

Morningstar, Inc.  
Form 10-K/A  
March 01, 2016

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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, 2015

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

36-3297908

(State or Other Jurisdiction of  
Incorporation or Organization)

(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 ☒

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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. ☐

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, 2015 was \$1.5 billion. As of February 19, 2016, there were 42,911,386 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 2016 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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EXPLANATORY NOTE

On February 26, 2016, Morningstar, Inc. (the Company) filed its Annual Report on Form 10-K for the year ended December 31, 2015 with the Securities and Exchange Commission. The Company is providing Item 8 of Part II of Form 10-K in this amended filing to include the name and signature line of the independent registered public accounting firm (KPMG LLP) on its two reports contained therein. The Company is also including with this amended filing the required Exhibits 23, 31, and 32. Except as set forth above, no other changes are made to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm  
The Board of Directors and Shareholders  
Morningstar, Inc.:

We have audited the accompanying consolidated balance sheets of Morningstar, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited the financial statement Schedule II - Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial position of Morningstar, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Morningstar, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016, expressed an unqualified opinion on the effectiveness of Morningstar Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois  
February 26, 2016



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Report of Independent Registered Public Accounting Firm  
The Board of Directors and Shareholders  
Morningstar, Inc.:

We have audited Morningstar, Inc.'s (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Morningstar, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Morningstar, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Morningstar, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and the financial statement schedule, and our report dated February 26, 2016, expressed an unqualified opinion on those consolidated financial statements and accompanying schedule.

/s/ KPMG LLP

Chicago, Illinois  
February 26, 2016

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## Morningstar, Inc. and Subsidiaries

## Consolidated Statements of Income

Year ended December 31 (in millions except per share amounts)	2015	2014	2013
Revenue	\$788.8	\$760.1	\$698.3
Operating expense:			
Cost of revenue	330.1	318.6	271.4
Sales and marketing	96.6	111.1	103.6
General and administrative	107.1	108.9	106.9
Depreciation and amortization	64.4	54.9	45.7
Litigation settlement	—	61.0	—
Total operating expense	598.2	654.5	527.6
Operating income	190.6	105.6	170.7
Non-operating income:			
Interest income, net	1.3	2.1	2.7
Gain on sale of investments, reclassified from other comprehensive income	0.6	1.0	4.2
Holding gain upon acquisition of additional ownership of equity method investments	—	5.2	3.6
Other income (expense), net	1.2	0.1	(3.2)
Non-operating income, net	3.1	8.4	7.3
Income before income taxes and equity in net income of unconsolidated entities	193.7	114.0	178.0
Equity in net income of unconsolidated entities	1.8	—	1.4
Income tax expense	62.7	35.7	56.0
Consolidated net income	132.8	78.3	123.4
Net (income) loss attributable to noncontrolling interest	(0.2)	) —	0.1
Net income attributable to Morningstar, Inc.	\$132.6	\$78.3	\$123.5
Net income per share attributable to Morningstar, Inc.:			
Basic	\$3.00	\$1.75	\$2.68
Diluted	\$3.00	\$1.74	\$2.66
Dividends per common share:			
Dividends declared per common share	\$0.790	\$0.700	\$0.545
Dividends paid per common share	\$0.760	\$0.680	\$0.375
Weighted average shares outstanding:			
Basic	44.2	44.7	46.2
Diluted	44.3	44.9	46.5

See notes to consolidated financial statements.

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Morningstar, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Year ended December 31 (in millions)	2015	2014	2013
Consolidated net income	\$132.8	\$78.3	\$123.4
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	(28.2	) (29.8	) (4.5
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(1.0	) 0.4	2.4
Reclassification of gains included in net income	(0.4	) (0.6	) (2.6
Other comprehensive loss	(29.6	) (30.0	) (4.7
Comprehensive income	103.2	48.3	118.7
Comprehensive (income) loss attributable to noncontrolling interest	(0.4	) 0.1	0.3
Comprehensive income attributable to Morningstar, Inc.	\$102.8	\$48.4	\$119.0

See notes to consolidated financial statements.

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## Morningstar, Inc. and Subsidiaries

## Consolidated Balance Sheets

As of December 31 (in millions except share amounts)

2015

2014

## Assets

## Current assets:

Cash and cash equivalents

\$207.1

\$185.2

Investments

41.5

39.4

Accounts receivable, less allowance of \$1.8 and \$1.5, respectively

139.3

136.7

Other

22.0

29.5

Total current assets

409.9

390.8

Property, equipment, and capitalized software, net

134.5

117.6

Investments in unconsolidated entities

35.6

28.8

Goodwill

364.2

370.1

Intangible assets, net

74.2

95.9

Other assets

10.6

7.1

Total assets

\$1,029.0

\$1,010.3

## Liabilities and equity

## Current liabilities:

Accounts payable and accrued liabilities

\$39.2

\$34.3

Accrued compensation

80.9

80.5

Deferred revenue

140.7

146.0

Short-term debt

35.0

30.0

Other current liabilities

8.6

3.0

Total current liabilities

304.4

293.8

Accrued compensation

8.9

7.9

Deferred tax liability, net

19.8

17.0

Deferred rent

25.4

26.4

Other long-term liabilities

29.9

10.8

Total liabilities

388.4

355.9

## Equity:

## Morningstar, Inc. shareholders' equity:

Common stock, no par value, 200,000,000 shares authorized, of which

43,403,076 and 44,345,763 shares were outstanding as of December 31, 2015 —

—

and December 31, 2014, respectively

Treasury stock at cost, 9,478,449 and 8,257,214 shares as of December 31,

2015 and December 31, 2014, respectively

(619.8

) (524.3

)

Additional paid-in capital

575.5

561.1

Retained earnings

739.2

641.5

## Accumulated other comprehensive loss:

Currency translation adjustment

(53.5

) (25.1

)

Unrealized gain (loss) on available-for-sale investments

(1.1

) 0.3

Total accumulated other comprehensive loss

(54.6

) (24.8

)

Total Morningstar, Inc. shareholders' equity

640.3

653.5

Noncontrolling interest

0.3

0.9

Total equity

640.6

654.4

Total liabilities and equity	\$1,029.0	\$1,010.3
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See notes to consolidated financial statements.

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Consolidated Statements of Equity

Morningstar, Inc. Shareholders' Equity								
(in millions, except share amounts)	Common Stock			Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non Controlling Interests	Total Equity
	Shares Outstanding	Par Value	Treasury Stock					
Balance as of December 31, 2012	46,541,571	\$—	\$(301.8 )	\$521.4	\$496.4	\$ 9.6	\$1.3	\$726.9
Net income (loss)		—	—	—	123.5	—	(0.1 )	123.4
Other comprehensive income (loss):								
Unrealized loss on available-for-sale investments, net of tax of \$1.5		—	—	—	—	2.4	—	2.4
Reclassification of adjustments for gains included in net income, net of income tax of \$1.6		—	—	—	—	(2.6 )	—	(2.6 )
Foreign currency translation adjustment, net		—	—	—	—	(4.3 )	(0.2 )	(4.5 )
Other comprehensive loss, net		—	—	—	—	(4.5 )	(0.2 )	(4.7 )
Issuance of common stock related to stock-option exercises and vesting of restricted stock units, net	437,263	—	1.6	(2.9 )	—	—	—	(1.3 )
Stock-based compensation — restricted stock units		—	—	14.1	—	—	—	14.1
Stock-based compensation — restricted stock		—	—	0.4	—	—	—	0.4
Stock-based compensation — stock options		—	—	0.5	—	—	—	0.5
Excess tax benefit derived from stock-option exercises and vesting of restricted stock units		—	—	5.9	—	—	—	5.9
Common shares repurchased	(2,011,411 )	—	(148.8 )	—	—	—	—	(148.8 )
Dividends declared — common shares outstanding		—	—	—	(25.0 )	—	—	(25.0 )
Dividends declared — restricted stock units		—	—	0.2	(0.3 )	—	—	(0.1 )
Balance as of December 31, 2013	44,967,423	—	(449.0 )	539.6	594.6	5.1	1.0	691.3
Net income		—	—	—	78.3	—	—	78.3
Other comprehensive income (loss):								

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Unrealized gain on available-for-sale investments, net of tax of \$0.2		—	—	—	—	0.4	—	0.4
Reclassification of adjustments for gains included in net income, net of income tax of \$0.4		—	—	—	—	(0.6 )	—	(0.6 )
Foreign currency translation adjustment, net		—	—	—	—	(29.7 )	(0.1 )	(29.8 )
Other comprehensive loss, net		—	—	—	—	(29.9 )	(0.1 )	(30.0 )
Issuance of common stock related to stock-option exercises and vesting of restricted stock units, net	452,344	—	1.4	(0.6 )	—	—	—	0.8
Stock-based compensation — restricted stock units		—	—	16.3	—	—	—	16.3
Stock-based compensation — restricted stock		—	—	0.4	—	—	—	0.4
Stock-based compensation — performance share awards		—	—	0.5	—	—	—	0.5
Stock-based compensation — stock-options		—	—	0.4	—	—	—	0.4
Excess tax benefit derived from stock-option exercises and vesting of restricted stock units		—	—	4.4	—	—	—	4.4
Common shares repurchased	(1,074,004 )	—	(76.7 )	—	—	—	—	(76.7 )
Dividends declared — common shares outstanding		—	—	—	(31.2 )	—	—	(31.2 )
Dividends declared — restricted stock units		—	—	0.1	(0.2 )	—	—	(0.1 )
Balance as of December 31, 2014	44,345,763	—	(524.3 )	561.1	641.5	(24.8 )	0.9	654.4
Net income		—	—	—	132.6	—	0.2	132.8
Other comprehensive income (loss):								
Unrealized gain on available-for-sale investments, net of income tax of \$0.4		—	—	—	—	(1.0 )	—	(1.0 )
Reclassification of adjustments for gains included in net income, net of income tax of \$0.1		—	—	—	—	(0.4 )	—	(0.4 )
Foreign currency translation adjustment, net		—	—	—	—	(28.4 )	0.2	(28.2 )
Other comprehensive income (loss), net		—	—	—	—	(29.8 )	0.2	(29.6 )
Issuance of common stock related to stock-option exercises and vesting of restricted stock units, net	298,435	—	1.5	(3.2 )	—	—	—	(1.7 )
		—	—	16.1	—	—	—	16.1



Stock-based compensation — restricted stock units								
Stock-based compensation — restricted stock	—	—	0.1	—	—	—	0.1	
Stock-based compensation — performance share awards	—	—	1.0	—	—	—	1.0	
Stock-based compensation — stock-options	—	—	0.2	—	—	—	0.2	
Excess tax benefit derived from stock-option exercises and vesting of restricted stock units	—	—	2.6	—	—	—	2.6	
Common shares repurchased (1,241,122 )	(97.0 )	—	—	—	—	—	(97.0 )	
Dividends declared — common shares outstanding	—	—	—	(34.8 )	—	—	(34.8 )	
Dividends declared — restricted stock units	—	—	—	(0.1 )	—	—	(0.1 )	
Purchase of remaining interest in majority-owned investment	—	—	(2.4 )	—	—	(1.0 )	(3.4 )	
Balance as of December 31, 2015	43,403,076	\$—	\$(619.8 )	\$575.5	\$739.2	\$ (54.6 )	\$0.3	\$640.6

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	2015	2014	2013
Operating activities			
Consolidated net income	\$ 132.8	\$ 78.3	\$ 123.4
Adjustments to reconcile consolidated net income to net cash flows from operating activities:			
Depreciation and amortization	64.4	54.9	45.7
Deferred income taxes	2.9	3.0	(1.1)
Stock-based compensation expense	17.4	17.6	15.0
Provision for bad debt	0.5	0.5	0.8
Equity in net income of unconsolidated entities	(1.8)	) —	(1.4)
Excess tax benefits from stock-option exercises and vesting of restricted stock units	(2.6)	) (4.4)	) (5.9)
Gain on sale of cost-method investment	—	(0.4)	) —
Holding gain upon acquisition of additional ownership of equity-method investments	—	(5.2)	) (3.6)
Other, net	(1.1)	) (0.7)	) (1.8)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(6.9)	) (25.9)	) (1.6)
Other assets	0.7	(5.3)	) (2.3)
Accounts payable and accrued liabilities	4.7	(2.0)	) (1.2)
Accrued compensation	7.0	19.5	3.2
Income taxes—current	10.1	2.3	16.8
Deferred revenue	10.6	(1.7)	) 3.7
Deferred rent	(0.3)	) 3.0	(1.5)
Other liabilities	0.5	(1.3)	) (1.5)
Cash provided by operating activities	238.9	132.2	186.7
Investing activities			
Purchases of investments	(34.7)	) (20.4)	) (140.1)
Proceeds from maturities and sales of investments	30.0	111.6	171.2
Capital expenditures	(57.3)	) (58.3)	) (33.6)
Acquisitions, net of cash acquired	(11.1)	) (64.4)	) (11.1)
Proceeds from sale of a business, net	—	—	1.0
Purchases of equity- and cost-method investments	(6.2)	) —	(2.8)
Other, net	(0.2)	) 0.3	0.5
Cash used for investing activities	(79.5)	) (31.2)	) (14.9)
Financing activities			
Common shares repurchased	(97.0)	) (76.7)	) (153.5)
Dividends paid	(33.7)	) (30.5)	) (17.4)
Proceeds from short-term debt	50.0	30.0	—
Repayment of short-term debt	(45.0)	) —	—
Proceeds from stock-option exercises	3.9	6.6	4.5
Employee taxes withheld for restricted stock units	(5.6)	) (5.8)	) (5.8)

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Excess tax benefits from stock-option exercises and vesting of restricted stock units	2.6	4.4	5.9	
Other, net	(0.1	) 0.3	(0.1	)
Cash used for financing activities	(124.9	) (71.7	) (166.4	)
Effect of exchange rate changes on cash and cash equivalents	(12.6	) (12.3	) (1.1	)
Net increase in cash and cash equivalents	21.9	17.0	4.3	
Cash and cash equivalents—beginning of period	185.2	168.2	163.9	
Cash and cash equivalents—end of period	\$207.1	\$185.2	\$168.2	
	2015	2014	2013	
Supplemental disclosure of cash flow information:				
Cash paid for income taxes	\$50.1	\$30.4	\$40.4	
Cash paid for interest	\$0.4	\$0.3	\$—	
Supplemental information of non-cash investing and financing activities:				
Unrealized gain (loss) on available-for-sale investments	\$2.0	\$(0.4	) \$(0.3	)
Software obtained under long-term financing arrangement	\$5.3	\$—	\$4.9	

See notes to consolidated financial statements.

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MORNINGSTAR, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Morningstar, Inc. and its subsidiaries (Morningstar, we, our), provides independent investment research for investors around the world. We offer an extensive line of products and services for financial advisors, asset managers, retirement plan providers and sponsors, and individual investors. We have operations in 27 countries.

2. Summary of Significant Accounting Policies

The acronyms that appear in these Notes to our Consolidated Financial Statements refer to the following:

ASC	Accounting Standards Codification
ASU	Accounting Standards Update
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
SEC	Securities and Exchange Commission

**Principles of Consolidation.** We conduct our business operations through wholly owned or majority-owned operating subsidiaries. The accompanying consolidated financial statements include the accounts of Morningstar, Inc. and our subsidiaries. We consolidate assets, liabilities, and results of operations of subsidiaries in which we have a controlling interest and eliminate all significant intercompany accounts and transactions.

We account and report the noncontrolling (minority) interest in our Consolidated Financial Statements in accordance with FASB ASC 810, Consolidation. A noncontrolling interest is the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to the parent company. We report the noncontrolling interest in our Consolidated Balance Sheet within equity separate from the shareholders' equity attributable to Morningstar, Inc. In addition, we present the net income (loss) and comprehensive income (loss) attributable to Morningstar, Inc.'s shareholders and the noncontrolling interest in our Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, and Consolidated Statements of Equity.

We account for investments in entities in which we exercise significant influence, but do not control, using the equity method.

As part of our investment management operations, we manage certain funds outside of the United States that are considered variable interest entities. For the majority of these variable interest entities, we do not have a variable interest in them. In cases where we do have a variable interest, we are not the primary beneficiary. Accordingly, we do not consolidate any of these variable interest entities.

**Comprehensive Income.** In accordance with ASU No. 2011-05, Presentation of Comprehensive Income, we present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) in two separate but consecutive statements, our Consolidated Statements of Income and separately, our Consolidated Statements of Comprehensive Income. In addition, effective January 1, 2013, we adopted FASB ASU No. 2013-02, Comprehensive Income (Topic 220). We show the effects of items reclassified out of each component of accumulated other comprehensive income to net income on the face of the financial statement along with net income.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets,

liabilities, revenues, and expenses during the reporting period. Actual results may differ from these estimates.

Reclassifications. Certain amounts reported in prior years have been reclassified to conform to the current year presentation.

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Separately, as a result of our move to a more centralized structure in 2013 (including new positions created, changes in focus for some existing roles, and the refinement of employee cost categorizations as we moved to a more centralized structure), approximately 180 net positions shifted from the general and administrative and sales and marketing categories to cost of revenue. These changes added approximately \$14 million of compensation expense to cost of revenue in 2014 versus 2013, and reduced the compensation expense included in the sales and marketing and general and administrative categories by approximately \$8 million and \$6 million, respectively, in the same period. These changes did not affect total operating expense or operating income for any of the periods presented.

**Cash and Cash Equivalents.** Cash and cash equivalents consists of cash and investments with original maturities of three months or less. We state them at cost, which approximates fair value. We state the portion of our cash equivalents that are invested in money market funds at fair value, as these funds are actively traded and have quoted market prices.

**Investments.** We account for our investments in accordance with FASB ASC 320, Investments—Debt and Equity Securities. We classify our investments into three categories: held-to-maturity, trading, and available-for-sale.

**Held-to-maturity:** We classify certain investments, primarily certificates of deposit, as held-to-maturity securities, based on our intent and ability to hold these securities to maturity. We record held-to-maturity investments at amortized cost in our Consolidated Balance Sheets.

**Trading:** We classify certain other investments, primarily equity securities, as trading securities, primarily to satisfy the requirements of one of our wholly owned subsidiaries, which is a registered broker-dealer. We include realized and unrealized gains and losses associated with these investments as a component of our operating income in our Consolidated Statements of Income. We record these securities at their fair value in our Consolidated Balance Sheets.

**Available-for-sale:** Investments not considered held-to-maturity or trading securities are classified as available-for-sale securities. Available-for-sale securities primarily consist of equity securities, exchange-traded funds, and mutual funds. We report unrealized gains and losses for available-for-sale securities as other comprehensive income (loss), net of related income taxes. We record these securities at their fair value in our Consolidated Balance Sheets.

**Fair Value Measurements.** We follow FASB ASC 820, Fair Value Measurements. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances and does not require any new fair value measurements.

FASB ASC 820 uses a fair value hierarchy based on three broad levels of valuation inputs:

**Level 1:** Valuations based on quoted prices in active markets for identical assets or liabilities that the company has the ability to access.

**Level 2:** Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3:** Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

We provide additional information about our cash equivalents and investments that are subject to valuation under FASB ASC 820 in Note 6.

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**Concentration of Credit Risk.** No single customer is large enough to pose a significant credit risk to our operations or financial condition. For the years ended December 31, 2015, 2014, and 2013, no single customer represented 5% or more of our consolidated revenue. If receivables from our customers become delinquent, we begin a collections process. We maintain an allowance for doubtful accounts based on our estimate of the probable losses of accounts receivable.

**Property, Equipment, and Depreciation.** We state property and equipment at historical cost, net of accumulated depreciation. We depreciate property and equipment primarily using the straight-line method based on the useful life of the asset, which ranges from three to seven years. We amortize leasehold improvements over the lease term or their useful lives, whichever is shorter.

**Computer Software and Internal Product Development Costs.** We capitalize certain costs in accordance with FASB ASC 350-40, Internal-Use Software, FASB ASC 350-50, Website Development Costs, and FASB ASC 985, Software. Internal product development costs mainly consist of employee costs for developing new web-based products and certain major enhancements of existing products. We amortize these costs on a straight-line basis over the estimated economic life, which is generally three to five years. We include capitalized software development costs related to projects that have not been placed into service in our construction in progress balance.

The table below summarizes our capitalized software development costs for the past three years:

(in millions)	2015	2014	2013
Capitalized software development costs	\$21.8	\$18.8	\$8.1

**Business Combinations.** Over the past several years, we have acquired companies that complement our business operations. For each acquisition, we allocate the purchase price to the assets acquired, liabilities assumed, and goodwill. We follow FASB ASC 805, Business Combinations. We recognize and measure the fair value of the acquired operation as a whole, as well as the assets acquired and liabilities assumed, at their full fair values as of the date we obtain control, regardless of the percentage ownership in the acquired operation or how the acquisition was achieved. We expense direct costs related to the business combination, such as advisory, accounting, legal, valuation, and other professional fees, as incurred. We recognize restructuring costs, including severance and relocation for employees of the acquired entity, as post-combination expenses unless the target entity meets the criteria of FASB ASC 420, Exit or Disposal Cost Obligations, on the acquisition date.

As part of the purchase price allocation, we follow the requirements of FASB ASC 740, Income Taxes. This includes establishing deferred tax assets or liabilities reflecting the difference between the values assigned for financial statement purposes and income tax purposes. In certain acquisitions, the goodwill resulting from the purchase price allocation may not be deductible for income tax purposes. FASB ASC 740 prohibits recognition of a deferred tax asset or liability for temporary differences in goodwill if goodwill is not amortizable and deductible for tax purposes.

**Goodwill.** Changes in the carrying amount of our recorded goodwill are mainly the result of business acquisitions, divestitures, and the effect of foreign currency translations. In accordance with FASB ASC 350, Intangibles—Goodwill and Other, we do not amortize goodwill; instead, goodwill is subject to an impairment test annually, or whenever indicators of impairment exist. An impairment would occur if the carrying amount of a reporting unit exceeded the fair value of that reporting unit. We performed annual impairment reviews in the fourth quarter of 2015, 2014, and 2013. We did not record any impairment losses in 2015, 2014, or 2013.

**Intangible Assets.** We amortize intangible assets using the straight-line method over their estimated useful lives, which range from one to 25 years. We have no intangible assets with indefinite useful lives. In accordance with FASB ASC 360-10-35, Subsequent Measurement—Impairment or Disposal of Long Lived Assets, we review intangible assets



for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the value of future undiscounted cash flows is less than the carrying amount of an asset group, we record an impairment loss based on the excess of the carrying amount over the fair value of the asset group. We did not record any impairment losses in 2015, 2014, or 2013.

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Revenue Recognition. We recognize revenue in accordance with SEC SAB Topic 13, Revenue Recognition, ASC 605-25, Revenue Recognition: Multiple Element Arrangements, and ASC 985-605, Software: Revenue Recognition.

We recognize revenue when all of the following conditions are met:

- There is persuasive evidence of an arrangement, as evidenced by a signed contract;
- Delivery of our products and services has taken place. If arrangements include an acceptance provision, we generally begin recognizing revenue when we receive customer acceptance;
- The amount of fees to be paid by the customer is fixed or determinable;
- and
- The collectibility of the fees is reasonably assured.

We generate revenue through sales of Morningstar Data, Morningstar Advisor Workstation (including Morningstar Office), Morningstar Direct, Morningstar Research, Premium Membership subscriptions for Morningstar.com, our structured credit research and ratings offerings, and a variety of other investment-related products and services. We generally structure the revenue agreements for these offerings as licenses or subscriptions. We recognize revenue from licenses and subscription sales ratably as we deliver the product or service and over the service obligation period defined by the terms of the customer contract. For new-issue ratings and analysis for commercial mortgage-backed securities (CMBS), we charge asset-based fees that are paid by the issuer on the rated balance of the transaction and recognize the revenue immediately upon issuance.

We also generate revenue from Internet advertising, primarily from “impression-based” contracts. For advertisers who use our cost-per-impression pricing, we charge fees each time we display their ads on our site.

Our Investment Advisory business includes a broad range of services. Pricing for consulting services is based on the scope of work and the level of service provided, and includes asset-based fees for work we perform that involves investment management or acting as a subadvisor to investment portfolios. In arrangements that involve asset-based fees, we generally invoice clients quarterly in arrears based on average assets for the quarter. We recognize asset-based fees once the fees are fixed and determinable assuming all other revenue recognition criteria are met.

Our Workplace Solutions offerings help retirement plan participants plan and invest for retirement. We offer these services both through retirement plan providers (typically third-party asset management companies that offer proprietary mutual funds) and directly to plan sponsors (employers that offer retirement plans to their employees). For our Workplace Solutions offerings, we provide both a hosted solution as well as proprietary installed software advice solution. Clients can integrate the installed customized software into their existing systems to help investors accumulate wealth, transition into retirement, and manage income during retirement. The revenue arrangements for Workplace Solutions generally extend over multiple years. Our contracts may include one-time setup fees, implementation fees, technology licensing and maintenance fees, asset-based fees for managed retirement accounts, fixed and variable fees for advice and guidance, or a combination of these fee structures. Upon customer acceptance, we recognize revenue ratably over the term of the agreement. We recognize asset-based fees and variable fees in excess of any minimum once the value is fixed and determinable.

Some of our revenue arrangements combine multiple products and services. These products and services may be provided at different points in time or over different time periods within the same arrangement. We allocate fees to the separate deliverables based on the deliverables’ relative selling price, which is generally based on the price we charge when the same deliverable is sold separately.

We record taxes imposed on revenue-producing transactions (such as sales, use, value-added, and some excise taxes) on a net basis; therefore, we exclude such taxes from revenue in our Consolidated Statements of Income.

Deferred revenue represents the portion of licenses or subscriptions billed or collected in advance of the service being provided which we expect to recognize as revenue in future periods. Certain arrangements may have cancellation or refund provisions. If we make a refund, it typically reflects the amount collected from a customer for which we have not yet provided services. The refund therefore results in a reduction of deferred revenue.

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**Sales Commissions.** Through December 31, 2013, we paid sales commissions based on a formula driven by the total contract value of sales opportunities closed, with any subsequent adjustments (such as clawbacks for contract cancellations) reflected in future commission payouts. We considered the corresponding commission expense an incremental direct acquisition cost and treated it as a deferred charge, which we expensed over the term of the underlying sales contracts.

In the first quarter of 2014, we modified our sales incentive plan. The revised plan is based on a combination of net new sales and specific business objectives not solely tied to revenue growth. Because of this new structure and the discretion involved in determining the related incentives, we started expensing sales commissions as incurred instead of amortizing them over the contract terms.

However, we continued to amortize the deferred charge capitalized in connection with sales commissions paid in 2013 and previous periods as part of the previous incentive plan. This amortization added \$3.5 million and \$9.8 million of sales commission cost in 2015 and 2014, respectively.

**Advertising Costs.** Advertising costs include expenses incurred for various print and Internet ads, search engine fees, and direct mail campaigns. We expense advertising costs as incurred. The table below summarizes our advertising expense for the past three years:

(in millions)	2015	2014	2013
Advertising expense	\$8.3	\$7.5	\$6.9

**Stock-Based Compensation Expense.** We account for our stock-based compensation expense in accordance with FASB ASC 718, Compensation—Stock Compensation. Our stock-based compensation expense reflects grants of restricted stock units, restricted stock, performance share awards, and stock options. We measure the fair value of our restricted stock units, restricted stock, and performance share awards on the date of grant based on the closing market price of Morningstar's common stock on the day prior to grant. For stock options, we estimate the fair value of our stock options on the date of grant using a Black-Scholes option-pricing model. We amortize the fair values to stock-based compensation expense, net of estimated forfeitures, ratably over the vesting period.

We estimate expected forfeitures of all employee stock-based awards and recognize compensation cost only for those awards expected to vest. We determine forfeiture rates based on historical experience and adjust the estimated forfeitures to actual forfeiture experience as needed.

**Liability for Sabbatical Leave.** In certain of our operations, we offer employees a sabbatical leave. Although the sabbatical policy varies by region, Morningstar's full-time employees are generally eligible for six weeks of paid time off after four years of continuous service. We account for our sabbatical liability in accordance with FASB ASC 710-10-25, Compensated Absences. We record a liability for employees' sabbatical benefits over the period employees earn the right for sabbatical leave and include this liability in Accrued Compensation in our Consolidated Balance Sheet.

**Income Taxes.** We record deferred income taxes for the temporary differences between the carrying amount of assets and liabilities for financial statement purposes and tax purposes in accordance with FASB ASC 740, Income Taxes. FASB ASC 740 prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, and disclosure for uncertain tax positions.

We recognize interest and penalties related to unrecognized tax benefits as part of income tax expense in our Consolidated Statements of Income. We classify liabilities related to unrecognized tax benefits as either current or long-term liabilities in our Consolidated Balance Sheet, depending on when we expect to make payment.



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**Income per Share.** We compute and present income per share in accordance with FASB ASC 260, Earnings Per Share. The difference between weighted average shares outstanding and diluted shares outstanding mainly reflects the dilutive effect associated with our stock-based compensation plans. We further compute income per share in accordance with FASB ASC 260-10-45-59A, Participating Securities and the Two-Class Method. Under the two-class method, we allocate earnings between common stock and participating securities. The two-class method includes an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and undistributed earnings for the period. For purposes of calculating earnings per share, we reduce our reported net earnings by the amount allocated to participating securities to arrive at the earnings allocated to common stock shareholders.

ASC 260-10-45-59A requires the dilutive effect of participating securities to be calculated using the more dilutive of the treasury stock or the two-class method. We have determined the two-class method to be the more dilutive. As such, we adjusted the earnings allocated to common stock shareholders in the basic earnings per share calculation for the reallocation of undistributed earnings to participating securities to calculate diluted earnings per share.

**Foreign Currency.** We translate the financial statements of non-U.S. subsidiaries to U.S. dollars using the period-end exchange rate for assets and liabilities and an average exchange rate for revenue and expense. We use the local currency as the functional currency for all of our non-U.S. subsidiaries. We record translation adjustments for non-U.S. subsidiaries as a component of “Other comprehensive income (loss)” in our Consolidated Statements of Comprehensive Income. We include exchange gains and losses arising from transactions denominated in currencies other than the functional currency in “Other income (expense), net” in our Consolidated Statements of Income.

### 3. Credit Arrangements

In July 2015, we renewed our \$75.0 million, single-bank revolving credit facility. We drew on the credit facility during the fourth quarter of 2015 and had an outstanding principal balance of \$35.0 million at an interest rate of LIBOR plus 100 basis points as of December 31, 2015, leaving borrowing availability of \$40.0 million.

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## 4. Income Per Share

The following table shows how we reconcile our net income and the number of shares used in computing basic and diluted income per share:

(in millions, except per share amounts)	2015	2014	2013
Basic net income per share attributable to Morningstar, Inc.:			
Net income attributable to Morningstar, Inc.:	\$ 132.6	\$ 78.3	\$ 123.5
Less: Distributed earnings available to participating securities	—	—	—
Less: Undistributed earnings available to participating securities	—	—	—
Numerator for basic net income per share — undistributed and distributed earnings available to common shareholders	\$ 132.6	\$ 78.3	\$ 123.5
Weighted average common shares outstanding	44.2	44.7	46.2
Basic net income per share attributable to Morningstar, Inc.	\$ 3.00	\$ 1.75	\$ 2.68
Diluted net income per share attributable to Morningstar, Inc.:			
Numerator for basic net income per share — undistributed and distributed earnings available to common shareholders	\$ 132.6	\$ 78.3	\$ 123.5
Add: Undistributed earnings allocated to participating securities	—	—	—
Less: Undistributed earnings reallocated to participating securities	—	—	—
Numerator for diluted net income per share — undistributed and distributed earnings available to common shareholders	\$ 132.6	\$ 78.3	\$ 123.5
Weighted average common shares outstanding	44.2	44.7	46.2
Net effect of dilutive stock options and restricted stock units	0.1	0.2	0.3
Weighted average common shares outstanding for computing diluted income per share	44.3	44.9	46.5
Diluted net income per share attributable to Morningstar, Inc.	\$ 3.00	\$ 1.74	\$ 2.66

The following table shows the number of weighted average restricted stock units and performance share awards excluded from our calculation of diluted earnings per share because their inclusion would have been anti-dilutive:

(in thousands)	2015	2014	2013
Weighted average restricted stock units	38	47	17
Weighted average performance share awards	4	6	—
Total	42	53	17

Stock options could be included in the calculation in the future.

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## 5. Segment and Geographical Area Information

## Segment Information

We report our results in a single reportable segment, which reflects how our chief operating decision maker allocates resources and evaluates our financial results.

Because we have a single reportable segment, all required financial segment information can be found directly in the Consolidated Financial Statements.

The accounting policies for our reportable segment are the same as those described in Note 2. We evaluate the performance of our reporting segment based on revenue and operating income.

## Geographical Area Information

The tables below summarize our revenue and long-lived assets by geographical area:

## External revenue by geographical area

(in millions)	Year ended December 31		
	2015	2014	2013
United States	\$585.1	\$550.8	\$500.8
United Kingdom	64.2	61.8	56.2
Continental Europe	58.8	62.7	57.6
Australia	30.5	35.0	35.3
Canada	27.9	30.8	31.8
Asia	18.5	15.8	13.9
Other	3.8	3.2	2.7
Total International	203.7	209.3	197.5
Consolidated revenue	\$788.8	\$760.1	\$698.3

## Long-lived assets by geographical area

(in millions)	As of December 31	
	2015	2014
United States	\$116.9	\$98.1
United Kingdom	8.6	8.1
Continental Europe	2.2	2.1
Australia	0.9	0.8
Canada	0.7	0.9
Asia	5.2	7.5
Other	—	0.1
Total International	17.6	19.5
Consolidated property, equipment, and capitalized software, net	\$134.5	\$117.6





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## 6. Investments and Fair Value Measurements

We account for our investments in accordance with FASB ASC 320, Investments—Debt and Equity Securities. We classify our investments into three categories: available-for-sale, held-to-maturity, and trading. Our investment portfolio consists of stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that replicate the model portfolios and strategies created by Morningstar. These investment accounts may also include exchange-traded products where Morningstar is an index provider. We classify our investment portfolio as shown below:

(in millions)	As of December 31	
	2015	2014
Available-for-sale	\$17.3	\$13.2
Held-to-maturity	15.3	17.9
Trading securities	8.9	8.3
Total	\$41.5	\$39.4

The following table shows the cost, unrealized gains (losses), and fair values related to investments classified as available-for-sale and held-to-maturity:

(in millions)	As of December 31, 2015				As of December 31, 2014			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Available-for-sale:								
Equity securities and exchange-traded funds	17.4	0.3	(1.6 )	16.1	11.4	0.8	(0.3 )	11.9
Mutual funds	1.3	—	(0.1 )	1.2	1.2	0.2	(0.1 )	1.3
Total	\$18.7	\$0.3	\$(1.7 )	\$17.3	\$12.6	\$1.0	\$(0.4 )	\$13.2
Held-to-maturity:								
Certificates of deposit	\$15.3	\$—	\$—	\$15.3	\$17.9	\$—	\$—	\$17.9

As of December 31, 2015 and December 31, 2014, investments with unrealized losses for greater than a 12-month period were not material to the Consolidated Balance Sheets and were not deemed to have other than temporary declines in value.

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The table below shows the cost and fair value of investments classified as available-for-sale and held-to-maturity based on their contractual maturities as of December 31, 2015 and December 31, 2014. The expected maturities of certain fixed-income securities may differ from their contractual maturities because some of these holdings have call features that allow the issuers the right to prepay obligations without penalties.

(in millions)	As of December 31, 2015		As of December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Equity securities, exchange-traded funds, and mutual funds	18.7	17.3	12.6	13.2
Total	\$18.7	\$17.3	\$12.6	\$13.2
Held-to-maturity:				
Due in one year or less	\$15.3	\$15.3	\$17.9	\$17.9
Total	\$15.3	\$15.3	\$17.9	\$17.9

As of December 31, 2014, held-to-maturity investments included a \$1.5 million certificate of deposit, held as collateral against bank guarantees for our office leases, primarily in Australia.

The following table shows the realized gains and losses arising from sales of our investments classified as available-for-sale recorded in our Consolidated Statements of Income:

(in millions)	2015	2014	2013
Realized gains	\$1.3	\$1.5	\$5.5
Realized losses	(0.7)	(0.5)	(1.3)
Realized gains, net	\$0.6	\$1.0	\$4.2

We determine realized gains and losses using the specific identification method.

The following table shows the net unrealized gains (losses) on trading securities as recorded in our Consolidated Statements of Income:

(in millions)	2015	2014	2013
Unrealized gains (losses), net	\$(0.8)	\$(0.2)	\$0.8

The table below shows the fair value of our assets subject to fair value measurements that are measured at fair value on a recurring basis using the fair value hierarchy and the necessary disclosures under FASB ASC 820, Fair Value Measurement:

(in millions)	Fair Value as of December 31, 2015	Fair Value Measurements as of December 31, 2015 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Available-for-sale investments				
Equity securities and exchange-traded funds	16.1	16.1	—	—
Mutual funds	1.2	1.2	—	—
Trading securities	8.9	8.9	—	—
Cash equivalents	0.2	0.2	—	—
Total	\$26.4	\$26.4	\$—	\$—



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(in millions)	Fair Value as of December 31, 2014	Fair Value Measurements as of December 31, 2014 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Available-for-sale investments				
Equity securities and exchange-traded funds	11.9	11.9	—	—
Mutual funds	1.3	1.3	—	—
Trading securities	8.3	8.3	—	—
Cash equivalents	0.5	0.5	—	—
Total	\$22.0	\$22.0	\$—	\$—

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Based on our analysis of the nature and risks of our investments in equity securities and mutual funds, we have determined that presenting each of these investment categories in the aggregate is appropriate.

We measure the fair value of money market funds, mutual funds, equity securities, and exchange-traded funds based on quoted prices in active markets for identical assets or liabilities. We did not hold any securities categorized as Level 2 or Level 3 as of December 31, 2015 and December 31, 2014.

## 7. Acquisitions, Goodwill, and Other Intangible Assets

### 2015 Acquisitions

#### Increased Ownership Interest in Ibbotson Associates Japan K.K. (IAJ)

In July 2015, we acquired an additional 28.9% interest in Ibbotson Associates Japan K.K. (IAJ), increasing our ownership to 100% from 71.1%. As we previously owned more than 50% of the company, IAJ's financial results were consolidated in our Consolidated Financial Statements prior to acquiring the remaining interest.

#### Total Rebalance Expert (tRx)

In November 2015, we acquired Total Rebalance Expert (tRx), an automated, tax-efficient investment portfolio rebalancing platform for financial advisors. tRx streamlines the rebalancing process for advisors and automates the complexities involved in rebalancing and managing portfolios. We began consolidating the financial results of tRx in our Consolidated Financial Statements on November 2, 2015.

### 2014 Acquisitions

#### Increased Ownership Interest in HelloWallet Holdings, Inc.

In June 2014, we acquired an additional 81.3% interest in HelloWallet Holdings, Inc. (HelloWallet), increasing our ownership to 100% from 18.7%. HelloWallet combines behavioral economics and the psychology of decision-making with sophisticated technology to provide personalized, unbiased financial guidance to U.S. workers and their families through their employer benefit plans. We began consolidating the financial results of this acquisition in our Consolidated Financial Statements on June 3, 2014.

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HelloWallet's total estimated fair value of \$54.0 million includes \$40.5 million in cash paid to acquire the remaining 81.3% interest in HelloWallet and pay off HelloWallet's indebtedness as well as \$13.5 million related to the 18.7% of HelloWallet we previously held. We recorded a non-cash holding gain of \$5.2 million for the difference between the fair value and the book value of our previously held investment. The gain is classified as "Holding gain upon acquisition of additional ownership of equity-method investments" in our Consolidated Statement of Income for the year ended December 31, 2014.

The following table summarizes our allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	(in millions)	
Cash and cash equivalents	\$3.7	
Accounts receivable and other current assets	0.2	
Other current and non-current assets	0.3	
Deferred tax asset	8.6	
Intangible assets	9.5	
Goodwill	39.2	
Deferred revenue	(2.9)	)
Deferred tax liability	(3.6)	)
Other current and non-current liabilities	(1.0)	)
Total fair value of HelloWallet	\$54.0	

The allocation includes \$9.5 million of acquired intangible assets, as follows:

	(in millions)	Weighted Average Useful Life (years)
Technology based assets	\$6.7	5
Intellectual property (trademarks and trade names)	0.2	3
Non-competition agreement	2.6	5
Total intangible assets	\$9.5	5

We recognized a deferred tax liability of \$3.6 million mainly because the amortization expense related to certain intangible assets is not deductible for income tax purposes.

We recognized a deferred tax asset of \$8.6 million mainly because of net operating losses of HelloWallet which will become available to Morningstar.

Goodwill of \$39.2 million represents the premium over the fair value of the net tangible and intangible assets acquired. We paid this premium for a number of reasons, including the opportunity to bring together HelloWallet's comprehensive financial wellness expertise with Morningstar's independent, research-based retirement advice to create a holistic retirement savings and advice offering.

ByAllAccounts, Inc.

In April 2014, we acquired ByAllAccounts, Inc. (ByAllAccounts), a provider of innovative data aggregation technology for financial applications for \$27.9 million in cash. ByAllAccounts uses a knowledge-based process, including patented artificial intelligence technology, to collect, consolidate, and enrich financial account data and deliver it to virtually any platform. We began including the financial results of this acquisition in our Consolidated

Financial Statements on April 1, 2014.



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

	(in millions)
Cash and cash equivalents	\$0.3
Accounts receivable and other current assets	0.1
Deferred tax asset	4.0
Other current and non-current assets	0.3
Intangible assets	8.7
Goodwill	18.5
Deferred revenue	(0.1)
Deferred tax liability	(3.3)
Other current and non-current liabilities	(0.6)
Total purchase price	\$27.9

The allocation includes \$8.7 million of acquired intangible assets, as follows:

	(in millions)	Weighted Average Useful Life (years)
Customer-related assets	\$5.5	24
Technology-based assets	3.0	4.5
Intellectual property (trademarks and trade names)	0.1	1
Non-competition agreement	0.1	3
Total intangible assets	\$8.7	19

We recognized a deferred tax liability of \$3.3 million mainly because the amortization expense related to certain intangible assets is not deductible for income tax purposes.

We recognized a deferred tax asset of \$4.0 million mainly because of net operating losses of ByAllAccounts which will become available to Morningstar.

Goodwill of \$18.5 million represents the premium we paid over the fair value of the acquired net tangible and intangible assets. We paid this premium for a number of reasons, including the opportunity to integrate the service into our offerings as well as expand and develop ByAllAccounts' third-party distribution relationships.

## 2013 Acquisitions

### Increased Ownership Interest in Morningstar Sweden AB

In May 2013, we acquired an additional 76% interest in Morningstar Sweden AB (Morningstar Sweden), increasing our ownership to 100% from 24%. Morningstar's main offerings in Sweden include Morningstar Direct, Morningstar Data, Morningstar Enterprise Components (formerly Integrated Web Tools), and Morningstar.se, a website for individual investors. We began consolidating the financial results of this acquisition in our Consolidated Financial Statements on May 2, 2013.

Morningstar Sweden's total estimated fair value of \$18.5 million included \$14.5 million in cash paid to acquire the remaining 76% interest in Morningstar Sweden and \$4.0 million related to the 24% of Morningstar Sweden we

previously held. We determined the fair value of the previously held 24% investment independent of the acquired controlling interest by applying a minority interest discount based on analysis of comparable transactions. Accordingly, we recorded a non-cash holding gain of \$3.6 million, which is classified as "Holding gain upon acquisition of additional ownership of equity-method investments" in our Consolidated Statement of Income for the year ended December 31, 2013.

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The following table summarizes our allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	(in millions)
Cash and cash equivalents	\$3.5
Accounts receivable and other current assets	0.5
Other non-current assets	0.2
Intangible assets	9.7
Goodwill	8.9
Deferred revenue	(1.2)
Deferred tax liability	(2.3)
Other current and non-current liabilities	(0.8)
Total fair value of Morningstar Sweden	\$18.5

The allocation included acquired intangible assets, as follows:

	(in millions)	Weighted Average Useful Life (years)
Customer-related assets	\$9.7	14
Total intangible assets	\$9.7	14

We recognized a deferred tax liability of \$2.3 million mainly because the amortization expense related to certain intangible assets is not deductible for income tax purposes.

Goodwill of \$8.9 million represents the premium over the fair value of the net tangible and intangible assets acquired with this acquisition. We paid this premium for a number of reasons, including the opportunity to offer Morningstar's full suite of products and services to investors in Sweden and further leverage Morningstar's global reach, investment databases, and technology expertise.

### Goodwill

The following table shows the changes in our goodwill balances from January 1, 2014 to December 31, 2015:

	(in millions)
Balance as of January 1, 2014	\$326.5
Acquisition of HelloWallet and ByAllAccounts	57.6
Other, primarily foreign currency translation	(14.0)
Balance as of December 31, 2014	\$370.1
Other, primarily foreign currency translation	(5.9)
Balance as of December 31, 2015	\$364.2

We did not record any impairment losses in 2015, 2014, or 2013, as the estimated fair values of our reporting unit exceeded its carrying value. We perform our annual impairment testing during the fourth quarter of each year.

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## Intangible Assets

The following table summarizes our intangible assets:

(in millions)	As of December 31, 2015				As of December 31, 2014			
	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)
Intellectual property	\$28.3	\$ (26.7	) \$1.6	9	\$29.0	\$ (25.0	) \$4.0	9
Customer-related assets	137.5	(92.3	) 45.2	12	141.5	(83.6	) 57.9	12
Supplier relationships	0.2	(0.1	) 0.1	20	0.2	(0.1	) 0.1	20
Technology-based assets	89.5	(64.4	) 25.1	8	88.8	(57.4	) 31.4	8
Non-competition agreement	4.6	(2.4	) 2.2	5	4.4	(1.9	) 2.5	5
Total intangible assets	\$260.1	\$ (185.9	) \$74.2	10	\$263.9	\$ (168.0	) \$95.9	10

The following table summarizes our amortization expense related to intangible assets:

(in millions)	2015	2014	2013
Amortization expense	\$22.0	\$22.3	\$21.5

We did not record any impairment losses involving intangible assets in 2015, 2014, or 2013.

We amortize intangible assets using the straight-line method over their expected economic useful lives.

Based on acquisitions and divestitures completed through December 31, 2015, we expect intangible amortization expense for 2016 and subsequent years to be as follows:

	(in millions)
2016	\$17.7
2017	12.8
2018	10.7
2019	8.2
2020	4.7
Thereafter	20.1

Our estimates of future amortization expense for intangible assets may be affected by additional acquisitions, divestitures, changes in the estimated average useful life, and currency translations.

## 8. Investments in Unconsolidated Entities

Our investments in unconsolidated entities consist primarily of the following:

	As of December	
	31	
(in millions)	2015	2014
Investment in MJKK	\$24.3	\$23.0
Other equity method investments	3.7	3.5
Investments accounted for using the cost method	7.6	2.3
Total investments in unconsolidated entities	\$35.6	\$28.8

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Morningstar Japan K.K. Morningstar Japan K.K. (MJKK) develops and markets products and services customized for the Japanese market. MJKK's shares are traded on the Tokyo Stock Exchange under the ticker 47650. We account for our investment in MJKK using the equity method. The following table summarizes our ownership percentage in MJKK and the market value of this investment based on MJKK's publicly quoted share price:

	As of December 31		
	2015	2014	
Morningstar's approximate ownership of MJKK	34	% 34	%
Approximate market value of Morningstar's ownership in MJKK:			
Japanese yen (¥ in millions)	¥8,200.5	¥7,347.4	
Equivalent U.S. dollars (\$ in millions)	\$68.1	\$61.3	

Other Equity Method Investments. As of December 31, 2015 and 2014, other equity method investments consist of our investment in Inquiry Financial Europe AB (Inquiry Financial) and YCharts, Inc. (YCharts). Inquiry Financial is a provider of sell-side consensus estimate data. Our ownership interest in Inquiry Financial was approximately 34% as of December 31, 2015 and 2014. YCharts is a technology company that provides stock research and analysis. Our ownership interest in YCharts was approximately 22% as of December 31, 2015 and 2014.

During 2014, we recorded an impairment loss of \$1.7 million on our investment in an unconsolidated entity. We did not record any impairment losses on these investments in 2015 or 2013.

#### 9. Property, Equipment, and Capitalized Software

The following table shows our property, equipment, and capitalized software summarized by major category:

	As of December 31		
(in millions)	2015	2014	
Computer equipment	\$60.3	\$53.4	
Capitalized software	144.0	87.8	
Furniture and fixtures	24.3	23.2	
Leasehold improvements	61.9	54.3	
Telephone equipment	2.1	1.9	
Construction in progress	11.7	29.9	
Property, equipment, and capitalized software, at cost	304.3	250.5	
Less accumulated depreciation	(169.8)	(132.9)	)
Property, equipment, and capitalized software, net	\$134.5	\$117.6	

The following table shows the amount of capitalized software development costs included in construction in progress:

	As of December 31	
(in millions)	2015	2014
Capitalized software development costs not yet placed into service	\$—	\$18.1

The following table summarizes our depreciation expense:

(in millions)	2015	2014	2013
Depreciation expense	\$42.4	\$32.6	\$24.2



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## 10. Operating Leases

The following table shows our minimum future rental commitments due in each of the next five years and thereafter for all non-cancelable operating leases, consisting primarily of leases for office space:

Minimum Future Rental Commitments	(in millions)
2016	\$20.9
2017	20.3
2018	18.1
2019	13.5
2020	13.1
Thereafter	35.7
Total	\$121.6

The following table summarizes our rent expense including taxes, insurance, and related operating costs:

(in millions)	2015	2014	2013
Rent expense	\$27.1	\$24.5	\$22.2

Deferred rent includes build-out and rent abatement allowances received, which are amortized over the remaining portion of the original term of the lease as a reduction in office lease expense. We include deferred rent, as appropriate, in “Accounts payable and accrued liabilities” and “Deferred rent, noncurrent” on our Consolidated Balance Sheets.

	As of December 31	
(in millions)	2015	2014
Deferred rent	\$28.5	\$29.1

## 11. Stock-Based Compensation

## Stock-Based Compensation Plans

Our shareholders approved the Morningstar 2011 Stock Incentive Plan (the 2011 Plan) on May 17, 2011. As of that date, we stopped granting awards under the Morningstar 2004 Stock Incentive Plan (the 2004 Plan). The 2004 Plan amended and restated the Morningstar 1993 Stock Option Plan, the Morningstar 2000 Stock Option Plan, and the Morningstar 2001 Stock Option Plan.

The 2011 Plan provides for a variety of stock-based awards, including, among other things, restricted stock units, restricted stock, performance share awards, and stock options. We granted restricted stock units, restricted stock, and stock options under the 2004 Plan.

All of our employees and our non-employee directors are eligible for awards under the 2011 Plan.

Grants awarded under the 2011 Plan or the 2004 Plan that are forfeited, canceled, settled, or otherwise terminated without a distribution of shares, or shares withheld by us in connection with the exercise of options, will be available for awards under the 2011 Plan. Any shares subject to awards under the 2011 Plan, but not under the 2004 Plan, that are withheld by us in connection with the payment of any required income tax withholding will be available for awards under the 2011 Plan.



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The following table summarizes the number of shares available for future grants under our 2011 Plan:

	As of December 31
(in millions)	2015
Shares available for future grants	4.0

## Accounting for Stock-Based Compensation Awards

The following table summarizes our stock-based compensation expense and the related income tax benefit we recorded in the past three years:

	Year ended December 31		
(in millions)	2015	2014	2013
Restricted stock units	\$16.1	\$16.3	\$14.1
Restricted stock	0.1	0.4	0.4
Performance share awards	1.0	0.5	—
Stock options	0.2	0.4	0.5
Total stock-based compensation expense	\$17.4	\$17.6	\$15.0
Income tax benefit related to the stock-based compensation expense	\$5.0	\$5.1	\$4.0

The following table summarizes the stock-based compensation expense included in each of our operating expense categories for the past three years:

	Year ended December 31		
(in millions)	2015	2014	2013
Cost of revenue	\$8.1	\$7.8	\$6.8
Sales and marketing	2.2	2.1	2.0
General and administrative	7.1	7.7	6.2
Total stock-based compensation expense	\$17.4	\$17.6	\$15.0

The following table summarizes the amount of unrecognized stock-based compensation expense as of December 31, 2015 and the expected number of months over which the expense will be recognized:

	Unrecognized stock-based compensation expense (in millions)	Weighted average expected amortization period (months)
Restricted stock units	\$31.4	31
Performance share awards	1.2	24
Total unrecognized stock-based compensation expense	\$32.6	31

In accordance with FASB ASC 718, Compensation—Stock Compensation, we estimate forfeitures of employee stock-based awards and recognize compensation cost only for those awards expected to vest. Our largest annual equity grants typically have vesting dates in the second quarter. We adjust the stock-based compensation expense annually in the third quarter to reflect those awards that ultimately vested and update our estimate of the forfeiture rate that will be applied to awards not yet vested.

## Restricted Stock Units

Restricted stock units represent the right to receive a share of Morningstar common stock when that unit vests. Restricted stock units granted to employees vest ratably over a four-year period. Restricted stock units granted to non-employee directors vest ratably over a three-year period. For restricted stock units granted through December 31, 2008, employees could elect to defer receipt of the Morningstar common stock issued upon vesting of the restricted stock unit.

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We measure the fair value of our restricted stock units on the date of grant based on the closing market price of the underlying common stock on the day prior to grant. We amortize that value to stock-based compensation expense, net of estimated forfeitures, ratably over the vesting period.

The following table summarizes restricted stock unit activity during the past three years:

Restricted Stock Units (RSUs)	Unvested	Vested but Deferred	Total	Weighted Average Grant Date Value per RSU
RSUs Outstanding - January 1, 2013	727,145	18,782	745,927	\$ 53.37
Granted	287,848	—	287,848	72.04
Dividend equivalents	2,773	157	2,930	57.39
Vested	(278,549)	) —	(278,549)	) 50.41
Issued	—	(2,257)	) (2,257)	) 49.40
Forfeited	(59,215)	) —	(59,215)	) 57.58
RSUs Outstanding - December 31, 2013	680,002	16,682	696,684	\$ 62.02
Granted	279,524	—	279,524	72.68
Dividend equivalents	2,621	150	2,771	55.70
Vested	(268,115)	) —	(268,115)	) 58.91
Issued	—	(2,054)	) (2,054)	) 53.54
Forfeited	(38,098)	) —	(38,098)	) 65.21
RSUs Outstanding - December 31, 2014	655,934	14,778	670,712	\$ 67.51
Granted	235,213	—	235,213	77.17
Dividend equivalents	1,409	146	1,555	56.42
Vested	(253,038)	) —	(253,038)	) 64.65
Forfeited	(66,992)	) —	(66,992)	) 53.61
RSUs Outstanding - December 31, 2015	572,526	14,924	587,450	\$ 72.14

## Performance Share Awards

In 2014, we introduced a long-term incentive award program consisting of performance shares. In March 2015, executive officers, other than Joe Mansueto, and certain other employees, were granted performance share awards. These awards entitle the holder to a number of shares of Morningstar common stock equal to the number of notional performance shares that become vested. Each award specifies a number of performance shares that will vest if pre-established target performance goals are attained. The number of performance shares that actually vest may be more or less than the specified number of performance shares to the extent Morningstar exceeds or fails to achieve, respectively, the target performance goals over a three-year performance period.

We base the grant date fair value for these awards on the closing market price of the underlying common stock on the day prior to the grant date. We amortize that value to stock-based compensation expense ratably over the vesting period based on the satisfaction of the performance condition that is most likely to be satisfied over the three-year performance period.

The table below shows target performance share awards granted and shares that would be issued at current performance levels for performance share awards granted as of December 31, 2015:

Target performance share awards granted	As of December 31, 2015 75,947
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Weighted average fair value per award	\$76.33
Number of shares that would be issued based on current performance levels	34,713
Unamortized expense, based on current performance levels (in millions)	\$1.2

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## Stock Options

Stock options granted to employees vest ratably over a four-year period. Grants to our non-employee directors vest ratably over a three-year period. All grants expire 10 years after the date of grant.

In May 2011, we granted 86,106 stock options under the 2004 Stock Incentive Plan. In November 2011, we granted 6,095 stock options under the 2011 Plan. All options granted in 2011 have an exercise price equal to the fair market value on the grant date. We estimated the fair value of the options on the grant date using a Black-Scholes option-pricing model. The weighted average fair value of options granted during 2011 was \$23.81 per share, based on the following assumptions:

## Assumptions for Black-Scholes Option Pricing Model

Expected life (years):	7.4	
Volatility factor:	35.1	%
Dividend yield:	0.35	%
Interest rate:	2.87	%

The following tables summarize stock option activity in the past three years for our various stock option grants. The first table includes activity for options granted at an exercise price below the fair value per share of our common stock on the grant date; the second table includes activity for all other option grants.

	2015	2014	2013	2012
Options Granted At an Exercise Price Below the Fair Value Per Share on the Grant Date	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price
Options outstanding—beginning of year	—	\$179,559	\$21.47	2012
Granted	—	—	—	—
Canceled	—	(150)	22.24	( )
Exercised	—	(179,409)	22.08	( )
Options outstanding—end of year	—	\$—	\$—	1
Options exercisable—end of year	—	\$—	\$—	1

  

	2015	2014	2013	2012
All Other Option Grants, Excluding Activity Shown Above	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price
Options outstanding—beginning of year	169,810	\$40.20	253,972	\$36.48
Granted	—	—	—	—
Canceled	—	—	(526)	38.61
Exercised	(117,714)	32.91	(83,636)	30.82
Options outstanding—end of year	52,096	\$57.52	169,810	\$40.20
Options exercisable—end of year	52,096	\$57.52	154,864	\$38.53

The following table summarizes the total intrinsic value (difference between the market value of our stock on the date of exercise and the exercise price of the option) of options exercised:

(in millions)	2015	2014	2013
Intrinsic value of options exercised	\$5.1	\$12.0	\$12.8

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The table below shows additional information for options outstanding and exercisable as of December 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable				
	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Exercisable Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
\$57.28 - \$59.35	52,096	4.77	\$57.52	\$1.2	52,096	4.77	\$57.52	\$1.2
Vested or Expected to Vest								
\$57.28 - \$59.35	52,096	4.77	\$57.52	\$1.2				

The aggregate intrinsic value in the table above represents the total pretax intrinsic value all option holders would have received if they had exercised all outstanding options on December 31, 2015. The intrinsic value is based on our closing stock price of \$81.18 on December 30, 2015.

#### Excess Tax Benefits Related to Stock-Based Compensation

FASB ASC 718, Compensation—Stock Compensation, requires that we classify the cash flows that result from excess tax benefits as financing cash flows. Excess tax benefits correspond to the portion of the tax deduction taken on our income tax return that exceeds the amount of tax benefit related to the compensation cost recognized in our Consolidated Statement of Income. The following table summarizes our excess tax benefits for the past three years:

(in millions)	2015	2014	2013
Excess tax benefits related to stock-based compensation	\$2.6	\$4.4	\$5.9

#### 12. Defined Contribution Plan

We sponsor a defined contribution 401(k) plan, which allows our U.S.-based employees to voluntarily contribute pre-tax dollars up to a maximum amount allowable by the U.S. Internal Revenue Service. In 2015, 2014, and 2013, we made matching contributions to our 401(k) plan in the United States in an amount equal to 75 cents for every dollar of an employee's contribution, up to a maximum of 7% of the employee's compensation in the pay period.

The following table summarizes our matching contributions:

(in millions)	2015	2014	2013
401(k) matching contributions	\$8.3	\$7.5	\$6.9

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## 13. Income Taxes

## Income Tax Expense and Effective Tax Rate

The following table shows our income tax expense and our effective tax rate for the years ended December 31, 2015, 2014, and 2013:

(in millions)	2015	2014	2013
Income before income taxes and equity in net income of unconsolidated entities	\$193.7	\$114.0	\$178.0
Equity in net income of unconsolidated entities	1.8	—	1.4
Net loss attributable to the noncontrolling interest	(0.2	) —	0.1
Total	\$195.3	\$114.0	\$179.5
Income tax expense	\$62.7	\$35.7	\$56.0
Effective tax rate	32.1	% 31.3	% 31.2 %

The following table reconciles our income tax expense at the U.S. federal income tax rate of 35% to income tax expense as recorded:

(in millions, except percentages)	2015		2014		2013			
	Amount	%	Amount	%	Amount	%		
Income tax expense at U.S. federal rate	\$68.4	35.0	% \$39.9	35.0	% \$62.8	35.0		%
State income taxes, net of federal income tax benefit	6.6	3.4	2.1	1.9	3.0	1.7		
Equity in net income of unconsolidated subsidiaries	—	—	(1.4	) (1.2	) —	—		
Net change in valuation allowance related to non-U.S. deferred tax assets, primarily net operating losses	(2.0	) (1.0	) (0.6	) (0.5	) (1.8	) (1.0	)	
Difference between U.S. federal statutory and foreign tax rates	(4.4	) (2.3	) (4.0	) (3.5	) (2.5	) (1.4	)	
Change in unrecognized tax benefits	(1.4	) (0.7	) 1.5	1.3	(0.2	) (0.1	)	
Credits and incentives	(5.1	) (2.6	) (2.9	) (2.6	) (4.4	) (2.5	)	
Recognition of deferred tax assets	—	—	(0.1	) (0.1	) (1.4	) (0.8	)	
Other - net	0.6	0.3	1.2	1.0	0.5	0.3		
Total income tax expense	\$62.7	32.1	% \$35.7	31.3	% \$56.0	31.2		%



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Income tax expense consists of the following:

(in millions)	Year ended December 31		2013
	2015	2014	
Current tax expense:			
U.S.			
Federal	\$42.8	\$20.8	\$42.8
State	8.3	2.0	3.9
Non-U.S.	8.7	9.6	10.5
Current tax expense	59.8	32.4	57.2
Deferred tax expense (benefit):			
U.S.			
Federal	4.3	3.7	2.6
State	1.8	1.3	0.8
Non-U.S.	(3.2	) (1.7	) (4.6
Deferred tax expense (benefit), net	2.9	3.3	(1.2
Income tax expense	\$62.7	\$35.7	\$56.0

The following table provides our income before income taxes and equity in net income of unconsolidated entities, generated by our U.S. and non-U.S. operations:

(in millions)	Year ended December 31		2013
	2015	2014	
U.S.	\$160.6	\$80.4	\$144.1
Non-U.S.	33.1	33.6	33.9
Income before income taxes and equity in net income of unconsolidated entities	\$193.7	\$114.0	\$178.0

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## Deferred Tax Assets and Liabilities

We recognize deferred income taxes for the temporary differences between the carrying amount of assets and liabilities for financial statement purposes and their tax basis. The tax effects of the temporary differences that give rise to the deferred income tax assets and liabilities are as follows:

(in millions)	As of December 31	
	2015	2014
Deferred tax assets:		
Stock-based compensation expense	\$3.1	\$3.3
Accrued liabilities	14.3	13.6
Deferred revenue	0.9	—
Net operating loss carryforwards - U.S. federal and state	7.6	10.5
Net operating loss carryforwards - Non-U.S.	3.7	7.7
Credits and incentive carryforwards	0.6	—
Deferred royalty revenue	0.3	0.4
Allowance for doubtful accounts	1.0	0.9
Deferred rent	8.9	10.0
Unrealized exchange losses, net	0.4	—
Total deferred tax assets	40.8	46.4
Deferred tax liabilities:		
Acquired intangible assets	(13.2)	(16.4)
Property, equipment, and capitalized software	(28.1)	(23.2)
Unrealized exchange gains, net	—	(0.2)
Prepaid expenses	(4.3)	(3.7)
Investments in unconsolidated entities	(13.7)	(12.8)
Other	(0.1)	(0.4)
Total deferred tax liabilities	(59.4)	(56.7)
Net deferred tax liability before valuation allowance	(18.6)	(10.3)
Valuation allowance	(1.2)	(6.7)
Net deferred tax liability	\$(19.8)	\$(17.0)

The deferred tax assets and liabilities are presented in our Consolidated Balance Sheets as follows:

(in millions)	As of December 31	
	2015	2014
Deferred tax asset, net - current	\$—	\$—
Deferred tax liability, net - non-current	(19.8)	(17.0)
Net deferred tax liability	\$(19.8)	\$(17.0)

As a result of our retrospective adoption of ASU 2015-17, Balance Sheet Classification of Deferred Taxes, our December 31, 2014 Consolidated Balance Sheet reflects a \$9.0 million reclassification of current deferred tax assets to non-current liabilities.

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The following table summarizes our U.S. net operating loss (NOL) carryforwards:

(in millions)		As of December 31		
		2015		2014
		Expiration		Expiration
		Dates		Dates
U.S. federal NOLs subject to expiration dates	\$21.6	2023-2034	\$30.0	2023-2034

The decrease in U.S. NOL carryforwards as of December 31, 2015 compared with 2014 primarily reflects the use of NOL carryforwards in our U.S. operations.

The following table summarizes our NOL carryforwards for our non-U.S. operations:

(in millions)	As of December 31	
	2015	2014
Non-U.S. NOLs subject to expiration dates from 2019 through 2035	\$2.9	\$5.2
Non-U.S. NOLs with no expiration date	15.5	32.7
Total	\$18.4	\$37.9
Non-U.S. NOLs not subject to valuation allowances	\$12.1	\$5.1

The decrease in non-U.S. NOL carryforwards as of December 31, 2015 compared with 2014 primarily reflects the use of NOL carryforwards.

We have not provided federal and state income taxes on accumulated undistributed earnings of certain foreign subsidiaries aggregating approximately \$142.7 million as of December 31, 2015, because these earnings have been permanently reinvested. It is not practicable to determine the amount of the unrecognized deferred tax liability related to the undistributed earnings.

In assessing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We have recorded a valuation allowance against all but approximately \$12.1 million of the non-U.S. NOLs, reflecting the likelihood that the benefit of these NOLs will not be realized.

#### Uncertain Tax Positions

We conduct business globally and as a result, we file income tax returns in U.S. federal, state, local, and foreign jurisdictions. In the normal course of business we are subject to examination by tax authorities throughout the world. The open tax years for our U.S. Federal tax returns and most state tax returns include the years 2008 to the present.

We are currently under audit by federal, state and local tax authorities in the United States as well as tax authorities in certain non-U.S. jurisdictions. It is likely that the examination phase of some of these U.S. federal, state, local, and non-U.S. audits will conclude in 2016. It is not possible to estimate the effect of current audits on previously recorded unrecognized tax benefits.

As of December 31, 2015, our Consolidated Balance Sheet included a current liability of \$4.2 million and a non-current liability of \$6.0 million for unrecognized tax benefits. As of December 31, 2014, our Consolidated

Balance Sheet included a current liability of \$5.1 million and a non-current liability of \$6.6 million for unrecognized tax benefits. These amounts include interest and penalties, less any associated tax benefits.

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The table below reconciles the beginning and ending amount of the gross unrecognized tax benefits as follows:

(in millions)	2015	2014
Gross unrecognized tax benefits - beginning of the year	\$11.9	\$13.0
Increases as a result of tax positions taken during a prior-year period	4.4	0.9
Decreases as a result of tax positions taken during a prior-year period	(0.7	) (0.1
Increases as a result of tax positions taken during the current period	2.4	2.0
Decreases relating to settlements with tax authorities	(1.8	) (2.4
Reductions as a result of lapse of the applicable statute of limitations	(1.7	) (1.5
Gross unrecognized tax benefits - end of the year	\$14.5	\$11.9

In 2015, we recorded a net increase of \$6.0 million of gross unrecognized tax benefits before settlements and lapses of statutes of limitations, of which \$2.1 million increased our income tax expense by \$2.1 million. In addition, we reduced our unrecognized tax benefits by \$3.5 million for settlements and lapses of statutes of limitations, of which \$3.4 million decreased our income tax expense by \$3.2 million.

As of December 31, 2015, we had \$14.5 million of gross unrecognized tax benefits, of which \$10.5 million, if recognized, would reduce our effective income tax rate and decrease our income tax expense by \$9.4 million.

We record interest and penalties related to uncertain tax positions as part of our income tax expense. The following table summarizes our gross liability for interest and penalties:

	As of December 31	
(in millions)	2015	2014
Liabilities for interest and penalties	\$1.2	\$1.5

We recorded the decrease in the liability, net of any tax benefits, to income tax expense in our Consolidated Statement of Income in 2015.

#### 14. Contingencies

We are involved in legal proceedings and litigation that have arisen in the normal course of our business. Although the outcome of a particular proceeding can never be predicted, we do not believe the result of any of these matters will have a material adverse effect on our business, operating results, or financial position.

#### 15. Share Repurchase Program

We have an ongoing authorization, originally approved by our board of directors in September 2010, and subsequently amended, to repurchase up to \$1.0 billion in shares of our outstanding common stock. The authorization expires on December 31, 2017. We may repurchase shares from time to time at prevailing market prices on the open market or in private transactions in amounts that we deem appropriate.

As of December 31, 2015, we had repurchased a total of 9,383,132 shares for \$623.5 million under this authorization, leaving approximately \$376.5 million available for future repurchases.



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16. Recently Issued Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original effective date for ASU 2014-09 would have required the Company to adopt beginning on January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. The new standard is effective for us on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

On September 28, 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement Period Adjustments, which eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new standard requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard is effective for us on January 1, 2016. We elected to early adopt ASU No. 2015-16 in the quarter ended December 31, 2015. The adoption of ASU No. 2015-16 did not have a material effect on our consolidated financial statements.

On November 20, 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position and apply to all entities that present a classified statement of financial position. The new standard is effective for us on January 1, 2017. The standard permits the use of either the prospective or retrospective method. We elected to early adopt ASU No. 2015-17 retrospectively in the quarter ended December 31, 2015. The adoption of ASU No. 2015-17 did not have a material effect on our consolidated financial statements.

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## 17. Selected Quarterly Financial Data (unaudited)

	2014				2015			
(in millions except per share amounts)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$181.2	\$189.4	\$193.1	\$196.4	\$189.8	\$202.1	\$195.3	\$201.6
Total operating expense	142.7	214.2	147.8	149.8	145.3	152.4	149.1	151.5
Operating income (loss)	38.5	(24.8 )	45.3	46.6	44.5	49.7	46.2	50.1
Non-operating income (expense), net	0.9	5.9	(0.3 )	1.8	(0.4 )	0.6	1.4	1.4
Income (loss) before income taxes and equity in net income of unconsolidated entities	39.4	(18.9 )	45.0	48.4	44.1	50.3	47.6	51.5
Equity in net income (loss) of unconsolidated entities	0.6	0.5	0.3	(1.4 )	0.5	0.6	0.5	0.3
Income tax expense (benefit)	13.7	(8.6 )	15.1	15.5	14.8	18.7	14.6	14.5
Consolidated net income (loss)	26.3	(9.8 )	30.2	31.5	29.8	32.2	33.5	37.3
Net (income) loss attributable to the noncontrolling interests	0.1	—	—	—	(0.1 )	—	—	—
Net income (loss) attributable to Morningstar, Inc.	\$26.4	\$(9.8 )	\$30.2	\$31.5	\$29.7	\$32.2	\$33.5	\$37.3
Net income (loss) per share attributable to Morningstar, Inc.								
Basic	\$0.59	\$(0.22 )	\$0.67	\$0.71	\$0.67	\$0.73	\$0.76	\$0.85
Diluted	\$0.58	\$(0.22 )	\$0.67	\$0.71	\$0.67	\$0.72	\$0.76	\$0.85
Dividends per common share:								
Dividends declared per common share	\$0.17	\$0.17	\$0.17	\$0.19	\$0.19	\$0.19	\$0.19	\$0.22
Dividends paid per common share	\$0.17	\$0.17	\$0.17	\$0.17	\$0.19	\$0.19	\$0.19	\$0.19
Weighted average shares outstanding:								
Basic	44.8	44.8	44.7	44.4	44.3	44.3	44.2	43.8
Diluted	45.1	44.8	44.9	44.5	44.5	44.4	44.3	43.9



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Part IV

Item 15. Exhibits and Financial Statement Schedules

3. Exhibits

Exhibit	Description
23.1†	Consent of KPMG LLP.
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Filed herewith.

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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 to be signed on its behalf by the undersigned thereunto duly authorized on March 1, 2016.

MORNINGSTAR, INC.

By:     /s/ Stéphane Biehler  
          Stéphane Biehler

Title: Chief Financial Officer