

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997  
OR  
 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 0-15144

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

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

P.O. Box 10212 06904-2212  
56 Top Gallant Road (Zip Code)  
Stamford, CT  
(Address of principal executive offices)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12 (g) OF THE ACT:

Title of Class  
Common Stock, Class A, \$.0005 Par Value

Indicate by check mark whether the Registrant (1) has filed all reports 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 X NO \_\_\_\_\_

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

The aggregate market value of the voting stock held by persons other than those who may be deemed affiliates of the Company, as of November 30, 1997, was approximately \$1.5 billion. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the Registrant's capital stock as of November 30, 1997 was 97,565,408 shares of Common Stock, Class A.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Proxy Statement for the Annual Meeting of Stockholders of Registrant to be held on January 20, 1998. Certain information therein is incorporated by reference into Part III hereof.

ITEM 1. BUSINESS.

GENERAL

Gartner Group, Inc. ("Gartner Group" or the "Company"), founded in 1979, is the world's leading independent provider of research and analysis on the computer hardware, software, communications and related information technology ("IT") industries. The Company is organized into three business units: GartnerAdvisory, GartnerMeasurement and GartnerLearning. Advisory services encompass products which provide research and analysis of significant IT industry trends and developments. Measurement services encompass products which provide comprehensive assessments of cost performance, efficiency and quality for all areas of IT. The Company enters into annual renewable contracts for advisory and measurement services and learning products, and distributes such services through print and electronic media. GartnerLearning develops and publishes more than 600 software education training products and services for computer desktop and technical applications professionals. The Company's primary clients are business professional users, purchasers and vendors of IT products and services. With more than 600 sales professionals in 80 locations, Gartner Group product offerings collectively provide comprehensive coverage of the IT industry to over 9,000 client organizations.

MARKET OVERVIEW

The explosion of complex IT products and services creates a growing demand for independent research and analysis. Furthermore, IT is increasingly important to organizations' business strategies as the pace of technological change has accelerated and the ability of an organization to integrate and deploy new information technologies is critical to its competitiveness. Companies planning their IT needs must stay abreast of rapid technological developments in a dynamic market where vendors continually introduce new products with a wide variety of standards and ever-shorter life cycles. As a result, IT professionals are making substantial financial commitments to IT systems and products and require independent, third-party research in order to make purchasing and planning decisions for their organization.

BUSINESS STRATEGY

The Company's objective is to maintain and enhance its market position as a leading provider of in-depth, value-added, proprietary research and analysis of the IT industry. The Company has adopted the following strategies to maintain its market position and expand its core business:

Focus on the IT market. The Company targets as its clients corporate entities and other large users and vendors of information technologies. Users of Gartner Group's products and services include senior decision makers in information systems organizations and other IT professionals such as purchasing and data center managers. Vendors use market research data in order to evaluate competitive products and market opportunities.

Maintain Research and Analysis Excellence. Gartner Group's global network of research analysts is comprised of more than 750 professionals averaging ten years of industry experience. Clients rely on Gartner Group's proven research methodology to ensure consistent and comprehensive analysis in all areas of IT. The Company maintains five primary research centers located in Stamford, CT, Santa Clara, CA, Windsor, England, Brisbane, Australia, Tokyo, Japan and a number of smaller, satellite research centers throughout the world.

Emphasize New Product Development and Strategic Acquisitions. The Company introduces new research and advisory products each year. New product ideas evolve from client inquiries, market need and through a multi-functional product strategy committee. Fiscal 1997 investments and acquisitions include: Datapro Information Services (7/97), a research firm specializing in products that compare feature and functions of computer hardware, software and communications products; Bouhot and Le Gendre (6/97), a publisher of French-based IT journals and provider of conferences, events, custom consulting and IT executive programs; and SPG Research and East Consulting (2Q97), strategic acquisitions in the Asia/Pacific IT marketplace adding demand-side data and network and telecommunications expertise, respectively, to the GartnerAdvisory product line. Additionally, the Company has made minority investments in KnowledgeSoft (3/97), whose products provide a tracking and administration system to GartnerLearning training titles and in EC Cubed (12/96), a Web solutions and Internet content provider.

Increase Market Penetration. The Company has made substantial investments developing new markets and establishing a global network of direct sales personnel, independent sales representatives, distributors and joint venture partners. This initiative is on-going and will continue to evolve with the expansion of the Company's product and service offerings and delivery options. Electronic delivery formats include CD-ROM, Lotus Notes, intranets and the Internet.

The Company believes that successful execution of these strategies will enable the Company to expand its client base in domestic and international markets and to penetrate its client base more effectively through a broader range of product offerings.

## PRODUCTS AND SERVICES

### Advisory and Measurement services

The Company's principal products are annually renewable contracts for advisory and measurement services, which encompass products which, on an ongoing basis, highlight industry developments, review new products and technologies, provide quantitative market research, analyze industry trends within a particular technology or market sector and provide comparative analysis of the information technology operations of organizations.

GartnerAdvisory provides qualitative and quantitative research and analysis that clarifies decision-making for IT buyers, users and vendors. Advisory consists of GartnerAnalytics, a provider of objective analysis that helps clients stay ahead of IT trends, directions and vendor strategies; and GartnerMarketDynamics, a provider of worldwide coverage of research, statistical analysis, growth projections and market share rankings of suppliers and vendors to IT manufacturers and the financial community. GartnerMeasurement provides benchmarking, continuous improvement and best practices services. The Company currently offers over 250 principal advisory and measurement services products. Each service is supported by a team of research staff members with substantial experience in the covered segment or topic of the IT industry. The Company's staff researches and prepares published reports and responds to telephone and E-mail inquiries from clients. Clients receive Gartner Group research and analysis on paper and through a number of electronic delivery formats.

### Learning

GartnerLearning publishes software education training products for computer desktop and technical applications professionals. With more than 650 existing titles, the Company will focus on the addition of training titles in the next few years by investing significantly in product development and strategic alliances with IT vendors and industry experts.

The Company provides a number of other complementary products and services principally:

GartnerConsulting. Consulting services provide customized project consulting on the delivery, deployment and management of high-tech products and services. Principal practices of consulting services include Technical Architecture, Outsourcing Decision Support, Evolving High Technology Areas, Retainer Consulting Services and Vendor Consulting.

GartnerEvents. Industry conferences and events provide comprehensive coverage of IT issues and forecasts of key IT industry segments. The conference season begins each year with Symposia, held in the United States, Europe and the Asia/Pacific rim. These events are held in conjunction with ITxpo(TM), a high technology learning lab. Additionally, the Company sponsors other conferences, seminars and briefings. Certain events are offered as part of a continuous services subscription, however, the majority of events are individually paid for prior to attendance.

The Company measures the volume of its advisory, measurement and learning ("AML") business based on contract value. The Company calculates contract value as the annualized value of all AML contracts in effect at a given point in time, without regard to the duration of the contracts outstanding at such time. Historically, the Company has experienced that a substantial portion of client companies have renewed these services for an equal or higher level of total payments each year, and annual revenues from these services in any fiscal year have closely correlated to contract value at the beginning of the fiscal year. As of September 30, 1997, approximately 85 percent of the Company's clients have renewed one or more of these services in the last twelve months. However, this renewal rate is not necessarily indicative of the rate of retention of the Company's revenue base, and contract value at any time may not be indicative of future AML revenues or cash flows if the rate of renewal of AML services and products or the timing of new business were to significantly change during the following twelve months compared to historic patterns. Deferred revenues, as presented in the Company's balance sheets, represent unamortized revenues from AML services and products plus unamortized revenues of certain other services and products not included in AML. Therefore, deferred revenues do not directly correlate to contract value as of the same date since contract value represents an annualized value of all outstanding AML contracts without regard to

the duration of such contracts, and deferred revenues represents unamortized revenue remaining on all outstanding AML contracts including AML services and products and certain other services and products not included in AML revenue.

There can be no assurance that the Company will be able to sustain such high renewal rates. Any deterioration in the Company's ability to generate significant new business would impact future growth in the Company's business. Moreover, a significant portion of the Company's new business in any given year has historically been generated in the last portion of the fiscal year. Accordingly, any such situation might not be apparent until late in the Company's fiscal year.

#### COMPETITION

The Company believes that the principal competitive factors in its industry are quality of research and analysis, timely delivery of information, customer service, the ability to offer products that meet changing market needs for information and analysis and price. The Company believes it competes favorably with respect to each of these factors.

The Company experiences competition in the market for information products and services from other independent providers of similar services as well as the internal marketing and planning organizations of the Company's clients. The Company also competes indirectly against other information technology providers, including electronic and print media companies and consulting firms. The Company's indirect competitors, many of whom have substantially greater financial, information gathering and marketing resources than the Company, could choose to compete directly against the Company in the future. In addition, although the Company believes that it has established a significant market presence, there are few barriers to entry into the Company's market and new competitors could readily seek to compete against the Company in one or more market segments addressed by the Company's AML services and products. Increased competition, direct and indirect, could adversely affect the Company's operating results through pricing pressure and loss of market share. There can be no assurance that the Company will be able to continue to provide the products and services that meet client needs as the IT market rapidly evolves, or that the Company can otherwise continue to compete successfully.

The Company has expanded its presence in the technology-based training industry (GartnerLearning). The success of the Company in the technology-based training industry will depend on its ability to compete with vendors of IT products and services which include a range of education and training specialists, hardware and system manufacturers, software vendors, system integrators, dealers, value-added resellers and network/communications vendors, certain of whom have significantly greater product breadth and market presence in the technology-based training sector. There can be no assurance that the Company will be able to provide products that compare favorably with new competitive products or that competitive pressures will not require the Company to reduce prices. Future success will also depend on the Company's ability to develop new training products that are released timely with the introductions of the underlying software products.

#### EMPLOYEES

As of September 30, 1997, the Company employed 2,885 persons. Of the 2,885 employees, 903 are located at the Company's headquarters in Stamford, CT area, 1,163 are located at other domestic facilities and 819 are located outside of the United States. None of the Company's employees are represented by a collective bargaining arrangement. The Company has experienced no work stoppages and considers its relations with employees to be favorable.

The Company's future success will depend in large measure upon the continued contributions of its senior management team, professional analysts, and experienced sales personnel. Accordingly, future operating results will be largely dependent upon the Company's ability to retain the services of these individuals and to attract additional qualified personnel. The Company experiences intense competition for professional personnel with, among others, producers of IT products, management consulting firms and financial services companies. Many of these firms have substantially greater financial resources than the Company to attract and compensate qualified personnel. The loss of the services of key management and professional personnel could have a material adverse effect on the Company's business.

#### ITEM 2. PROPERTIES

The Company's headquarters are located in approximately 244,000 square feet of leased office space in five buildings located in Stamford, CT. These facilities accommodate research and analysis, marketing, sales, client support, production and corporate administration. The leases on these facilities expire in 2010. The Company also leases office space in 39 domestic and 36 international locations to support its research and analysis, domestic and international sales efforts and other functions. The Company believes its existing facilities and expansion options are adequate for its current needs and that additional facilities are available for lease to meet future needs.

## ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in legal proceedings and litigation arising in the ordinary course of business. The Company believes the outcome of all current proceedings, claims and litigation will not have a material effect on the Company's financial position or results of operations when resolved in a future period.

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

None.

## EXECUTIVE OFFICERS OF THE COMPANY

Listed below are the executive officers of the Company as of November 30, 1997:

NAME ----	AGE ---	TITLE -----
Manuel A. Fernandez	51	Chairman and Chief Executive Officer
William T. Clifford	51	President and Chief Operating Officer
E. Follett Carter	55	President, Gartner Group Distribution, Executive Vice President, Sales and Marketing and Chief Marketing Officer
John F. Halligan	50	Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary
Michael D. Fleisher	32	Executive Vice President and President, Emerging Businesses

Mr. Fernandez has served as Chairman of the Board since April 1996, as Chief Executive Officer since April 1991, and as a Director since January 1991. Mr. Fernandez also held the title of President from January 1991 through September 30, 1997. Prior to joining the Company, he was President and Chief Executive Officer of Dataquest, Inc. Before joining Dataquest, Mr. Fernandez was President and Chief Executive Officer of Gavilan Computer Corporation, a laptop computer manufacturer, and Zilog, Incorporated, a semiconductor manufacturing company. Mr. Fernandez holds a bachelor's degree in electrical engineering from University of Florida, and completed post-graduate work in solid state engineering at University of Florida and in business administration at the Florida Institute of Technology. Mr. Fernandez is also on the board of directors of the Brunswick Corporation, Getty Communications P.L.C., SACIA (The Business Council of Southwestern Connecticut) and Norwalk Community Technical College (Norwalk, Connecticut).

Mr. Clifford has been President of Gartner Group since October 1997, Chief Operating Officer of the Company since April 1995 and Executive Vice President, Operations of the Company since October 1993. From October 1995 to September 1997, Mr. Clifford was president Gartner Group Research. Prior to joining Gartner Group, Mr. Clifford served as President, Central Division and Senior IT Executive for Product Development for ADP Corp., a payroll service provider. Previously, Mr. Clifford was Executive Vice President and Chief Operating Officer of Applied Data Research, a supplier of computer software. Mr. Clifford holds a bachelor's degree in economics from the University of Connecticut.

Mr. Carter has been with the Company since November 1988 and has been President, Gartner Group Distribution since October 1995, Chief Marketing Officer since April 1995 and Executive Vice President, Sales and Marketing since July 1993. From April 1991 to July 1993, he was Senior Vice President, Sales and Marketing; from May 1990 to March 1991, he was Vice President, Sales; and from November 1988 to April 1990, he was Vice President and Service Director of Electronic Output Strategies. Mr. Carter holds a bachelor's degree from Case Western Reserve, and an M.B.A. degree in finance and marketing from Columbia University.

Mr. Halligan has been Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary since September 1991. Prior to joining Gartner Group, Mr. Halligan spent more than 22 years at General Electric Company in a variety of financial management roles, including Staff Vice President, Finance at GE Communications and Services from May 1988 to September 1991. Mr. Halligan holds a bachelor's degree in economics from Providence College. Mr. Halligan currently serves on the board of directors of the Stamford Chapter of the American Red Cross.

Mr. Fleisher has been Executive Vice President of the Company and President, Gartner Group Emerging Businesses since November 1996. From October 1995, he was Senior Vice President, Emerging Businesses; from October 1994 to October

1995, he was Vice President Worldwide Events; from April 1993 to October 1995 he was Vice President of Business Development. Mr. Fleisher's previous business experience includes working as an associate at Information Partners, a venture capital firm, from 1990 to 1993. Mr. Fleisher holds a bachelor's degree in economics from Wharton School of Business.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company effected an initial public offering of its Class A Common Stock in October 1993 at a price to the public of \$2.75 per share. As of November 30, 1997, there were approximately 234 holders of record of the Company's Class A Common. The Company's Class A Common Stock is listed for quotation in the Nasdaq National Market under the symbol "GART."

The Company has not paid any cash dividends on its common stock and currently intends to retain any future earnings for use its business. Accordingly, the Company does not anticipate that any cash dividends will be declared or paid on the common stock in the foreseeable future.

The quarterly market price is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Common Stock Information.

### ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The presentation under "Selected Consolidated Financial Data" is included in Item 8. Consolidated Financial Statements and Supplementary Data - Selected Financial Data.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" contained on pages 13 through 19 of the 1997 Annual Report to Stockholders of Registrant is incorporated herein by reference.

### ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

#### CONSOLIDATED FINANCIAL STATEMENTS

The Company's consolidated financial statements for the fiscal years ended September 30, 1997 and 1996, together with the report thereon of KPMG Peat Marwick LLP, independent auditors, dated October 31, 1997, on page 35 of the 1997 Annual Report to Stockholders of Registrant is incorporated herein by reference. The Company's consolidated financial statements for the fiscal year ended September 30, 1995, together with the report thereon of Price Waterhouse LLP, independent accountants, dated November 1, 1995, except as to the Dataquest acquisition discussed in Note 3, which is as of January 25, 1996) and the stock split discussed in Note 10, which is as of March 29, 1996, is included as Exhibit 23.4 to this Report on Form 10-K.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None in the fiscal year ended September 30, 1997.

## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information relating to Directors is set forth under the caption "Proposal One: Election of Directors" on pages 3 through 10 in the Proxy Statement for Annual Meeting of Stockholders of Registrant to be held January 20, 1998 and is incorporated herein by reference. Certain information regarding Executive Officers of the Registrant is presented after Item 4 in Part I of this 1997 Annual Report on Form 10-K.

Information relating to Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Reporting Delinquencies " on page 14 in the Proxy Statement for Annual Meeting of Stockholders of Registrant to be held January 20, 1998 and is incorporated herein by reference.

## ITEM 11. EXECUTIVE COMPENSATION.

Information relating to Executive Compensation is set forth under the caption "Executive Compensation" on pages 5 through 9 of the Proxy Statement for Annual Meeting of Stockholders of Registrant to be held January 20, 1998 and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information relating to Security Ownership of Certain Beneficial Owners and Management is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on page 11 in the Company's Proxy Statement for Annual Meeting of Stockholders of Registrant to be held January 20, 1998 and is incorporated herein by reference.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information relating to Certain Relationships and Related Transactions is set forth under the caption "Certain Relationships and Transactions" of the Proxy Statement for Annual Meeting of Stockholders of Registrant to be held January 20, 1998 on page 12 and is incorporated herein by reference.

## PART IV

## ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

## (a) 1. Financial Statements

The presentation under "Financial Statements" is included in Item 8. Consolidated Financial Statements and Supplementary Data.

## 2. Financial Statement Schedule

## II. Valuation and qualifying accounts

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

## 3. Exhibits

Exhibit Number	Description of Document
-----	-----
3.1(a)(2)	Restated Certificate of Incorporation
3.1(b)(5)	Amendment dated March 18, 1996 to Restated Certificate of Incorporation
3.2(5)	Amended Bylaws, as of April 24, 1997
4.1	Article IV and V of Restated Certificate of Incorporation (see Exhibits 3.1(a) and (b))
4.2(1)	Form of Certificate for Common Stock
10.1(1)	Form of Indemnification Agreement
10.2(1)	Amended and Restated Registration Rights Agreement dated March 19, 1993 among the Registrant, Dun & Bradstreet Corporation and D&B Enterprises, Inc.
10.3(1)	Stockholder's Agreement dated as of March 19, 1993 by and between the Registrant and Dun & Bradstreet Corporation
10.4(2)	Lease dated December 29, 1994 by and between Soundview Farms and the Registrant related to premises at 56 Top Gallant Road, 70 Gatehouse Road, and 88 Gatehouse Road, Stamford, Connecticut
10.5	Lease dated May 16, 1997 by and between Soundview Farms and the Registrant related to premises at 56 Top Gallant Road, 70 Gatehouse Road, 88 Gatehouse Road and 10 Signal Road, Stamford, Connecticut (amendment to lease dated December 29, 1994, see exhibit 10.4)
10.6(1)*	Long Term Incentive Plan (Tenure Plan), including form of Employee Stock Purchase Agreement
10.7(4)*	1991 Stock Option Plan, as amended and restated on February 24, 1997

10.8(1)*	1993 Director Stock Option Plan
10.9(1)*	Employee Stock Purchase Plan
10.10(4)*	1994 Long Term Stock Option Plan, as amended and restated on February 24, 1997
10.11(2)	Forms of Master Client Agreement
10.12(1)	Commitment Letter dated July 16, 1993 from The Bank of New York
10.13(1)	Indemnification Agreement dated April 16, 1993 by and among the Registrant, Cognizant (as successor to the Dun & Bradstreet Corporation) and the Information Partners Capital Fund
10.15 (3)	Commitment Letter dated September 30, 1996 from Chase Manhattan Bank
10.16(4)*	1996 Long Term Stock Option Plan, as amended and restated on February 24, 1997
10.17*	Promissory Note from Manuel A. Fernandez dated June 4, 1997
10.18*	Promissory Note from William T. Clifford dated June 4, 1997
10.19*	Promissory Note from E. Follett Carter dated June 4, 1997
10.20*	Promissory Note from John F. Halligan dated June 4, 1997
10.21*	Employment Agreement by and between Manuel A. Fernandez and Gartner Group, Inc. as of April 1, 1997
11.1	Computation of Net Income per Common Share
13.1	Annual report to stockholders
21.1	Subsidiaries of Registrant
23.1	Auditors' Report on Schedule and Consent
23.2	Accountants' Consent
23.3	Report of Independent Accountants
23.4	Report of Independent Accountants on Financial Statement Schedule
24.1	Power of Attorney (see Signature Page)
27.1	Financial Data Schedules

\* Management contract or compensation plan or arrangement required to be filed as an exhibit to this report on Form 10-K pursuant to Item 14(c) this report.

- (1) Incorporated by reference from the Registrant's Registration Statement on Form S-1 (File No. 33-67576), as amended, effective October 4, 1993.
- (2) Incorporated by reference from the Registrant's Annual Report on Form 10-K as filed on December 21, 1995.
- (3) Incorporated by reference from the Registrant's Annual Report on Form 10-K as filed on December 17, 1996.
- (4) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q as filed on August 14, 1997.
- (5) Incorporated by reference from Registrant's Registration Statement on Form S-8 (File No. 333-35169) as filed on September 8, 1997.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Registrant during the fiscal quarter ended September 30, 1997.

(c) Exhibits

See (a) above.

(d) Financial Statement Schedule

See (a) above.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Stamford, State of Connecticut, on the 12th day of December, 1997.

GARTNER GROUP, INC.

By: /s/ MANUEL A. FERNANDEZ  
-----  
Manuel A. Fernandez  
Chairman of the Board and  
Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSON BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Manuel A. Fernandez and John F. Halligan, and each of them acting individually, as his attorney-in-fact, each with full power of substitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed by the following persons in the capacities and on the dates indicated:

NAME -----	TITLE -----	DATE ----
/s/ MANUEL A. FERNANDEZ ----- Manuel A. Fernandez	Director, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	December 12, 1997
/s/ JOHN F. HALLIGAN ----- John F. Halligan	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 12, 1997
/s/ MAX HOPPER ----- Max Hopper	Director	December 12, 1997
/s/ JOHN P. IMLAY ----- John P. Imlay	Director	December 12, 1997
/s/ STEPHEN G. PAGLIUCA ----- Stephen G. Pagliuca	Director	December 12, 1997
/s/ DENNIS G. SISCO ----- Dennis G. Sisco	Director	December 12, 1997
/s/ WILLIAM O. GRABE ----- William O. Grabe	Director	December 12, 1997
/s/ ROBERT E. WEISSMAN ----- Robert E. Weissman	Director	December 12, 1997
By:/s/ JOHN F. HALLIGAN ----- John F. Halligan Attorney-in-fact		December 12, 1997

## EXHIBIT INDEX

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LEASE (the "Lease") made this 16 day of May 1997 by and between SOUNDVIEW FARMS, a Connecticut partnership having a place of business in the city of Stamford, county of Fairfield in said State, hereinafter called "Landlord" and GARTNER GROUP, INC., a corporation organized and existing under the laws of the State of Delaware and having a place of business in said Stamford, hereinafter called "Tenant".

WHEREAS, Landlord and Tenant on December 29, 1994 entered into a lease agreement (the "1994 Lease") of three tracts of land with the buildings thereon situated in the said Stamford, and

WHEREAS, Landlord and Tenant now wish to lease certain premises and the building thereon, hereinafter described, and to incorporate certain applicable terms and conditions of said 1994 Lease by reference.

W I T N E S S E T H

NOW THEREFORE, in consideration of the rents, terms, covenants and conditions hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby hires from Landlord those certain premises described in Schedule A hereto and made a part hereof, and all rights, covenants, privileges and appurtenances thereto belonging or in any wise appertaining thereto (the "Land") and the building (the "Building") located on the Land, the Land and Building herein collectively called the "Premises".

TO HAVE AND TO HOLD, the Premises unto Tenant for a term commencing on October 1, 1997 and expiring on the last day of September, 2010, or at such earlier date by prior cancellation or termination pursuant to the provisions of this Lease, or at such later termination date by extension of the term hereof.

IT IS HEREBY mutually covenanted and agreed between Landlord and Tenant as follows:

ARTICLE I. LANDLORD'S REPRESENTATIONS.

A. Landlord represents to Tenant:

i) that Landlord is the sole owner in fee simple of the Premises,

ii) that Landlord has the full right and authority to lease the Premises and to otherwise enter into this Lease on the terms and conditions set forth herein,

iii) that no other approval or consent of any other party is required except for the consent of The Equitable Life Assurance Society of the United States ("Equitable"), and

iv) that Landlord is not in default of its obligations to Equitable and Landlord is current in all its payments to Equitable.

B. The use of the Premises, including inter alia, the use for any Specified Use (hereinafter defined) shall be permitted as a matter of right under current Stamford zoning ordinances and will not breach any applicable covenant, condition, restriction or easement affecting the Premises.

C. Landlord has not received any notice of any condemnation proceeding with respect to any portion of the Premises and to the best of Landlord's knowledge no proceeding is contemplated by any governmental authority.

D. The Premises are free of all other tenancies except a lease dated February 7, 1989, which lease by agreement shall terminate March 31, 1997, and Tenant shall have sole

and exclusive possession of the Premises from the commencement of the term regardless of whether Tenant in fact takes occupancy of the entire Premises.

E. At the time of the commencement of the Lease term, all facilities and mechanical systems serving the Premises shall be in good working order and operative and the Building thereon structurally sound.

#### ARTICLE II. CONSTRUCTION.

The fit-up of the Building shall be done by Landlord's contractor, Bull Finn Corp., pursuant to plans and specifications (the "Plans") prepared by Tenant, at the expense of Tenant in accordance with a contract dated March 17, 1997, a copy of which contract is attached hereto as Schedule B.

Landlord shall direct the contractor, Bull Finn Corp., to commence such fit-up on the Premises in accordance with said Plans within two (2) working days of the issuance of the necessary building permit. The work shall be processed and paid for pursuant to the terms of said contract by and between Tenant and said contractor.

If, during the first year of the term, there are any necessary repairs or corrections to the Premises caused by deficiency of workmanship or materials used by Landlord's contractor or its suppliers in the fit-up of the Building, Landlord shall repair or correct same at its sole cost and expense.

#### ARTICLE III. RENT.

A. A Lease Year shall mean the twelve (12) month period running from October 1 through the last day of September in the next year.

B. During the term hereof Tenant covenants to pay to Landlord for the Premises an annual Basic Rent in each Lease Year of \$247,000 payable in equal monthly installments of \$20,625 on the first day of each and every month, in advance, commencing October 1, 1997 to and including September 1, 2010.

All of said Basic Rent payments shall be paid at the office of the Landlord, 43 Gate House Road, Stamford, Connecticut or at such other place Landlord may designate by notice.

C. Tenant covenants and agrees that all other amounts which Tenant assumes and agrees to pay or discharge pursuant to this Lease, together with any fine, penalty, interest or cost which may pursuant to the provisions of this Lease be added for late payment, if late payment is the fault of Tenant thereof, shall constitute additional rent hereunder and in case of failure of Tenant to pay or discharge any of the foregoing, Landlord shall have all of the rights, powers and remedies provided herein, or by law, in the case of nonpayment of Basic Rent.

#### ARTICLE IV. TAXES AND UTILITIES.

A. During the term hereof, Tenant shall pay as additional rent all real estate taxes, assessments and charges levied by any governmental authority upon the Premises, together with all interest and penalties (imposed due to Tenant's fault) thereon, or upon or against any Basic Rent or additional rent reserved or payable hereunder, or upon or against this Lease or the leasehold estate hereby created, or the gross receipts from the Premises, or the earnings arising from the use thereof, other than (i) franchise, capital stock or similar

taxes, if any, of Landlord, or (ii) income, estate, excess profits or other similar taxes upon Landlord's receipts, and/or the receipts of any of the persons who are partners in Landlord, if any (unless the taxes referred to in clauses (i) and (ii) are in lieu of or a substitute for any other tax, assessment or charge upon, or with respect to the Premises which, if such other tax, assessment or charge were in effect, would be payable by Tenant, in which event such taxes shall be computed as though the Premises were the only property of Landlord and/or of each such partner and the Basic Rent payable hereunder the only income of Landlord and/or of each such partner). Nothing above is intended to require that Landlord and/or any of the persons who are partners of Landlord submit any more documentation than is necessary to support the receipts from the Premises. Tenant shall pay to Landlord said taxes, assessments and charges not later than fifteen (15) days after Landlord notifies Tenant of the amount of such tax, assessment and charge, provided the same is then due and payable, and if not, then within fifteen (15) days after the same become due and payable. The notification by Landlord to Tenant shall include copies of the computation by Landlord and copies of bills received by Landlord so as to afford Tenant the opportunity to verify any such tax, assessment or charge. The amount of such tax, assessment or charge which Tenant shall pay shall be based upon the Building on the Premises and the percentage which the area of the Land bears to the entire area of property assessed and taxed as one unit in Landlord's name.

B. In the event any governmental authority shall hereafter levy taxes on the Premises which shall be for the purpose of providing services now provided by the municipality and for which municipal real estate taxes are now levied (e.g. education);

Tenant shall also pay as additional rent that portion of such taxes which is attributable to such services to the extent the same are in lieu of, or a substitute for, the aforesaid municipal real estate taxes.

C. From and after the commencement of the term Tenant shall pay directly to any municipal authority or to any public service company which shall furnish the same, all the charges for sewage, water, gas, electricity or power consumed at or supplied to the Premises and, subject to Landlord's maintenance obligations, warranties and representations, will comply with all public service and/or municipal authority requirements for the maintenance and continuation of said services.

D. The customary adjustments and apportionments of real estate taxes and assessments (customarily made with respect to a closing of title in Stamford, Connecticut) shall be made between Landlord and Tenant as of October 1, 1997 and as of the date of the termination of this Lease.

#### ARTICLE V. USE OF THE PREMISES.

The terms of ARTICLE VII of the 1994 Lease are incorporated herein by reference.

#### ARTICLE VI. REPAIRS.

The terms of ARTICLE VIII of the 1994 Lease are incorporated herein by reference.

#### ARTICLE VII. CHANGES, ALTERATIONS AND IMPROVEMENTS.

The terms of ARTICLE IX of the 1994 Lease are incorporated herein by

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reference.

ARTICLE VIII. COMPLIANCE WITH LAWS, ETC.

The terms of ARTICLE X of the 1994 Lease are incorporated herein by reference, except where the estimated cost in the 1994 Lease is \$1,000,000, in this Lease it is \$200,000.

ARTICLE IX. NET LEASE; NON-TERMINABILITY.

The terms of ARTICLE XI of the 1994 Lease are incorporated herein by reference.

ARTICLE X. ASSIGNMENT.

The terms of ARTICLE XII of the 1994 Lease are incorporated herein by reference.

ARTICLE XI. INSURANCE.

The terms of ARTICLE XIII of the 1994 Lease are incorporated herein by reference.

ARTICLE XII. DAMAGE OR DESTRUCTION.

The terms of ARTICLE XIV.A.B. of the 1994 Lease are incorporated herein by reference.

ARTICLE XIII. MECHANICS LIENS.

The terms of ARTICLE XV of the 1994 Lease are incorporated herein by reference.

## ARTICLE XIV. CONDEMNATION.

The terms of ARTICLE XVI.A. B. D. E. F. of the 1994 Lease are incorporated herein as paragraphs A. B. C. D. E. of this Article.

## ARTICLE XV. TENANT'S TRADE FIXTURES.

The terms of ARTICLE XVII of the 1994 Lease are incorporated herein by reference.

## ARTICLE XVI. SIGNS.

The terms of ARTICLE XVIII of the 1994 Lease are incorporated herein by reference.

## ARTICLE XVII. INDEMNITY.

The first two paragraphs of ARTICLE XIX of the 1994 Lease are incorporated herein by reference.

## ARTICLE XVIII. ADVANCES BY THE LANDLORD; ENTRY BY LANDLORD.

The terms of ARTICLE XX of the 1994 Lease are incorporated herein by reference.

## ARTICLE XIX. TENANT'S DEFAULT.

The terms of ARTICLE XXI of the 1994 Lease are incorporated herein by reference.

## ARTICLE XX. ADDITIONAL RIGHTS OF PARTIES.

The terms of ARTICLE XXII of the 1994 Lease are incorporated herein by reference.

ARTICLE XXI. NOTICES, DEMANDS AND OTHER INSTRUMENTS.

The terms of ARTICLE XXIII of the 1994 Lease are incorporated herein by reference except that notice to the Tenant should be given to the attention of the Director of Real Estate.

ARTICLE XXII. JURY WAIVER.

The terms of ARTICLE XXIV of the 1994 Lease are incorporated herein by reference.

ARTICLE XXIII. SURRENDER.

The terms of ARTICLE XXV of the 1994 Lease are incorporated herein by reference.

ARTICLE XXIV. NO BROKER.

Tenant represents that no broker showed the Premises to it or interested it therein and agreed to hold Landlord harmless from the claims of any broker, provided such claims are based upon having shown the Premises to Tenant or interested it therein or was the procuring cause in this Lease.

ARTICLE XXV. SEPARABILITY.

The terms of ARTICLE XXVII of the 1994 Lease are incorporated herein by reference.

ARTICLE XXVI. BINDING EFFECT.

The terms of ARTICLE XXVIII of the 1994 Lease are incorporated herein by reference.

## ARTICLE XXVII. MORTGAGE AND SUBORDINATION.

A. This Lease shall, at such mortgagee's option, be subject and subordinate to the lien of any mortgage or mortgages which may now or hereafter affect or become a lien upon the Premises, provided that the mortgagee shall be an insurance company, a real estate investment trust, a bank, a savings and loan association or a pension fund or trust or a combination of the foregoing, and provided further the conditions in paragraph C are met.

B. Tenant shall execute any instruments which may be required to effectuate such subordination, consistent with the provisions of this Article, including, but not limited to, an acknowledgement that the commencement date has begun and the execution of an Estoppel Certificate, if required by the mortgagee, but in no event shall the execution of said Estoppel Certificate release Landlord from all of its obligations under this Lease.

C. The subordination of this Lease to the lien of mortgage or mortgages as aforesaid is subject to the express condition (and Landlord agrees in all events with respect to any mortgage affecting the Premises) that Landlord shall provide to Tenant a Subordination, Non-Disturbance and Attornment Agreement (the "Agreement") substantially in form as attached hereto as Schedule C.

## ARTICLE XXVIII. PERMITTED CONTEST.

The terms of ARTICLE XXX of the 1994 Lease are incorporated herein by reference.

## ARTICLE XXIX. LANDLORD DEFAULT.

The terms of ARTICLE XXXI of the 1994 Lease are incorporated herein by

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reference.

ARTICLE XXX. QUIET ENJOYMENT.

The terms of ARTICLE XXXII of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXI. NOTICE OF LEASE.

The terms of ARTICLE XXXIII of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXII. COUNTERPART EXECUTION.

The terms of ARTICLE XXXIV of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXIII. HEADINGS.

The terms of ARTICLE XXXV of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXIV. FURTHER ASSURANCES.

The terms of ARTICLE XXXVI of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXV. APPROVALS.

The terms of ARTICLE XXXVII of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXVI. ESTOPPEL CERTIFICATE.

The terms of ARTICLE XXXVIII of the 1994 Lease are incorporated herein by

ARTICLE XXXVII. FORCE MAJEURE.

The terms of ARTICLE XXXIX of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXVIII. ARBITRATION.

The terms of ARTICLE XXXX of the 1994 Lease are incorporated herein by reference.

ARTICLE XXXIX. OPTION TO RENEW.

A. Provided Tenant is not in default in the payment of rent, additional rent or other material term of this Lease beyond any applicable cure period, Tenant shall have the option of renewing the Lease (the "First Option to Renew") for an additional term of five (5) years (the "First Renewal Term") from October 1, 2010 to September 30, 2015, by sending to Landlord written notice on or before six months prior to said October 1, 2010 that it is extending the term. Upon receipt of such written notice the parties shall attempt to agree upon a fair Annual Basic Rent which shall be based upon the fair market rental of the Premises. In the event the parties cannot agree on such fair market rental for the Premises by at least one hundred forty-five (145) days before October 1, 2010, then Landlord and Tenant shall each appoint a member of the American Institute of Appraisers who shall have at least five years experience in appraising commercial property in Fairfield County, Connecticut. Such appointments shall be made in writing by each party to the other and to the appraisers so appointed. Said appointments shall be made at least one hundred twenty-

five (125) days before October 1, 2010. In the event said appraisers do not agree upon a fair market rental prior to sixty (60) days before October 1, 2010, they shall promptly appoint a third appraiser with similar qualifications, and said three appraisers shall determine the fair market rental of the Premises prior to thirty (30) days before October 1, 2010. If said three appraisers are unable jointly to agree prior to October 1, 2010 on the fair market rental of the Premises, then in that event an average of the three values for fair market rental shall be utilized, provided that the variation between the high value and the low value does not exceed five (5) percent, to determine the fair Annual Basic Rent. In the event of the failure of the appraisers to agree upon a third appraiser as aforesaid, or in the event the variation between the high rental and the low rental exceeds five (5) percent, or in the event that either Landlord or Tenant shall fail to appoint an appraiser as aforesaid within the time above set forth therefor, then either Landlord or Tenant shall make an application to the American Arbitration Association for the appointment of an appraiser, and such appraiser, together with advice from the other appraisers, shall determine the fair Annual Basic Rent as soon as possible after his appointment. Except for said Annual Basic Rent change, all of the other covenants and agreements contained herein shall remain in force and effect on the Premises during such First Renewal Term. Notwithstanding the foregoing, Tenant shall have the right to rescind its election to renew the term of this Lease, which rescission must be made prior to October 1, 2010. If Tenant shall so rescind its election to renew, the Lease shall terminate six (6) months after said October 1, 2010, during which six month period Tenant shall pay Annual Basic Rent at the new rate fixed by the process above described and shall

reimburse Landlord for all reasonable costs and expenses incurred by Landlord in connection with Tenant's exercise of the First Option to Renew.

B. Provided Tenant is not in default in payment of rent, additional rent or other material matter, Tenant shall have the option of renewing the Lease (the "Second Option to Renew") for an additional term of five (5) years (the "Second Renewal Term") from October 1, 2015 to September 30, 2020 by sending to Landlord written notice on or before six months prior to said October 1, 2015 that it is extending the term. Upon receipt of such written notice the parties shall attempt to agree upon a fair Annual Basic Rent which shall be based upon the fair market rental of the Premises. In the event the parties cannot agree on such fair market rental for the Premises by at least one hundred forty-five (145) days before October 1, 2015, then Landlord and Tenant shall each appoint a member of the American Institute of Appraisers who shall have at least five years experience in appraising commercial property in Fairfield County, Connecticut. Such appointments shall be made in writing by each party to the other and to the appraisers so appointed. Said appointments shall be made at least one hundred twenty-five (125) days before October 1, 2015. In the event said appraisers do not agree upon a fair market rental prior to sixty (60) days before October 1, 2015, they shall promptly appoint a third appraiser with similar qualifications, and said three appraisers shall determine the fair market rental of the Premises prior to thirty (30) days before October 1, 2015. If said three appraisers are unable jointly to agree prior to October 1, 2015 on the fair market rental of the Premises, then in that event an average of the three values for fair market rental shall be utilized, provided that the variation between the high

value and the low value does not exceed five (5) percent, to determine the fair Annual Basic Rent. In the event of the failure of the appraisers to agree upon a third appraiser as aforesaid, or in the event the variation between the high rental and the low rental exceeds five (5) percent, or in the event that either Landlord or Tenant shall fail to appoint an appraiser as aforesaid within the time above set forth therefor, then either Landlord or Tenant shall make an application to the American Arbitration Association for the appointment of an appraiser, and such appraiser, together with advice from the other appraisers, shall determine the fair Annual Basic Rent as soon as possible after his appointment. Except for said Annual Basic Rent change, all of the other covenants and agreements contained herein shall remain in force and effect during such Second Renewal Term. Notwithstanding the foregoing, Tenant shall have the right to rescind its election to renew the term of this Lease, which rescission must be made prior to October 1, 2015. If Tenant shall so rescind its election to renew, the lease shall terminate six (6) months after said October 1, 2015, during which six month period Tenant shall pay Annual Basic Rent at the new rate fixed by the process above described and shall reimburse Landlord for all reasonable costs and expenses incurred by Landlord in connection with Tenant's exercise of the Second Option to Renew.

C. Provided Tenant is not in default in payment of rent, additional rent or other material matter, Tenant shall have the option of renewing the Lease (the "Third Option to Renew") for an additional term of five (5) years (the "Third Renewal Term") from October 1, 2020 to September 30, 2025 by sending to Landlord written notice on or before six months prior to said October 1, 2020 that it is extending the term. Upon receipt of such

written notice the parties shall attempt to agree upon a fair Annual Basic Rent which shall be based upon the fair market rental of the Premises. In the event the parties cannot agree on such fair market rental for the Premises by at least one hundred forth-five (145) days prior to October 1, 2020, then Landlord and Tenant shall each appoint a member of the American Institute of Appraisers who shall have at least five years experience in appraising commercial property in Fairfield County, Connecticut. Such appointments shall be made in writing by each party to the other and to the appraisers so appointed. Said appointments shall be made at least one hundred twenty-five (125) days before October 1, 2020. In the event said appraisers do not agree upon fair market rental prior to sixty (60) days before October 1, 2020, they shall promptly appoint a third appraiser with similar qualifications, and said three appraisers shall determine the fair market rental of the Premises prior to thirty (30) days before October 1, 2020. If said three appraisers are unable jointly to agree prior to October 1, 2020 on the fair market rental of the Premises, then in that event an average of the three values for fair market rental shall be utilized, provided that the variation between the high value and the low value does not exceed five (5) percent, to determine the fair Annual Basic Rent. In the event of the failure of the appraisers to agree upon a third appraiser as aforesaid, or in the event the variation between the high rental and the low rental exceeds five (5) percent, or in the event that either Landlord or Tenant shall fail to appoint an appraiser as aforesaid within the time above set forth therefor, then either Landlord or Tenant shall make an application to the American Arbitration Association for the appointment of an appraiser, and such appraiser, together with advice from the other appraisers, shall

determine the fair Annual Basic Rent as soon as possible after his appointment. Except for said Annual Basic Rent change, all of the other covenants and agreements contained herein shall remain in force and effect during such Third Renewal Term. Notwithstanding the foregoing, Tenant shall have the right to rescind its election to renew the term of this Lease, which rescission must be made prior to October 1, 2020. If Tenant shall so rescind its election to renew, the lease shall terminate six (6) months after said October 1, 2020, during which six month period Tenant shall pay Annual Basic Rent at the new rate fixed by the process above described and shall reimburse Landlord for all reasonable costs and expenses incurred by Landlord in connection with Tenant's exercise of the Third Option to Renew.

ARTICLE XXXX. ENVIRONMENTAL REPRESENTATIONS.

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The terms of ARTICLE XXXXIV of the 1994 Lease are incorporated herein by reference except that paragraph A(i) is revoked and the following substituted therefor: "(i) that when Gartner enters into this lease, the Premises are free from any hazardous, toxic or dangerous substance or material (collectively, "Hazardous Material") defined as such (or meeting criteria so as to be defined as such) in a federal, state, local or municipal law, ordinance, code, decree or requirement regulating, relating to or imposing liability or standards of conduct concerning any Hazardous Material, as now or at any time hereinafter be in effect (collectively, Environmental Law)."

IN WITNESS WHEREOF, the parties have hereunto set their names and seals

the day and year first above written.

Signed, Sealed and Delivered  
in the presence of:

SOUNDVIEW FARMS

By /s/ Herbert M. Meyer

\_\_\_\_\_  
Herbert M. Meyer  
A Partner

GARTNER GROUP, INC.

By /s/ Paul S. Illegible

\_\_\_\_\_  
Its

STATE OF CONNECTICUT )  
                                  ) ss. Stamford  
COUNTY OF FAIRFIELD )

May 16, 1997

Personally appeared SOUNDVIEW FARMS, by Herbert M. Meyer, a Partner,  
hereunto duly authorized, signer and sealer of the foregoing instrument and  
acknowledged the same to be his free act and deed and the free act and deed of  
said SOUNDVIEW FARMS, before me.

/s/ Cathy J. Klein

\_\_\_\_\_  
Cathy J. Klein  
Notary Public  
MY COMMISSION EXPIRES SEP. 30, 2001

STATE OF CONNECTICUT )  
                                  ) ss. Stamford  
COUNTY OF FAIRFIELD )

May 16, 1997

Personally appeared GARTNER GROUP, INC., by Paul S. Parker its Vice Pres.,  
hereunto duly authorized, signer and sealer of the foregoing instrument and  
acknowledged the same to be his free act and deed and the free act and deed of  
said GARTNER GROUP, INC., before me.

/s/ Cathy J. Klein

\_\_\_\_\_  
Cathy J. Klein  
Notary Public  
MY COMMISSION EXPIRES SEP. 30, 2001

## SCHEDULE A

## Soundview Farms - Gartner Group, Inc.

ALL THAT CERTAIN tract of land with the building thereon, bounded northerly 230 feet by other land of Landlord, being Parcel 5 Map 9911 S.L.R. southeasterly 222.74 feet and easterly 4.0 feet by Dolphin Cove Lagoon southerly 178.97 feet more or less by other land of Landlord; westerly 220.01 feet by other land of Landlord, being a 25 foot right of way known as Signal Road and northwesterly 133.03 feet by Gate House Road together with an easement of way to and from said Premises to and from the public highway over and upon Signal Road, Gate House Road, Top Gallant Road, and Cummings Point Road.

SAID PREMISES are subject to the rights of others to use any travelled roads and ways crossing said Premises; governmental regulations, ordinances, statues and laws applicable to said Premises, including, without limit, the zoning and planning rules and regulations of the City of Stamford and the Zoning Board conditions imposed at the time of approval of site plans for improvements on the Premises; notes contained on a certain map entitled, "Subdivision Showing Parcel 7 Prepared for Soundview Farms, Stamford CT" now on file in the office of the Town Clerk of said Stamford and numbered 10145, reference thereto being had; grants to public utility companies of record; the rights of others (including Landlord) in and to any underground electric lines and equipment, storm drains, water and sewage lines within or crossing the Premises; the rights of others to use so much of said Premises as is located within the confines of Dolphin Cove Lagoon and a mortgage to The Equitable Life Assurance Society of the United States.

SAID PREMISES are shown and delineated on a certain map entitled, "Map Showing a Portion of Parcel 7, Map 10145 S.L.R. Prepared for Soundview Farms Stamford, Ct." by Parsons, Bromfield - Redniss & Mead Feb. 7, 1989 attached hereto as Exhibit A.

## SCHEDULE 5

[AMERICAN INSTITUTE OF ARCHITECTS LOGO]

STANDARD FORM OF AGREEMENT BETWEEN  
OWNER AND CONTRACTOR WHERE THE BASIS OF PAYMENT IS  
THE COST OF THE WORK PLUS A FEE WITH OR  
WITHOUT A GUARANTEED MAXIMUM PRICE

AIA DOCUMENT A111 - ELECTRONIC FORMAT

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THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES: CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION. AUTHENTICATION OF THIS ELECTRONICALLY DRAFTED AIA DOCUMENT MAY BE MADE BY USING AIA DOCUMENT D401.

The 1987 Edition of AIA Document A201, General Conditions of the Contract for Construction, is adopted in this document by reference. Do not use with other general conditions unless this document is modified. This document has been approved and endorsed by The Associated General Contractors of America.

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## AGREEMENT

made as of the day of in the year of Nineteen Hundred and 3/17/97

BETWEEN the Owner: The Gartner Group  
(Name and address) 56 Top Gallant Road  
Stamford, Ct. 06902

and the Contractor: Bull Finn Corp.  
(Name and address) 43 Gate House Road  
Stamford, Ct. 06902

the Project is: Interior Demo and Alteration  
(Name and address) 10 Signal Road  
Stamford, Ct. 06902

the Architect is: Corporate Design LLC  
(Name and address) 200 1st St.  
Stamford, Ct. 06902

The Owner and Contractor agree as set forth below:  
Contractor will obtain competitive quotes from subs whose work exceeds \$5,000.00. Contractor shall furnish Owner with proof of the existence of Workmen's Compensation Insurance, employer's liability insurance, limited liability per accident \$1,000,000, and general liability insurance with limited liability each occurrence \$2,000,000.

ARTICLE 1  
THE CONTRACT DOCUMENTS

1.1 The Contract Documents consist of this Agreement, Conditions of the Contract (General, Supplementary and other Conditions), Drawings, Specifications, Addenda issued prior to execution of this Agreement, other documents listed in this Agreement and Modifications issued after execution of this Agreement; these form the Contract, and are as fully a part of the Contract as if attached to this Agreement or repeated herein. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. An enumeration of the Contract Documents, other than Modifications, appears in Article 16. If anything in the other Contract Documents is inconsistent with this Agreement, this Agreement shall govern.

ARTICLE 2  
THE WORK OF THIS CONTRACT

2.1 The Contractor shall execute the entire Work described in the Contract Documents, except to the extent specifically indicated in the Contract Documents to be the responsibility of others, or as follows:

ARTICLE 3  
RELATIONSHIP OF THE PARTIES

3.1 The Contractor accepts the relationship of trust and confidence established by this Agreement and covenants with the Owner to cooperate with the Architect and utilize the Contractor's best skill, efforts and judgment in furthering the interests of the Owner; to furnish efficient business administration and supervision; to make best efforts to furnish at all times an adequate supply of workers and materials; and to perform the Work in the best way and most expeditious and economical manner consistent with the interests of the Owner. The Owner agrees to exercise best efforts to enable the Contractor to perform the Work in the best way and most expeditious manner by furnishing and approving in a timely way information required by the Contractor and making payments to the Contractor in accordance with requirements of the Contract Documents.

ARTICLE 4  
DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

4.1 The date of commencement is the date from which the Contract Time of Subparagraph 4.2 is measured; it shall be the date of this Agreement, as first written above, unless a different date is stated below or provision is made for the date to be fixed in a notice to proceed issued by the Owner.  
(Insert the date of commencement, if it differs from the date of this Agreement or, if applicable, state that the date will be fixed in a notice to proceed)

Unless the date of commencement is established by a notice to proceed issued by the Owner, the Contractor shall notify the Owner in writing not less than five days before commencing the Work to permit timely filing of mortgages, mechanic's liens and other security interests.

4.2 The Contractor shall achieve Substantial Completion of the entire Work not later than 60 working days after building permit, which time shall be extended by a period equal to the number of days during which Contractor is prevented from, or is unreasonably interfered with completion of such act, matter or thing as a result of strike, labor troubles, agreed upon additional work or delays resulting from arbitration governmental preemption in connection with national emergency, any rule, order or regulation of any governmental agencies, conditions of supply or demand which are affected by war or other national, state or municipal emergency or other cause occurring without the fault and beyond the reasonable control (but excluding price increases) of such Contractor.

(Insert the calendar date or number of calendar days after the date of commencement. Also insert any requirements for earlier Substantial Completion of certain portions of the Work, if not stated elsewhere in the Contract Documents), subject to adjustments of this Contract Time as provided in the Contract Documents.

(Insert provisions, if any, for liquidated damages relating to failure to complete on time)

ARTICLE 5  
CONTRACT SUM

5.1 The Owner shall pay the Contractor in current funds for the Contractor's performance of the Contract the Contract Sum consisting of the Cost of the Work as defined in Article 7 and the Contractor's Fee determined as follows: (State a lump sum, percentage of Cost of the Work or other provision for determining the Contractor's Fee, and explain how the Contractor's Fee is to be adjusted for changes in the Work.) 15% of the cost of work

5.2 GUARANTEED MAXIMUM PRICE (IF APPLICABLE)

ARTICLE 6  
CHANGES IN THE WORK

6.1 CONTRACTS WITH A GUARANTEED MAXIMUM PRICE

6.2 CONTRACTS WITHOUT A GUARANTEED MAXIMUM PRICE

6.2.1 Increased costs for the items set forth in Article 7 which result from changes in the Work shall become part of the Cost of the Work, and the Contractor's Fee shall be adjusted as provided in Paragraph 5.1.

6.3 ALL CONTRACTS

ARTICLE 7  
COSTS TO BE REIMBURSED

7.1 The term Cost of the Work shall mean costs necessarily incurred by the Contractor in the proper performance of the Work. Such costs shall be at rates not higher than the standard paid at the place of the Project except with prior consent of the Owner. The Cost of the Work shall include only the items set forth in this Article 7.

7.1.1 LABOR COSTS

7.1.1.1 Wages of construction workers directly employed by the Contractor to perform the construction of the Work at the site or, with the Owner's agreement, at off-site workshops.

7.1.1.2 Wages or salaries of the Contractor's supervisory and administrative personnel when stationed at the site with the Owner's agreement.

(If it is intended that the wages or salaries of certain personnel stationed at the Contractor's principal or other offices shall be included in the Cost of Work, identify in Article 14 the personnel to be included and whether for all or only part of their time.)

7.1.1.3 Wages and salaries of the Contractor's supervisory or administrative personnel engaged, at factories, workshops or on the road, in expediting the production or transportation of materials or equipment required for the Work, but only for that portion of their time required for the Work.

7.1.1.4 Costs paid or incurred by the Contractor for taxes, insurance, contributions, assessments and benefits required by law or collective bargaining agreements and, for personnel not covered by such agreements, customary benefits such as sick leave, medical and health benefits, holidays, vacations and pensions, provided such costs are based on wages and salaries included in the Cost of the Work under Clauses 7.1.1.1 through 7.1.1.3.

7.1.2 SUBCONTRACT COSTS

Payments made by the Contractor to Subcontractors in accordance with the requirements of the subcontracts.

7.1.3 COSTS OF MATERIALS AND EQUIPMENT INCORPORATED IN THE COMPLETED CONSTRUCTION

7.1.3.1 Costs, including transportation, of materials and equipment incorporated or to be incorporated in the completed construction.

7.1.3.2 Costs of materials described in the preceding Clause 7.1.3.1 in excess of those actually installed but required to provide reasonable allowance for waste and for spoilage. Unused excess materials, if any, shall be handed over to the Owner at the completion of the Work or, at the Owner's option, shall be sold by the Contractor, amounts realized, if any, from such sales shall be credited to the Owner as a deduction from the Cost of the Work.

7.1.4 COSTS OF OTHER MATERIALS AND EQUIPMENT, TEMPORARY FACILITIES AND RELATED ITEMS

7.1.4.1 Costs, including transportation, installation, maintenance, dismantling and removal of materials, supplies, temporary facilities, machinery, equipment, and hand tools not customarily owned by the construction workers, which are provided by the Contractor at the site and fully consumed in the performance of the Work; and cost less salvage value on such items if not fully consumed, whether sold to others or retained by the Contractor. Cost for items previously used by the Contractor shall mean fair market value.

7.1.4.2 Rental charges for temporary facilities, machinery, equipment, and hand tools not customarily owned by the construction workers, which are provided by the Contractor at the site, whether rented from the Contractor or others, and costs of transportation, installation, minor repairs and replacements, dismantling and removal thereof. Rates and quantities of equipment rented shall be subject to the Owner's prior approval.

7.1.4.3 Costs of removal of debris from the site.

7.1.4.4 Costs of telegrams and long-distance telephone calls, postage and parcel delivery charges, telephone service at the site and reasonable petty cash expenses of the site office.

7.1.4.5 That portion of the reasonable travel and subsistence expenses of the Contractor's personnel incurred while traveling in discharge of duties connected with the Work.

#### 7.1.5 MISCELLANEOUS COSTS

7.1.5.1 That portion directly attributable to this Contract of premiums for insurance and bonds.

7.1.5.2 Sales, use or similar taxes imposed by a governmental authority which are related to the Work and for which the Contractor is liable.

7.1.5.3 Fees and assessments for the building permit and for other permits, licenses and inspections for which the Contractor is required by the Contract Documents to pay.

7.1.5.4 Fees of testing laboratories for tests required by the Contract Documents, except those related to defective or nonconforming Work for which reimbursement is excluded by Subparagraph 13.5.3 of the General Conditions or other provisions of the Contract Documents and which do not fall within the scope of Subparagraphs 7.2.2 through 7.2.4 below.

7.1.5.5 Royalties and license fees paid for the use of a particular design, process or product required by the Contract Documents; the cost of defending suits or claims for infringement of patent rights arising from such requirement by the Contract Documents; payments made in accordance with legal judgments against the Contractor resulting from such suits or claims and payments of settlements made with the Owner's consent; provided, however, that such costs of legal defenses, judgment and settlements shall not be included in the calculation of the Contractor's Fee or of a Guaranteed Maximum Price, if any, and provided that such royalties, fees and costs are not excluded by the last sentence of Subparagraph 3.17.1 of the General Conditions or other provisions of the Contract Documents.

7.1.5.6 Deposits lost for causes other than the Contractor's fault or negligence.

#### 7.1.6 OTHER COSTS

7.1.6.1 Other costs incurred in the performance of the Work if and to the extent approved in advance in writing by the Owner.

#### 7.2 EMERGENCIES: REPAIRS TO DAMAGED, DEFECTIVE OR NONCONFORMING WORK

The Cost of the Work shall also include costs described in Paragraph 7.1 which are incurred by the Contractor;

7.2.1 In taking action to prevent threatened damage, injury or loss in case of an emergency affecting the safety of persons and property, as provided in Paragraph 10.3 of the General Conditions.

7.2.2 In repairing or correcting Work damaged or improperly executed by construction workers in the employ of the Contractor, provided such damage or improper execution did not result from the fault or negligence of the Contractor or the Contractor's foremen, engineers or superintendents, or other supervisory, administrative or managerial personnel of the Contractor.

7.2.3 In repairing damaged Work other than that described in Subparagraph 7.2.2, provided such damage did not result from the fault or negligence of the Contractor or the Contractor's personnel, and only to the extent that the cost of such repairs is not recoverable by the Contractor from others and the Contractor is not compensated therefor by insurance or otherwise.

7.2.4 In correcting defective or nonconforming Work performed or supplied by a Subcontractor or material supplier and not corrected by them, provided such defective or nonconforming Work did not result from the fault or neglect of the Contractor or the Contractor's personnel adequately to supervise and direct the Work of the Subcontractor or material supplier, and only to the extent that the cost of correcting the defective or nonconforming Work is not recoverable by the Contractor from the Subcontractor or

material supplier.

ARTICLE 8  
COSTS NOT TO BE REIMBURSED

8.1 The Cost of the Work shall not include:

8.1.1 Salaries and other compensation of the Contractor's personnel stationed at the Contractor's principal office or offices other than the site office, except as specifically provided in Clauses 7.1.1.2 and 7.1.1.3 or as may be provided in Article 14.

8.1.2 Expenses of the Contractor's principal office and offices other than the site office.

8.1.3 Overhead and general expenses, except as may be expressly included in Article 7.

8.1.4 The Contractor's capital expenses, including interest on the Contractor's capital employed for the Work.

8.1.5 Rental costs of machinery and equipment, except as specifically provided in Clause 7.1.4.2

8.1.6 Except as provided in Subparagraphs 7.2.2 through 7.2.4 and Paragraph 13.5 of this Agreement, costs due to the fault or negligence of the Contractor, Subcontractors, anyone directly or indirectly employed by any of them, or for whose acts any of them may be liable, including but not limited to costs for the correction of damaged, defective or nonconforming Work, disposal and replacement of materials and equipment incorrectly ordered or supplied, and making good damage to property not forming part of the Work.

8.1.7 Any cost not specifically and expressly described in Article 7.

8.1.8 Costs which would cause the Guaranteed Maximum Price, if any, to be exceeded.

ARTICLE 9  
DISCOUNTS, REBATES AND REFUNDS

9.1 Cash discounts obtained on payments made by the Contractor shall accrue to the Owner if (1) before making the payment, the Contractor included them in an Application for Payment and received payment therefor from the Owner, or (2) the Owner has deposited funds with the Contractor with which to make payments; otherwise, cash discounts shall accrue to the Contractor. Trade discounts, rebates, refunds and amounts received from sales of surplus materials and equipment shall accrue to the Owner, and the Contractor shall make provisions so that they can be secured.

9.2 Amounts which accrue to the Owner in accordance with the provisions of Paragraph 9.1 shall be credited to the Owner as a deduction from the Cost of the Work.

ARTICLE 10  
SUBCONTRACTS AND OTHER AGREEMENTS

10.1 Those portions of the Work that the Contractor does not customarily perform with the Contractor's own personnel shall be performed under subcontracts or by other appropriate agreements with the Contractor. The Contractor shall obtain bids from Subcontractors and from suppliers of materials or equipment fabricated especially for the Work and shall deliver such bids to the Architect. The Owner will then determine, with the advice of the Contractor and the Owner may designate specific persons or entities from whom the Contractor shall obtain bids; however, if a Guaranteed Maximum Price has been established, the Owner may not prohibit the Contractor from obtaining bids from others. The Contractor shall not be required to contract with anyone to whom the Contractor has reasonable objection.

10.3 Subcontracts or other agreements shall conform to the payment provisions of Paragraphs 12.7 and 12.8, and shall not be awarded on the basis of cost plus a fee without the prior consent of the Owner.

ARTICLE 11  
ACCOUNTING RECORDS

11.1 The Contractor shall keep full and detailed accounts and exercise such controls as may be necessary for proper financial management under this Contract; the accounting and control systems shall be satisfactory to the Owner. The Owner and the Owner's accountants shall be afforded access to the Contractor's records, books, correspondence, instructions, drawings, receipts, subcontracts, purchase orders, vouchers, memoranda and other data relating to this Contract, and the Contractor shall preserve these for a period of three years after final payment, or for such longer period as may be required by law.

ARTICLE 12  
PROGRESS PAYMENTS

12.1 Based upon Applications for Payment submitted to the Architect by the Contractor and the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided below and elsewhere in the Contract Documents.

12.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month, or as follows:

12.3 Provided an Application for Payment is received by the Owner not later than the third day of a month, the Owner shall make payment to the Contractor not later than the fifteenth day of the month. Application for Payment.

12.4 With each Application for Payment the Contractor shall submit payrolls, petty cash accounts, receipted invoices or invoices with check vouchers attached, and any other evidence required by the Owner or Architect to demonstrate that cash disbursements already made by the Contractor on account of the Cost of the Work equal or exceed (1) progress payments already received by the Contractor; less (2) that portion of those payments attributable to the Contractor's Fee; plus (3) payrolls for the period covered by the present Application for Payment; plus (4) retainage provided in Subparagraph 12.5.4, if any, applicable to prior progress payments.

12.5.4 Additional retainage, if any, shall be as follows:

(If it is intended to retain additional amounts from progress payments to the Contractor beyond (1) the retainage from the Contractor's fee provided in Clause 12.5.3.3. (2) the retainage from Subcontractors provided in Paragraph 12.7 below, and (3) the retainage, if any, provided by other provisions of the Contract, insert provision for such additional retainage here. Such provision, if made, should also describe any arrangement for limiting or reducing the amount retained after the Work reaches a certain state of completion.)

12.6 CONTRACTS WITHOUT A GUARANTEED MAXIMUM PRICE

12.6.1 Applications for Payment shall show the Cost of the Work actually incurred by the Contractor through the end of the period covered by the Application for Payment and for which the Contractor has made or intends to make actual payment prior to the next Application for Payment.

12.6.2 Subject to other provisions of the Contract Documents, the amount of each progress payment shall be computed as follows:

12.6.2.1 Take the Cost of the Work as described in Subparagraph 12.6.1.

12.6.2.2 Add the Contractor's Fee, less retainage of ten percent (10%). The Contractor's Fee shall be computed upon the Cost of the Work described in the preceding Clause 12.6.2.1 at the rate stated in Paragraph 5.1, an amount which bears the same ratio to that fixed-sum Fee as the Cost of the Work in the preceding Clause bears to a reasonable estimate of the probable Cost of the Work upon its completion.

12.6.2.3 Subtract the aggregate of previous payments made by the Owner.

12.6.2.4 Subtract the shortfall, if any, indicated by the Contractor in the documentation required by Paragraph 12.4 or to substantiate prior Applications for Payment or resulting from errors subsequently discovered by the Owner's accountants in such documentation.

12.7 Except with the Owner's prior approval, payments to Subcontractors included in the Contractor's Applications for Payment shall not exceed an amount for each Subcontractor calculated as follows:

12.7.1 Take that portion of the Subcontract Sum properly allocable to completed Work as determined by multiplying the percentage completion of each portion of the Subcontractor's Work by the share of the total Subcontract Sum allocated to that portion in the Subcontractor's schedule of values, less retainage of percent (%).

12.7.2 Add that portion of the Subcontract Sum properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work or, if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing, less retainage of percent (%).

12.7.3 Subtract the aggregate of previous payments made by the Contractor to the Subcontractor.

12.7.4 Subtract amounts, if any, for which the Architect has withheld or nullified a Certificate for Payment by the Owner to the Contractor for reasons which are the fault of the Subcontractor.

12.7.5 Add, upon Substantial Completion of the entire Work of the Contractor, a sum sufficient to increase the total payments to the Subcontractor to percent (%) of the Subcontract Sum, less amounts, if any, for incomplete Work and unsettled claims; and, if final completion of the entire Work is thereafter materially delayed through no fault of the Subcontractor, add any additional amounts payable on account of Work of the Subcontractor in accordance with Subparagraph 9.10.3 of the General Conditions. (If it is intended, prior to Substantial Completion of the entire Work of the Contractor, to reduce or limit the retainage from Subcontractors resulting from the percentages inserted in Subparagraphs 12.7.1 and 12.7.2 above, and this is not explained elsewhere in the Contract Documents, insert here provisions for such reduction or limitation.)

The Subcontract Sum is the total amount stipulated in the subcontract to be paid by the Contractor to the Subcontractor for the Subcontractor's performance of the subcontract.

12.8 Except with the Owner's prior approval, the Contractor shall not make advance payments to suppliers for materials or equipment which have not been delivered and stored at the site.

ARTICLE 13  
FINAL PAYMENT

13.1 Final payment shall be made by the Owner to the Contractor when (1) the Contract has been fully performed by the Contractor except for the Contractor's responsibility to correct defective or nonconforming Work, as provided in Subparagraph 12.2.2 of the General Conditions, and to satisfy other requirements, if any, which necessarily survive final payment; (2) a final Application for Payment and a final accounting for the Cost of the Work have been submitted by the Contractor and reviewed by the Owner's accountants; and (3) a final Certificate for Payment has then been issued by the Architect; such final payment shall be made by the Owner not more than 30 days after the issuance of the Architect's final Certificate for Payment, or as follows:

ARTICLE 14  
MISCELLANEOUS PROVISIONS

14.1 Where reference is made in this Agreement to a provision of the General Conditions or another Contract Document, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

14.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.

(Insert rate of interest agreed upon, if any)

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Contractor's principal places of business, the location of the Project and elsewhere may affect the validity of this provision. Legal advice should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

14.3 Other provisions:

ARTICLE 15  
TERMINATION OR SUSPENSION

15.1 The Contract may be terminated by the Contractor as provided in Article 14 of the General Conditions; however, the amount to be paid to the Contractor under Subparagraph 14.1.2 of the General Conditions shall not exceed the amount the Contractor would be entitled to receive under Paragraph 15.3 below, except that the Contractor's Fee shall be calculated as if the Work had been fully completed by the Contractor, including a reasonable estimate of the Cost of the Work for Work not actually completed.

15.3 If no Guaranteed Maximum Price is established in Article 5, the Contract may be terminated by the Owner for cause as provided in Article 14 of the General Conditions; however, the Owner shall then pay the Contractor an amount calculated as follows:

15.3.1 Take the Cost of the Work incurred by the Contractor to the date of termination.

15.3.2 Add the Contractor's Fee computed upon the Cost of the Work to the date of termination at the rate stated in Paragraph 5.1.

15.3.3 Subtract the aggregate of previous payments made by the Owner. The Owner shall also pay the Contractor fair compensation, either by purchase or rental at the election of the Owner, for any equipment owned by the Contractor which the Owner elects to retain and which is not otherwise included in the Cost of the Work under Subparagraph 15.3.1. To the extent that the Owner elects to take legal assignment of subcontracts and purchase orders (including rental agreements), the Contractor shall, as a condition of receiving the payments referred to in this Article 15, execute and deliver all such papers and take all such steps, including the legal assignment of such subcontracts and other contractual rights of the Contractor, as the Owner may require for the purpose of fully vesting in the Owner the rights and benefits of the Contractor under such subcontracts or purchase orders.

15.4 The Work may be suspended by the Owner as provided in Article 14 of the General Conditions; in such case, the Guaranteed Maximum Price, if any, shall be increased as provided in Subparagraph 14.3.2 of the General Conditions except that the term "cost of performance of the Contract" in that Subparagraph shall be understood to mean the Cost of the Work and the term "profit" shall be understood to mean the Contractor's Fee as described in Paragraphs 5.1 and 6.3 of this Agreement.

ARTICLE 16  
ENUMERATION OF CONTRACT DOCUMENTS

16.1 The Contract Documents, except for Modifications issued after execution of this Agreement, are enumerated as follows:

16.1.1 The Agreement is this executed Standard Form of Agreement Between Owner and Contractor, AIA Document A111, 1987 Edition.

Document	Title	Pages
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16.1.4 The Specifications are those contained in the Project Manual dated as in Paragraph 16.1.3, and are as follows:

(Either list the Specifications here or refer to an exhibit attached to this Agreement.)

Section	Title	Pages
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16.1.5 The Drawings are as follows, and are dated, unless a different date is shown below:

(Either list the Drawings here or refer to an exhibit attached to this Agreement.)

Number	Title	Date
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16.1.6 The Addenda, if any, are as follows:

Number	Date	Pages
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Portions of Addenda relating to bidding requirements are not part of the Contract Documents unless the bidding requirements are also enumerated in this Article 16.

16.1.7 Other Documents, if any, forming part of the Contract Documents are as follows:

(List here any additional documents which are intended to form part of the Contract Documents. The General Conditions provide that bidding requirements such as advertisement or invitation to bid, Instructions to Bidders, sample forms and the Contractor's bid are not part of the Contract Documents unless enumerated in this Agreement. They should be listed here only if intended to be part of the Contract Documents.)

This Agreement is entered into as of the day and year first written above and is executed in at least three original copies of which one is to be delivered to the Contractor, one to the Architect for use in the administration of the Contract, and the remainder to the Owner.

OWNER

/s/ Paul S. Par  
 -----  
 (Signature)  
 (Printed name and title)

CONTRACTOR

/s/ (Signature illegible)  
 -----  
 (Signature)  
 (Printed name and title)

## PROMISSORY NOTE

\$5,475,000

June 4, 1997

1. FOR VALUE RECEIVED, the undersigned, MANUEL A. FERNANDEZ (the "Maker"), promises to pay to the order of GARTNER GROUP, INC. (the "Lender"), at its office at 56 Top Gallant Road, Stamford, Connecticut, or at such other place as the holder hereof (including the Lender, hereinafter referred to as the "Holder") may designate, in lawful money of the United States, the principal sum of FIVE MILLION FOUR HUNDRED SEVENTY FIVE THOUSAND AND NO/100 DOLLARS (\$5,475,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before maturity, default or judgment, at an annual rate of interest equal to 6.14%, which interest rate is the Applicable Federal Rate (the "Note Rate").

2. Interest under this Note shall be compounded semi-annually and payable in arrears on the basis of a 360-day year, and the actual days elapsed together with (a) all taxes levied or assessed against the Holder on this Note or the debt evidenced hereby, except for income or other similar taxes, however designated, on income derived by the Holder herefrom, and (b) all costs, expenses, attorneys' fees and professionals' fees incurred by the Holder in (i) any action to collect this Note or to foreclose any security for this Note, or (ii) in protecting or sustaining the lien of any security, or (iii) in any litigation or controversy arising from or connected with any security agreement or this Note.

3. The Maker shall repay the principal amount of this Note, together with accrued interest on June 3, 1999 (the "Maturity Date"); however, the Holder, in its sole and absolute discretion, may elect to accelerate the indebtedness of this Note upon the occurrence of an "Event of Default" (as defined below).

4. The Maker agrees that (i) if Maker shall cease to be employed by the Lender, for any reason, (ii) if Maker shall suffer or permit the filing by or against him of any petition for relief, arrangement, reorganization or the like under any bankruptcy or insolvency law, make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of his property; or (iii) if any Event of Default shall occur under any agreement securing this Note or executed in connection with this Note; or (iv) if any Event of Default shall occur under any other liability, indebtedness or obligation of the Maker to the Holder; (each of the events and circumstances in (i), (ii), (iii) and (iv) being an Event of Default), then, upon the happening of any such Event of Default, the entire indebtedness with accrued interest due under this Note and all other expenses, including, but not limited to, attorneys' fees incurred by the Holder in collecting or enforcing payment hereof, shall accelerate and become immediately due and payable at the option of the Holder without notice and without regard to the Maturity Date and the Holder may proceed to exercise any rights or remedies that it may have by law or at equity under this Note or any other agreement relating to the loan evidenced by this Note.

5. Failure of the Holder to exercise its option to accelerate the indebtedness of this Note shall not constitute a waiver of the Holder's right to exercise the same in the event of any subsequent default.

6. The Maker agrees that the interest rate shall increase by 2% per annum above the Note Rate from and after the date of an Event of Default or after maturity, by acceleration or otherwise, or judgment, and such additional rate shall remain in effect until all unpaid principal and interest are satisfied in full.

7. The Maker may prepay the indebtedness of this Note in part or in full at any time without the imposition of any penalty. Unless applicable law provides otherwise, all payments received by the Holder under this Note shall, at the option of the Holder, be applied (a) to the then outstanding charges and expenses incurred by the Holder in sustaining and/or enforcing this Note or any security granted for this Note; then (b) to any unpaid and accrued interest; and finally, (c) to the outstanding principal indebtedness.

8. Notwithstanding any provisions of this Note, the maximum rate of interest to be paid hereunder shall not exceed the maximum rate of interest permissible to be charged by the Holder under applicable laws. Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

9. The Maker gives the Holder a lien and right of setoff for all the Maker's liabilities upon and against all the deposits, credits, collateral and property of the Maker, now or hereafter in the possession or control of the Holder or in transit to it. The Holder may, upon the occurrence of an Event of Default, apply or set off the same, or any part thereof, to any liability of the Maker even though unmatured.

10. The Holder's failure to insist upon the strict performance of any term herein shall not be deemed to be a waiver, and the Holder shall retain the right thereafter to insist upon strict performance by the Maker of all terms of this Note or any agreement securing this Note or executed in connection herewith.

11. All amounts due under this Note are secured by the Maker's pledge to the Lender of this date of shares of the Lender's common stock.

12. THE MAKER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES HIS RIGHTS TO NOTICE AND HEARING AS ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER MAY DESIRE TO USE. THE MAKER WAIVES DILIGENCE, DEMAND, PRESENTMENT FOR PAYMENT, NOTICE OF NONPAYMENT, PROTEST AND NOTICE OF PROTEST, AND NOTICE OF ANY RENEWALS OR EXTENSIONS OF THIS NOTE, AND ALL RIGHTS UNDER ANY STATUTES OF LIMITATIONS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

13. THE MAKER WAIVES TRIAL BY JURY IN ANY COURT IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTION OF WHICH THIS NOTE IS A PART AND/OR TO THE DEFENSE OR ENFORCEMENT OF ANY OF THE HOLDER'S RIGHTS AND REMEDIES, INCLUDING, WITHOUT LIMITATION, TORT CLAIMS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

14. This Note and the provisions hereof shall inure to the benefit of the Holder, its successors and assigns and shall be binding upon the undersigned his heirs, executors, administrators and assigns.

15. This Note shall be governed by and construed in accordance with the laws of the State of Connecticut. The Maker submits to personal jurisdiction in the State of Connecticut for the enforcement of the Maker's obligations hereunder and under any agreement securing this Note, and the Maker waives all rights under the laws of any other state to object to jurisdiction within the State of Connecticut. If litigation is commenced, the Maker agrees that service of process may be made and personal jurisdiction over the Maker obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon the Maker by registered or certified mail to or by personal service at the last known address of the Maker.

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MANUEL A. FERNANDEZ

## PROMISSORY NOTE

\$375,000

June 4, 1997

1. FOR VALUE RECEIVED, the undersigned, WILLIAM CLIFFORD (the "Maker"), promises to pay to the order of GARTNER GROUP, INC. (the "Lender"), at its office at 56 Top Gallant Road, Stamford, Connecticut, or at such other place as the holder hereof (including the Lender, hereinafter referred to as the "Holder") may designate, in lawful money of the United States, the principal sum of THREE HUNDRED SEVENTY FIVE THOUSAND AND NO/100 DOLLARS (\$375,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before maturity, default or judgment, at an annual rate of interest equal to 6.14%, which interest rate is the Applicable Federal Rate (the "Note Rate").

2. Interest under this Note shall be compounded semi-annually and payable in arrears on the basis of a 360-day year, and the actual days elapsed together with (a) all taxes levied or assessed against the Holder on this Note or the debt evidenced hereby, except for income or other similar taxes, however designated, on income derived by the Holder herefrom, and (b) all costs, expenses, attorneys' fees and professionals' fees incurred by the Holder in (i) any action to collect this Note or to foreclose any security for this Note, or (ii) in protecting or sustaining the lien of any security, or (iii) in any litigation or controversy arising from or connected with any security agreement or this Note.

3. The Maker shall repay the principal amount of this Note, together with accrued interest on June 3, 1999 (the "Maturity Date"); however, the Holder, in its sole and absolute discretion, may elect to accelerate the indebtedness of this Note upon the occurrence of an "Event of Default" (as defined below).

4. The Maker agrees that (i) if Maker shall cease to be employed by the Lender, for any reason, (ii) if Maker shall suffer or permit the filing by or against him of any petition for relief, arrangement, reorganization or the like under any bankruptcy or insolvency law, make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of his property; or (iii) if any Event of Default shall occur under any agreement securing this Note or executed in connection with this Note; or (iv) if any Event of Default shall occur under any other liability, indebtedness or obligation of the Maker to the Holder; (each of the events and circumstances in (i), (ii), (iii) and (iv) being an Event of Default), then, upon the happening of any such Event of Default, the entire indebtedness with accrued interest due under this Note and all other expenses, including, but not limited to, attorneys' fees incurred by the Holder in collecting or enforcing payment hereof, shall accelerate and become immediately due and payable at the option of the Holder without notice and without regard to the Maturity Date and the Holder may proceed to exercise any rights or remedies that it may have by law or at equity under this Note or any other agreement relating to the loan evidenced by this

5. Failure of the Holder to exercise its option to accelerate the indebtedness of this Note shall not constitute a waiver of the Holder's right to exercise the same in the event of any subsequent default.

6. The Maker agrees that the interest rate shall increase by 2% per annum above the Note Rate from and after the date of an Event of Default or after maturity, by acceleration or otherwise, or judgment, and such additional rate shall remain in effect until all unpaid principal and interest are satisfied in full.

7. The Maker may prepay the indebtedness of this Note in part or in full at any time without the imposition of any penalty. Unless applicable law provides otherwise, all payments received by the Holder under this Note shall, at the option of the Holder, be applied (a) to the then outstanding charges and expenses incurred by the Holder in sustaining and/or enforcing this Note or any security granted for this Note; then (b) to any unpaid and accrued interest; and finally, (c) to the outstanding principal indebtedness.

8. Notwithstanding any provisions of this Note, the maximum rate of interest to be paid hereunder shall not exceed the maximum rate of interest permissible to be charged by the Holder under applicable laws. Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

9. The Maker gives the Holder a lien and right of setoff for all the Maker's liabilities upon and against all the deposits, credits, collateral and property of the Maker, now or hereafter in the possession or control of the Holder or in transit to it. The Holder may, upon the occurrence of an Event of Default, apply or set off the same, or any part thereof, to any liability of the Maker even though unmatured.

10. The Holder's failure to insist upon the strict performance of any term herein shall not be deemed to be a waiver, and the Holder shall retain the right thereafter to insist upon strict performance by the Maker of all terms of this Note or any agreement securing this Note or executed in connection herewith.

11. All amounts due under this Note are secured by the Maker's pledge to the Lender of this date of shares of the Lender's common stock.

12. THE MAKER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES HIS RIGHTS TO NOTICE AND HEARING AS ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER MAY DESIRE TO USE. THE MAKER WAIVES DILIGENCE, DEMAND, PRESENTMENT FOR PAYMENT, NOTICE OF NONPAYMENT, PROTEST AND NOTICE OF PROTEST, AND NOTICE OF ANY RENEWALS OR EXTENSIONS OF THIS NOTE, AND ALL RIGHTS UNDER ANY STATUTES OF LIMITATIONS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

13. THE MAKER WAIVES TRIAL BY JURY IN ANY COURT IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTION OF WHICH THIS NOTE IS A PART AND/OR TO THE DEFENSE OR ENFORCEMENT OF ANY OF THE HOLDER'S RIGHTS AND REMEDIES, INCLUDING, WITHOUT LIMITATION, TORT CLAIMS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

14. This Note and the provisions hereof shall inure to the benefit of the Holder, its successors and assigns and shall be binding upon the undersigned his heirs, executors, administrators and assigns.

15. This Note shall be governed by and construed in accordance with the laws of the State of Connecticut. The Maker submits to personal jurisdiction in the State of Connecticut for the enforcement of the Maker's obligations hereunder and under any agreement securing this Note, and the Maker waives all rights under the laws of any other state to object to jurisdiction within the State of Connecticut. If litigation is commenced, the Maker agrees that service of process may be made and personal jurisdiction over the Maker obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon the Maker by registered or certified mail to or by personal service at the last known address of the Maker.

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WILLIAM CLIFFORD

## PROMISSORY NOTE

\$750,000

June 4, 1997

1. FOR VALUE RECEIVED, the undersigned, E. FOLLETT CARTER, (the "Maker"), promises to pay to the order of GARTNER GROUP, INC. (the "Lender"), at its office at 56 Top Gallant Road, Stamford, Connecticut, or at such other place as the holder hereof (including the Lender, hereinafter referred to as the "Holder") may designate, in lawful money of the United States, the principal sum of SEVEN HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$750,000), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before maturity, default or judgment, at an annual rate of interest equal to 6.14%, which interest rate is the Applicable Federal Rate (the "Note Rate").

2. Interest under this Note shall be compounded semi-annually and payable in arrears on the basis of a 360-day year, and the actual days elapsed together with (a) all taxes levied or assessed against the Holder on this Note or the debt evidenced hereby, except for income or other similar taxes, however designated, on income derived by the Holder herefrom, and (b) all costs, expenses, attorneys' fees and professionals' fees incurred by the Holder in (i) any action to collect this Note or to foreclose any security for this Note, or (ii) in protecting or sustaining the lien of any security, or (iii) in any litigation or controversy arising from or connected with any security agreement or this Note.

3. The Maker shall repay the principal amount of this Note, together with accrued interest on June 3, 1999 (the "Maturity Date"); however, the Holder, in its sole and absolute discretion, may elect to accelerate the indebtedness of this Note upon the occurrence of an "Event of Default" (as defined below).

4. The Maker agrees that (i) if Maker shall cease to be employed by the Lender, for any reason, (ii) if Maker shall suffer or permit the filing by or against him of any petition for relief, arrangement, reorganization or the like under any bankruptcy or insolvency law, make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of his property; or (iii) if any Event of Default shall occur under any agreement securing this Note or executed in connection with this Note; or (iv) if any Event of Default shall occur under any other liability, indebtedness or obligation of the Maker to the Holder; (each of the events and circumstances in (i), (ii), (iii) and (iv) being an Event of Default), then, upon the happening of any such Event of Default, the entire indebtedness with accrued interest due under this Note and all other expenses, including, but not limited to, attorneys' fees incurred by the Holder in collecting or enforcing payment hereof, shall accelerate and become immediately due and payable at the option of the Holder without notice and without regard to the Maturity Date and the Holder may proceed to exercise any rights or remedies that it may have by law or at equity under this Note or any other agreement relating to the loan evidenced by this Note.

5. Failure of the Holder to exercise its option to accelerate the indebtedness of this Note shall not constitute a waiver of the Holder's right to exercise the same in the event of any subsequent default.

6. The Maker agrees that the interest rate shall increase by 2% per annum above the Note Rate from and after the date of an Event of Default or after maturity, by acceleration or otherwise, or judgment, and such additional rate shall remain in effect until all unpaid principal and interest are satisfied in full.

7. The Maker may prepay the indebtedness of this Note in part or in full at any time without the imposition of any penalty. Unless applicable law provides otherwise, all payments received by the Holder under this Note shall, at the option of the Holder, be applied (a) to the then outstanding charges and expenses incurred by the Holder in sustaining and/or enforcing this Note or any security granted for this Note; then (b) to any unpaid and accrued interest; and finally, (c) to the outstanding principal indebtedness.

8. Notwithstanding any provisions of this Note, the maximum rate of interest to be paid hereunder shall not exceed the maximum rate of interest permissible to be charged by the Holder under applicable laws. Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

9. The Maker gives the Holder a lien and right of setoff for all the Maker's liabilities upon and against all the deposits, credits, collateral and property of the Maker, now or hereafter in the possession or control of the Holder or in transit to it. The Holder may, upon the occurrence of an Event of Default, apply or set off the same, or any part thereof, to any liability of the Maker even though unmatured.

10. The Holder's failure to insist upon the strict performance of any term herein shall not be deemed to be a waiver, and the Holder shall retain the right thereafter to insist upon strict performance by the Maker of all terms of this Note or any agreement securing this Note or executed in connection herewith.

11. All amounts due under this Note are secured by the Maker's pledge to the Lender of this date of shares of the Lender's common stock.

12. THE MAKER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES HIS RIGHTS TO NOTICE AND HEARING AS ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER MAY DESIRE TO USE. THE MAKER WAIVES DILIGENCE, DEMAND, PRESENTMENT FOR PAYMENT, NOTICE OF NONPAYMENT, PROTEST AND NOTICE OF PROTEST, AND NOTICE OF ANY RENEWALS OR EXTENSIONS OF THIS NOTE, AND ALL RIGHTS UNDER ANY STATUTES OF LIMITATIONS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

13. THE MAKER WAIVES TRIAL BY JURY IN ANY COURT IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTION OF WHICH THIS NOTE IS A PART AND/OR TO THE DEFENSE OR ENFORCEMENT OF ANY OF THE HOLDER'S RIGHTS AND REMEDIES, INCLUDING, WITHOUT LIMITATION, TORT CLAIMS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

14. This Note and the provisions hereof shall inure to the benefit of the Holder, its successors and assigns and shall be binding upon the undersigned his heirs, executors, administrators and assigns.

15. This Note shall be governed by and construed in accordance with the laws of the State of Connecticut. The Maker submits to personal jurisdiction in the State of Connecticut for the enforcement of the Maker's obligations hereunder and under any agreement securing this Note, and the Maker waives all rights under the laws of any other state to object to jurisdiction within the State of Connecticut. If litigation is commenced, the Maker agrees that service of process may be made and personal jurisdiction over the Maker obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon the Maker by registered or certified mail to or by personal service at the last known address of the Maker.

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E. FOLLETT CARTER

## PROMISSORY NOTE

\$562,500

June 4, 1997

1. FOR VALUE RECEIVED, the undersigned, JOHN F. HALLIGAN (the "Maker"), promises to pay to the order of GARTNER GROUP, INC. (the "Lender"), at its office at 56 Top Gallant Road, Stamford, Connecticut, or at such other place as the holder hereof (including the Lender, hereinafter referred to as the "Holder") may designate, in lawful money of the United States, the principal sum of FIVE HUNDRED SIXTY TWO THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$562,500), together with interest on the unpaid balance of this Note, beginning as of the date hereof, before maturity, default or judgment, at an annual rate of interest equal to 6.14%, which interest rate is the Applicable Federal Rate (the "Note Rate").

2. Interest under this Note shall be compounded semi-annually and payable in arrears on the basis of a 360-day year, and the actual days elapsed together with (a) all taxes levied or assessed against the Holder on this Note or the debt evidenced hereby, except for income or other similar taxes, however designated, on income derived by the Holder herefrom, and (b) all costs, expenses, attorneys' fees and professionals' fees incurred by the Holder in (i) any action to collect this Note or to foreclose any security for this Note, or (ii) in protecting or sustaining the lien of any security, or (iii) in any litigation or controversy arising from or connected with any security agreement or this Note.

3. The Maker shall repay the principal amount of this Note, together with accrued interest on June 3, 1999 (the "Maturity Date"); however, the Holder, in its sole and absolute discretion, may elect to accelerate the indebtedness of this Note upon the occurrence of an "Event of Default" (as defined below).

4. The Maker agrees that (i) if Maker shall cease to be employed by the Lender, for any reason, (ii) if Maker shall suffer or permit the filing by or against him of any petition for relief, arrangement, reorganization or the like under any bankruptcy or insolvency law, make an assignment for the benefit of creditors or suffer or permit the appointment of a receiver for any part of his property; or (iii) if any Event of Default shall occur under any agreement securing this Note or executed in connection with this Note; or (iv) if any Event of Default shall occur under any other liability, indebtedness or obligation of the Maker to the Holder; (each of the events and circumstances in (i), (ii), (iii) and (iv) being an Event of Default), then, upon the happening of any such Event of Default, the entire indebtedness with accrued interest due under this Note and all other expenses, including, but not limited to, attorneys' fees incurred by the Holder in collecting or enforcing payment hereof, shall accelerate and become immediately due and payable at the option of the Holder without notice and without regard to the Maturity Date and the Holder may proceed to exercise any rights or remedies that it may have by law or at equity under this Note or any other agreement relating to the loan evidenced by this Note.

5. Failure of the Holder to exercise its option to accelerate the indebtedness of this Note shall not constitute a waiver of the Holder's right to exercise the same in the event of any subsequent default.

6. The Maker agrees that the interest rate shall increase by 2% per annum above the Note Rate from and after the date of an Event of Default or after maturity, by acceleration or otherwise, or judgment, and such additional rate shall remain in effect until all unpaid principal and interest are satisfied in full.

7. The Maker may prepay the indebtedness of this Note in part or in full at any time without the imposition of any penalty. Unless applicable law provides otherwise, all payments received by the Holder under this Note shall, at the option of the Holder, be applied (a) to the then outstanding charges and expenses incurred by the Holder in sustaining and/or enforcing this Note or any security granted for this Note; then (b) to any unpaid and accrued interest; and finally, (c) to the outstanding principal indebtedness.

8. Notwithstanding any provisions of this Note, the maximum rate of interest to be paid hereunder shall not exceed the maximum rate of interest permissible to be charged by the Holder under applicable laws. Any amount paid in excess of such rate shall be considered to have been payments in reduction of principal.

9. The Maker gives the Holder a lien and right of setoff for all the Maker's liabilities upon and against all the deposits, credits, collateral and property of the Maker, now or hereafter in the possession or control of the Holder or in transit to it. The Holder may, upon the occurrence of an Event of Default, apply or set off the same, or any part thereof, to any liability of the Maker even though unmatured.

10. The Holder's failure to insist upon the strict performance of any term herein shall not be deemed to be a waiver, and the Holder shall retain the right thereafter to insist upon strict performance by the Maker of all terms of this Note or any agreement securing this Note or executed in connection herewith.

11. All amounts due under this Note are secured by the Maker's pledge to the Lender of this date of shares of the Lender's common stock.

12. THE MAKER ACKNOWLEDGES THAT THE LOAN EVIDENCED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND WAIVES HIS RIGHTS TO NOTICE AND HEARING AS ALLOWED BY ANY STATE OR FEDERAL LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER MAY DESIRE TO USE. THE MAKER WAIVES DILIGENCE, DEMAND, PRESENTMENT FOR PAYMENT, NOTICE OF NONPAYMENT, PROTEST AND NOTICE OF PROTEST, AND NOTICE OF ANY RENEWALS OR EXTENSIONS OF THIS NOTE, AND ALL RIGHTS UNDER ANY STATUTES OF LIMITATIONS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

13. THE MAKER WAIVES TRIAL BY JURY IN ANY COURT IN ANY SUIT, ACTION OR PROCEEDING ON ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTION OF WHICH THIS NOTE IS A PART AND/OR TO THE DEFENSE OR ENFORCEMENT OF ANY OF THE HOLDER'S RIGHTS AND REMEDIES, INCLUDING, WITHOUT LIMITATION, TORT CLAIMS. THE MAKER ACKNOWLEDGES THAT HE MAKES THIS WAIVER KNOWINGLY, VOLUNTARILY AND ONLY AFTER CONSIDERATION OF THE RAMIFICATIONS OF THIS WAIVER WITH HIS ATTORNEYS.

14. This Note and the provisions hereof shall inure to the benefit of the Holder, its successors and assigns and shall be binding upon the undersigned his heirs, executors, administrators and assigns.

15. This Note shall be governed by and construed in accordance with the laws of the State of Connecticut. The Maker submits to personal jurisdiction in the State of Connecticut for the enforcement of the Maker's obligations hereunder and under any agreement securing this Note, and the Maker waives all rights under the laws of any other state to object to jurisdiction within the State of Connecticut. If litigation is commenced, the Maker agrees that service of process may be made and personal jurisdiction over the Maker obtained, by service of a copy of the summons, complaint and other pleadings required to commence such litigation upon the Maker by registered or certified mail to or by personal service at the last known address of the Maker.

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JOHN F. HALLIGAN

## EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of April 1, 1997, by and between Manuel A. Fernandez, an individual ("Executive") and Gartner Group, Inc., a Delaware corporation (the "Company").

## RECITALS

A. Executive has served as President of the Company since January 21, 1991 and as President and Chief Executive Officer of the Company since April 1, 1991 and Chairman since April 1994.

B. The Company and Executive desire to provide for Executive's continued employment with the Company upon and subject to the terms and conditions set forth in this Agreement.

## AGREEMENT

THEREFORE, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. Employment. Executive will continue to serve as Chairman, President and Chief Executive Officer of the Company for the Employment Term specified in Section 3. Executive will report to the Board of Directors and will render such services consistent with the role of Chief Executive Officer of the Company as the Board of Directors may from time to time direct.

2. Board of Directors. During the Employment Term, the Company shall include Executive on the Company's slate of nominees to be elected to the Board of Directors of the Company at each annual meeting of stockholders of the Company, shall use its best efforts to cause Executive to be elected to the Board of Directors at such meetings, and if elected shall use its best efforts to cause Executive to continue to serve on the Board of Directors until Executive's successor is duly elected and qualified. Upon termination of the Employment Term for any reason, Executive shall promptly resign as a director of the Company.

3. Term. The employment of Executive pursuant to this Agreement shall commence as of April 1, 1997 and shall continue through October 1, 1999 (the "Employment Term"), unless extended or earlier terminated as provided in this Agreement. Following such initial term, the Agreement may be extended for additional annual terms by the written consent of Executive and the Company not less than sixty (60) days prior to the end of the initial term or any renewal term.

4. Salary. As compensation for the services rendered by Executive under this Agreement, the Company shall pay to Executive a base salary initially equal to \$29,167 per month ("Base Salary") for fiscal 1997, payable to Executive on a monthly basis in accordance with the Company's payroll practices as in effect from time to time during the Employment Term. The Base Salary shall be subject to annual adjustments by the Board of Directors of the Company or the Compensation Committee of the Board of Directors, in the sole discretion of the Board or such Committee.

5. Bonus. In addition to his Base Salary, Executive shall be entitled to participate in the Company's executive bonus program. The annual target bonus shall be established by the Board of Directors or its Compensation Committee, in the discretion of the Board or such Committee, and shall be payable based on achievement of specified Company and individual objectives. Executive's target bonus for the fiscal year ending September 30, 1997 has previously been set at a minimum bonus of \$350,000, with a maximum bonus of \$700,000.

6. Executive Benefits.

(a) Employee and Executive Benefits. Executive will be entitled to receive all benefits provided to executives and employees of the Company generally from time to time, including medical, dental, life insurance and long-term disability, and the executive split-dollar life insurance and executive disability plan, as well as Executive's auto benefit program (with the full cost of operation not to exceed \$15,000 per year) so long as and to the extent the same exist; provided, that in respect to each such plan Executive is otherwise eligible and insurable in accordance with the terms of such plans.

(b) Vacation, Sick Leave and Holidays. Executive shall be entitled to vacation, sick leave and vacation in accordance with the policies of Gartner and its subsidiaries as they exist from time to time. Executive understands that under the current policy he will receive four (4) weeks vacation per calendar year. Vacation which is not used during any calendar year will not roll over to the following year.

7. Severance Benefits.

(a) Executive's employment shall be "at will." Either the Company or Executive may terminate this agreement and Executive's employment at any time, with or without Business Reasons (as defined in Section 8(a) below), in its or his sole discretion, upon sixty (60) days' prior written notice of termination.

(b) If during the term of this Agreement the Company terminates the employment of Executive involuntarily and without Business Reasons or a Constructive Termination occurs, whether or not in connection with a Change of Control, then Executive shall be entitled to receive the following: (A) salary and vacation accrued through the Termination Date plus continued salary for a period of two (2) years following the Termination Date, payable in accordance with the Company's regular payroll schedule as in effect from time to time, (B) at the Termination Date, 100% of Executive's target bonus for the fiscal year in which the Termination Date occurs (plus any unpaid bonus from the prior fiscal year), (C) following the end of the fiscal year in which the Termination Date occurs and management bonuses have been determined, a pro rata share (based on the proportion of the fiscal year during which Executive remained an employee of the Company) of the bonus that would have been payable to Executive under the bonus plan in excess of 100% of Executive's target bonus for the fiscal year, (D) following the end of the first fiscal year following the fiscal year in which the Termination Date occurs, 100% of Executive's target bonus for such following fiscal year (or, if the target bonus for such year was not previously set, then 100% of Executive's target bonus for the fiscal year in which the Termination Date occurred), (E) acceleration in full of vesting of all outstanding stock options held by Executive, (F) continuation of group health benefits pursuant to the Company's standard programs as in

effect from time to time (or continuation by the Company of substantially similar group health benefits as in effect at the Termination Date, through a third party carrier, at the Company's election), for Executive, his spouse and any children for so long as they are under the age of 19 (25, if a full time student) and until such time as Executive reaches the age of 55, (G) continuation of Executive's auto benefits for one year following the Termination Date, and (H) no other compensation, severance or other benefits. Notwithstanding the foregoing, however, the Company shall not be required to continue to pay the salary or bonus specified in clauses (A), (B), (C) or (D) hereof for any period following the Termination Date if Executive violates the noncompetition agreement set forth in Section 12 during the two (2) year period following the Termination Date.

(c) If during the term of this Agreement a "Change of Control" occurs and Executive voluntarily resigns within the first six (6) months of such Change in Control, then Executive shall be entitled to receive the following: (A) salary and vacation accrued through the Termination Date plus continued salary for a period of two (2) years following the Termination Date, payable in accordance with the Company's regular payroll schedule as in effect from time to time, (B) at the Termination Date, 100% of Executive's target bonus for the fiscal year in which the Termination Date occurs (plus any unpaid bonus from the prior fiscal year), (C) following the end of the fiscal year in which the Termination Date occurs and management bonuses have been determined, a pro rata share (based on the proportion of the fiscal year during which Executive remained an employee of the Company) of the bonus that would have been payable to Executive under the bonus plan in excess of 100% of Executive's target bonus for the fiscal year, (D) following the end of the first fiscal year following the fiscal year in which the Termination Date occurs, 100% of Executive's target bonus for such following fiscal year (or, if the target bonus for such year was not previously set, then 100% of Executive's target bonus for the fiscal year in which the Termination Date occurred), (E) acceleration in full of vesting of all outstanding stock options held by Executive, (F) continuation of group health benefits pursuant to the Company's standard programs as in effect from time to time (or continuation by the Company of substantially similar group health benefits as in effect at the Termination Date, through a third party carrier, at the Company's election), for Executive, his spouse and any children for so long as they are under the age of 19 (25, if a full time student) and until such time as Executive reaches the age of 55, (G) continuation of Executive's auto benefits for one year following the Termination Date, and (H) no other compensation, severance or other benefits. Notwithstanding the foregoing, however, if Executive violates the non-competition agreement set forth in Section 12 during the two (2) year period following the Termination Date, the Company shall not be required to continue to pay the salary or bonus specified in clauses (A), (B), (C) or (D) hereof for any period following the Termination Date, and Executive shall be obligated to repay to the Company any amounts previously received pursuant to clauses (A) and (B) hereof, to the extent the same relate to any period following the Termination Date, and to repay the Company any amounts previously received pursuant to clauses (C) and (D) hereof. Upon a Change in Control, Executive may elect, in his sole discretion, not to receive a cash payment or to have any portion of vesting restrictions lapse in order to avoid any "parachute payment" under Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended.

(d) If during the term of this Agreement Executive shall become unable to perform his duties as an employee as a result of incapacity, which gives rise to termination of employment for Disability, then Executive shall be entitled to receive the following: (A) salary and vacation accrued through the Termination Date plus continued salary for a period of two (2) years following the

Termination Date, payable in accordance with the Company's regular payroll schedule as in effect from time to time, (B) at the Termination Date, 100% of Executive's target bonus for the fiscal year in which the Termination Date occurs (plus any unpaid bonus from the prior fiscal year), (C) following the end of the fiscal year in which the Termination Date occurs and management bonuses have been determined, any bonus that would have been payable to Executive under the bonus plan in excess of Executive's target bonus, (D) acceleration in full of vesting of all outstanding stock options held by Executive, (E) continuation of group health benefits pursuant to the Company's standard programs as in effect from time to time (or continuation by the Company of substantially similar group health benefits as in effect at the Termination Date, through a third party carrier, at the Company's election), for Executive, his spouse and any children for so long as they are under the age of 19 (25, if a full time student) and until such time as Executive reaches the age of 55, (F) all other employee benefits specified in Section 6 until two years following the Termination Date, and (G) no other compensation, severance or other benefits. Notwithstanding the foregoing, however, the Company may deduct from the salary specified in clause (A) hereof the amounts of any payments then received by Executive under any disability benefit program maintained by the Company.

(e) If (i) Executive voluntarily terminates his employment, or (ii) Executive is terminated involuntarily for Business Reasons, then in any such event Executive or his representatives shall be entitled to receive the following: (A) salary and accrued vacation through the Termination Date only, (B) to the extent COBRA shall be applicable to the Company, continuation of group health plan benefits for a period of 18 months (or such longer period as may be applicable under the Company's policies then in effect) following the Termination Date if Executive makes the appropriate conversion and payments, and (C) no further severance, benefits or other compensation.

(f) If Executive's employment is terminated because of death, then Executive's representatives shall be entitled to receive the following: (A) salary and vacation accrued through the Termination Date, (B) a pro rata share of Executive's target bonus for the year in which death occurs, based on the proportion of the fiscal year during which Executive remained an Employee of the Company (plus any unpaid bonus from the prior fiscal year), (C) acceleration in full of vesting of all outstanding stock options held by Executive, (D) continuation of group health benefits pursuant to the Company's standard programs as in effect from time to time (or continuation by the Company of substantially similar group health benefits as in effect at the Termination Date, through a third party carrier, at the Company's election), for Executive's spouse and any children for so long as they are under the age of 19 (25, if a full time student), (E) any benefits payable to Executive or his representatives upon death under insurance or other programs maintained by the Company for the benefit of the Executive and (F) no further benefits or other compensation.

(g) The provisions of this Section 7 are intended to be and are exclusive and in lieu of any other rights or remedies to which Executive or the Company may otherwise be entitled, either at law, tort or contract, in equity, or under this Agreement, in the event of any termination of Executive's employment. Executive shall be entitled to no benefits, compensation or other payments or rights upon termination of employment other than those benefits expressly set forth in paragraph (b), (c), (d), (e) or (f) of this Section 7, whichever shall be applicable.

8. Definition of Terms. The following terms referred to in this Agreement shall have the following meanings:

(a) Business Reasons. "Business Reasons" means (i) gross negligence, willful misconduct or other willful malfeasance by Executive in the performance of his duties, (ii) Executive's commission of a felony or other offense involving moral turpitude, (iii) Executive's material breach of this Agreement, including without limitation any repeated breach of Sections 9 through 12 hereof.

(b) Disability. "Disability" shall mean that Executive has been unable to perform his duties as an employee as the result of his incapacity due to physical or mental illness, and such inability, at least 26 weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative (such Agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least sixty (60) days written notice by the Company of its intention to terminate Executive's employment. In the event that Executive resumes the performance of substantially all of his duties hereunder before the termination of his employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(c) Termination Date. "Termination Date" shall mean (i) if this Agreement is terminated on account of death, the date of death; (ii) if this Agreement is terminated for Disability, the date specified in Section 8(b); (iii) if this Agreement is terminated by the Company, the date on which a notice of termination is given to Executive; (iv) if the Agreement is terminated by Executive, the date on which Executive delivers the notice of termination to the Company; or (v) if this Agreement expires by its terms, then the last day of the term of this Agreement.

(d) Constructive Termination. A "Constructive Termination" shall be deemed to occur if (A)(1) Executive's position changes as a result of an action by the Company such that Executive is no longer President and Chief Executive Officer of the Company or no longer reports directly to the Company's Board of Directors, (2) Executive is required to relocate his place of employment, other than a relocation within 50 miles of Executive's current Connecticut home or a relocation to the San Francisco Bay Area or South Florida, or (3) there is a reduction of more than 20% of Executive's base salary or target bonus (other than any such reduction consistent with a general reduction of pay across the executive staff as a group, as an economic or strategic measure due to poor financial performance by the Company) and (B) within the thirty day period immediately following such material adverse change or reduction Executive elects to terminate his employment voluntarily.

(e) Change in Control. "Change of Control" shall mean the occurrence of any one of the following: (1) the sale, lease, conveyance or other disposition of all or substantially all of the Company's assets as an entirety or substantially as an entirety to any person, entity or group of persons acting in concert, (2) any transaction or series of transactions that results in, or that is in connection with, any person, entity or group acting in concert, acquiring "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of such percentage of the aggregate voting power of all classes of common equity stock of the Company as shall equal fifty percent (50%) of such aggregate voting power, (3) the merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the

voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power of the surviving entity immediately after such merger or consolidation, or (4) a liquidation of the Company whether or not liquidated into an affiliated entity. A transfer of shares of stock of the Company from Cognizant Corporation to an affiliated company, subsidiary or spin-off entity of Cognizant Corporation, or the reduction in ownership of capital stock of the Company by Cognizant Corporation or any affiliated subsidiary or spin-off of Cognizant Corporation by means of sales of shares to the public, shall not alone be deemed to meet the requirements of clause (8)(e) hereof.

9. Confidential Information.

(a) Executive acknowledges that the Confidential Information (as defined below) relating to the business of the Company and its subsidiaries which Executive has obtained or will obtain during the course of his association with the Company and subsidiaries and his performance under this Agreement are the property of the Company and its subsidiaries. Executive agrees that he will not disclose or use at any time, either during or after the Employment period, any Confidential Information without the written consent of the Board of Directors of the Company. Executive agrees to deliver to the Company at the end of the Employment period, or at any other time that the Company may request, all memoranda, notes, plans, records, documentation and other materials (and copies thereof) containing Confidential Information relating to the business of the Company and its subsidiaries, no matter where such material is located and no matter what form the material may be in, which Executive may then possess or have under his control. If requested by the Company, Executive shall provide to the Company written confirmation that all such materials have been delivered to the Company or have been destroyed. Executive shall take all appropriate steps to safeguard Confidential Information and to protect it against disclosure, misuse, espionage, loss and theft.

(b) "Confidential Information" shall mean information which is not generally known to the public and which is used, developed, or obtained by the Company or its subsidiaries relating to the businesses of any of the Company and its subsidiaries or the business of any customer thereof including, but not limited to: products or services; fees, costs and pricing structure; designs; analyses; formulae; drawings; photographs; reports; computer software, including operating systems, applications, program listings, flow charts, manuals and documentation; databases; accounting and business methods; inventions and new developments and methods, whether patentable or unpatentable and whether or not reduced to practice; all copyrightable works; the customers of any of the Company and its subsidiaries and the Confidential Information of any customer thereof; and all similar and related information in whatever form. Confidential Information shall not include any information which (i) was rightfully known by Executive prior to the Employment Period; (ii) is publicly disclosed by law or in response to an order of a court or governmental agency; (iii) becomes publicly available through no fault of Executive or (iv) has been published in a form generally available to the public prior to the date upon which Executive proposes to disclose such information. Information shall not be deemed to have been published merely because individual portions of the information have been separately published, but only if all the material features comprising such information have been published in combination.

10. Inventions and Patents. In the event that Executive, as a part of Executive's activities on behalf of the Company, generates, authors or contributes to any invention, new development or method, whether or not patentable and whether or not reduced to practice, any copyrightable work, any trade secret, any other Confidential Information, or any information that gives any of the Company and its subsidiaries an advantage over any competitor, or similar or related developments or information related to the present or future business of any of the Company and its subsidiaries (collectively "Developments and Information"), Executive acknowledges that all Developments and Information are the exclusive property of the Company. Executive hereby assigns to the Company, its nominees, successors or assigns, all rights, title and interest to Developments and Information. Executive shall cooperate with the Company's Board of Directors to protect the interests of the Company and its subsidiaries in Developments and Information. Executive shall execute and file any document related to any Developments and Information requested by the Company's Board of Directors including applications, powers of attorney, assignments or other instruments which the Company's Board of Directors deems necessary to apply for any patent, copyright or other proprietary right in any and all countries or to convey any right, title or interest therein to any of the Company's nominees, successors or assigns.

11. No Conflicts.

(a) Executive agrees that in his individual capacity he will not enter into any agreement, arrangement or understanding, whether written or oral, with any supplier, contractor, distributor, wholesaler, sales representative, representative group or customer, relating to the business of the Company or any of its subsidiaries, without the express written consent of the Board of Directors of the Company.

(b) As long as Executive is employed by the Company or any of its subsidiaries, Executive agrees that he will not, except with the express written consent of the Board of Directors of the Company, become engaged in, render services for, or permit his name to be used in connection with, any business other than the business of the Company, any of its subsidiaries or any corporation or partnership in which the Company or any of its subsidiaries have an equity interest.

12. Non-Competition Agreement.

(a) Executive acknowledges that his services are of a special, unique and extraordinary value to the Company and that he has access to the Company's trade secrets, Confidential Information and strategic plans of the most valuable nature. Accordingly, Executive agrees that for the period of two (2) years following the Termination Date, Executive shall not directly or indirectly own, manage, control, participate in, consult with, render services for, or in any manner engage in any business competing with the businesses of the Company or any of its subsidiaries as such businesses exist or are in the process of development on the Termination Date, including without limitation the publication of periodic research and analysis of the information technology industries. Nothing herein shall prohibit Executive from being a passive owner of not more than 1% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

(b) In addition, for a period of two years commencing on the Termination Date, Executive shall not (i) induce or attempt to induce any employee of the Company or any subsidiary to leave the

employ of the Company or such subsidiary, or in any way interfere with the relationship between the Company or any subsidiary and any employee thereof, (ii) hire directly or through another entity any person who was an employee of the Company or any subsidiary at any time during the Employment Period, or (iii) induce or attempt to induce any customer, supplier, licensee or other business relation of the Company or any subsidiary to cease doing business with the Company or such subsidiary, or in any way interfere with the relationship between any such customer, supplier, licensee or business relation and the Company or any subsidiary.

(c) Executive agrees that these restrictions on competition and solicitation shall be deemed to be a series of separate covenants not-to-compete and a series of separate non-solicitation covenants for each month within the specified periods, separate covenants not-to-compete and non-solicitation covenants for each state within the United States and each country in the world, and separate covenants not-to-compete for each area of competition. If any court of competent jurisdiction shall determine any of the foregoing covenants to be unenforceable with respect to the term thereof or the scope of the subject matter or geography covered thereby, such remaining covenants shall nonetheless be enforceable by such court against such other party or parties or upon such shorter term or within such lesser scope as may be determined by the court to be enforceable.

(d) Because Executive's services are unique and because Executive has access to Confidential Information and strategic plans of the Company of the most valuable nature, the parties agree that the covenants contained in this Section 12 are necessary to protect the value of the business of the Company and that a breach of any such covenant would result in irreparable and continuing damage for which there would be no adequate remedy at law. The parties agree therefore that in the event of a breach or threatened breach of this Agreement, the Company or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof.

### 13. Miscellaneous Provisions.

(a) Notice. Notices and all other communications contemplated by this Agreement shall be in writing, shall be effective when given, and in any event shall be deemed to have been duly given (i) when delivered, if personally delivered, (ii) three (3) business days after deposit in the U.S. mail, if mailed by U.S. registered or certified mail, return receipt requested, or (iii) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, if so delivered, freight prepaid. In the case of Executive, notices shall be addressed to him at the home address which he most recently communicated to the Company in writing. In the case of the Company, notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Corporate Secretary.

(b) Notice of Termination. Any termination by the Company or Executive shall be communicated by a notice of termination to the other party hereto given in accordance with paragraph (a) hereof. Such notice shall indicate the specific termination provision in this Agreement relied upon.

## (c) Successors.

(i) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall be entitled to assume the rights and shall be obligated to assume the obligations of the Company under this Agreement and shall agree to perform the Company's obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (i) or which becomes bound by the terms of this Agreement by operation of law.

(ii) Executive's Successors. The terms of this Agreement and all rights of Executive hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

(iii) No Other Assignment of Benefits. Except as provided in this Section 13(c), the rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (iii) shall be void.

(d) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Executive and by an authorized officer of the Company (other than Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(e) Entire Agreement. This Agreement shall supersede any and all prior agreements, representations or undertakings (whether oral or written and whether express or implied) between the parties with respect to the subject matter hereof, including with all limitation that respective Executive Stock and Employment Agreements effective as of January 21, 1991 and July 28, 1994.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Stamford, Connecticut, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. No party shall be entitled to seek or be awarded punitive damages. All attorneys' fees and costs shall be allocated or apportioned by the parties, and in the absence of any agreement or allocation or apportionment shall be awarded to the prevailing party. This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

(h) Employment Taxes. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

(i) Indemnification. In the event Executive is made, or threatened to be made, a party to any legal action or proceeding, whether civil or criminal, by reason of the fact that Executive is or was a director or officer of the Company or serves or served any other corporation fifty percent (50%) or more owned or controlled by the Company in any capacity at Company's request, Executive shall be indemnified by the Company, and the Company shall pay Executive's related expenses when and as incurred, all to the full extent permitted by law, pursuant to Executive's existing indemnification agreement with the Company in the form made available to all Executive and all other officers and directors.

(j) Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

COMPANY

GARTNER GROUP, INC.

By: /s/ John F. Halligan

\_\_\_\_\_  
John F. Halligan, Chief Financial Officer

EXECUTIVE

Manuel A. Fernandez

/s/ Manuel A. Fernandez  
\_\_\_\_\_

GARTNER GROUP, INC.  
 COMPUTATION OF INCOME PER COMMON SHARE  
 (in thousands, except per share amounts)

	Fiscal Year Ended September 30,		
	1997	1996	1995
Primary:			
Net income:	\$ 73,130	\$16,438	\$25,161
	=====	=====	=====
Shares:			
Weighted average number of common shares outstanding	94,742	89,739	87,808
Weighted average number of warrants outstanding	274	301	--
Weighted average number of option shares outstanding	7,443	8,572	6,954
	-----	-----	-----
Weighted average number of common shares outstanding as adjusted	102,459	98,612	94,762
	=====	=====	=====
Net income per common share	\$ 0.71	\$ 0.17	\$ 0.27
	=====	=====	=====
Fully diluted:			
Net income:	\$ 73,130	\$16,438	\$25,161
	=====	=====	=====
Shares:			
Weighted average number of common shares outstanding	94,742	89,739	87,808
Weighted average number of warrants outstanding	274	301	--
Weighted average number of option shares outstanding	7,735	8,805	7,404
	-----	-----	-----
Weighted average number of common shares outstanding as adjusted	102,751	98,854	95,212
	=====	=====	=====
Net income per common share	\$ 0.71	\$ 0.17	\$ 0.26
	=====	=====	=====

Smarter

Because to help our clients make smarter decisions we have to be smarter ourselves. In the business of information technology, that means outpacing a field that already moves at the speed of light. It means offering total product life cycle solutions for analyzing, planning, implementing and measuring new technologies. It means balancing the urgency of competitive advantage with the imperative of clear thinking, without compromising on either. It means providing -- consistently -- results that help our clients simplify their decisions, measurably improve their effectiveness, and extract the greatest value from their IT investments. To be number one in a field that insists on such high standards of performance under such highly demanding conditions, as Gartner Group proudly is, there's only one way to be. Smarter.

## GARTNER GROUP FINANCIAL HIGHLIGHTS

(In thousands, except per share data)

Fiscal Year Ended September 30,	1997	1996	1995
Total revenues	\$511,239	\$394,672	\$295,146
Operating contribution (1)	\$123,056	\$ 88,153	\$ 56,446
Net income (2)	\$ 73,130	\$ 50,534	\$ 30,001
Net income per common share (2)	\$ 0.71	\$ 0.51	\$ 0.32
September 30,	1997	1996	1995
Stockholders' equity	\$269,870	\$150,235	\$ 74,251
Total cash and marketable securities	\$188,745	\$129,856	\$ 95,414
Contract value (3)	\$525,901	\$389,969	\$303,231

- (1) Represents operating income less amortization of intangibles, excluding acquisition-related and nonrecurring charges in fiscal 1996 and 1995.
- (2) Excludes acquisition-related and nonrecurring charges (net of tax impact) in fiscal 1996 and 1995.
- (3) Contract value, as measured by the company, represents the annualized value of all advisory, measurement and learning contracts in effect at a given point in time, without regard to the duration of the contracts outstanding at such time.

TOTAL REVENUES (Millions of dollars)	NET INCOME (2) (Millions of dollars)	CONTRACT VALUE (3) (Millions of dollars)
[Bar graph omitted]	[Bar graph omitted]	[Bar graph omitted]

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## GARTNER GROUP LETTER TO SHAREHOLDERS

1997 was a milestone year at Gartner Group. Total revenues exceeded \$500 million, representing a compound annual growth rate of 35 percent since 1991, more than a sixfold increase. Our 2,800 world wide associates in 80 locations served more than 9,000 client enterprises, offering a record number of products and services, and further consolidating our position as the world's leading authority on information technology (IT).

Net income rose 45 percent to \$73 million, and earnings per share were up 39 percent to 71 cents. Gross margins were maintained at 60 percent despite considerable reinvestment in people, technology, and research and development. Gartner Group's balance sheet remained strong with \$189 million in cash and marketable securities, enabling us to continue to invest and acquire decisively. Contract value, a reliable measure of the company's renewable business, was \$526 million, a 35 percent increase year over year.

By any measurement, these past six years have been remarkable. We exceeded all of our own expectations.

I would like to take the opportunity to share our vision beyond the year 2000 -- and to map out the strategies your senior managers and I have planned for further growth.

## OUR KEY GOALS REMAIN THE SAME:

\* Provide IT professionals with decision-making tools so their organizations can succeed in a highly competitive business environment. \* Focus on complete solutions that help organizations through all phases of the IT decision life cycle. \* Bring clarity to a confusing and ambiguous IT decision-making process.

Simply put, our goal is to help our clients make smarter decisions.

We will accomplish this by continuing to leverage our core competencies in research and distribution. We will continue to introduce new products that keep pace with IT change. We will continue to expand into new market segments that enhance our core businesses: GartnerAdvisory, GartnerMeasurement and GartnerLearning.

Having assembled an industry-leading suite of products and services, our job for the immediate future is to improve the value of those assets through aggressive but calculated growth. We will focus on six fronts:

Increase service to existing clients. Today, we have 80 GartnerAnalytics Advisory Services products, 140 Gartner Market Dynamics Dataquest products, 25 GartnerMeasurement services, and more than 400 GartnerLearning titles. Going forward, we will introduce our clients to new levels of integrated support and many new options for delivery and customization including a migration to more continuous, Web-based fulfillment and the delivery of personalized, profile-driven research.

Identify and attract new clients. Within our target market of companies with revenues greater than \$100 million, Gartner Group has a penetration rate of 19 percent in the United States and 12 percent worldwide. That leaves tremendous room for growth. The key is showing prospective clients how we can add value to their IT budgets by maximizing results and minimizing risk, and how we can extend their staff resources with customized solutions. To better serve clients of every size we have augmented our 700-strong global sales force with product specialists and global account management support.

Develop new products and services. Our product groups will continue to create a number of new products annually based on emerging technologies and market demand. Listening to clients is vital. Unquestionably, our single biggest differentiation is our ability to keep in touch with the market through the more than 35,000 calls received by clients each month. Inquiries are logged into a shared database that establishes the true pulse of the market and the course of our innovations. Two examples of new products introduced in 1997 are the Web-delivered IT Journal(TM) -- which includes First Takes(TM), a daily, up-to-the-minute analysis of important, late-breaking IT events -- and Business Technology Journal(TM), a monthly Web-based service that explains technology and its impact in clear, easy-to-understand language for a target audience of nontechnical business professionals.

Provide more delivery options. Delivery choices broadened considerably in 1997, with numerous electronic product enhancements delivered via the Internet, intranet, Lotus Notes and CD-ROM. Individualized, automated profiling became available to GartnerAnalytics Advisory Services and Gartner Market Dynamics Dataquest clients. Internet access to nearly 100 GartnerLearning titles was launched through the Internet Learning Center, and the intranet-based Enterprise Learning Center was introduced. Even GartnerEvents became an online sensation. At our U.S. Symposium conference held in October, we broadcast live keynote interviews via the Internet, in real-time audio and video, to an online audience of over 22,000 people.

[Photo]

MANNY FERNANDEZ  
Chairman and Chief Executive Officer

Expand Geographically. Today, we are in every major country in the world. In the coming months and years we will continue to accelerate our growth in selected markets such as Japan, Southeast Asia and Latin America, while establishing strong footholds in the emerging markets of China, Russia, the Middle East and Eastern Europe.

Enter New Markets. Our acquisition strategy is based on what our clients need to succeed. Gartner Measurement provides our clients with the tools to continuously improve IT performance: Clients can now show their CEOs data on the actual returns on their IT investment. With Gartner Market Dynamics' Dataquest, we provide market research and forecasting. In response to client demand for technology training, we entered that market with Gartner Learning. And through Gartner Analytics' Datapro, we now provide side-by-side product and vendor insight to help clients make more informed purchasing decisions. Acquisitions have added to our full suite of products and provide a total solution to key issues our clients face every day. In the future, our investment criteria will be the same: leverage core capabilities; ensure corporate growth targets; add to revenue, earnings or both in the short term; and, most importantly, help clients make better decisions.

#### GREATER EFFICIENCIES

The majority of our revenues will continue to come from renewable businesses, which leads to highly predictable earnings results. We will continue to find ways to improve our efficiency and expand margins. In 1997, we announced that our financial services would be relocated to Florida. This represents cost-of-business savings of \$25 million over the next 10 years. You can expect continued improvements through the successful integration of acquisitions and more efficient global operations. Managing costs is essential to our financial success, and to the achievement of the best possible returns for you, our shareholders.

#### AN INDUSTRY LEADER

What brings our clients back year after year is the quality of our research and the expertise of our analysts. The high standards we have set for ourselves require methodologies and processes that are unparalleled in the industry today. We are the only firm that sets probabilities to our predictions, the only firm that provides a global perspective to market supply, and the only firm with a high degree of integrity in our measurement databases. The technology world will continue to change rapidly and it is our job to be on the leading edge of that evolution, delivering more products for more value, providing the best services and support in the industry, and helping our clients make the best possible IT decisions.

#### THE PEOPLE BEHIND THE BUSINESS

Gartner Group's success is attributable to a hard-working team of individuals, at all levels of the organization, who are making smart business decisions every day. To sustain our success, we will continue to focus on recruiting, retaining and developing our associates. In October, Bill Clifford was promoted to President of Gartner Group. With more than 30 years of experience in the IT industry and a remarkably insightful perspective on its future, Bill anchors a highly capable senior team.

I am confident that the many dedicated associates who work with us have what it takes to guide Gartner Group to our intended levels of growth and profitability. For all of the accomplishments achieved in 1997, my thanks to Gartner Group associates worldwide, our loyal clients, our board of directors and to you, our shareholders.

/s/ Manny Fernandez

MANNY FERNANDEZ  
Chairman and Chief Executive Officer

SMARTER SERVICE  
Total product life cycle solutions.

To be the voice of information technology requires leadership, intellect, energy and an abiding willingness to turn on a dime. It takes an aptitude for seeing through the clutter, and knowing the limitations of technology as well as the value. It takes cold objectivity, and the capacity to speak to every client with an understanding of its unique path to success. Ultimately, it takes a company able to make sense of the future. Long before it arrives.

[Photo]  
BILL CLIFFORD  
President and  
Chief Operating Officer

Gartner Group research helps clients understand their IT options and associated risks. Independent and highly respected, we provide clients with the data and qualitative insight they need to extract the greatest value from their IT infrastructure. In 1997, our ability to identify and enhance that value continued to improve. We introduced a record 70 new products and answered 98 percent of client inquiries within deadline. Our more than 750 analysts, who average 10 to 15 years of industry experience, represent the largest aggregation of industry expertise in the research and advisory services market. And client confidence remains exceptional, with an 85 percent renewal rate, the highest in the industry.

Although continuing to attract the best and brightest analysts in the industry will remain a challenge in 1998, we are confident of our prospects. Our culture itself is an important inducement to talent. Both intellectual and entrepreneurial, it places a high value on the ability to spot IT trends in advance, triangulate seemingly dissimilar data, and formulate original thinking. In our business, there is no substitute for accurate predictions coupled with great advice. That's what we do best.

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Balancing growth and profitability is a chief priority at Gartner Group. In 1997, we continued to contain costs effectively by re-engineering processes, carefully managing growth, and controlling expenditures. By deploying new and upgraded technology, we made productivity improvements that enabled a fully functional mobile sales force, greater research sharing, and a superior client inquiry response system. Our continued attention to asset management has allowed us to increase our cash generation capabilities and a focus on treasury management has reduced our risk to currency fluctuations. In addition, we successfully integrated four acquisitions, including Datapro Information Services in the United States, Europe and Southeast Asia; Strategic Publishing Group and East Consulting in Australia; and Bouhot and Le Gendre in France.

In 1998, we will continue to increase international sales and profitability while providing seamless product fulfillment through our worldwide distribution. You can also expect additional acquisition efficiencies and wider profit margins from expense management. Finally, the effective tax rate will continue to improve as a result of U.S. and state tax planning initiatives, international activities, and greater utilization of benefits on export sales.

[Photo]  
JOHN HALLIGAN  
Executive Vice President and  
Chief Financial Officer

[Photo]  
 MICHAEL FLEISHER  
 Executive Vice President  
 and President,  
 Emerging Businesses

Gartner Group entered the technology-based training business because our clients face an ongoing challenge in managing and upgrading the skills of their IT staff. In an industry that changes platforms almost annually, the skills of IT professionals must be constantly monitored and enhanced. Through the unique GartnerLearning platform, content and services, our strategy is to provide clients with a complete skills management solution. Platforms provide highly effective solutions for training delivery via the Internet, intranet, LANs and stand-alone workstations. Content is focused predominantly on the needs of IT professionals, but we are offering an increasing stream of titles for end users. In 1997, we augmented this learning technology with a full-fledged services organization to help clients with the process of assessing their people, developing job-based competencies, and creating effective skills management and training programs.

GartnerLearning will continue to grow rapidly in 1998, as will our conference and events business, GartnerEvents, which showed strong performance in both revenue and attendance during 1997. Most notably, our Symposium/ITxpo, which has become the premier strategic planning event for senior-level IT decision makers around the world, hosted more than 12,000 attendees during the year.

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The distribution organization is a critical component of Gartner Group's long-term growth strategy. In 1997, we increased our U.S. sales force by over 30 percent, integrated the GartnerLearning product line, and with an eye on the future, invested in our management structure. In Europe, along with bringing additional sales force growth, we added senior management in four key countries and began marketing new localized products. In the Asia/Pacific region, we grew the business over 200 percent, strengthening our management team and further boosting investment in our Japanese and Chinese distribution networks. We also undertook and completed a branding exercise for all Gartner Group products to add clarity and market focus to our expanding product line.

As we enter 1998, a top priority has been the establishment of a major global account organization to focus exclusively on our larger clients. By offering continuous, high-level service and recommending ongoing solutions in advisory services, measurement and learning, we will be stepping beyond the industry's traditional transactional approach and delivering considerably greater value. For the same reason, we are moving our smaller accounts to an inside sales organization that can provide improved service through a variety of innovative distribution methods.

[Photo]  
 FOLLETT CARTER  
 Executive Vice President  
 and President,  
 Gartner Distribution

SMARTER ADVICE  
Making sense of the future.

[Graphic omitted]

Our mission is to bring meaning and clarity  
to the uncertainty of information technology  
by integrating end-to-end client support through  
the entire IT life cycle. Analyzing. Planning.  
Implementing. Monitoring. And analyzing again.  
Value for our clients is established in one phase  
of the cycle, and then extended through the next.  
Measured progress. Continuous  
improvement. Optimum value.  
Without missing a beat.

SUPPORTING CHANGE WITH KNOWLEDGE

How Gartner Group met one client's needs in 1997 with a full-service range of products and services.

PHASE NO.1

[GRAPHIC OMITTED]

CHANGE REQUIRES ASSESSING YOUR CURRENT SITUATION, UNDERSTANDING THE GOALS YOU WANT TO ACHIEVE, AND EVALUATING THE FEASIBILITY OF THOSE GOALS. GARTNERANALYTICS AND GARTNERCONSULTING HAVE THE ANSWERS TO THE QUESTIONS YOU SHOULD BE ASKING.

ANALYZE

In mid-1997, executives from a Fortune 500 consumer goods corporation met with their Gartner Group sales manager to review strategic issues confronting the company's IS organization. Of particular concern was the year 2000 problem. Three key questions had to be answered: What was the company's exposure to the problem? Could the problem be turned into an opportunity? What strategic and tactical actions should be taken?

The company, a Gartner Group client for 10 years, started by thoroughly assessing the situation at its annual executive briefing with GartnerAnalytics research analysts. In addition to questioning the analysts on their opinions of the year 2000 problem, the client reviewed best practices of similar-sized companies in its industry and explored the implications of maintaining its current IS infrastructure. The meeting was followed by a series of one-on-one telephone consultations, ongoing analysis through Gartner Group research delivered via the Internet, and audioconferences with peer organizations working on the same problem.

After several months, the client's IS staff felt they had a comprehensive grasp of the major issues. The next step was to measure the potential impact and clarify a path to improvement.

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MEASURE

Working with GartnerMeasurement, the client decided on two courses of action. In the long term, it would implement a measurement program for its entire IT environment to support a culture of continuous improvement. In the short term, it would benchmark its applications development group and distributed computing environment to determine immediate improvements that had to be made.

As the benchmarking progressed, the relative performance of the company's IS organization was evaluated, as were cost structures and year 2000 exposure. The company was compared with other Fortune 500 companies, competing companies, and other organizations with a similar IT infrastructure. A clear understanding emerged of key issues and the actions necessary to meet strategic goals.

PHASE NO.2

[GRAPHIC OMITTED]

TO GET TO WHERE YOU WANT TO GO, YOU HAVE TO KNOW WHERE YOU ARE. GARTNERMEASUREMENT IS THE STARTING POINT FOR IMPROVING PROCESSES, CUTTING COSTS, REDUCING CYCLE TIMES, AND DEMONSTRATING A RETURN ON YOUR IT INVESTMENT.

PHASE NO.3

[GRAPHIC OMITTED]

GREAT ADVICE ALWAYS PAYS. ARMED WITH ANALYSIS AND AN ACCURATE BASELINE, YOU NEED A GREAT PLAN. GARTNERANALYTICS' ADVISORY SERVICES, DATAPRO AND DECISION DRIVERS WILL HELP YOU EVALUATE VENDORS, APPRAISE PURCHASE DECISIONS, SPECIFY TIMING, AND AVOID PITFALLS.

PLAN

Having analyzed industry trends, measured its own organization relative to others, and determined what various year 2000 solution suppliers were offering, the client began working out its plan. In addition to correcting several legacy systems for year 2000 compliance, the client decided that fundamental change was required within the IT infrastructure -- that it should move rapidly to a distributed environment. This would provide a competitive advantage by reducing the time it took products to reach the market while linking the client more closely to its customers. The cost would be \$35 million in infrastructure and applications.

This major investment had to be backed with knowledge. The company had to evaluate vendors, assess the validity of proposed purchase decisions, map out the most advantageous purchase timing plan, and clearly understand the economic implications of each decision. Returning to GartnerAdvisory, the client obtained tactical product opinion from GartnerAnalytics' Datapro and strategic advice from Advisory Services. A Decision Drivers model was used to help create a decision methodology in key areas of change.

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IMPLEMENT

The scope of the proposed changes also required the company to look closely at the skills of its IT staff. Clearly, a gap existed. Through GartnerLearning, the size of the discrepancy was determined, and an action plan was created to develop, maintain and amplify staff skills. The plan included GartnerLearning technology-based titles, instructor-led training from Prosoft on Internet-related technologies, and finally, the use of the LOIS (Learning Organization Information System) intranet platform to manage the training logistics, assessment and skills of individuals as they progressed through their individual training programs.

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RESULTS

By working with Gartner Group's Advisory, Measurement and Learning business units, the client not only determined the extent of its year 2000 exposure and developed a tactical plan to solve it, but in the process improved many other aspects of its IT organization, which will increase profitability and contribute to future business opportunities.

PHASE NO.4

[GRAPHIC OMITTED]

WHEN IT'S TIME TO "FLIP THE SWITCH," SUCCESS DEPENDS ON YOUR PEOPLE. THROUGH GARTNERLEARNING THEY CAN UPGRADE THEIR SKILLS OR LEARN ENTIRELY NEW PROCESSES AND TECHNOLOGIES, RIGHT AT THEIR OWN DESKS.

To further explore the  
depth and breadth of our products and services,  
visit our interactive annual report at:

[www.gartner.com/smarter](http://www.gartner.com/smarter)

## FINANCIAL STATEMENTS AND OTHER INFORMATION

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## OVERVIEW

Fiscal 1997 marked the eighteenth consecutive year of record revenue growth for Gartner Group, Inc. (the "Company"). Total revenues for fiscal 1997 were \$511.2 million, up 30% from \$394.7 million for fiscal 1996. Current year revenue growth consisted of a 29% increase in advisory (excluding consulting) and measurement services, a 74% increase in learning revenue and a 23% increase in other revenue (principally from consulting services and conferences). Advisory and measurement services encompass services which, on an ongoing basis, highlight industry developments, review new products and technologies, provide quantitative market research, analyze industry trends within a particular technology or market sector and provide comparative analysis of the information technology operations of organizations. Learning represents technology-based training products and related services. The Company enters into annual renewable contracts for advisory and measurement services and learning products. Revenues from advisory and measurement services as well as learning are recognized as services and products are delivered and as the Company's obligation to the client is completed over the contract period. Along with the increased penetration of the existing client base, overall revenue increases in fiscal 1997 came from the combined successes of numerous new product introductions, investments in overseas distribution and incremental revenue from current and prior year acquisitions.

Contract value increased 35% to approximately \$526 million at September 30, 1997 versus the same date last year. The Company believes that contract value, which is calculated as the annualized value of all advisory, measurement and learning ("AML") contracts in effect at a given point in time, without regard to the duration of the contracts outstanding at such time, is a significant measure of the Company's volume of business. Historically, a substantial portion of client companies have renewed these services for an equal or higher level of total value each year, and annual revenues from these services in any fiscal year have approximated contract value at the beginning of the fiscal year. Had contract value from the learning business been included in contract value at September 30, 1996, the increase in fiscal 1997 contract value would have been 33%. As of September 30, 1997, approximately 85% of the Company's clients have renewed one or more services in the last twelve months. However, this renewal rate is not necessarily indicative of the rate of retention of the Company's revenue base, and contract value at any time may not be indicative of future AML revenues or cash flows if the rate of renewal of AML services and products or the timing of new business were to significantly change during the following twelve months compared to historic patterns. Total deferred revenues of \$257.3 million and \$201.4 million as of September 30, 1997 and 1996, respectively, as presented in the Company's Consolidated Balance Sheets, represent unamortized revenues from AML services and products plus unamortized revenues of certain other products and services not included in AML services and products. Deferred revenues do not directly correlate to contract value as of the same date since contract value represents an annualized value of all outstanding contracts without regard to the duration of such contracts, and deferred revenue represents unamortized revenue remaining on all outstanding contracts including AML and certain other services and products not included in AML revenue. Backlog at September 30, 1997 was approximately \$95.1 million and represents future revenues that will be recognized on multi-year and early renewed AML contracts, plus in-process consulting engagements. Such revenues will be recognized when services and products are delivered. Backlog is not included in deferred revenues or contract value.

Historically, the Company has realized significant renewals and growth in contract value at the end of quarters. The fourth quarter of the fiscal year typically is the fastest growth quarter for contract value and the first quarter of the fiscal year typically represents the slowest growth quarter as it is the quarter in which the largest amount of contract renewals are due. As a result of the quarterly trends in contract value and overall business volume, fees receivable, deferred revenues, deferred commissions and commissions payable reflect this activity and typically show substantial increases at quarter end, particularly at fiscal year end. All contracts are billable upon signing, absent special terms granted on a limited basis from time to time. All contracts are non-cancelable and non-refundable, except for government contracts which have a 30-day cancellation clause, but have not produced material cancellations to date. The Company's policy is to record at the time of signing of an AML contract the fees receivable and related deferred revenues for the full amount of the contract billable on that date. The Company also records the related commission obligation upon the signing of the contract and amortizes the corresponding deferred commission expense over the contract period in which the related revenues are earned and amortized to income.

Historically, AML revenues have increased significantly in the first quarter of the ensuing fiscal year over the immediately preceding quarter and other revenues have increased similarly due to annual conferences and exhibition events held in the first quarter. Additionally, operating margin (operating income as a percentage of total revenues) typically improves in the first quarter of the fiscal year versus the immediately preceding quarter. The operating margin improvement in the first quarter of the fiscal year is due to the increase in revenue upon which the Company is able to further leverage its selling, general and administrative expenses, plus operating income generated from the first quarter Symposium and ITxpo exhibition events. Operating margin generally is not as high in the second, third and fourth quarters of the fiscal year compared to the first quarter of the fiscal year as the operating margins on the ITxpo event in the first fiscal quarter are higher than on conferences/events held later in the fiscal year. Additionally, the Company historically does not increase its level of spending until after the first quarter of the fiscal year, when the rate of growth in contract value becomes known. As a result, growth in operating expenses has typically lagged behind growth in revenues within a given year, and operating margin has generally been higher in the earlier quarters of the fiscal year.

Operating income rose 136% to \$116.6 million for fiscal 1997, or 23% of total revenues, from \$49.4 million, or 13% of total revenues for fiscal 1996. Excluding acquisition-related charges of \$34.9 million (consisting primarily of a \$32.2 million write-off of purchased, in-process research and development costs in connection with the acquisition of J3 Learning, Inc. ("J3") in fiscal 1996), operating income for fiscal 1997 increased 38%. Operating income has increased as a result of solid revenue growth coupled with controlled spending that has allowed the Company to gain economies of scale through the leveraging of its resources (additional revenues have been generated using essentially the same resources). The Company's continued focus on margin improvement has impacted favorably operating results. Net income per common share was \$0.71 for fiscal 1997 as compared to last fiscal year's \$0.17 per common share (\$0.51 per common share for fiscal 1996 when excluding acquisition-related charges). The Company's strong cash generation also continued in fiscal 1997. The Company had \$188.7 million in total cash, cash equivalents and marketable securities at September 30, 1997, up \$58.8 million from \$129.9 million at September 30, 1996.

#### ANALYSIS OF OPERATIONS

The following table sets forth certain results of operations as a percentage of revenues:

Fiscal Year Ended September 30,	1997	1996	1995
-----			
Percent of revenues:			
Revenues:			
Advisory and measurement	78%	78%	80%
Learning	4	3	--
Other	18	19	20
-----			
Total revenues	100	100	100
-----			
Costs and expenses:			
Cost of services and product development	40	39	38
Selling, general and administrative	34	37	41
Acquisition-related charges	--	9	--
Depreciation	2	2	2
Amortization of intangibles	1	1	1
Nonrecurring charges	--	--	3
-----			
Total costs and expenses	77	88	85
-----			
Operating income	23	12	15
Minority interest	--	--	--
Interest income, net	1	1	1
-----			
Income before income taxes	24	13	16
Provision for income taxes	10	9	7
-----			
Net income	14%	4%	9%
=====			

#### FISCAL YEAR ENDED SEPTEMBER 30, 1997 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 1996

Total revenues increased 30% to \$511.2 million for fiscal 1997 as compared to \$394.7 million for fiscal 1996. Revenues from advisory (excluding consulting) and measurement services increased 29% for fiscal 1997 to \$396.2 million compared to \$306.5 million for fiscal 1996 and comprised approximately 78% of total revenues in both fiscal 1997 and fiscal 1996. Revenue from learning increased 74% for fiscal 1997 to \$21.3 compared to \$12.2 for fiscal 1996 and comprised approximately 4% of revenues in fiscal 1997 versus 3% in fiscal 1996. The increase in AML revenues reflects primarily strong market acceptance of new services introduced in 1996 and the first half of 1997, volume increases as a result of increased geographic and client penetration, continuation of a volume pricing strategy that provides more value for the same dollars each year through the expansion of electronic distribution within client companies and incremental revenues from acquisitions completed in fiscal 1997 and fiscal 1996 (primarily Datapro Information Services, Inc. ("Datapro") and J3).

Other revenues, consisting principally of revenues from consulting and conferences, increased 23% to \$93.7 million for fiscal 1997 as compared to \$75.9 million for the prior year. The increase is primarily attributable to additional conferences held in fiscal 1997, increased revenue versus fiscal 1996 for certain conferences and expansion of consulting services to new geographic regions.

The rate of growth in total revenues has continued to be strong in the three defined geographic market areas of the Company: the United States, Europe and Other International. Total revenues from sales to United States clients increased 31% to \$333.0 million for fiscal 1997 from \$253.5 million for fiscal 1996. Total revenues from sales to European clients increased 24% to \$122.0 million for fiscal 1997 from \$98.8 million for fiscal 1996, and total revenues from sales to Other International clients increased 33% to \$56.2 million for fiscal 1997 from \$42.4 million for fiscal 1996. These increases reflect primarily the continued results of the Company's sales strategy to extend the Company's sales channels to clients with revenues ranging from \$100 million to \$2 billion (versus \$500 million to \$2 billion for fiscal 1996), in addition to the Company's historic focus on larger customers. In Europe and Other International markets, additional investment in direct sales personnel and distributor relationships has also contributed to revenue growth. The Company intends to continue its expansion of operations outside of the United States in fiscal 1998.

Operating income was \$116.6 million for fiscal 1997 compared to \$49.4 million for fiscal 1996. Excluding acquisition-related charges of \$34.9 million for fiscal 1996, operating income for fiscal 1997 increased 38%. All three defined geographic areas experienced growth in operating income in fiscal 1997, with a 139%, 130% and 138% increase in the United States, Europe and Other International geographic areas, respectively. Operating income, as a percentage of total revenues, increased to 23% for fiscal 1997 versus 21% for fiscal 1996, after excluding the above mentioned acquisition-related charges. Operating income has increased as a result of solid revenue growth coupled with controlled spending that has allowed the Company to gain economies of scale through the leveraging of its resources (additional revenues have been generated using essentially the same resources). The Company's continued focus on margin improvement has favorably impacted operating results.

While costs and expenses, excluding acquisition-related charges, increased to \$394.6 million for fiscal 1997 from \$310.3 million for fiscal 1996, such costs decreased to 77% of total revenues for fiscal 1997, down from 79% for fiscal 1996. Cost of services and product development expenses were \$202.8 million and \$153.0 million for fiscal 1997 and 1996, respectively. This increase in expenses over the prior fiscal year reflects the need to provide additional support to the growing client base, including investment in strategic areas such as electronic and Internet distribution, costs associated with the implementation of the Company's new client inquiry process (QuickPath) and product development costs (particularly for technology-based training products). The decrease in cost of services and product development expenses, as a percentage of total revenues, is attributable primarily to improved gross margins on conferences as compared to the prior fiscal year and lower delivery cost per dollar of revenue generated due to increased electronic delivery of AML services and products. Selling, general and administrative expenses, which were \$173.6 million and \$144.5 million for fiscal 1997 and 1996, respectively, increased primarily as a result of the Company's continued expansion of worldwide distribution channels and resulting commissions earned on the revenue generated. The increase in commission expense was offset partially by the elimination and/or reduction of redundant general and administrative expenses, including personnel reductions and facility rationalization relating to acquisitions. Although the Company has added general and administrative resources to support the growing revenue base, it has benefited from economies of scale and leveraging of its general and administrative staff and facilities. Consequently, selling, general and administrative expenses were 34% of total revenues for fiscal 1997 as compared to 37% for fiscal 1996.

Acquisition-related charges of \$34.9 million for fiscal 1996 for the acquisitions of Dataquest, Inc. and J3 were not recurring for fiscal 1997. Depreciation expense increased to \$11.8 million for fiscal 1997 from \$9.1 million for fiscal 1996, due primarily to capital spending required to support business growth. Additionally, amortization of intangibles increased by \$2.6 million for fiscal 1997 as compared to fiscal 1996, reflecting primarily goodwill associated with fiscal 1996 and 1997 acquisitions.

Interest income, net, increased to \$7.3 million for fiscal 1997, versus \$3.7 million for fiscal 1996. This improvement resulted from interest income accumulating on the Company's total cash, cash equivalents and marketable securities (\$188.7 million at September 30, 1997 versus \$129.9 million at September 30, 1996), changes in the mix to higher yielding investments and from reduced interest expense after remaining debt related to fiscal 1993 and 1994 acquisitions was paid during fiscal 1996.

Provision for income taxes increased by \$14.1 million to \$50.7 million for fiscal 1997, up from \$36.7 million for fiscal 1996. The effective tax rate was 41% and 69% for fiscal 1997 and 1996, respectively. Absent the non-deductible write-off for purchased in-process research and development costs, the effective tax rate for fiscal 1996 was 43%. The decrease in the effective tax rate from fiscal 1996, excluding the above mentioned non-deductible write-off, is due to on-going tax planning initiatives. A more detailed analysis of the changes in the provision for income taxes is provided in Note 9 of the Notes to Consolidated Financial Statements.

#### FISCAL YEAR ENDED SEPTEMBER 30, 1996 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 1995

Total revenues increased 34% to \$394.7 million for fiscal 1996 as compared to \$295.1 million for fiscal 1995. Revenues from advisory (excluding consulting) and measurement services increased 30% for fiscal 1996 to \$306.5 million compared to \$235.9 million for fiscal 1995 and comprised approximately 78% of total revenues for fiscal 1996 versus 80% for fiscal 1995. Revenue from learning increased 839% for fiscal 1996 to \$12.2 million compared to \$1.3 million for fiscal 1995. The increase in AML revenues reflects primarily strong market acceptance of new services introduced in fiscal 1996, volume increases as a result of increased geographic and client penetration, a volume pricing strategy that provides more value for the same dollars each year through the expansion of electronic distribution within client companies and incremental revenues from the acquisition of J3 in July 1996. In addition, the Company launched a number of Internet-based products during fiscal 1996 that are designed to expand the distribution channels for the Company's products in future fiscal years.

Other revenues, consisting principally of revenues from consulting and conferences, increased 31% to \$75.9 million for fiscal 1996 as compared to \$58.0 million for the prior year. This increase was attributable primarily to additional conferences held in fiscal 1996.

The rate of growth in total revenues has continued strong in the three defined geographic market areas of the Company: the United States, Europe and Other International. Revenues from sales to United States clients increased 37% to \$253.5 million for fiscal 1996 from \$184.6 million for fiscal 1995. Revenues from sales to European clients increased 37% to \$98.8 million for fiscal 1996 from \$71.9 million for fiscal 1995, and revenues from sales to Other International clients increased 10% to \$42.4 million for fiscal 1996 from \$38.6 million for fiscal 1995. These increases reflect primarily the continued results of the Company's sales strategy to extend the Company's sales channels to clients with revenues ranging from \$500 million to \$2 billion, in addition to the Company's historic focus on larger customers. In Europe and Other International markets, additional investment in direct sales personnel and distributor relationships has also contributed to revenue growth.

Operating income was \$49.4 million for fiscal 1996, compared to \$43.7 million for fiscal 1995. Excluding \$34.9 million in acquisition-related charges (consisting primarily of a \$32.2 million write-off of purchased in-process research and development costs in connection with the acquisition of J3) and \$8.8 million of nonrecurring charges in fiscal 1995, operating income for fiscal 1996 increased 61% to \$84.3 million compared to \$52.5 million for fiscal 1995. Excluding the above mentioned charges, all three geographic areas experienced growth in operating income for fiscal 1996, with a 47%, 200% and 31% increase in the United States, Europe and Other International geographic areas, respectively. Operating income, as a percentage of total revenues, after excluding the above mentioned charges, increased to 21% of revenues for fiscal 1996 versus 18% for fiscal 1995. As revenues have grown, the Company has been able to take advantage of economies of scale and has leveraged its resources (additional revenues have been generated using essentially the same resources), thereby improving margins. These measures include electronic distribution, improved productivity of the sales force resulting from a significant investment in new technologies, and the utilization of new sales channels to reach more organizations. These measures have had a greater incremental impact on Europe's operating income relative to the other geographic areas mainly due to the prior year distribution improvements being in place for all of fiscal 1996, combined with significant revenue growth.

The total dollar amount of costs and expenses, excluding acquisition-related and nonrecurring charges, increased \$67.7 million to \$310.3 million. The dollar increase in cost growth reflected primarily the need to provide additional support to the growing client base, including investment in strategic areas such as electronic and Internet distribution and information systems infrastructure. Additionally, cost of services and product development, as a percentage of total revenues increased, reflecting a shift in the Company's total revenues as higher direct cost businesses such as consulting and conferences contributed to a greater portion of the total revenues for fiscal 1996. For fiscal 1996, these factors resulted in a \$40.3 million increase in cost of services and product development and a \$24.8 million increase in selling, general and administrative expenses compared to the prior fiscal year. However, expressed as a percentage of revenues, costs of services and product development increased only 1% from 38% to 39% and selling, general and administrative decreased from 41% to 37% of total revenues in comparing fiscal 1996 to fiscal 1995.

Interest income, net, increased to \$3.7 million for fiscal 1996, versus \$2.3 million for fiscal 1995. This increase in interest income is attributable to an increase in the Company's average available investable funds and the decrease in debt related to prior years' acquisitions. Rates earned on the average available investable funds for fiscal 1996 were consistent with the rates earned for fiscal 1995.

Provision for income taxes increased by \$15.8 million to \$36.7 million for fiscal 1996, up from \$20.9 million for fiscal 1995. The effective rate was 69% and 46% for fiscal 1996 and 1995, respectively. This increase reflects the non-deductible write-off for purchased in-process research and development costs in fiscal 1996. Absent this charge, the effective tax rate for fiscal 1996 was 43%. A more detailed analysis of the changes in the provision for income taxes is provided in Note 9 of the Notes to Consolidated Financial Statements.

#### FACTORS THAT MAY AFFECT FUTURE PERFORMANCE

The Company's future operating results will depend upon the Company's ability to continue to compete successfully in the market for information products and services. The Company faces competition from a significant number of independent providers of similar services, as well as the internal marketing and planning organizations of the Company's clients. The Company also competes indirectly against other information providers, including electronic and print media companies and consulting firms. In addition, there are limited barriers to entry into the Company's market and additional new competitors could readily emerge. There can be no assurance that the Company will be able to continue to provide the products and services that meet client needs as the Information Technology ("IT") market rapidly evolves, or that the Company can otherwise continue to compete successfully. In this regard, the Company's ability to compete is largely dependent upon the quality of its staff of IT analysts. Competition for qualified analysts is intense. There can be no assurance that the Company will be able to hire additional qualified IT analysts as may be required to support the evolving needs of customers or any growth in the Company's business. Any failure to maintain a premier staff of IT analysts could adversely affect the quality of the Company's products and services, and therefore its future business and operating results. Additionally, there may be increased business risk as the Company expands product and service offerings to smaller domestic companies.

The Company's operating results are subject to the risks inherent in international sales, including changes in market demand as a result of exchange rate fluctuations, tariffs and other barriers, challenges in staffing and managing foreign sales operations, and higher levels of taxation on foreign income than domestic income. Further expansion would also require additional management attention and financial resources.

The Company has expanded its presence in the technology-based training industry. The success of the Company in the technology-based training industry will depend on its ability to compete with vendors of these products and services which include a range of education and training specialists, hardware and system manufacturers, software vendors, system integrators, dealers, value-added resellers and network/ communications vendors, certain of whom have significantly greater product breadth and market presence in the technology-based training sector. There can be no assurance that the Company will be able to provide products that compare favorably with new competitive

products or that competitive pressures will not require the Company to reduce prices. Future success will also depend on the Company's ability to develop new training products that are released timely with the introductions of the underlying software products.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date primarily through cash provided by operating activities. The combination of revenue growth and operating margin improvements have contributed to positive cash provided by operating activities for fiscal 1997, 1996 and 1995. In addition, cash flow has been enhanced by the Company's continuing management of working capital requirements to support increased sales volumes from growth in the pre-existing businesses and growth due to acquisitions.

Cash provided by operating activities for fiscal 1997 was \$87.2 million compared to \$65.7 million for the prior fiscal year. This increase reflected primarily the impact of increased revenues and operating margins and related changes in the balance sheet accounts, particularly fees receivable, deferred revenues, deferred commissions, commissions payable and bonuses payable.

Cash used for investing activities totaled \$84.3 million for the fiscal year ended September 30, 1997. During fiscal 1997, the Company used \$33.3 million in cash for acquisitions, primarily for the purchase of Datapro for \$25 million, and \$9.0 million for investments in unconsolidated businesses. The Company also used \$21.5 million for the purchase of capital assets, loaned officers \$7.2 million to facilitate the purchase of common stock arising out of the exercise of stock options (the loan proceeds were not used to fund the option exercise price of the common stock acquired) and had net purchases of marketable securities for \$13.2 million.

Cash provided by financing activities totaled \$44.6 million for fiscal 1997, versus \$31.6 million for fiscal 1996. The increase for fiscal 1997 was driven primarily by a \$36.8 million credit to additional paid-in capital for tax benefits received from stock transactions with employees and \$13.6 million from the issuance of common stock upon the exercise of employee stock options. The tax benefit of stock transactions with employees is due to a reduction in the corporate income tax liability based on an imputed compensation deduction equal to employees' gain upon the exercise of stock options at an exercise price below fair market. As additional stock options have become exercisable each fiscal year under the Company's stock option plans, both the volumes of option exercises and gains on those exercises have increased, thereby resulting in significant tax benefits being realized in both fiscal 1997 and 1996. These increases were partially offset by a net cash settlement of \$12.0 million on a forward purchase agreement on the Company's common stock.

The effect of exchange rates reduced cash and cash equivalents by \$1.8 million for the year ended September 30, 1997, and was due to the strengthening of the U.S. dollar versus certain foreign currencies. In fiscal 1996, the foreign denominated cash balances were significantly less and the exchange rate fluctuations were not as significant as in the current fiscal year, thereby resulting in a reduction of \$0.3 million in cash. At September 30, 1997, cash, cash equivalents and marketable securities totaled \$188.7 million. In addition, the Company has available two unsecured credit lines with The Bank of New York and Chase Manhattan Bank for \$5.0 million and \$25.0 million, respectively. These lines may be canceled by the banks at any time without prior notice or penalty. Additionally, the Company issues letters of credit in the ordinary course of business. The Company had outstanding letters of credit with Chase Manhattan Bank of \$4.0 million and \$2.0 million with The Bank of New York at September 30, 1997. The Company currently has no material capital commitments.

The Company believes that its current cash balances and marketable securities, together with cash anticipated to be provided by operating activities and borrowings available under the existing lines of credit, will be sufficient for the expected short-term and foreseeable long-term cash needs of the Company, including possible acquisitions.

#### SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Portions of the foregoing discussion include descriptions of the Company's expectations regarding future trends affecting its business. The forward-looking statements made in this annual report, as well as all other forward-looking statements or information provided by the Company or its employees, whether written or oral, are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements and future results are subject to, and should be considered in light of risks, uncertainties and other factors which may affect future results including, but not limited to: competition, rapidly changing technology, regulatory requirements and uncertainties of international trade.

## COMMON STOCK INFORMATION

The Company's Class A Common Stock is listed for quotation in the Nasdaq National Market under the symbol "GART." The Company effected two-for-one stock splits by means of stock dividends in March 1996, June 1995 and August 1994. All earnings per share and share data presented herein have been restated retroactively to reflect such splits. As of September 30, 1997, the Company recorded the conversion of all Class B Common Stock into Class A Common Stock on a one for one basis, pursuant to a provision of the Articles of Incorporation which requires conversion when the Class B Common Stockholder's voting equity falls below a certain ownership percentage after considering all exercisable options and warrants outstanding. During fiscal 1997, the Company's Class A Common Stock traded within a range of daily closing prices of \$20.38 to \$42.06 per share.

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 QUARTERLY COMMON STOCK PRICES  
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	Fiscal Year 1997		Fiscal Year 1996	
	High	Low	High	Low
First Quarter ended December 31	\$38.88	\$29.75	\$23.94	\$16.25
Second Quarter ended March 31	\$42.06	\$20.38	\$33.00	\$20.25
Third Quarter ended June 30	\$35.94	\$20.63	\$42.50	\$30.88
Fourth Quarter ended September 30	\$36.63	\$25.50	\$38.63	\$27.38

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The Company has not paid any cash dividends on its common stock and currently intends to retain any future earnings for use in its business. Accordingly, the Company does not anticipate that any cash dividends will be declared or paid on the common stock in the foreseeable future.

## RECENTLY ISSUED ACCOUNTING STANDARDS

In February 1997, Statement of Financial Accounting Standard No. 128, "Earnings per Share" was issued. This statement sets forth guidance on the presentation of earnings per share and requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if all common stock equivalents were exercised (similar to fully diluted earnings per share under Accounting Principles Board Opinion No. 15). If the new standard was in effect during fiscal 1997, basic net income per common share for the fiscal year ended September 30, 1997 would have been \$0.77 and diluted income per common share would have been \$0.71. The Company is required to adopt the new standard in the first quarter of fiscal 1998.

In June 1997, Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income ("FAS 130") and "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131") were issued. FAS 130 establishes standards for reporting and disclosure of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders, which is currently not required. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company is required to adopt both new standards in the first quarter of fiscal 1999.

## GARTNER GROUP CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

September 30,	1997	1996
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 142,415	\$ 96,755
Marketable securities	28,639	30,054
Fees receivable, net of allowances of \$5,340 and \$4,460	205,760	143,762
Deferred commissions	23,019	17,539
Prepaid expenses and other current assets	25,775	22,040
<b>Total current assets</b>	<b>425,608</b>	<b>310,150</b>
Long-term marketable securities	17,691	3,047
Property, equipment and leasehold improvements, net	44,102	32,818
Intangible assets, net	132,195	93,144
Other assets	25,716	4,949
<b>Total assets</b>	<b>\$ 645,312</b>	<b>\$ 444,108</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 85,411	\$ 60,527
Commissions payable	16,979	15,148
Accrued bonuses payable	15,722	16,781
Deferred revenues	254,071	198,952
<b>Total current liabilities</b>	<b>372,183</b>	<b>291,408</b>
Long-term deferred revenues	3,259	2,465
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
\$ .01 par value, authorized 2,500,000 shares; none issued or outstanding	--	--
Common stock:		
\$ .0005 par value, authorized 200,000,000 shares of Class A Common Stock and 1,600,000 shares of Class B Common Stock; issued 108,334,601 shares of Class A Common (102,697,739 in 1996) and 0 shares of Class B Common Stock (1,600,000 in 1996)	54	52
Additional paid-in capital	179,017	134,711
Cumulative translation adjustment	(1,098)	(2,965)
Accumulated earnings	105,138	32,008
Treasury stock, at cost, 11,624,805 and 11,370,594 shares	(13,241)	(13,571)
<b>Total stockholders' equity</b>	<b>269,870</b>	<b>150,235</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 645,312</b>	<b>\$ 444,108</b>

See notes to consolidated financial statements

## GARTNER GROUP CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

Fiscal Year Ended September 30,	1997	1996	1995
<b>REVENUES:</b>			
Advisory and measurement	\$396,219	\$306,542	\$235,867
Learning	21,314	12,219	1,301
Other, principally consulting and conferences	93,706	75,911	57,978
<b>Total revenues</b>	<b>511,239</b>	<b>394,672</b>	<b>295,146</b>
<b>COSTS AND EXPENSES:</b>			
Cost of services and product development	202,815	152,982	112,675
Selling, general and administrative	173,610	144,473	119,626
Acquisition-related charges	--	34,898	--
Depreciation	11,758	9,064	6,399
Amortization of intangibles	6,443	3,815	3,906
Nonrecurring charges	--	--	8,800
<b>Total costs and expenses</b>	<b>394,626</b>	<b>345,232</b>	<b>251,406</b>
Operating income	116,613	49,440	43,740
Minority interest	--	25	98
Interest income, net	7,260	3,665	2,271
Income before provision for income taxes	123,873	53,130	46,109
Provision for income taxes	50,743	36,692	20,948
<b>Net income</b>	<b>\$ 73,130</b>	<b>\$ 16,438</b>	<b>\$ 25,161</b>
<b>NET INCOME PER COMMON SHARE:</b>			
Primary	\$ .71	\$ .17	\$ .27
Fully diluted	\$ .71	\$ .17	\$ .26
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>			
Primary	102,459	98,612	94,762
Fully diluted	102,751	98,854	95,212

See notes to consolidated financial statements

GARTNER GROUP CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS' EQUITY

(In thousands, except share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Cumulative Translation Adjustment	Accumulated Earnings	Treasury Stock	Total Stockholders' Equity
Balance at September 30, 1994	\$0	\$50	\$ 59,709	\$ 250	\$ 7,699	\$(13,821)	\$ 53,887
Net income	-	--	--	--	25,161	--	25,161
Issuance of 1,838,902 shares of Class A Common Stock upon exercise of stock options	-	1	1,259	--	--	--	1,260
Issuance of 345,644 shares of Class A Common Stock from purchases by employees	-	0	1,659	--	--	--	1,659
Issuance from treasury stock of 172,594 shares of Class A Common Stock	-	--	1,410	--	--	3	1,413
Purchase of 152,624 of Class A Common Stock	-	--	--	--	--	(17)	(17)
Tax benefits of stock transactions with employees	-	--	9,241	--	--	--	9,241
Net transfers to D&B by Dataquest	-	--	--	--	(15,603)	--	(15,603)
Cumulative translation adjustment	-	--	--	(2,750)	--	--	(2,750)
Balance at September 30, 1995	0	51	73,278	(2,500)	17,257	(13,835)	74,251
Net income	-	--	--	--	16,438	--	16,438
Issuance of 3,036,403 shares of Class A Common Stock upon exercise of stock options	-	1	5,752	--	--	--	5,753
Issuance of 199,648 shares of Class A Common Stock from purchases by employees	-	0	2,407	--	--	--	2,407
Issuance from treasury stock of 117,470 shares of Class A Common Stock from purchases by employees	-	--	2,140	--	--	264	2,404
Tax benefits of stock transactions with employees	-	--	29,415	--	--	--	29,415
Net transfers to D&B by Dataquest	-	--	--	--	(1,687)	--	(1,687)
Cumulative translation adjustment	-	--	--	(465)	--	--	(465)
Acquisition of Dataquest, Inc.	-	--	(15,000)	--	--	--	(15,000)
Acquisition of J3 Learning, Inc.	-	0	36,719	--	--	--	36,719
Balance at September 30, 1996	0	52	134,711	(2,965)	32,008	(13,571)	150,235
Net income	-	--	--	--	73,130	--	73,130
Issuance of 4,036,862 shares of Class A Common Stock upon exercise of stock options	-	2	13,594	--	--	--	13,596
Issuance from treasury stock of 195,721 shares of Class A Common Stock from purchases by employees	-	--	5,883	--	--	330	6,213
Conversion of 1,600,000 shares of Class B Common Stock into Class A Common Stock	-	0	--	--	--	--	0
Tax benefits of stock transactions with employees	-	--	36,833	--	--	--	36,833
Net share settlement of 449,932 shares of Class A Common Stock received on forward purchase agreement	-	--	--	--	--	0	0
Net cash settlement paid on forward purchase agreement	-	--	(12,004)	--	--	--	(12,004)
Cumulative translation adjustment	-	--	--	1,867	--	--	1,867
Balance at September 30, 1997	\$0	\$54	\$ 179,017	\$(1,098)	\$ 105,138	\$(13,241)	\$ 269,870

See notes to consolidated financial statements

## GARTNER GROUP CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Fiscal Year Ended September 30,

	1997	1996	1995
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 73,130	\$ 16,438	\$ 25,161
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization of intangibles	18,201	12,879	9,703
Acquisition-related charges	--	34,898	--
Provision for doubtful accounts	3,421	3,295	1,862
Equity in losses of minority owned company	202	--	--
Deferred revenues	41,750	35,800	25,479
Deferred tax expense (benefit)	1,554	(1,394)	(2,690)
Pre-acquisition tax benefit applied to reduce goodwill	275	517	1,257
Minority interest	--	(25)	(98)
Provision for nonrecurring charges	--	--	8,800
Payments for nonrecurring charges	(724)	(7,691)	(408)
Changes in assets and liabilities, net of effects of acquisitions:			
Increase in fees receivable	(60,378)	(31,779)	(10,136)
Increase in deferred commissions	(4,262)	(1,154)	(4,216)
Increase in prepaid expenses and other current assets	(7,915)	(1,995)	(1,138)
(Increase) decrease in other assets	(2,707)	116	(242)
Increase in accounts payable and accrued liabilities	23,782	2,277	10,001
Increase in commissions payable	1,785	2,160	1,248
(Decrease) increase in accrued bonuses payable	(957)	1,347	2,383
Cash provided by operating activities	87,157	65,689	66,966
<b>INVESTING ACTIVITIES:</b>			
Payment for businesses acquired (excluding cash acquired)	(33,306)	(46,176)	(9,749)
Investments in unconsolidated subsidiaries	(9,089)	(750)	(180)
Addition of property, equipment and leasehold improvements	(21,513)	(15,614)	(18,183)
Proceeds from disposal of property, equipment and leasehold improvements	--	--	11,826
Marketable securities purchased, net	(13,229)	(4,268)	(24,783)
Loans to Officers	(7,163)	--	--
Other investing	--	--	(341)
Cash used for investing activities	(84,300)	(66,808)	(41,410)
<b>FINANCING ACTIVITIES:</b>			
Principal payments on long-term debt and capital lease obligations	--	(6,725)	(5,825)
Issuance of common stock and warrants	13,596	5,753	1,260
Proceeds from Employee Stock Purchase Plan offering	5,883	4,547	3,069
Tax benefits of stock transactions with employees	36,833	29,415	9,241
Distributions of capital between Dataquest and its former parent	--	(1,687)	(15,731)
Net cash settlement on forward purchase agreement	(12,004)	--	--
Sale (purchase) of treasury stock	330	264	(14)
Cash provided by (used for) financing activities	44,638	31,567	(8,000)
Net increase in cash and cash equivalents	47,495	30,448	17,556
Effect of exchange rates on cash and cash equivalents	(1,835)	(274)	220
Cash and cash equivalents, beginning of period	96,755	66,581	48,805
Cash and cash equivalents, end of period	\$ 142,415	\$ 96,755	\$ 66,581
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the period for:			
Interest	--	\$ 437	\$ 225
Income taxes	\$ 6,597	\$ 8,463	\$ 7,265
<b>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Stock and options issued in connection with J3 acquisition	--	\$ 36,719	--

See notes to consolidated financial statements

## GARTNER GROUP NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. The consolidated financial statements include the accounts of Gartner Group, Inc. ("GGI" or the "Company") and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Minority interest represents the minority shareholder's proportionate share of the equity in businesses owned less than 100%. The results of operations for acquisitions of companies accounted for using the purchase method have been included in the Consolidated Statements of Operations beginning on the effective date of acquisition. The Company's investments in 20% to 50% owned companies in which it has the ability to exercise significant influence over operating and financial policies are accounted for on the equity method. Investments of less than 20% are carried at cost.

Revenue and commission expense recognition. Revenues from advisory, measurement and learning ("AML") contracts are recognized as services and products are delivered, and as the Company's obligation to the client is completed over the contract period, generally twelve months. The Company's policy is to record at the time of signing of an AML contract the fees receivable and related deferred revenues, for the full amount of the contract billable on that date. All such contracts are non-cancelable and non-refundable, except for government contracts which have a 30-day cancellation clause, but have not produced material cancellations to date. All contracts are billable upon signing, absent special terms granted on a limited basis from time to time. The Company also records the related commission obligation upon the signing of the contract and amortizes the corresponding deferred commission expense over the contract period in which the related revenues are earned and amortized to income. Other revenues consist principally of revenues recognized as earned from consulting services and conferences.

Cash equivalents and marketable securities. Marketable securities that mature within three months of purchase are considered cash equivalents. Investments with maturities of more than three months are classified as marketable securities. Marketable securities are considered "held-to-maturity" and valued at amortized cost, which approximates market. It is management's intent to hold all investments to maturity.

Inventories. Inventories, which consist primarily of finished goods relating to the Company's learning business (technology-based training products), are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories consist primarily of material costs, and are included in the balance sheet caption "Prepaid and other current assets." Inventories were \$2.1 million and \$1.3 million at September 30, 1997 and 1996, respectively.

Property, equipment and leasehold improvements. Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the asset or the remaining term of the related leases.

Software Development Costs. Under Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed," capitalization of computer software development costs is to begin upon the establishment of technological feasibility, limited to the net realizable value of the software product, and cease when the software product is available for general release to clients. Until these products reach technological feasibility, all costs related to development efforts are charged to expense. Software development costs, subsequent to technological feasibility and prior to general release, were not material and have been expensed.

Intangible Assets. Intangible assets include goodwill, non-compete agreements, tradenames and other intangibles. Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and identifiable intangible net assets acquired. Amortization is recorded using the straight-line method over periods ranging from seven to thirty years. These amounts have been and are subject to adjustment in accordance with the provisions of the Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109") (see Note 9. Income Taxes). Non-compete agreements are being amortized on a straight-line basis over the period of the agreement ranging from three to five years. Tradenames and other intangibles are amortized using the straight-line method over their estimated useful lives ranging from four to thirty years. At the

end of each quarter, the Company reviews the recoverability of all intangibles based on estimated undiscounted future cash flows from operating activities compared with the carrying value of the intangible asset. Should the aggregate of such future cash flows be less than the carrying value, a writedown would be required, measured by the difference between the discounted future cash flows (or another acceptable method for determining fair value) and the carrying value of the intangible.

Foreign currency translation. All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. The resulting translation adjustments are recorded as a component of stockholders' equity.

Income taxes. Income taxes are provided using the asset and liability method in accordance with FAS 109. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using presently enacted tax rates. The provision for income taxes is the sum of the amount of income tax paid or payable for the year as determined by applying the provisions of enacted tax laws to taxable income for that year and the net changes during the year in the Company's deferred tax assets and liabilities.

Undistributed earnings of subsidiaries outside of the U.S. amounted to approximately \$4.2 million and will either be indefinitely reinvested or remitted substantially free of tax. Accordingly, no material provision has been made for taxes that may be payable upon remittance of such earnings, nor is it practicable to determine the amount of this liability. The Company credits Additional paid-in capital for realized tax benefits arising from stock transactions with employees. The tax benefit on a non-qualified stock option is equal to the tax effect of the difference between the market price of a share of the Company's common stock on the exercise and grant dates. To the extent the Company incurs employment taxes as a direct result of the exercise of such stock options, this cost is charged to Additional paid-in capital.

Computations of net income per share of common stock. Primary and fully diluted net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. The computation includes the weighted average number of shares issued in connection with the Dataquest, Inc. ("Dataquest") acquisition (see Note 3. Acquisitions), on December 1, 1995, as if they had been issued at the beginning of fiscal 1996 and fiscal 1995. The warrant issued in connection with the Dataquest acquisition has been excluded from primary and fully diluted weighted average shares outstanding for fiscal 1995 due to its anti-dilutive effect.

Stock based compensation. In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("FAS 123") was issued. This statement defines a fair value based method of accounting for an employee stock option. Companies may, however, elect to adopt this new accounting rule through a pro forma disclosure option, while continuing to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees." As permitted by FAS 123, the Company has adopted the disclosure provisions and continues accounting for its employee stock compensation plans under APB 25 (see Note 12 for the fair value disclosures required under FAS 123).

Recently issued accounting standards. In February 1997, Statement of Financial Accounting Standard No. 128, "Earnings per Share", was issued. The statement sets forth guidance on the presentation of earnings per share and requires dual presentation of basic and diluted earnings per share on the face of the income statement. Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if all common stock equivalents were exercised (similar to fully diluted earnings per share under APB Opinion No. 15). If the new standard was in effect during fiscal 1997, basic net income per common share for the fiscal year ended September 30, 1997 would have been \$0.77 and diluted net income per common share would have been \$0.71. The Company is required to adopt the new standard in the first quarter of fiscal 1998.

In June 1997, Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("FAS 130") and "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"), were issued. FAS 130 establishes standards for reporting and disclosure of comprehensive income and its components in a full set of general-purpose financial statements. This statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. FAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders which is currently not required. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company is required to adopt both new standards in the first quarter of fiscal 1999.

**Expense Allocations.** Prior to the Company's acquisition of Dataquest, Dataquest was a wholly-owned subsidiary of The Dun and Bradstreet Corporation ("D&B"). D&B provided certain services to and incurred certain costs on behalf of its wholly-owned subsidiaries and divisions. These costs, which included employee benefit and executive compensation programs, payroll processing and administration, general treasury services and various business insurance coverages, were allocated on a pro rata basis to Dataquest when it was a wholly-owned subsidiary of D&B and were \$0.3 and \$1.9 million during the fiscal years 1996 and 1995, respectively. The costs of D&B's general corporate overheads were not allocated, as such costs related to Dataquest were deemed to be immaterial.

**Distributions of capital between Dataquest and its former parent.** Dataquest transfers to D&B included historical investments and advances from D&B, as well as current period income or losses, net transfers to/from D&B, and current income taxes payable or receivable.

**Fair Value of Financial Instruments.** Most of the Company's financial instruments, including cash, marketable securities, trade receivables and payables and accruals, are short-term in nature. Accordingly, the carrying amount of the Company's financial instruments approximates its fair value.

**Concentrations of Credit Risk.** Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, marketable securities and fees receivable. The Company invests its cash primarily in a diversified portfolio of highly-rated municipal and government bonds. Concentrations of credit risk with respect to fees receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across many different industries and geographic regions.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures, if any, of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Reclassifications.** Certain reclassifications have been made in the prior years financial statements to conform with the fiscal 1997 presentation.

## 2. RELATED PARTIES

D&B, an investor in Information Partners Capital Fund, L.P. ("the Fund"), provided a portion of the financing in connection with the acquisition of the Company in October 1990. In April 1993, D&B acquired a majority of the outstanding voting securities of the Company in transactions among the Company, D&B and persons and entities associated with the Fund. On November 1, 1996, D&B transferred ownership of its Class A and Class B Common Stock of the Company to Cognizant Corporation ("Cognizant"), a spin-off of D&B and an independent public company. At the date of transfer, these shares represented approximately 51% of the Company's outstanding common stock. During fiscal 1997, Cognizant's ownership of the Company's outstanding common stock fell below 50%.

On June 4, 1997, with the Board of Directors approval, the Company provided loans totaling \$7.2 million to certain Officers to facilitate the purchase of common stock arising out of the exercise of stock options. The loan proceeds were not used to fund the option exercise price of the common stock acquired. The loans are full recourse obligations to the Officers and are also secured by shares of the Company's common stock held by the Officers. The loans bear interest at an annual rate of 6.14% and mature on June 3, 1999. The principal amount of

the loans totaling \$7.2 million are included in Other assets on the September 30, 1997 Consolidated Balance Sheet.

### 3. ACQUISITIONS

On December 1, 1995, the Company acquired all the outstanding shares of Dataquest, a wholly-owned subsidiary of D&B, for consideration of \$15.0 million in cash, 3,000,000 shares of Class A Common Stock with an approximate fair market value of \$60.0 million, and a five year warrant to purchase 600,000 shares of Class A Common Stock at \$16.42 per share. Dataquest is a provider of information technology ("IT") market research and consulting for the IT vendor manufacturer and financial communities which complements the Company's end user focus. The Company has accounted for the acquisition as a transfer and exchange between companies under common control and the 3,000,000 shares have been assumed to be outstanding for all periods presented. Accordingly, the accounts of Dataquest have been combined with the Company's at historical cost in a manner similar to a pooling of interests. Transaction costs of \$1.7 million relating to the acquisition have been included in acquisition-related charges in the Consolidated Statement of Operations for fiscal 1996.

Combined and separate results of GGI and Dataquest during the periods preceding the merger were as follows (in thousands):

Three months ended December 31, 1995 (Unaudited)	GGI	Dataquest	Combined
Total revenues	\$76,005	\$20,469	\$96,474
Net income	\$10,570	\$923	\$11,493
-----			
Fiscal year ended September 30, 1995	GGI	Dataquest	Combined
Total revenues	\$229,152	\$65,994	\$295,146
Net income (loss)	\$25,539	\$ (378)	\$25,161

There were no intercompany transactions between the two companies for the periods presented.

On July 31, 1996, the Company acquired all of the outstanding shares of J3 Learning Corporation ("J3") for consideration of approximately \$8.0 million in cash, 1,065,290 shares of Class A Common Stock which had an approximate fair market value of \$35.4 million and options to purchase Class A Common Stock which had a value of \$1.3 million. J3 publishes, markets and distributes software educational materials for corporate and individual training. The acquisition was accounted for by the purchase method, and the purchase price has been allocated to the assets acquired and liabilities assumed, based upon the estimated fair values at the date of acquisition. The excess purchase price over the fair value of amounts assigned to the net tangible assets acquired was \$51.1 million. Of such amount, \$32.2 million was expensed at acquisition as purchased in-process research and development costs and is included in acquisition-related charges in the Consolidated Statement of Operations for fiscal 1996, and the remaining excess purchase price was allocated as follows (in thousands):

	Amortization Period (years)	Amount
Existing title library	4	\$ 1,900
Tradename	12	4,200
Goodwill	12	12,787
		-----
		\$18,887

The following unaudited pro forma summary presents the consolidated results of operations of the Company as if the acquisition of J3 had occurred at the beginning of fiscal 1995 and does not purport to be indicative of what would have occurred had the acquisition been made as of that date or of results which may occur in the future (in thousands, except per share data):

Fiscal Year Ended September 30,	1996	1995
Total revenues	\$401,329	\$310,150
Net income	\$ 11,749	\$ 16,360
Net income per common share	\$ 0.12	\$ 0.17

On August 1, 1997, the Company acquired all of the outstanding shares of Datapro Information Services, Inc. ("Datapro"), a unit of the McGraw-Hill Companies for consideration of approximately \$25 million in cash. Datapro is a provider of information on product specifications and pricing, product comparisons, technology reports, market overviews, case studies and user ratings surveys. Datapro's services and products provide feature and side-by-side

comparisons of computer hardware, software and communications products. The acquisition was accounted for by the purchase method, and the purchase price has been allocated to the assets acquired and liabilities assumed, based upon the estimated fair values at the date of acquisition. The excess purchase price over the fair value of amounts assigned to the net tangible assets acquired was \$33.5 million and has been recorded as goodwill which is being amortized over 30 years. In addition, \$2.5 million of the purchase price was allocated to a non-compete agreement which is being amortized over 4 years. If the acquisition of Datapro had occurred at the beginning of fiscal 1996, consolidated total revenues would have been \$536.6 million and \$431.4 for fiscal 1997 and 1996, respectively. This revenue does not purport to be indicative of what would have occurred had the acquisition been made as of that date or of total revenues which may occur in the future. The pro forma effect on the Company's fiscal 1997 and 1996 net income and net income per common share is not material.

During fiscal 1997 and 1996, the Company completed additional acquisitions for consideration of \$8.1 and \$23.2 million in cash, respectively. These acquisitions have been accounted for under the purchase method and substantially all of the purchase price has been assigned to goodwill. The results of these acquired operations individually and collectively, had they occurred at the beginning of fiscal 1997, 1996 or 1995 are not material.

During fiscal 1997 and 1996 the Company made several investments totaling \$7.1 million and \$0.9 million, respectively, that are accounted for on the cost method. The Company also made an investment totaling \$1.9 million in 1997 that is accounted for on the equity method. These investments totaled \$9.4 million and \$0.9 million and are included in Other assets on the Consolidated Balance Sheets as of September 30, 1997 and 1996, respectively.

In October 1997, the Company acquired a 32% membership interest in Jupiter Communications, LLC ("Jupiter") for \$8.0 million in cash. Jupiter is a provider of analyst-based research and strategic planning services to the consumer Internet and interactive industry.

#### 4. NONRECURRING CHARGES

During fiscal 1995, Dataquest closed certain operations of its subsidiary in Japan for a \$0.6 million pre-tax charge, and initiated workforce reduction actions resulting in a pre-tax charge of \$8.2 million. These charges were recorded as a nonrecurring charge in the Consolidated Statement of Operations.

#### 5. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements, are carried at cost less accumulated depreciation and amortization, and consist of the following (in thousands):

	Useful Life (years)	September 30,	
		1997	1996
Furniture and equipment	3-8	\$ 25,568	\$ 19,801
Computer equipment	2-3	56,979	34,843
Leasehold improvements	2-15	19,257	14,293
		101,804	68,937
Less - accumulated depreciation and amortization		(57,702)	(36,119)
		\$ 44,102	\$ 32,818

#### 6. INTANGIBLE ASSETS

Intangible assets, net, are carried at cost less accumulated amortization, and consist of the following (in thousands):

	Amortization Period (years)	September 30,	
		1997	1996
Goodwill	7-30	\$138,537	\$ 97,535
Non-compete agreements	3-5	3,462	--
Tradenames	12	6,978	6,200
Title library	4	1,900	1,900
		150,877	105,635
Less - accumulated amortization		(18,682)	(12,491)
		\$132,195	\$ 93,144

#### 7. COMMITMENTS

The Company leases various facilities, furniture and computer equipment under lease arrangements expiring between fiscal 1998 and 2010.

Future minimum annual payments under operating lease agreements as of September 30, 1997 are as follows (in thousands):

Fiscal Year Ending September 30,	
1998	\$12,346
1999	10,326

2000	9,312
2001	7,743
2002	6,220
Thereafter	52,350
-----	
Total minimum lease payments	\$98,297
=====	

Rental expense for operating leases, net of sublease income, was \$16.8, \$11.0 and \$10.4 million for the fiscal years ended September 30, 1997, 1996 and 1995, respectively. The Company has commitments with two facilities management companies for printing, copying, mail room and other related services. The minimum annual obligations under these service agreements are \$3.8 million for fiscal 1998 and 1999, \$1.3 million for fiscal 2000, and \$0.4 million for fiscal 2001.

The Company is involved in legal proceedings and litigation arising in the ordinary course of business. The Company believes the outcome of all current proceedings, claims and litigation will not have a material effect on the Company's financial position or results of operations when resolved in a future period.

#### 8. LONG-TERM OBLIGATIONS

The Company has available two unsecured credit lines with The Bank of New York and Chase Manhattan Bank for \$5.0 million and \$25.0 million, respectively. Borrowings under The Bank of New York line accrue interest charges at LIBOR plus 2%. Alternatively, the rate shall be the higher of the prime commercial lending rate of the bank or the Federal Funds Rate plus 1/2 of 1% in the event LIBOR is unavailable. The Chase Manhattan Bank line carries an interest rate equal to either the prime rate of Chase Manhattan Bank, LIBOR plus 2.5% for periods of 30, 60 or 90 days as the Company may choose, or a "fixed option" rate. There are no commitment fees associated with these lines. These lines may be canceled by the banks at any time without prior notice or penalty. No borrowings were outstanding under either line at September 30, 1997 and 1996.

Letters of credit are issued by the Company in the ordinary course of business. The Company had outstanding letters of credit with Chase Manhattan Bank of \$4.0 million and \$2.0 million with The Bank of New York at September 30, 1997.

#### 9. INCOME TAXES

Following is a summary of the components of income before provision for income taxes (in thousands):

Fiscal Year Ended September 30,	1997	1996	1995
U.S.	\$ 93,758	\$40,650	\$38,588
Non-U.S.	30,115	12,480	7,521
Consolidated	\$123,873	\$53,130	\$46,109

The provision for income taxes on the above income consists of the following components (in thousands):

Fiscal Year Ended September 30,	1997	1996	1995
Current tax expense:			
U.S. federal	\$ 797	\$ 1,775	\$ 9,282
State and local	1,872	2,178	2,051
Foreign	8,208	3,164	1,807
Total current	10,877	7,117	13,140
Deferred tax expense (benefit):			
U.S. federal	434	58	(1,967)
State and local	912	(1,347)	(678)
Foreign	208	(105)	(45)
Total deferred	1,554	(1,394)	(2,690)
Total current and deferred	12,431	5,723	10,450
Benefit of stock transactions with employees credited to additional paid-in capital	38,037	30,452	9,241
Benefit of purchased tax benefits credited to goodwill	275	517	1,257
Total provision for income taxes	\$50,743	\$ 36,692	\$ 20,948

Current and long-term deferred tax assets and liabilities are comprised of the following (in thousands):

	September 30,	
	1997	1996
Depreciation	\$ 895	\$ 749
Expense accruals for book purposes	6,992	8,528
Loss and credit carryforwards	9,380	9,698
Other	1,706	1,767
Gross deferred tax asset	18,973	20,742
Intangible assets	(3,383)	(1,919)
Other	(858)	(895)

Gross deferred tax liability	(4,241)	(2,814)
-----		
Valuation allowance	(4,962)	(6,580)
-----		
Net deferred tax asset	\$ 9,770	\$ 11,348
=====		

Current and long-term net deferred tax assets are \$5.1 million and \$4.7 million as of September 30, 1997 and \$8.8 million and \$2.5 million as of September 30, 1996, respectively, and are included in Prepaid and other current assets and Other assets, respectively, in the Consolidated Balance Sheets.

The valuation allowance relates to domestic and foreign tax loss carryforwards. The net decrease in the valuation allowance of approximately \$1.6 million in the current year results primarily from the utilization of foreign tax loss carryforwards. The tax benefit from such tax loss carryforwards was \$1.7, \$1.0 and \$1.7 million for fiscal years 1997, 1996 and 1995, respectively. Approximately \$1.8 million and \$1.4 million of the valuation allowance would reduce goodwill and additional paid-in capital, respectively, upon subsequent recognition of any related tax benefits.

The differences between the U.S. federal statutory income tax rate and the Company's effective rate are:

Fiscal Year Ended September 30,	1997	1996	1995
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.5	5.3	5.4
Foreign income taxed at a different rate	0.6	1.5	(0.7)
Non-deductible goodwill and direct acquisition costs	0.9	0.9	2.1
Non-taxable interest income	(0.9)	(1.3)	(1.7)
Exempt foreign trading gross receipts	(1.0)	--	--
Other items	1.9	1.6	5.4
Effective rate without write-off of purchased in-process research and development costs	41.0	43.0	45.5
Non-deductible write-off of purchased in-process research and development costs	--	26.1	--
Effective tax rate	41.0%	69.1%	45.5%

As of September 30, 1997, the Company had U.S. federal tax loss carryforwards of \$10.0 million which will expire in eleven to fifteen years and state and local tax loss carryforwards of \$35.4 million the majority of which will expire in four to five years. The U.S. federal tax loss carryforwards are subject to limitations on their use under the Internal Revenue Code. In addition, the Company has foreign tax loss carryforwards of \$6.6 million, of which \$1.1 million will expire within three to four years, and \$5.5 million can be carried forward indefinitely.

#### 10. CAPITAL STOCK AND STOCK REPURCHASE PROGRAM

The Company effected two-for-one stock splits of its Class A and Class B Common Stock by means of stock dividends in March 1996, June 1995 and August 1994. All earnings per share and share data presented herein have been restated retroactively to reflect such splits. As of September 30, 1997, the Company has recorded the conversion of all Class B Common Stock into Class A Common Stock on a one for one basis, pursuant to a provision of the Articles of Incorporation which requires conversion when the Class B Common Stockholder's voting equity falls below a certain ownership percentage after considering all exercisable options and warrants outstanding. Class A Common Stock stockholders are entitled to one vote per share on all matters to be voted by stockholders, other than the election of directors. Prior to the conversion of the Class B Common Stock, Class B Common stockholders had certain preferential voting rights with respect to the election of members of the Board of Directors.

During fiscal 1997, the Company entered into a series of forward purchase agreements on its common stock. These agreements are settled at the Company's option on a net basis in either shares of its own common stock or in cash. To the extent that the market price of the Company's common stock on a settlement date is higher (lower) than the forward purchase price, the net differential is received (paid) by the Company. As of September 30, 1997, an agreement in place cover approximately \$36.9 million or 1,350,068 shares of the Company's stock having forward purchase prices established at \$27.31 per share. If the market priced portion of this agreement was settled based on the September 30, 1997 market price of the Company's common stock (\$30.00 per share), the Company would be entitled to receive approximately 100,081 shares. During fiscal 1997, two settlements resulted in the Company receiving 449,932 shares of common stock (recorded in Treasury stock at no cost) and paying approximately \$12.0 million in cash (recorded as a reduction of Additional paid-in capital).

## 11. EMPLOYEE STOCK PURCHASE PLANS

In January 1993, the Company adopted an employee stock purchase plan (the "1993 Employee Stock Purchase Plan"), and reserved an aggregate of 4,000,000 shares of Class A Common Stock for issuance under this plan. The plan permits eligible employees to purchase Class A Common Stock through payroll deductions, which may not exceed 10% of an employee's compensation (or \$21,250 in any calendar year), at a price equal to 85% of Class A Common Stock price as reported by NASDAQ at the beginning or end of each offering period, whichever is lower. During fiscal 1997, 195,721 shares were issued from treasury stock at an average purchase price of \$31.76 per share in connection with this plan. At September 30, 1997, 2,272,316 shares were available for offering under the plan.

## 12. STOCK OPTIONS AND WARRANTS

Under the terms of the 1991 Stock Option Plan, (the "Option Plan"), the Board of Directors may grant non-qualified and incentive stock options, entitling employees to purchase shares of the Company's common stock at the fair market value determined by the Board on the date of grant. The Board can determine the date on which options vest and become exercisable. A total of 22,800,000 shares of Class A Common Stock were reserved for issuance under the plan. At September 30, 1997 and 1996 2,955,416 and 4,152,381 options were available for grant, respectively.

In January 1993, the Company adopted a stock option plan for directors (the "1993 Director Option Plan") and reserved an aggregate of 1,200,000 shares of Class A Common Stock for issuance under this plan. The plan provided for the automatic grant of 120,000 options to purchase shares of Class A Common Stock to each non-employee director upon first becoming a director on or after February 1, 1993, and the automatic grant of an option to purchase an additional 24,000 options to purchase shares of Class A Common Stock annually based on continuous service as a director. In January 1996, the plan was amended to provide for the automatic grant of 15,000 options to purchase shares of Class A Common Stock to each non-employee director upon first becoming a director and the automatic grant of an option to purchase an additional 3,000 options to purchase shares of Class A Common Stock annually based on continuous service as a director. The exercise price of each option granted under the plan is equal to the fair value of the Class A Common Stock at the date of grant. Options granted are subject to cumulative yearly vesting over a three year period after the date of grant and the number of shares to be granted under the amended terms will not be adjusted for any future stock splits. At September 30, 1997 and 1996, 621,000 and 648,000 options were available for grant, respectively.

In October 1994, the Board of Directors and stockholders of the Company approved the adoption of a Long-Term Stock Option Plan ("the 1994 Long-Term Plan") and the reservation of an aggregate of 7,200,000 shares of Class A Common Stock for issuance thereunder. The purpose of the plan is to provide senior personnel long-term equity participation in the Company as an incentive to promote the long-term success of the Company. The exercise price of each option granted under the plan is equal to the fair value of the Class A Common Stock at the date of grant. All options granted under the plan vest and become fully exercisable five years following the date of grant, based on continued employment, and have a term of ten years from the date of grant assuming continued employment. Vesting and exercisability accelerates upon achievement of certain financial performance targets determined by the Board of Directors. If all financial performance targets are met in accordance with parameters as set by the Board in its sole discretion, 25% of the shares granted become exercisable on the first anniversary date following the date of grant and, if subsequent financial performance targets are met for both the first and second fiscal years following the date of grant, a second 25% become exercisable three years following the date of grant. If financial performance targets are met consecutively for all three fiscal years following the date of grant, a third 25% become exercisable on the fourth anniversary date following the date of grant and the final 25% become exercisable on the fifth anniversary following the date of grant. Failure to achieve the specified target or targets for any one fiscal year or consecutive fiscal years can be remedied by achievement of the cumulative target in a succeeding fiscal year or years. Based on fiscal year 1995, 1996 and 1997 performance, 1,597,500 options were exercisable on September 30, 1997. An additional 1,543,750 options became exercisable on October 10, 1997. At September 30, 1997 and 1996, 810,000 and 750,000 shares were available for grant, respectively.

In October 1996, the Company adopted the 1996 Long-Term Stock Option Plan ("the 1996 Long-Term Plan"). Under the terms of the plan, the Board of Directors may grant non-qualified and incentive options, entitling employees to purchase shares of the Company's common stock at the fair market value at the date of option grant. An aggregate of 1,800,000 shares of Class A Common Stock were reserved for issuance under this plan. All options granted under the plan vest and become fully exercisable six years following the date of grant, based on continued employment, and have a term of ten years from the date of grant assuming continued employment. Vesting and exercisability accelerates upon achievement of certain financial performance targets determined by the Board of Directors. If all financial performance targets are met in accordance with parameters as set by the Board in its sole discretion, 25% of the shares granted become exercisable on the third anniversary date following the date of grant and, if subsequent financial performance targets are met for both the first and second years following the date of grant, a second 25% become exercisable four years following the date of grant. If financial performance targets are met consecutively for all three years following the date of grant, a third 25% become exercisable on the fifth anniversary date following the date of grant and the final 25% become exercisable on the sixth anniversary following the date of grant. Based on fiscal year 1997 performance, 451,250 options will be exercisable on February 24, 2000. At September 30, 1997, 25,000 options to purchase common stock were available for grant.

On April 4, 1997, the Company repriced certain stock options granted from October 1995 through January 1997 under the 1991 Option Plan and the 1994 Long-Term Plan. In total, options to purchase 1,647,000 shares of common stock were repriced at an exercise price of \$23.875 per share. The original vesting schedules and expiration dates associated with these stock options were also amended to coincide with the stock option repricing date. These amounts have been included as granted and canceled options during fiscal 1997 in the summary activity table shown below.

A summary of stock option activity under the plans and agreement through September 30, 1997 follows:

	Shares under Option	Weighted Average Price
-----		
Outstanding at September 30, 1994	12,806,072	\$ 1.540
Granted	8,707,672	\$ 7.860
Exercised	(1,838,902)	\$ 0.811
Canceled	(548,688)	\$ 3.653
-----		
Outstanding at September 30, 1995	19,126,154	\$ 4.439
Granted	3,665,506	\$21.943
Exercised	(3,036,403)	\$ 1.994
Canceled	(968,660)	\$ 9.809
-----		
Outstanding at September 30, 1996	18,786,597	\$ 6.922
Granted	5,694,814	\$23.023
Exercised	(4,036,862)	\$ 3.385
Canceled	(2,623,199)	\$26.416
-----		
Outstanding at September 30, 1997	17,821,350	\$11.462
=====		

Options for the purchase of 3,492,390 and 4,295,277 shares were exercisable at September 30, 1997 and 1996, respectively.

Shares purchased under the terms of the plans are subject to repurchase by the Company at the fair market value of the shares as determined by the Board of Directors at the repurchase date based on the circumstances as outlined in the option agreements.

The following table summarizes information about stock options outstanding at September 30, 1997:

Range of exercise prices	Number outstanding	Number exercisable	Weighted average exercise price	Weighted average remaining contractual life (years)
-----				
\$ 0.02 - .94	1,299,751	965,191	\$ 0.57	1.9
\$ 1.13 - 4.83	2,495,746	1,066,786	\$ 2.87	3.3
\$ 5.03 - 9.50	7,130,592	522,312	\$ 7.25	6.9
\$10.28 - 13.88	564,268	342,650	\$12.27	7.7
\$16.63 - 21.09	5,059,046	545,796	\$19.93	9.0
\$25.15 - 35.38	1,271,947	49,655	\$28.91	9.5
-----				

A warrant expiring December 1, 2000 to purchase 600,000 shares of Class A Common Stock at \$16.42 per share is held by Cognizant. The warrant was issued in connection with the acquisition of Dataquest.

The Company has chosen to continue applying APB No. 25 and related interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for the fixed stock option plans. Had compensation cost for the

Company's stock-based compensation plans been determined based on the fair value at the grant dates under those plans, consistent with the method prescribed under FAS 123, the Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below:

Fiscal Year Ended September 30,		1997	1996
Net income	As reported	\$73,130	\$16,438
	Pro forma	\$62,497	\$10,616
Net income per common share	As reported	\$0.71	\$0.17
	Pro forma	\$0.61	\$0.11

The pro forma disclosures shown above reflect options granted after fiscal 1995 and are not likely to be representative of the effects on net income and net income per common share in future years.

The fair value of the Company's stock options used to compute pro forma net income and earnings per share disclosures is the estimated fair value at grant date using the Black-Scholes option pricing model. The following weighted-average assumptions were used for stock options granted or modified:

Fiscal Year Ended September 30,		1997	1996
Expected life (in years)		2.4 - 6.4	2.4 - 6.4
Expected volatility		.40	.38
Risk free interest rate		6.00% - 6.09%	6.00%
Expected dividend yield		0.00%	0.00%

The weighted average fair values of the Company's stock options granted in 1997 and 1996 are \$12.32 and \$5.56, respectively.

### 13. EMPLOYEE BENEFIT AND DEFERRED COMPENSATION PLANS

The Company has a savings and investment plan covering substantially all domestic employees. The Company contributes amounts to this plan based upon the level of employee contributions.

In addition, the Company also contributes fixed and discretionary amounts based on employee participation and attainment of operating margins specified by the Board. Amounts expensed in connection with the plan totaled \$4.6, \$3.2, and \$2.0 million for the years ended September 30, 1997, 1996 and 1995, respectively.

### 14. GEOGRAPHIC DATA

The Company's consolidated total revenues are generated primarily through direct sales to clients by domestic and international sales forces, a network of independent international distributors, and to a lesser extent by international joint venture partners. The Company defines "Europe Revenues" as revenues attributable to clients located in England and the European region and "Other International Revenues" as revenues attributable to all other areas located outside of the United States.

European identifiable tangible assets consist primarily of the assets of the European subsidiaries and include the accounts receivable balances carried directly by the subsidiaries located in England, France and Germany. All other European customer receivables are maintained by and therefore are included as identifiable assets of the U.S. operations.

Summarized information by geographic location is as follows (in thousands):

Fiscal Year Ended September 30,		1997	1996	1995
United States:				
Revenues		\$333,038	\$253,451	\$184,615
Operating income		\$ 62,884	\$ 26,359	\$ 33,600
Identifiable tangible assets		\$407,262	\$282,201	\$222,262
Europe:				
Revenues		\$121,971	\$ 98,789	\$ 71,946
Operating income		\$ 36,800	\$ 15,968	\$ 5,330
Identifiable tangible assets		\$ 73,974	\$ 50,564	\$ 36,474
Other International:				
Revenues		\$ 56,230	\$ 42,432	\$ 38,585
Operating income		\$ 16,929	\$ 7,113	\$ 4,810
Identifiable tangible assets		\$ 27,654	\$ 18,199	\$ 8,481

Excluding acquisition-related and nonrecurring charges, operating income in the United States was \$61.3, and \$41.8 million for the fiscal years ended September 30, 1996 and 1995, respectively.

## 15. SELECTED CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF OPERATIONS DATA

A summary of Selected Consolidated Balance Sheets and Statements of Operations data is set forth below (in thousands):

	Balance Sheets Data		Statements of Operations Data		
	Gross Fees Receivable	Deferred Revenues	AML Revenue	Other Revenues	Total Fiscal Year Revenues
Balance at September 30, 1994	\$ 105,940	\$ 136,911			
Billings	322,169	234,065	\$ 36,163	\$52,211	
Acquisition balances	997	243	--	--	
Cash collections	(313,257)	--	--	--	
AML revenue amortization	--	(201,005)	201,005	--	
Other service revenue amortization	--	(5,767)	--	5,767	
Balance at September 30, 1995	115,849	164,447	\$237,168	\$57,978	\$295,146
Billings	420,037	340,476	\$ 22,071	\$67,432	
Acquisition balances	3,976	1,663	--	--	
Cash collections	(391,640)	--	--	--	
AML revenue amortization	--	(296,690)	296,690	--	
Other service revenue amortization	--	(8,479)	--	8,479	
Balance at September 30, 1996	148,222	201,417	\$318,761	\$75,911	\$394,672
Billings	574,588	452,271	\$ 18,160	\$80,723	
Acquisition balances	4,297	15,998	--	--	
Cash collections	(516,007)	--	--	--	
AML revenue amortization	--	(399,373)	399,373	--	
Other service revenue amortization	--	(12,983)	--	12,983	
Balance at September 30, 1997	\$ 211,100	\$ 257,330	\$417,533	\$93,706	\$511,239

For a description of the Company's revenue recognition policies, see Note 1 - Significant Accounting Policies. AML revenues shown above of \$417.5, \$318.8, and \$237.2 million for fiscal years 1997, 1996 and 1995, respectively, are recognized as services and products are delivered, and as the Company's obligation to the client is completed over the contract period. Included in AML revenues are catch-up adjustments also shown above for the fiscal years 1997, 1996 and 1995 of \$18.2, \$22.1, and \$36.2 million, respectively, to account for certain renewals. Catch-up adjustments occur when there is a lag between the month that a contract expires and the month that it is renewed. The Company continues to provide services for a certain period of time after expiration, based on the Company's historical experience that most clients who do not renew prior to expiration do so on a retroactive basis. The Company recognizes no revenues, however, during this period. When a client renews the service on a retroactive basis, the Company records the previously unrecognized revenue as a catch-up adjustment.

## GARTNER GROUP REPORTS BY MANAGEMENT AND INDEPENDENT AUDITORS

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management has prepared and is responsible for the integrity and objectivity of the consolidated financial statements and related information included in the Annual Report. The consolidated financial statements, which include amounts based on management's best judgments and estimates, were prepared in conformity with generally accepted accounting principles. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance at reasonable cost that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. The internal control system is augmented with an organizational structure providing division of responsibilities, careful selection and training of qualified financial people and a program of internal audits.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets regularly with management, internal auditors and our independent accountants to ensure that each is meeting its responsibilities and to discuss matters concerning internal controls and financial reporting. Both the independent and internal auditors have unrestricted access to the Audit Committee.

The independent auditors for fiscal 1997 and 1996, KPMG Peat Marwick LLP, and the independent accountants for fiscal years prior to 1996, Price Waterhouse LLP, audit and render an opinion on the financial statements in accordance with general accepted auditing standards. These standards include an assessment of the systems of internal controls and tests of transactions to the extent necessary by them to support their opinion.

/s/ Manuel A. Fernandez

MANUEL A. FERNANDEZ  
Chairman and Chief Executive Officer

/s/ John F. Halligan

JOHN F. HALLIGAN  
Executive Vice President, Chief Financial Officer,  
Treasurer and Corporate Secretary

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Gartner Group, Inc.:

We have audited the accompanying consolidated balance sheets of Gartner Group, Inc. and its subsidiaries as of September 30, 1997 and 1996 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of Gartner Group, Inc. and its subsidiaries for the year ended September 30, 1995 were audited by other auditors whose report, dated November 1, 1995, except as to the Dataquest acquisition discussed in Note 3, which is as of January 25, 1996 and the stock split discussed in Note 10, which is as of March 29, 1996, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gartner Group, Inc. and its subsidiaries as of September 30, 1997 and 1996 and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

KPMG PEAT MARWICK LLP

Stamford, Connecticut  
October 31, 1997

## GARTNER GROUP SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

Fiscal Year Ended September 30,	1997	1996	1995	1994	1993
<b>CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>					
<b>Revenues:</b>					
Advisory and measurement	\$396,219	\$306,542	\$235,867	\$ 177,821	\$ 143,591
Learning	21,314	12,219	1,301	--	--
Other, principally consulting and conferences	93,706	75,911	57,978	47,651	31,731
Total revenues	511,239	394,672	295,146	225,472	175,322
Total costs and expenses	394,626	345,232	251,406	181,522	161,704
Operating income	116,613	49,440	43,740	43,950	13,618
Minority interest	0	25	98	0	0
Interest income, net	7,260	3,665	2,271	(2)	(4,395)
Income before income taxes and extraordinary item	123,873	53,130	46,109	43,948	9,223
Provision for income taxes	50,743	36,692	20,948	19,891	5,979
Income before extraordinary item	73,130	16,438	25,161	24,057	3,244
Extraordinary item - loss from early extinguishment of long-term debt (net of tax benefits of \$350)	--	--	--	--	(765)
Net income	\$ 73,130	\$ 16,438	\$ 25,161	\$ 24,057	\$ 2,479
<b>NET INCOME (LOSS) PER COMMON SHARE:</b>					
<b>Primary:</b>					
Income before extraordinary item	\$ .71	\$ .17	\$ .27	\$ .25	\$ .04
Extraordinary item	--	--	--	--	(.01)
Net income	\$ .71	\$ .17	\$ .27	\$ .25	\$ .03
<b>Fully diluted:</b>					
Income before extraordinary item	\$ .71	\$ .17	\$ .26	\$ .25	\$ .04
Extraordinary item	--	--	--	--	(01)
Net income	\$ .71	\$ .17	\$ .26	\$ .25	\$ .03
<b>CONSOLIDATED BALANCE SHEET DATA:</b>					
Cash and cash equivalents, marketable securities	\$171,054	\$126,809	\$ 95,414	\$ 52,855	\$ 8,214
Fees receivable, net	205,760	143,762	112,159	102,509	65,699
Other current assets	48,794	39,579	28,655	22,940	15,224
Total current assets	425,608	310,150	236,228	178,304	89,137
Intangibles and other assets	219,704	133,958	96,678	87,619	81,962
Total assets	\$645,312	\$444,108	\$332,906	\$ 265,923	\$ 171,099
Current portion of long-term obligations	--	--	\$ 6,725	\$ 5,877	\$ 952
Deferred revenues	\$254,071	\$198,952	161,001	131,031	94,399
Other current liabilities	118,112	92,456	87,483	62,829	45,735
Total current liabilities	372,183	291,408	255,209	199,737	141,086
Long-term obligations, excluding current maturities	--	--	--	6,419	4,952
Long-term deferred revenues	3,259	2,465	3,446	5,880	3,239
Stockholders' equity	269,870	150,235	74,251	53,887	21,822
Total liabilities and stockholders' equity	\$645,312	\$444,108	\$332,906	\$ 265,923	\$ 171,099
September 30,	1997	1996	1995	1994	1993
Contract value (1)	\$525,901	\$389,969	\$303,231	\$ 224,390	\$ 172,481
Client organizations (2)	9,084	7,463	5,500	4,460	3,639

(1) Contract value, as measured by the Company, represents the annualized value of all advisory, measurement and learning contracts in effect at a given point in time, without regard to the duration of the contracts outstanding at such time.

(2) Information provided for fiscal 1993, 1994, and 1995 does not include Dataquest, Inc.

## GARTNER GROUP QUARTERLY FINANCIAL DATA

(In thousands, except per share data)

Unaudited Fiscal Year 1997	1st	2nd	3rd	4th
Revenues	\$125,367	\$119,125	\$126,349	\$ 140,398
Operating income	\$ 31,519	\$ 29,620	\$ 28,842	\$ 26,632
Net income	\$ 19,042	\$ 18,200	\$ 18,455	\$ 17,433
Primary net income per common share (1)	\$ .19	\$ .18	\$ .18	\$ .17
Fiscal Year 1996	1st	2nd	3rd	4th (2)
Revenues	\$ 96,474	\$ 90,834	\$ 97,406	\$ 109,957
Operating income	\$ 19,335	\$ 19,722	\$ 21,203	(\$ 10,821)
Net income	\$ 11,493	\$ 11,712	\$ 12,621	(\$ 19,388)
Primary net income per common share (1)	\$ .12	\$ .12	\$ .13	\$ (0.19)

(1) The aggregate of the four quarters' primary net income per common share does not total the reported full fiscal year amount due to rounding.

(2) Includes \$33.2 million of charges related to the acquisition of J3 Learning, Inc.

## GARTNER GROUP CORPORATE DIRECTORY

## BOARD OF DIRECTORS

Manuel A. Fernandez  
Chairman and Chief Executive Officer  
Gartner Group, Inc.

William O. Grabe (2)(3)  
General Partner  
General Atlantic Partners

Max D. Hopper (1)(3)  
Principal  
Max D. Hopper  
Associates, Inc.  
Retired Chairman  
SABRE Technology Group

John P. Inlay, Jr. (1)  
Chairman  
Inlay Investments, Inc.

Stephen G. Pagliuca (2)(3)  
Managing Director  
Information Partners  
Capital Fund

Dennis G. Sisco (2)  
President  
Storm Ridge Capital

Robert E. Weissman (1)  
Chairman and Chief Executive Officer  
Cognizant Corporation

- (1) Audit committee
- (2) Compensation committee
- (3) Corporate Governance  
committee

## EXECUTIVE OFFICERS

E. Follett Carter  
Executive Vice President  
and President,  
Gartner Distribution

William T. Clifford  
President and Chief Operating Officer

Manuel A. Fernandez  
Chairman and Chief Executive Officer

Michael D. Fleisher  
Executive Vice President  
and President,  
Emerging Businesses

John F. Halligan  
Executive Vice President,  
Chief Financial Officer,  
Treasurer and Corporate  
Secretary

## CORPORATE HEADQUARTERS

56 Top Gallant Road  
Stamford, CT 06904  
U.S.A.  
Phone (203) 316-1111

## EUROPE

Tamesis, The Glanty  
Egham, Surrey  
TW20 9AW  
United Kingdom  
Phone (44) 1784-431611

## JAPAN

Aobadai Hills, 4F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153  
Japan  
Phone (81) 3-3481-3670

## ASIA

Suite 5904-7  
Central Plaza  
18 Harbour Road  
Wanchai

Hong Kong  
Phone (852) 2824-6168

#### PACIFIC

424 Upper Roma Street  
Third Floor  
Brisbane, QLD 4006  
Australia  
Phone (61) 7-3405-2525

#### ANNUAL MEETING

Gartner Group's annual meeting for shareholders will be held at 4:00 p.m. (EST) on January 20, 1998 at the the company's headquarters in Stamford, CT.

#### INVESTOR RELATIONS

Requests for financial information should be sent to:  
Gartner Group Inc.  
Investor Relations Dept.  
56 Top Gallant Road  
Stamford, CT 06904  
Phone (203) 316-6537  
Fax (203) 316-6878

#### INTERNET

Additional corporate information is available on the World Wide Web:  
<http://www.gartner.com>

#### STOCK LISTING AND TRADING SYMBOL

The company's common stock is listed on the NASDAQ National Market System. The trading symbol is GART.

#### LEGAL COUNSEL

Wilson, Sonsini,  
Goodrich & Rosati  
Palo Alto, CA

#### INDEPENDENT AUDITORS

KPMG Peat Marwick LLP  
Stamford, CT

#### TRANSFER AGENT

BankBoston, N.A.  
Boston, MA  
Phone (617) 575-3120

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be smart

[www.gartner.com](http://www.gartner.com)

[LOGO]GartnerGroup

56 Top Gallant Road  
P.O. Box 10212  
Stamford, CT 06904-2212

SUBSIDIARIES OF REGISTRANT	STATE/COUNTRY OF INCORPORATION
Bouhot & LeGendre, S.A.	France
Computer & Communications Group, Inc. (d.b.a. Datapro Information Services)	New Jersey
Dataquest (Korea), Inc.	Delaware
Dataquest Asia Pacific Limited	Hong Kong
Dataquest Australia Pty. Ltd.	Australia
Dataquest Research (Thailand) Limited	Thailand
Dataquest Taiwan, Limited	Taiwan
Dataquest, Inc.	California
Decision Drivers, Inc.	Delaware
DQ Research Pte. Ltd.	Singapore
G.G. Canada, Inc.	Delaware
G.G. Credit, Inc.	Delaware
G.G. Global Holding, Inc.	Delaware
G.G. Investment Management, Inc.	Delaware
G.G. Properties, Inc.	Delaware
G.G. West Corporation	Delaware
Gartner Credit Corporation	Delaware
Gartner Enterprises, Ltd.	Delaware
Gartner Group Asia, Inc.	Delaware
Gartner Group Canada, Inc.	Canada
Gartner Group Europe Holdings B.V.	The Netherlands
Gartner Group Europe, Inc.	Delaware
Gartner Group France S.A.R.L.	France
Gartner Group FSC, Inc.	Virgin Islands
Gartner Group Italia S.r.l.	Italy
Gartner Group Japan KK	Japan
Gartner Group Learning, Inc.	Minnesota
Gartner Group Learning (Europe), Ltd.	Ireland
Gartner Group Nederland B.V.	The Netherlands
Gartner Group Norge A/S	Norway
Gartner Group Pacific Pty Limited	Australia
Gartner Group Sales, Inc.	Delaware
Gartner Group Scandinavia A/S	Denmark
Gartner Group Sverige AB	Sweden
Gartner Group Switzerland AG	Switzerland
Gartner Group UK Ltd.	United Kingdom
Gartner Group, GmbH	Germany
GG Hong Kong, Inc.	Delaware
J3 Learning Limited	United Kingdom
Mindware Training Technologies, Ltd.	Ireland
New Science Associates, Ltd.	United Kingdom
New Science Limited	United Kingdom
Nomos Ricerca S.r.l.	Italy
Nomos Ricerca Services S.r.l.	Italy
Nomos Ricerca Telecomunicazioni S.r.l.	Italy
View Acquisition Company	Delaware
3010092 Nova Scotia Company	Canada

## INDEPENDENT AUDITORS' REPORT ON SCHEDULE

The Board of Directors and Stockholders  
Gartner Group, Inc.:

The audits referred to in our report dated October 31, 1997, included the related financial statement schedule as of and for the years ended September 30, 1997 and 1996, as contained in the annual report on Form 10-K for the year 1997. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule which, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

KPMG Peat Marwick LLP

Stamford, Connecticut  
October 31, 1997

## ACCOUNTANTS' CONSENT

The Board of Directors and Stockholders  
Gartner Group, Inc.:

We consent to incorporation by reference in the registration statements (No. 33-85926, No. 33-92486 and No. 333-35169) on Form S-8 of Gartner Group, Inc. of our report dated October 31, 1997, relating to the consolidated balance sheets of Gartner Group, Inc. and its subsidiaries as of September 30, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, which report appears in the 1997 Annual Report to Stockholders on Form 10-K of Gartner Group Inc. We also consent to incorporation by reference of our report on the related financial statement schedule included elsewhere herein.

KPMG Peat Marwick LLP

Stamford, Connecticut  
December 12, 1997

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
GARTNER GROUP, INC.

In our opinion, the consolidated statements of operations, of changes in stockholders' equity and of cash flows for the year ended September 30, 1995 present fairly, in all material respects, the results of operations and cash flows of Gartner Group, Inc. and its subsidiaries, for the year ended September 30, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Gartner Group, Inc. for any period subsequent to September 30, 1995.

PRICE WATERHOUSE LLP  
Stamford, Connecticut  
November 1, 1995, except as to the  
Dataquest acquisition discussed in  
Note 3, which is as of January 25, 1996  
and the stock split discussed in  
Note 10, which is as of March 29, 1996

REPORT OF INDEPENDENT ACCOUNTANTS  
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of GARTNER GROUP, INC.

Our audit of the consolidated statements of operations, of changes in stockholders' equity and of cash flows referred to in our report dated November 1, 1995, except as to the Dataquest acquisition discussed in Note 3, which is as of January 25, 1996 and the stock split discussed in Note 10, which is as of March 29, 1996, appearing in this Annual Report on Form 10-K also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. We have not audited the consolidated financial statements of Gartner Group, Inc. for any period subsequent to September 30, 1995.

PRICE WATERHOUSE LLP  
Stamford, Connecticut  
November 1, 1995, except as to the  
Dataquest acquisition discussed in  
Note 3, which is as of January 25, 1996  
and the stock split discussed in  
Note 10, which is as of March 29, 1996

5  
1,000  
U.S. DOLLARS

12-MOS		
	SEP-30-1997	
	OCT-01-1996	
	SEP-30-1997	
	1	
		142,415
	28,639	
	211,100	
	5,340	
	0	
	425,608	
		101,804
	57,702	
	645,312	
372,183		0
0		0
		0
		54
	269,312	
645,312		
		511,239
	511,239	
		202,815
	202,815	
	188,390	
	3,421	
	0	
	123,873	
	50,743	
73,130		
	0	
	0	
		0
	73,130	
	0.71	
	0.71	

GARTNER GROUP, INC.  
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 (all amounts in thousands)

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts(1)	Deductions From Reserve	Balance at End of Year
	-----	-----	-----	-----	-----
YEAR ENDED SEPTEMBER 30, 1995					
Allowance for doubtful accounts and returns and allowances .....	\$3,431	\$1,862	\$ 27	\$1,630	\$3,690
	-----	-----	----	-----	-----
	\$3,431	\$1,862	\$ 27	\$1,630	\$3,690
	=====	=====	====	=====	=====
YEAR ENDED SEPTEMBER 30, 1996					
Allowance for doubtful accounts and returns and allowances .....	\$3,690	\$3,295	\$121	\$2,646	\$4,460
	-----	-----	----	-----	-----
	\$3,690	\$3,295	\$121	\$2,646	\$4,460
	=====	=====	====	=====	=====
YEAR ENDED SEPTEMBER 30, 1997					
Allowance for doubtful accounts and returns and allowances .....	\$4,460	\$3,421	\$319	\$2,860	\$5,340
	-----	-----	----	-----	-----
	\$4,460	\$3,421	\$319	\$2,860	\$5,340
	=====	=====	====	=====	=====

(1) Allowances of \$319,000, \$121,000 and \$27,000 assumed upon acquisitions of entities in fiscal 1997, 1996 and 1995, respectively.