35,622	$ (17,247)
Income (loss) per common share:				
Basic	$ 0.08	$ (0.02)	$ 0.31	$ (0.15)
Diluted	$ 0.08	$ (0.02)	$ 0.31	$ (0.15)
Weighted average shares outstanding:				
Basic	113,523	112,542	113,602	111,915
Diluted	116,255	112,542	116,009	111,915

See the accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Operating activities:		
Net income (loss):	$ 35,622	$ (17,247)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of intangibles	27,881	25,565
Stock-based compensation expense	11,740	661
Excess tax benefits from stock-based compensation	(5,720)	
Tax benefit associated with employee exercises of stock options		983
Deferred taxes	(3,839)	(5,631)
Loss from investments and sales of assets, net	228	5,339
Amortization and writeoff of debt issue costs	606	1,228
Charge for stock option buyback		5,980
Changes in assets and liabilities:		
Fees receivable, net	36,519	41,412
Deferred commissions	12,460	4,888
Prepaid expenses and other current assets	(8,064)	(9,246)
Other assets	(187)	3,572
Deferred revenues	21,717	(4,046)
Accounts payable and accrued liabilities	(54,241)	(25,858)
Cash provided by operating activities	74,722	27,600
Investing activities:		
Proceeds from sale of investment		1,300
Investment in intangibles	(359)	
Additions to property, equipment and leasehold improvements	(13,152)	(11,252)
Acquisition of META (net of cash acquired)		(161,323)
Other investing activities, net	55	614
Cash used in investing activities	(13,456)	(170,661)
Financing activities:		
Proceeds from stock issued for stock plans	33,012	14,226
Proceeds from debt issuance		327,000
Payments for debt issuance costs		(1,082)
Payments on debt	(26,666)	(267,958)
Purchase of stock options via tender offer		(4,532)
Purchases of treasury stock	(53,510)	
Excess tax benefits from stock-based compensation	5,720	

Cash (used) provided by financing activities	(41,444)	67,654
Net increase (decrease) in cash and cash equivalents	19,822	(75,407)
Effects of exchange rates on cash and cash equivalents	2,809	(4,260)
Cash and cash equivalents, beginning of period	70,282	160,126
Cash and cash equivalents, end of period	$ 92,913	$ 80,459

See the accompanying notes to the condensed consolidated financial statements.

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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, 2005. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of operating revenues and expenses. These estimates are based on management s knowledge and judgments. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations for the three and nine months ended September 30, 2006 may not be indicative of the results of operations for the remainder of 2006. Certain prior year amounts have been reclassified to conform to the current year presentation.

On April 1, 2005, the Company acquired META Group, Inc. (META), which was a technology and research firm. The acquisition was accounted for as a purchase business combination and the results of META were included beginning on the date of the acquisition. The purchase price was allocated to the net assets and liabilities acquired based on their estimated fair values. Any excess of the purchase price over the estimated fair value of the net assets acquired, including identifiable intangible assets, was allocated to goodwill.

On January 1, 2006, the Company adopted 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 the modified prospective transition method. Accordingly, beginning January 1, 2006, the Company is now recording compensation expense for all stock-based compensation awards granted to employees (See Note 4 Stock-Based Compensation). In accordance with the modified prospective transition method, prior periods have not been restated to reflect the adoption of SFAS No. 123(R).

Note 2 Comprehensive Income (Loss)

The components of comprehensive income (loss) for the three and nine months ended September 30, 2006 and 2005 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income (loss)	$ 9,608	$ (1,721)	$ 35,622	$ (17,247)
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,217	328	5,424	(4,463)
Net unrealized gains (losses) on investments and interest rate swap, net of tax	(1,449)	(102)	668	(343)
Other comprehensive income (loss)	768	226	6,092	(4,806)
Comprehensive income (loss)	$ 10,376	$ (1,495)	$ 41,714	$ (22,053)

Note 3 Computations of Income (Loss) per Share of Common Stock

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net income (loss) used for calculating basic and diluted income (loss) per share	$ 9,608	$ (1,721)	$ 35,622	$ (17,247)
Denominator:				
Weighted average number of common shares used in the calculation of basic income (loss) per share	113,523	112,542	113,602	111,915
Common stock equivalents associated with stock-based compensation plans	2,732		2,407	
Shares used in the calculation of diluted income (loss) per share	116,255	112,542	116,009	111,915
Basic income (loss) per share	$ 0.08	$ (0.02)	$ 0.31	$ (0.15)
Diluted income (loss) per share	$ 0.08	$ (0.02)	$ 0.31	$ (0.15)

For the three months ended September 30, 2006 and 2005, approximately 2.2 million options and 12.2 million options, respectively, were not included in the computation of diluted income (loss) per share because the effect would have been anti-dilutive. For the nine months ended September 30, 2006 and 2005, approximately 1.9 million options and 17.8 million options, respectively, were not included in the computation of diluted income (loss) per share because the effect would have been anti-dilutive.

Note 4 Stock-Based Compensation

The Company awards stock-based compensation as an incentive for employees to contribute to the Company s long-term success, and historically the Company issued options and restricted stock. In 2006 the Company has made changes to its stock compensation strategy and has awarded additional types of equity instruments. At September 30, 2006, the Company had 8.6 million shares of common stock authorized for awards of stock-based compensation under its 2003 Long Term Incentive Plan.

On January 1, 2006, the Company adopted 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). Accordingly, the Company is now recognizing stock-based compensation expense for all awards granted, which is based on the fair value of the award on the date of grant, recognized over the related service period, net of estimated forfeitures. The service period is the period over which the employee performs the related services, which is normally the same as the vesting period. The Company adopted SFAS No. 123(R) under the modified prospective transition method, and consequently prior period results have not been restated. Under this transition method, in 2006 the Company s reported stock compensation expense will include: a) expense related to the remaining unvested portion of awards granted prior to January 1, 2006, which is based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and b) expense related to stock compensation awards granted subsequent to January 1, 2006, which is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Prior to January 1, 2006, the Company applied APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) in accounting for its employee stock compensation and applied Statement of Financial Accounting Standards No. 123, Accounting for Stock Issued to Employees (SFAS 123) for disclosure purposes only. Under APB 25, the intrinsic value method was used to account for stock-based employee compensation plans and expense was generally not recorded for awards granted without intrinsic value. The SFAS 123 disclosures include pro forma net income (loss) and income (loss) per share as if the fair value-based method of accounting had been used.

Determining the appropriate fair value model and calculating the fair value of stock compensation awards requires the input of certain highly complex and subjective assumptions, including the expected life of the stock compensation awards and the Company s common stock price volatility. In addition, determining the appropriate amount of associated periodic expense requires management to estimate the rate of employee forfeitures and the likelihood of 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.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R).

Prior to the adoption of SFAS No. 123(R), the Company classified tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123(R) requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as financing cash flows. For the nine months ended September 30, 2006, excess tax benefits realized from the exercise of stock options was $5.7 million.

For the three months ended September 30, 2006, the Company recognized $4.7 million of pre-tax stock compensation expense under SFAS No. 123(R), with $2.1 million recorded in Cost of services and product development expense and $2.6 million recorded in Selling, general and administrative expense in the Condensed Consolidated Statement of Operations. For the nine months ended September 30, 2006, the Company recognized approximately $11.7 million of pre-tax stock compensation expense under SFAS No. 123(R), with $6.1 million recorded in Cost of services and product development expense and $5.6 million recorded in Selling, general and administrative expense. As of September 30, 2006, the Company had $37.1 million of total unrecognized compensation cost, which is expected to be recognized as stock-based compensation expense over the remaining weighted-average vesting period of approximately 2.0 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 SFAS No. 123(R):

Stock options. The Company may grant stock options to employees that allow them to purchase shares of the Company s common stock. Options may also be granted to members of the Board of Directors and certain consultants. The Company determines the fair value of stock options at the date of grant using the Black-Scholes-Merton valuation model. Most options vest either a) annually over a three-year service period, or b) over a four-year vesting period, with 25% vesting at the end of the first year and the remaining 75% vesting monthly over the next three years. Options granted prior to 2005 generally expire ten years from the grant date, whereas options granted beginning in 2005 generally expire seven years from the grant date. The Company issues both new shares and treasury shares upon the exercise of stock options.

Total compensation expense recognized for options was approximately $1.9 million for the three months ended September 30, 2006, which included less than $0.1 million of expense for options held by employees deemed to be retirement-eligible. For the nine months ended September 30, 2006 the Company recognized $6.2 million of expense related to options, of which $1.0 million was related to retirement-eligible employees. The Company received approximately $31.5 million in cash from stock option exercises in the first nine months of 2006.

A summary of the changes in stock options outstanding for the nine months ended September 30, 2006, follows:

	Options in millions	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2005	17.6	$ 10.81	6.11 years
Granted	.1	14.48	nm
Forfeited or expired	(.3)	12.83	nm
Exercised	(3.3)	9.69	nm

Outstanding at September 30, 2006	14.1	$ 11.04	5.42 years
Vested and exercisable at September 30, 2006	10.3	$ 10.96	5.03 years

nm=not meaningful

The .1 million of options granted during the first nine months of 2006 had a weighted-average grant date fair value of $5.65 per option. At September 30, 2006, options outstanding and options vested and exercisable had aggregate intrinsic values of $94.6 million and $70.5 million, respectively. Options exercised during the three month and nine month periods ended September 30, 2006 had aggregate intrinsic values of $6.6 million and $17.5 million, respectively.

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A summary of changes in the number of nonvested stock options follows:

	Options in millions	Weighted Average Exercise Price
Nonvested options outstanding at December 31, 2005	6.9	$ 11.00
Granted	.1	14.48
Forfeited	(.2)	11.17
Vested during the period	(3.0)	nm
Nonvested options outstanding at September 30, 2006	3.8	$ 11.25

nm=not meaningful.

Stock appreciation rights. Stock-settled Stock Appreciation Rights (SARs) are settled in common stock and are similar to options as they permit the holder to participate in the appreciation of the Company s common stock. SARs may be settled in common stock by the employee once the applicable vesting criteria have been met. Gartner will withhold a portion of the common stock to be issued to meet the minimum statutory tax withholding requirements. SARs recipients do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until after actual 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.

During 2006, the Company granted 1.2 million SARs to its executive officers. The Company determined the fair value of the SARs on the date of grant using the Black-Scholes-Merton valuation model. The SARs vest ratably over a four-year service period and they expire seven years from the vesting commencement date. Total compensation expense recognized for SARs was approximately $0.4 million and $0.7 million for the three and nine month periods ending September 30, 2006, respectively.

A summary of the changes in SARs outstanding for the nine months ended September 30, 2006 follows:

	SARs in millions	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
Granted during 2006	1.2	$ 14.48	$ 6.02	7.17 years
Forfeited or expired				
Exercised				
SARs outstanding at September 30, 2006	1.2	$ 14.48	$ 6.02	6.63 years
Vested and exercisable at September 30, 2006		$	$	

At September 30, 2006, SARs outstanding had an intrinsic value of $3.9 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Expected dividend yield (1)	0%	0%	0%	0%
Expected stock price volatility (2)	39%	28%	40%	31%
Risk-free interest rate (3)	4.8%	4.0%	4.7%	3.7%
Expected life in years (4)	4.75	3.1	4.81	3.1

(1) The dividend yield assumption is based on the history and expectation of the Company s dividend payouts. Historically Gartner has not paid dividends on its common stock.
(2) The determination of expected stock price volatility for options and SARs granted in 2006 was based on both historical Gartner common stock prices and implied volatility from publicly traded options in Gartner common stock. Prior to 2006, the Company had only considered the historical stock price volatility of Gartner common stock in the determination of the expected stock price volatility.

(3) The risk-free interest rate is based on the yield of a U.S. treasury bond with a maturity similar to the expected life of the award.
(4) The expected life in years for options and SARs granted in 2006 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. In previous periods the Company determined the expected life in years based on the historical exercise data for options that had vested.
The Company believes that the changes in the determination of both the expected stock price volatility and the expected life in years are consistent with the fair value measurement objectives of SFAS No. 123(R) and SAB No. 107 and will be applied prospectively in determining the fair values of employee stock options and SARs.
Restricted stock. The Company has awarded shares of restricted stock to employees which vest subject to certain service and market conditions. All restricted share awards have the right to vote the shares and to receive dividends; however, the employee may not sell restricted stock that is still subject to the relevant vesting conditions. The Company recorded compensation expense for restricted stock awards of $0.5 million and $1.6 million for the three and nine month periods ended September 30, 2006, respectively.
In accordance with SFAS No. 123(R), the fair value of restricted stock awards is estimated on the date of grant based on the market price of the Company s common stock and is amortized to compensation expense on a straight-line basis over the related vesting periods, which was three years for the most recent service-based award. Employees receiving such awards are not required to provide consideration to the Company other than rendering service. On September 30, 2006, there were 11,000 shares of service-based restricted stock outstanding which were issued with a market value of $11.96 on the date of the award, none of which were vested.
As of September 30, 2006, there were 500,000 shares of market-based restricted stock outstanding for which the market value on the date of award was $12.86 per share. The Company had awarded 500,000 restricted shares to its CEO in 2004 from a non-shareholder approved plan. In the fourth quarter of 2005, the Company cancelled the original award and issued a replacement award from a shareholder approved plan for the same number of shares, which will permit the Company to take a tax deduction if the restrictions lapse. The Company estimated the cumulative fair value of this award at approximately $4.4 million using a Monte Carlo valuation model. The fair value of the award will be amortized to compensation expense over the related weighted-average estimated life of the award, which is approximately 2.3 years. The restrictions on this award lapse as follows: (i) 300,000 shares when the Company s common stock trades at an average price of $20 or more for sixty consecutive trading days; (ii) 100,000 shares when the Company s common stock trades at an average price of $25 or more for sixty consecutive trading days; and (iii) 100,000 shares when the Company s common stock trades at an average price of $30 or more for sixty consecutive trading days, subject to the CEO s continued employment with the Company through each such date. Notwithstanding the preceding sentence, all restrictions shall lapse in full upon a change in control. As of September 30, 2006, none of the restrictions had lapsed.
Restricted stock units. Restricted Stock Units (RSUs) give the awardee the right to receive actual Gartner shares when the restrictions lapse and the vesting conditions are met, and each RSU that vests entitles the awardee to one share of the Company s common stock. Gartner will withhold a portion of the common stock to be issued to meet the minimum statutory tax withholding requirements. RSU recipients do not have any of the rights of a Gartner stockholder, including voting rights and the right to receive dividends and distributions, until after actual shares of Gartner 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. In accordance with SFAS No. 123(R), the fair value of these awards is estimated on the date of grant based on the market price of the Company s common stock.
During 2006, the Company granted 474,000 RSUs to its executive officers, with vesting subject to both service and a performance condition (performance-based RSUs). The market price of the Company s common stock was $14.44 on the grant date, and the performance condition is tied to Gartner s 2006 total sales bookings in the Company s Research segment. With respect to the performance condition, the 474,000 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. As of September 30, 2006, the Company estimates that the number of performance-based RSUs that will vest will be approximately 145% of the target amount. The performance-based

RSUs vest ratably over approximately four years from the vesting commencement date, but are expensed on an accelerated basis as required by SFAS No. 123(R). If the minimum performance condition is not met, the performance-based RSUs will expire, and all of the compensation expense recognized in 2006 would be reversed.

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During 2006, the Company awarded 818,000 RSUs to employees and directors that vest subject to service requirements only (service-based RSUs). In accordance with SFAS No. 123(R), the fair value of these awards was estimated on the date of grant based on the market price of the Company s common stock, which ranged from $13.75 to $15.69. The value of these awards will be amortized as compensation expense on a straight-line basis over the service period. These service-based RSUs vest ratably over approximately four years from the vesting commencement date.

None of the performance-based or service-based RSUs were vested as of September 30, 2006. Compensation expense for RSUs was approximately $2.0 million and $3.3 million for the three and nine month periods ended September 30, 2006, respectively.

Stock-Based Compensation Expense per Share

The following table presents information on net income and diluted income per share for the three and nine months ended September 30, 2006, determined in accordance with SFAS No. 123(R), compared to the pro forma information determined under SFAS 123 for the same periods in 2005 (in thousands, except per share data):