UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

---

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

OR

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

For the transition period from to

Commission File Number: 000-51280

MORNINGSTAR, INC.

(Exact Name of Registrant as Specified in its Charter)

Illinois (State or Other Jurisdiction of Incorporation or Organization)	**36-3297908** (I.R.S. Employer Identification Number)
22 West Washington Street **Chicago, Illinois** (Address of Principal Executive Offices)	**60602** (Zip Code)

(312) 696-6000

(Registrant s Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

As of July 31, 2009, there were 48,394,783 shares of the Company s common stock, no par value, outstanding.

Table of Contents

MORNINGSTAR, INC. AND SUBSIDIARIES

INDEX

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Income

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share amounts)	**2009**	**2008**	**2009**	**2008**
Revenue	$ 119,533	$ 132,237	$ 236,265	$ 257,681
Operating expense (1):				
Cost of goods sold	30,694	33,164	60,946	66,102
Development	9,438	9,801	18,738	19,916
Sales and marketing	18,010	20,866	35,546	43,090
General and administrative	19,853	20,560	37,006	39,885
Depreciation and amortization	8,850	6,276	16,716	12,433
Total operating expense	86,845	90,667	168,952	181,426
Operating income	32,688	41,570	67,313	76,255
Non-operating income (expense):				
Interest income, net	764	1,381	1,742	2,900
Other income (expense), net	1,208	(234)	764	38
Non-operating income, net	1,972	1,147	2,506	2,938
Income before income taxes and equity in net income (loss) of unconsolidated entities	34,660	42,717	69,819	79,193
Income tax expense	14,024	15,076	24,692	28,580
Equity in net income (loss) of unconsolidated entities	(21)	445	361	797
Consolidated net income	20,615	28,086	45,488	51,410
Net (income) loss attributable to the noncontrolling interest	(71)	(87)	18	(335)
Net income attributable to Morningstar, Inc.	$ 20,544	$ 27,999	$ 45,506	$ 51,075
Net income per share attributable to Morningstar, Inc.:				
Basic	$ 0.43	$ 0.61	$ 0.95	$ 1.12
Diluted	$ 0.41	$ 0.57	$ 0.92	$ 1.04
Weighted average shares outstanding:				

Basic	47,941	45,921	47,661	45,572
Diluted	49,631	49,290	49,385	49,150

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
(1) Includes stock-based compensation expense of:				
Cost of goods sold	$ 715	$ 528	$ 1,264	$ 964
Development	413	367	767	688
Sales and marketing	422	379	778	724
General and administrative	1,518	1,695	2,984	3,337
Total stock-based compensation expense	$ 3,068	$ 2,969	$ 5,793	$ 5,713

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(in thousands except share amounts)		June 30 2009		December 31 2008
Assets				
Current assets:				
Cash and cash equivalents	$	187,099	$	173,891
Investments		136,096		123,686
Accounts receivable, less allowance of $695 and $466, respectively		84,146		89,537
Deferred tax asset, net		3,766		3,538
Income tax receivable		3,261		9,193
Other		13,469		13,891
Total current assets		427,837		413,736
Property, equipment, and capitalized software, net		60,367		58,822
Investments in unconsolidated entities		20,150		20,404
Goodwill		207,113		187,242
Intangible assets, net		123,675		119,812
Other assets		3,683		3,924
Total assets	$	842,825	$	803,940
Liabilities and equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	27,949	$	30,071
Accrued compensation		27,100		73,012
Deferred revenue		133,997		130,270
Other		31		88
Total current liabilities		189,077		233,441
Accrued compensation		4,449		3,611
Deferred tax liability, net		7,606		7,531
Other long-term liabilities		23,279		23,428
Total liabilities		224,411		268,011
Equity:				
Morningstar, Inc. shareholders equity:				
Common stock, no par value, 200,000,000 shares authorized, of which 48,367,477 and 47,282,958 shares were outstanding as of June 30, 2009 and December 31, 2008, respectively		4		4
Treasury stock at cost, 225,881 shares as of June 30, 2009 and 233,332 shares as of December 31, 2008		(3,175)		(3,280)
Additional paid-in capital		412,289		390,404
Retained earnings		209,795		164,289
Accumulated other comprehensive income (loss):				
Currency translation adjustment		(1,312)		(16,366)
Unrealized gain on available-for-sale securities		434		481
Total accumulated other comprehensive loss		(878)		(15,885)
Total Morningstar, Inc. shareholders equity		618,035		535,532
Noncontrolling interest		379		397
Total equity		618,414		535,929
Total liabilities and equity	$	842,825	$	803,940

See notes to unaudited condensed consolidated financial statements.

4

Table of Contents

Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statement of Equity and Comprehensive Income (Loss)

For the Six Months Ended June 30, 2009

	Morningstar, Inc. Shareholders Equity							
(in thousands, except share amounts)	**Common Stock Shares Outstanding**	**Par Value**	**Treasury Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Non-controlling Interest**	**Total Equity**
Balance as of December 31, 2008	47,282,958	$ 4	$ (3,280)	$ 390,404	$ 164,289	$ (15,885)	$	$ 535,532
Adoption of SFAS No. 160							397	397
Balance as of January 1, 2009	47,282,958	4	(3,280)	390,404	164,289	(15,885)	397	535,929
Comprehensive income:								
Consolidated net income (loss)					45,506		(18)	45,488
Unrealized loss on investments, net of income tax of $(28)						(47)		(47)
Foreign currency translation adjustment						15,054		15,054
Total comprehensive income (loss)					45,506	15,007	(18)	60,495
Issuance of common stock related to stock option exercises and vesting of restricted stock units, net	1,084,519		105	11,548				11,653
Stock-based compensation				5,793				5,793
Tax benefit derived from stock option exercises and vesting of restricted stock units				4,544				4,544
Balance as of June 30, 2009	48,367,477	$ 4	$ (3,175)	$ 412,289	$ 209,795	$ (878)	$ 379	$ 618,414

See notes to unaudited condensed consolidated financial statements.

Table of Contents

Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in thousands)	Six Months Ended June 30 2009	2008
Operating activities		
Consolidated net income	$ 45,488	$ 51,410
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	16,716	12,433
Deferred income tax expense (benefit)	(956)	2,919
Stock-based compensation expense	5,793	5,713
Provision for (recovery of) bad debt	187	(11)
Equity in net income of unconsolidated entities	(361)	(797)
Excess tax benefits from stock option exercises and vesting of restricted stock units	(4,544)	(17,343)
Other, net	(752)	(1,099)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	9,312	(3,222)
Other assets	341	(1,846)
Accounts payable and accrued liabilities	(6,012)	997
Accrued compensation	(45,431)	(28,890)
Income taxes current	10,396	13,104
Deferred revenue	806	6,772
Deferred rent	(286)	9,306
Other liabilities	570	(327)
Cash provided by operating activities	31,267	49,119
Investing activities		
Purchases of investments	(50,273)	(46,946)
Proceeds from sale of investments	38,128	82,213
Capital expenditures	(6,768)	(17,354)
Acquisitions, net of cash acquired	(18,571)	(51,017)
Other, net	629	
Cash used for investing activities	(36,855)	(33,104)
Financing activities		
Proceeds from stock options exercises	11,653	12,595
Excess tax benefits from stock option exercises and vesting of restricted stock units	4,544	17,343
Other	(178)	(4)
Cash provided by financing activities	16,019	29,934
Effect of exchange rate changes on cash and cash equivalents	2,777	1,352
Net increase in cash and cash equivalents	13,208	47,301
Cash and cash equivalents beginning of period	173,891	159,576
Cash and cash equivalents end of period	$ 187,099	$ 206,877
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 14,152	$ 15,252
Supplemental information of non-cash investing and financing activities:		
Unrealized gain (loss) on available-for-sale investments	$ (75)	$ 154

See notes to unaudited condensed consolidated financial statements.

Table of Contents

MORNINGSTAR, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation of Interim Financial Information

The accompanying unaudited condensed consolidated financial statements of Morningstar, Inc. and subsidiaries (Morningstar, we, our, the Company) included herein have been prepared to conform to the rules and regulations of the Securities and Exchange Commission. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, and expenses. Actual results could differ from those estimates. In the opinion of management, the statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly our financial position, results of operations, equity, and cash flows. These financial statements and notes should be read in conjunction with our Consolidated Financial Statements and Notes thereto as of December 31, 2008 included in our Annual Report on Form 10-K.

2. Summary of Significant Accounting Policies

We discuss our significant accounting policies in Note 2 of our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We adopted the following financial accounting standards effective January 1, 2009:

SFAS No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51

Statement of Financial Accounting Standards (SFAS) No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51,* amends the financial accounting and reporting of noncontrolling interests in consolidated financial statements. A noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the parent company. We conduct our business operations outside of the United States through wholly owned or majority-owned operating subsidiaries. As a result of adopting SFAS No. 160, the noncontrolling interest is now reported in our Consolidated Balance Sheet within equity, separately from the shareholders   equity attributable to Morningstar, Inc. In addition, the net income or loss and comprehensive income or loss attributed to the Morningstar, Inc. shareholders and the noncontrolling interest are presented in our Statements of Income and Statement of Equity and Comprehensive Income (Loss).

SFAS No. 141(R), Business Combinations

Effective January 1, 2009, SFAS No. 141(R), *Business Combinations*, modifies the financial accounting and reporting of business combinations. For business combinations which occur after January 1, 2009, SFAS No. 141(R) requires the acquirer to recognize and measure the fair value of the acquired operation as a whole, and the assets acquired and liabilities assumed at their full fair values as of the date control is obtained, regardless of the percentage ownership in the acquired operation or how the acquisition was achieved. With the adoption of SFAS No. 141(R), direct costs incurred in connection with a business combination, such as finder s fees, advisory, accounting, legal, valuation, and other professional fees are expensed as incurred. Restructuring costs, including severance and relocation of employees of the acquired entity, are recognized separately from the business combination as post-combination expenses unless the criteria of SFAS No. 146*, Accounting for Costs Associated with Exit or Disposal Activities*, are met on the acquisition date by the target entity. Prior to the adoption of SFAS No. 141(R), acquisition-related costs and restructuring costs were generally included as part of the cost of the acquired business.

In April 2009, the Financial Accounting Standards Board (FASB) issued a Final Staff Position (FSP) to amend and clarify SFAS No. 141(R), to address application issues on recognition, measurement, and disclosure of assets and liabilities, arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009.

EITF Issue 08-6, Equity Method Investment Accounting Considerations

We adopted Emerging Issues Task Force (EITF) 08-6, *Equity Method Investment Accounting Considerations,* concurrently with the adoption of SFAS No. 141(R) and SFAS No. 160. The intent of EITF 08-6 is to clarify the accounting for certain transactions and impairment considerations related to equity method investments as modified by the provisions of SFAS No. 141(R) and SFAS No. 160.

Table of Contents

We adopted the following financial accounting standards in the second quarter of 2009:

In April 2009, the FASB issued three FSPs intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities.

1. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157, *Fair Value Measurements*.

2. FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

3. FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities.

The disclosures related to these FSPs appear in Note 6 in the Notes to our Condensed Consolidated Financial Statements.

SFAS No. 165, Subsequent Events

SFAS No. 165, *Subsequent Events*, establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. See Note 12 in the Notes to our Condensed Consolidated Financial Statements for the related disclosure.

The adoption of these financial accounting standards did not have a material impact on our Condensed Consolidated Financial Statements.

Table of Contents

3. Acquisitions, Goodwill, and Other Intangible Assets

2009 Acquisitions

In the second quarter of 2009, we completed four acquisitions. Cash used for these acquisitions, net of acquired cash, was $18,671,000, and is subject to post-closing adjustments. The table below shows additional information concerning these acquisitions:

Acquisition	Description	Date Completed	Purchase Price*
Global financial filings database business of Global Reports LLC	A leading provider of online financial and Corporate and Social Responsibility reports for publicly traded companies around the world	April 20, 2009	Not separately disclosed
Equity research and data business of C.P.M.S. Computerized Portfolio Management Services Inc.	C.P.M.S. tracks fundamental equity data for approximately 4,000 securities in the United States and Canada as well as tracks and provides brokerage earnings estimates for Canadian equities	May 1, 2009	$13.9 million
Andex Associates, Inc.	The company is known for its Andex Charts, individual graphic charts detailing historical market returns, stock index growth, inflation rates, currency rates, and general economic conditions for the United States dating back to 1926, and for Canada dating back to 1950	May 1, 2009	Not separately disclosed
Intech Pty Ltd	A leading provider of multi-manager and investment portfolio solutions in Sydney, Australia, Intech also manages a range of single sector, alternative strategy, and diversified investment portfolios, has one of the leading separately managed account databases in Australia and offers the Intech Desktop Consultant, a research software product for institutions	June 30, 2009	Not separately disclosed

* Total purchase price less cash acquired

The following table summarizes our preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed at the dates of acquisition:

		($000)
Cash	$	1,333
Accounts receivable		2,706
Other current assets		135
Fixed assets		56
Other non-current assets		334
Intangible assets		9,876

Goodwill		10,380
Deferred revenue		(634)
Accounts payable and accrued liabilities		(3,404)
Deferred tax liability non-current		(778)
Total purchase price	$	20,004

The preliminary allocation includes $9,876,000 of acquired intangible assets. These assets primarily include customer-related assets and technology-based assets, including software and databases. The deferred tax liability of $778,000 results primarily because the amortization expense related to certain intangible assets is not deductible for income tax purposes. Approximately $7,590,000 of the intangible assets is deductible for income tax purposes over a period of approximately 15 years from the acquisition date.

Table of Contents

Goodwill of $10,380,000 represents the premium we paid over the fair value of the net tangible and intangible assets we acquired with these four acquisitions. We paid this premium for a number of reasons, including the strategic benefits of expanding our Canadian equity research and data offerings, expanding our international presence in the area of funds-of-funds investment management to Australia, expanding our library of market analysis communications materials to include financial charts and communications materials for financial advisors in Canada, and broadening our database to include a global financial filings database. Approximately $8,182,000 of the goodwill is deductible for income tax purposes over a period of approximately 15 years from the acquisition date.

2008 Acquisitions

In January 2008, we acquired the Hemscott data, media, and investor relations Web site businesses. We completed five additional acquisitions throughout the remainder of 2008. The table below summarizes the acquisitions completed during 2008. We did not make any significant changes during the first half of 2009 to the purchase price allocations compared with the preliminary estimates existing as of December 31, 2008. Additional information concerning these acquisitions can be found in the Notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Acquisition	**Description**	**Date Completed**	**Purchase Price***
Hemscott data, media, and investor relations Web site businesses	U.K.-based operation providing more than 20 years of comprehensive fundamental data on publicly listed companies in the United States, Canada, the United Kingdom, and Ireland; free and paid investment research sites and data services; online investor relations services in the United Kingdom	January 9, 2008	$51.3 million
Financial Computer Support, Inc. (FCSI)	A leading provider of practice management software for independent advisors	September 2, 2008	$4.9 million
Fundamental Data Limited (Fundamental Data)	A leading provider of data on closed-end funds in the United Kingdom	October 2, 2008	$18.6 million
10-K Wizard Technology, LLC (10-K Wizard)	A leading provider of SEC filing research and alert services	December 4, 2008	$11.5 million
Tenfore Systems Limited (Tenfore)	Global provider of real-time market data and financial data workstations based in the United Kingdom	December 17, 2008	$19.2 million
InvestData (Proprietary) Limited (InvestData)	A leading provider of fund information in South Africa	December 29, 2008	Not separately disclosed

* Total purchase price less cash acquired

Pro Forma Information for 2009 and 2008 Acquisitions

The following unaudited pro forma information presents a summary of our Consolidated Statements of Income for the six months ended June 30, 2009 and 2008 as if we had completed these 10 acquisitions as of January 1 of each of these years. In calculating the pro forma information below, we made an adjustment to include amortization expense related to the intangible assets acquired.

	Six months ended	
	June 30, 2009	June 30, 2008
Revenue	$ 242,138	$ 279,953
Operating income	$ 66,956	$ 74,664
Net income	$ 45,272	$ 49,736
Basic net income per share	$ 0.95	$ 1.09
Diluted net income per share	$ 0.92	$ 1.01

Table of Contents

Goodwill

The following table shows the changes in our goodwill balances from January 1, 2008 to June 30, 2009:

		($000)
Balance as of January 1, 2008	$	128,141
Acquisition of the Hemscott data, media, and investor relations Web site businesses		35,683
Acquisition of Fundamental Data		13,669
Acquisition of 10-K Wizard		7,219
Acquisition of Tenfore		13,916
Acquisition of FCSI and InvestData		3,858
Other, primarily currency translation		(15,244)
Balance as of December 31, 2008		187,242
Goodwill for acquisitions completed in the first six months of 2009		10,380
Other, primarily currency translation		9,491
Balance as of June 30, 2009	$	207,113

We did not record any impairment losses in the second quarter or year-to-date periods ended June 30, 2009 and June 30, 2008, respectively.

The following table summarizes our intangible assets:

	As of June 30, 2009				As of December 31, 2008			
($000)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)