

Morningstar, Inc.
Form 10-Q
November 03, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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: 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 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 October 29, 2010, there were 49,666,834 shares of the Company's common stock, no par value, outstanding.

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(in thousands except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenue	\$ 139,817	\$ 120,088	\$ 404,198	\$ 356,353
Operating expense (1):				
Cost of goods sold	40,713	31,954	114,767	92,900
Development	12,703	9,447	35,491	28,185
Sales and marketing	22,881	17,730	69,877	53,276
General and administrative	23,462	20,643	67,211	57,649
Depreciation and amortization	9,897	6,631	28,082	23,347
Total operating expense	109,656	86,405	315,428	255,357
Operating income	30,161	33,683	88,770	100,996
Non-operating income, net:				
Interest income, net	512	572	1,692	2,314
Other income, net	5,694	221	4,356	985
Non-operating income, net	6,206	793	6,048	3,299
Income before income taxes and equity in net income of unconsolidated entities	36,367	34,476	94,818	104,295
Income tax expense	15,807	12,407	37,027	37,099
Equity in net income of unconsolidated entities	333	429	1,176	790
Consolidated net income	20,893	22,498	58,967	67,986
Net (income) loss attributable to noncontrolling interests	(106)	22	10	40
Net income attributable to Morningstar, Inc.	\$ 20,787	\$ 22,520	\$ 58,977	\$ 68,026
Net income per share attributable to Morningstar, Inc.:				
Basic	\$ 0.42	\$ 0.46	\$ 1.19	\$ 1.42
Diluted	\$ 0.41	\$ 0.45	\$ 1.16	\$ 1.37
Dividends declared per common share	\$ 0.05	\$	\$ 0.05	\$

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Weighted average shares outstanding:

Basic	49,401	48,457	49,157	47,930
Diluted	50,544	50,048	50,453	49,623

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
(1) Includes stock-based compensation expense of:				
Cost of goods sold	\$ 960	\$ 690	\$ 2,582	\$ 1,954
Development	517	410	1,359	1,177
Sales and marketing	469	407	1,358	1,185
General and administrative	1,799	1,356	5,038	4,340
Total stock-based compensation expense	\$ 3,745	\$ 2,863	\$ 10,337	\$ 8,656

See notes to unaudited condensed consolidated financial statements.

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(in thousands except share amounts)	September 30 2010	December 31 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 175,872	\$ 130,496
Investments	163,469	212,057
Accounts receivable, less allowance of \$714 and \$1,339, respectively	94,638	82,330
Deferred tax asset, net	1,081	1,109
Income tax receivable, net	9,554	5,541
Other	14,316	12,564
Total current assets	458,930	444,097
Property, equipment, and capitalized software, net	57,716	59,828
Investments in unconsolidated entities	24,043	24,079
Goodwill	311,249	249,992
Intangible assets, net	167,311	135,488
Other assets	6,948	6,099
Total assets	\$ 1,026,197	\$ 919,583
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 37,504	\$ 29,901
Accrued compensation	47,893	48,902
Deferred revenue	135,843	127,114
Other	532	962
Total current liabilities	221,772	206,879
Accrued compensation	5,094	4,739
Deferred tax liability, net	18,353	4,678
Other long-term liabilities	25,552	26,413
Total liabilities	270,771	242,709
Equity:		
Morningstar, Inc. shareholders' equity:		
Common stock, no par value, 200,000,000 shares authorized, of which 49,658,633 and 48,768,541 shares were outstanding as of September 30, 2010 and December 31, 2009, respectively	5	5
Treasury stock at cost, 207,254 shares as of September 30, 2010 and 222,653 shares as of December 31, 2009	(2,913)	(3,130)
Additional paid-in capital	448,485	432,052
Retained earnings	303,196	246,745
Accumulated other comprehensive income (loss):		
Currency translation adjustment	5,240	(337)
Unrealized gain on available-for-sale securities	413	370
Total accumulated other comprehensive income	5,653	33
Total Morningstar, Inc. shareholders' equity	754,426	675,705
Noncontrolling interest	1,000	1,169
Total equity	755,426	676,874
Total liabilities and equity	\$ 1,026,197	\$ 919,583

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 Nine Months Ended September 30, 2010

Morningstar, Inc. Shareholders Equity