

Morningstar, Inc.
Form 10-Q
August 04, 2009
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 10-Q

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**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

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**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)

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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 No

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 No

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

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

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

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

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MORNINGSTAR, INC. AND SUBSIDIARIES

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SIGNATURE

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(in thousands except per share amounts)	Three Months Ended June 30 2009		2008		Six Months Ended June 30 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:								

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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.

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(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.

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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