

Morningstar, Inc.
Form 10-K/A
March 19, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 10-K/A

Amendment No. 1

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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)

Edgar Filing: Morningstar, Inc. - Form 10-K/A

Illinois
(State or Other Jurisdiction of
Incorporation or Organization)

36-3297908
(I.R.S. Employer
Identification Number)

**22 West Washington Street
Chicago, Illinois
60602**

(Address of Principal Executive Offices)

(312) 696-6000

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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.

Edgar Filing: Morningstar, Inc. - Form 10-K/A

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. (Check one):

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

The aggregate market value of shares of common stock held by non-affiliates of the Registrant as of June 30, 2009 was \$848,941,450. As of February 22, 2010, there were 48,786,955 shares of the Registrant's common stock, no par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of the Registrant's Definitive Proxy Statement for the 2010 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

EXPLANATORY NOTE

On March 1, 2010, Morningstar, Inc. (the Company) filed its Annual Report on Form 10-K for the year ended December 31, 2009 with the Securities and Exchange Commission. The Company is providing Item 1 of Part I and Item 7 of Part II of Form 10-K in this Form 10-K/A filing to correctly reflect the total number of investments covered in its database of approximately 350,000 and to revise the number of database additions made during 2009 to more than 40,000. Except as set forth herein, no other changes are made to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

TABLE OF CONTENTS

PART I

Item 1. Business

PART II

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART IV

Exhibit 31.1

Exhibit 31.2

Part I

Item 1. Business

Morningstar is a leading provider of independent investment research to investors around the world. Since our founding in 1984, our mission has been to create great products that help investors reach their financial goals. We offer an extensive line of data, software, and research products for individual investors, financial advisors, and institutional clients through our Investment Information segment. We also provide asset management services for advisors, institutions, and retirement plan participants through our Investment Management segment. In addition to our U.S.-based products and services, we offer local versions of our products designed for investors in Asia, Australia, Canada, Europe, Japan, and South Africa. Morningstar serves approximately 7.4 million individual investors, 245,000 financial advisors, and 4,200 institutional clients. We have operations in 20 countries and hold minority ownership positions in companies located in two other countries.

We maintain a series of comprehensive databases on many types of investments, focusing on investment vehicles that are widely used by investors globally. After building these databases, we add value and insight to the data by applying our core skills of research, technology, and design. As of December 31, 2009, we provided extensive data on more than:

- 21,000 mutual fund share classes in the United States;
- 97,000 mutual funds and similar vehicles in international markets;
- 3,400 exchange-traded funds (ETFs);
- 1,800 closed-end funds;
- 28,000 stocks;
- 8,200 hedge funds;
- 7,200 separate accounts and collective investment trusts;
- 109,000 variable annuity/life subaccounts and policies;
- 46,000 insurance, pension, and life funds;
- 12,300 unit investment trusts;
- 85 state-sponsored college savings plans (commonly known as Section 529 College Savings Plans);
- 83 years of capital markets data capturing performance of several major asset classes;
- Extensive cash flow, ownership, and biographical data on directors and officers;
- Real-time market data on more than 4 million exchange-traded equities, derivatives, commodities, futures, foreign exchanges, precious metals, news, company fundamentals, and analytics; and
- Real-time price quotes for global foreign currencies.

Our business model is based on leveraging our investments in these databases by selling a wide variety of products in multiple media to individual investors, financial advisors, and institutions around the world.

Our data and proprietary analytical tools such as the Morningstar Rating for mutual funds, which rates past performance based on risk- and cost-adjusted returns, and the Morningstar Style Box, which provides a visual summary of a mutual fund's underlying investment style, have become important tools that millions of investors and advisors use in making investment decisions. We've created other tools, such as the Ownership Zone, Sector Delta, and Market Barometer, which allow investors to see how different investments work together to form a portfolio and to track its progress. We developed a popular Portfolio X-Ray tool that helps investors reduce risk and understand the key characteristics of their portfolios based on nine different factors.

We offer a variety of qualitative measures such as Stewardship Grades, which help investors identify companies and funds that have demonstrated a high level of commitment to shareholders and stewardship of investors' capital.

Since 1998, we've expanded our research efforts on individual stocks and have worked to popularize the concepts of economic moat, a measure of competitive advantage originally developed by Warren Buffett; and margin of safety, which reflects the size of the discount in a stock's price relative to its estimated value. The Morningstar Rating for stocks is based on the stock's current price relative to our analyst-generated fair value estimates, as well as the company's level of business risk and economic moat.

In 2009, we began publishing credit ratings and associated research on corporate debt issuers. We currently provide ratings on approximately 120 companies. We also introduced comprehensive, qualitative research and ratings for mutual funds based in Europe and Asia, a new study comparing the mutual fund investor experience across 16 countries, hedge fund operational risk flags, attribution analysis for equity funds and funds of funds, a new equity fund classification structure, and a new series of specialized, institutional-level investment benchmarks.

We've also developed in-depth advice on security selection and portfolio building to meet the needs of investors looking for integrated portfolio solutions. We believe many investors rely on these tools because they offer a useful framework for comparing potential investments and making decisions. Our independence and our history of innovation make us a trusted resource for investors.

In keeping with our mission, we are pursuing five key growth strategies, which we describe below. We review our growth strategies on a regular basis and refine them to reflect changes in our business.

1. *Enhance our position in each of our key market segments by focusing on our three major Internet-based platforms.*

We believe that individual investors, financial advisors, and institutional clients increasingly want integrated solutions as opposed to using different research tools for different parts of their portfolios. To help meet this need, one of our key strategies is to focus our product offerings on our three major platforms:

- Morningstar.com for individual investors;
- Morningstar Advisor Workstation for financial advisors; and
- Morningstar Direct for institutional professionals.

These products all include integrated research and portfolio tools, allowing investors to use our proprietary information and analysis across multiple security types. We believe we can achieve deeper penetration of our current audiences with each of these platforms, as well as extend their reach to new customers.

With Morningstar.com, we're continuing to expand the range of content and market updates on the site, including third-party content. We've also been focusing on mobile development and social networking, as well as expanding data and functionality to increase the site's value to both

registered users and Premium members. With Advisor Workstation, we plan to build on our large installed base by expanding our mid- and back-office capabilities, improving the product's interface and design, and integrating real-time data and other functionality. With Morningstar Direct, we're pursuing an aggressive development program to provide data and analysis on securities and investments around the world. We're adding third-party data and content and enhancing our technology to allow the product to function as a purely web-based solution. We also plan to expand into new global markets, enhance our capabilities in portfolio management and accounting, and significantly increase the amount of equity research content and functionality.

2. *Become a global leader in fund-of-funds investment management.*

The large number of managed investment products available has made assembling them into well-constructed portfolios a difficult task for many investors. Consequently, fund-of-funds offerings have seen strong growth within the mutual fund, variable annuity, and hedge fund industries. Cerulli Associates estimates that global multimanager assets including publicly offered funds that invest in other funds as well as investment vehicles managed by multiple subadvisors totaled approximately \$1.6 trillion in 2009. We believe assembling and evaluating funds of funds is a natural extension of our expertise in understanding managed investment products.

Our fund-of-funds programs combine managed investment vehicles typically mutual funds in portfolios designed to help investors meet their financial goals. When we create portfolios made up of other funds, our goal is to simplify the investment process and help investors access portfolios that match their level of risk tolerance, time horizon, and long-term investment objectives. We draw on our extensive experience analyzing funds to combine quantitative research with a qualitative assessment of manager skill and investment style.

In June 2009, we expanded our investment management business by acquiring Intech Pty Ltd, a leading provider of multimanager and investment portfolio solutions in Sydney, Australia. Intech (now doing business as Ibbotson Associates) manages the Intech Investment Trusts, a range of single sector, alternative strategy, and diversified investment portfolios.

We had a total of \$61.4 billion in assets under advisement in our Investment Consulting business as of December 31, 2009. Our consulting business focuses on relationships and agreements where we act as a portfolio construction manager or asset allocation program designer for a mutual fund or variable annuity and receive a basis-point fee. We plan to continue building this business by expanding to reach new markets outside of the United States, expanding our capabilities and products in new areas such as alternative investment strategies, developing more ways to incorporate risk protection and insurance, expanding to reach additional client segments, and focusing on performance and client support.

We also offer managed retirement account services through our Retirement Advice platform, which includes Morningstar Retirement Manager and Advice by Ibbotson. We offer these services for retirement plan participants who choose to delegate management of their portfolios to our managed account programs, which are quantitative systems that select investment options and make retirement planning choices for the participants. We believe that retirement plan participants will continue to adopt managed accounts because of the complexity involved in retirement planning.

Morningstar Managed Portfolios is a fee-based discretionary asset management service that includes a series of mutual fund, exchange-traded fund, and stock portfolios tailored to meet specific investment time horizons and risk levels. As of December 31, 2009, we had \$2.1 billion in assets under management through Morningstar Managed Portfolios and \$15.6 billion in assets under

management in our managed retirement accounts.

3. *Continue building thought leadership in independent investment research.*

We believe that our leadership position in independent investment research offers a competitive advantage that would be difficult for competitors to replicate. Our goal is to continue producing investment insights that empower investors and focus our research efforts in four major areas:

- *Extend leadership position in fund research to additional markets outside the United States.* Over the past several years, we have expanded our analyst coverage in fund markets outside of the United States. We've built an integrated team of locally based fund experts to expand our research coverage in additional markets around the world. As of December 31, 2009, we had about 80 fund analysts globally, including teams in North America, Europe, Asia, and Australia. We currently produce qualitative analyst research on more than 900 funds outside the United States and plan to continue building our coverage of funds based in Europe and Asia.
- *Continue leveraging our capabilities in stocks.* Our equity research complements our approach to mutual fund analysis, where we focus on analyzing the individual stocks that make up each fund's portfolio. As of December 31, 2009, we provided analyst research on approximately 2,000 companies.

From June 2004 through July 2009, we provided research to six major investment banks under the terms of the Global Analyst Research Settlement, which we describe in more detail on page 27. Although the period covered by the Global Analyst Research Settlement expired in July 2009, and the banks covered by it are no longer required to provide independent investment research to their clients, we remain committed to maintaining the broad, high-quality coverage we've become known for as one of the largest providers of independent equity research. For further discussion about this issue, see Item 1A Risk Factors.

We're working to expand distribution of our equity research through a variety of other channels, including through financial advisors, buy-side firms, and companies outside of the United States. We believe that investors' increasing awareness of the value of independent research will strengthen our business over the long term. We've also expanded our proprietary stock database, which we view as an important complement to our analyst research.

- *Build expertise in fixed-income credit research.* In 2009, we began publishing research and ratings on corporate credit issuers. During the next year, we plan to produce credit ratings for up to 1,000 companies currently covered by our equity analyst team. We view credit ratings as a natural extension of the equity research we've been producing for the past decade. We believe we have a unique viewpoint to offer on company default risk that leverages our cash-flow modeling expertise, proprietary measures like economic moat, and in-depth knowledge of the companies and industries we cover.

We're including this research on our three major software platforms to provide investors with an additional perspective on fixed-income investments. We also plan to monetize the ratings through subscriptions to our institutional equity research clients, who have access to the forecasts, models, and scores underlying the ratings.

- *Enhance our retirement income capabilities.* As the baby boom generation approaches retirement, we believe many investors will need more information to help them manage income during retirement. We believe this will lead to a greater need for information and tools focusing on retirement income planning and long-term savings strategies. In 2009, we introduced an advisory service for investors in

retirement through Morningstar Retirement Manager. We currently offer Retirement Income Strategist, a web-based financial planning tool that allows financial advisors to create comprehensive income analyses for clients who are retired or approaching retirement, as part of our Advisor Workstation platform. We've developed several retirement income services for institutional clients within our Investment Consulting area, and we plan to incorporate additional retirement income tools and services in other products over the next several years.

4. *Create a premier global investment database.*

Our goal is to continue building or acquiring new databases for additional types of investments, including various types of funds outside the United States and other widely used investment products.

As detailed on page 2, we currently provide extensive data on approximately 350,000 investments globally, including managed investment products, individual securities, capital markets data, real-time stock quotes from nearly all of the world's major stock exchanges, and a live data feed that covers exchange-traded equities, derivatives, commodities, futures, foreign exchanges, precious metals, news, company fundamentals, and analytics.

Our data is the foundation for all of the products and services we offer. When we build investment databases, we prefer to own the data and minimize license agreements with outside data providers. We also focus on proprietary, value-added data, such as our comprehensive data on current and historical portfolio holdings for mutual funds and variable annuities. Within each database, we continuously update our data to maintain timeliness and expand the depth and breadth of coverage. Our strategy is to continuously expand our databases, focusing on investment products that are widely used by large numbers of investors. In particular, we're focusing on expanding our fundamental equity data. We also strive to establish our databases as the pre-eminent choice for individual investors, financial advisors, and institutional clients around the world, as well as continuing to invest in world-class data quality, manufacturing, and delivery interfaces.

Over the past several years, we've developed a series of proprietary indexes based on our investment data. The Morningstar Indexes are rooted in our proprietary research and can be used for precise asset allocation and benchmarking and as tools for portfolio construction and market analysis. We've significantly expanded the range of indexes we offer and are working to expand our index business globally.

5. *Expand our international brand presence, products, and services.*

Our operations outside of the United States generated \$129.2 million in revenue in 2009 compared with \$121.4 million in 2008 and represent an increasing percentage of our consolidated revenue. Our strategy is to expand our non-U.S. operations (either organically or through acquisitions) to meet the increasing demand for wide-ranging, independent investment insight by investors around the globe. Because more than half of the world's investable assets are located outside of the United States, we believe there are significant opportunities for us there. Our strategy is to focus our non-U.S. sales efforts on our major products, including Morningstar Advisor Workstation and Morningstar Direct, as well as opportunities such as real-time data, qualitative investment research and ratings, investment indexes, and consulting. We also plan to explore new regions, such as Latin America, Eastern Europe, and the Middle East; continue expanding our databases to be locally and globally comprehensive; introduce new products in markets where we already have operations; and expand our sales and product support infrastructure around the world.

Acquisitions

Historically, the majority of our long-term revenue growth has been driven by organic growth as we've introduced new products and services and expanded our marketing efforts for existing products. However, we have made and expect to continue making selective acquisitions that support our five growth strategies. In reviewing potential acquisitions, we focus on transactions that:

- offer a good strategic fit with our mission of creating great products that help investors reach their financial goals;
- help us build our proprietary investment databases, research capabilities, technical expertise, or customer base faster and more cost effectively than we could if we built them ourselves; and
- offer a good cultural fit with our entrepreneurial spirit and brand leadership.

We paid approximately \$74.2 million for six acquisitions in 2009, as summarized in the table below.

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 earnings estimates for Canadian stocks	May 1, 2009	\$13.9 million
Andex Associates, Inc.	Andex is known for Andex Charts, which illustrate 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 multimanager 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
Canadian Investment Awards and Gala	Canada's marquee investment awards program, recognizing excellence in products and firms within the financial services industry	December 17, 2009	Not separately disclosed
Logical Information Machines, Inc.	A leading provider of data and analytics for the energy, financial, and agriculture sectors	December 31, 2009	\$53.5 million

*Total purchase price less cash acquired.

For information about our previous acquisitions, refer to Note 6 of the Notes to our Consolidated Financial Statements.

Business Segments, Products, and Services

We operate our business in two segments:

- Investment Information, which includes all of our data, software, and research products and services. These products are typically sold through subscriptions or license agreements; and
- Investment Management, which includes all of our asset management operations, which operate as registered investment advisors and earn more than half of their revenue from asset-based fees.

The table below shows our revenue by business segment for each of the past three years:

Revenue by Segment (\$000)	2009			2008			2007		
	Amount	%		Amount	%		Amount	%	
Investment Information	\$ 386,642	80.7%		\$ 390,693	77.8%		\$ 327,372	75.2%	
Investment Management	92,354	19.3		111,764	22.2		107,735	24.8	
Consolidated revenue	\$ 478,996	100.0%		\$ 502,457	100.0%		\$ 435,107	100.0%	

For information on segment operating income (loss), refer to Note 4 of the Notes to our Consolidated Financial Statements.

Investment Information

The largest products in this segment based on revenue are Morningstar Licensed Data, a set of investment data spanning all of our investment databases, including real-time pricing data, and available through electronic data feeds; Morningstar Advisor Workstation, a web-based investment planning system for independent financial advisors as well as advisors affiliated with larger firms; Morningstar.com, which includes both Premium Memberships and Internet advertising sales; Morningstar Direct, a web-based institutional research platform; and Morningstar Principia, our CD-ROM-based investment research and planning software for advisors.

The Investment Information segment also includes Morningstar Equity Research, which we distribute through several channels. Investors can access our equity research through the Premium Membership service on Morningstar.com. In addition, we distribute our research to several other companies that provide our analyst research to their affiliated financial advisors or to individual investors. From June 2004 through July 2009, we distributed our equity research through six major investment banks to meet the requirements for independent research under the Global Analyst Research Settlement, which we describe in more detail on page

27.

We also offer a variety of financial communications materials, real-time data, other investment software, and investment indexes, as well as several print and online publications focusing on stocks, mutual funds, personal finance, and other investing topics. In 2009, we developed a beta version of Morningstar QuoteSpeed, a new web-based solution that delivers real-time market data through a simplified desktop application. In addition to real-time market information, QuoteSpeed provides users with access to Morningstar's fundamental data, news, analysis, and more. QuoteSpeed will be available as a stand-alone application or as a module through platforms such as Morningstar.com, Direct, Office, and Advisor Workstation. We also created a

new Enterprise Data Management business that helps institutions outsource certain business operations to Morningstar, including creating investment profiles, aggregating account data, performance reporting, and consolidating and managing data feeds from multiple sources.

With our purchase of Logical Information Machines, Inc. (LIM) at the end of 2009, we added a new analytical software application, which delivers a comprehensive, real-time solution for research, analysis, and trading for institutional clients. LIM is an analytical software service that aggregates financial and energy data from a large number of sources. LIM's software lets clients query these multiple data sets simultaneously. The majority of LIM's clients are in the energy and commodities industries.

In 2009, about 31.6% of Investment Information segment revenue was from outside of the United States.

Most of our products for individual investors target experienced investors who are actively involved in the investing process and want to take charge of their own investment decisions. We also reach individuals who want to learn more about investing and investors who seek out third-party sources to validate the advice they receive from brokers or financial planners.

We sell our advisor-related products both directly to independent financial advisors and through enterprise licenses, which allow financial advisors associated with the licensing enterprise to use our products. Our institutional clients include banks, brokerage firms, insurance companies, mutual fund companies, media outlets, and retirement plan sponsors and providers. We also have data reselling agreements with third-party providers of investment tools and applications, allowing us to increase the distribution of our data with minimal additional cost.

We believe the Investment Information segment has a modest amount of seasonality. We've historically had higher revenue in the second quarter because we hold an investment conference then. Sales for other products, such as Morningstar.com, tend to be slightly lower over the spring and summer months. Other products in this segment generally have not shown marked seasonality.

Our largest customer in the Investment Information segment made up approximately 3% of segment revenue in 2009.

Licensed Data

Our Licensed Data service gives institutions access to a full range of proprietary investment data spanning numerous investment databases, including real-time pricing data. The data packages we offer include proprietary statistics, such as the Morningstar Style Box and Morningstar Rating, and a wide range of other data, including information on investment performance, risk, portfolios, operations data, fees and expenses, cash flows, and ownership. Institutions can use Licensed Data in a variety of investor communications, including websites, print publications, and marketing fact sheets, as well as for internal research and product development. We deliver Licensed Data through electronic data feeds and provide daily updates to clients. Pricing for Licensed Data is based on the number of funds or other securities covered, the amount of information provided for each security, and the level of distribution.

Edgar Filing: Morningstar, Inc. - Form 10-K/A

In 2009, we introduced a new browser-based interface that allows clients who license proprietary data for their marketing materials to access Morningstar's proprietary statistics and images in a format easily used by designers and web developers. We also added interfaces that allow clients to view, search, and sort data on their desktops, or export the data to their own applications. We launched an alert feed that highlights relevant changes in a fund's status and proprietary statistics, as well as additional descriptive data on separate accounts. We introduced a series of manager benchmarks based on our new institutional categories, as well as other specialized

investment groupings and client-customizable benchmarks. We continued to expand our fundamental data on stocks around the world.

We rebranded Tenfore Systems Limited (acquired in December 2008) as Morningstar Real-Time Data and integrated many of Morningstar's data sets, including fundamental equity data and research. We also began providing 24-hour support to our Real-Time Data clients.

We introduced a new Ownership Database toward the end of the year, which provides security ownership information and position changes on individual stocks. Follo