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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K/A

Amendment No. 1

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

For the transition period from to

Commission File Number: 000-51280

MORNINGSTAR, INC.

(Exact Name of Registrant as Specified in its Charter)

Illinois (State or Other Jurisdiction of Incorporation or Organization)	**36-3297908** (I.R.S. Employer Identification Number)

22 West Washington Street
Chicago, Illinois
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 o No x

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 o No x

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

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

Indicate by check mark 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. o

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

EXPLANATORY NOTE

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

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Part I

Item 1. Business

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

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

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

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

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

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

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

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

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

Growth Strategies

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Continue building thought leadership in independent investment research.

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

• *Extend leadership position in fund research to additional markets outside the United States.* Over the past several years, we have expanded our analyst coverage in fund markets outside of the United States. We ve built an integrated team of locally based fund experts to expand our research coverage in additional markets around the world. As of December 31, 2009, we had about 80 fund analysts globally, including teams in North America, Europe, Asia, and Australia. We currently produce qualitative analyst research on more than 900 funds outside the United States and plan to continue building our coverage of funds based in Europe and Asia.

• *Continue leveraging our capabilities in stocks.* Our equity research complements our approach to mutual fund analysis, where we focus on analyzing the individual stocks that make up each fund s portfolio. As of December 31, 2009, we provided analyst research on approximately 2,000 companies.

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

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

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

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

- *Enhance our retirement income capabilities.* As the baby boom generation approaches retirement, we believe many investors will need more information to help them manage income during retirement. We believe this will lead to a greater need for information and tools focusing on retirement income planning and long-term savings strategies. In 2009, we introduced an advisory service for investors in retirement through Morningstar Retirement Manager. We currently offer Retirement Income Strategist, a web-based financial planning tool that allows financial advisors to create comprehensive income analyses for clients who are retired or approaching retirement, as part of our Advisor Workstation platform. We ve developed several retirement income services for institutional clients within our Investment Consulting area, and we plan to incorporate additional retirement income tools and services in other products over the next several years.

4. Create a premier global investment database.

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

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

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

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

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

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

Acquisitions

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

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

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

Acquisition	Description	Date Completed	Purchase Price*
Global financial filings database business of Global Reports LLC	A leading provider of online financial and Corporate and Social Responsibility reports for publicly traded companies around the world	April 20, 2009	Not separately disclosed
Equity research and data business of C.P.M.S. Computerized Portfolio Management Services Inc.	C.P.M.S. tracks fundamental equity data for approximately 4,000 securities in the United States and Canada as well as tracks and provides earnings estimates for Canadian stocks	May 1, 2009	$13.9 million
Andex Associates, Inc.	Andex is known for Andex Charts, which illustrate historical market returns, stock index growth, inflation rates, currency rates, and general economic conditions for the United States dating back to 1926, and for Canada dating back to 1950	May 1, 2009	Not separately disclosed
Intech Pty Ltd	A leading provider of multimanager and investment portfolio solutions in Sydney, Australia, Intech also manages a range of single sector, alternative strategy, and diversified investment portfolios, has one of the leading separately managed account databases in Australia, and offers the Intech Desktop Consultant, a research software product for institutions	June 30, 2009	Not separately disclosed
Canadian Investment Awards and Gala	Canada s marquee investment awards program, recognizing excellence in products and firms within the financial services industry	December 17, 2009	Not separately disclosed
Logical Information Machines, Inc.	A leading provider of data and analytics for the energy, financial, and agriculture sectors	December 31, 2009	$53.5 million

*Total purchase price less cash acquired.

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

Business Segments, Products, and Services

We operate our business in two segments:

• Investment Information, which includes all of our data, software, and research products and services. These products are typically sold through subscriptions or license agreements; and

• Investment Management, which includes all of our asset management operations, which operate as registered investment advisors and earn more than half of their revenue from asset-based fees.

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

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

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

Investment Information

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

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

27.

We also offer a variety of financial communications materials, real-time data, other investment software, and investment indexes, as well as several print and online publications focusing on stocks, mutual funds, personal finance, and other investing topics. In 2009, we developed a beta version of Morningstar QuoteSpeed, a new web-based solution that delivers real-time market data through a simplified desktop application. In addition to real-time market information, QuoteSpeed provides users with access to Morningstar s fundamental data, news, analysis, and more. QuoteSpeed will be available as a stand-alone application or as a module through platforms such as Morningstar.com, Direct, Office, and Advisor Workstation. We also created a new Enterprise Data Management business that helps institutions outsource certain business operations to Morningstar, including creating investment profiles, aggregating account data, performance reporting, and consolidating and managing data feeds from multiple sources.

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

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

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

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

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

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

Licensed Data

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

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

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

We introduced a new Ownership Database toward the end of the year, which provides security ownership information and position changes on individual stocks. Following our acquisition of Fundamental Data Limited in 2008, in 2009 we created a new Traded Funds Center, which includes all global data on closed-end and exchange-traded funds. We also launched the Morningstar Pension and Endowment Center, which provides insight into the largest pensions and endowments and the underlying investments used in these types of plans.

For Licensed Data, our primary competitors are Bloomberg, FactSet Research Systems, Interactive Data Corporation, Standard & Poor s, and Thomson Reuters.

Licensed Data was our largest product in 2009 and accounted for 19.1%, 15.6%, and 13.6% of our consolidated revenue in 2009, 2008, and 2007, respectively.

Morningstar Advisor Workstation

Morningstar Advisor Workstation, a web-based investment planning system, provides financial advisors with a comprehensive set of tools for conducting their core business including investment research, planning, and presentations. It allows advisors to build and maintain a client portfolio database that can be fully integrated with the firm s back-office technology and resources. Moreover, it helps advisors create customized reports for client portfolios that combine mutual funds, stocks, separate accounts, variable annuity/life subaccounts, ETFs, hedge funds, closed-end funds, 529 plans, offshore funds, and pension and life funds.

As of December 31, 2009, about 149,000 advisors in the United States were licensed to use Advisor Workstation, which is available in two versions: Morningstar Office (formerly Advisor Workstation Office Edition) for independent financial advisors and a configurable enterprise version for financial advisors affiliated with larger firms. Morningstar Advisor Workstation includes four core modules: Clients & Portfolios, Research, Sales/Hypotheticals, and Planning. We also offer a variety of other applications, including tools for defined contribution plans; Morningstar Retirement Income Strategist, a financial planning application that helps advisors create retirement income plans for their clients; Morningstar Portfolio Builder, which helps advisors quickly produce sound client portfolios; Morningstar Annuity Analyzer, which helps advisors screen and analyze variable annuity contracts and subaccounts; and Morningstar Hypothetical Illustrator. These applications can be purchased as stand-alone products or combined as part of a full Workstation license.

Pricing for Morningstar Advisor Workstation varies based on the number of users, as well as the level of functionality offered. We typically charge about $3,100 per licensed user for a base configuration of Morningstar Advisor Workstation, but pricing varies significantly based on the scope of the license. For clients who purchase more limited tools-only licenses, the price per user is substantially less. We generally charge $5,400 per user for an annual license for Morningstar Office.

In 2009, we upgraded our defined contribution module and alert capabilities, created a newer and more flexible version of Hypothetical Illustrator, and launched a new version of Annuity Analyzer.

We incorporated additional functionality and content, including Target-Date Fund Series Reports, a new version of the Analyst Research Center, and a Roth IRA calculator. We also expanded our sales efforts for Portfolio Builder in several markets outside the United States. With Morningstar

Office, we introduced an enhanced client web portal, added more investment data, and expanded back-office services that handle daily importing and reconciliation of client accounts.

Major competitors for Morningstar Advisor Workstation and Morningstar Office include Advanced Sales, Advent Software, ASI, Junxure, MoneyGuide Pro, SunGard, and Thomson Reuters.

Morningstar Advisor Workstation is our second-largest product based on revenue and made up 13.7%, 12.8%, and 12.5% of our consolidated revenue in 2009, 2008, and 2007, respectively.

Morningstar.com

Our largest website for individual investors is Morningstar.com in the United States, which includes both Premium Membership revenue and Internet advertising sales. As of December 31, 2009, the free membership services offered through Morningstar.com had more than 7.3 million registered users worldwide, who have access to comprehensive data on stocks, mutual funds, exchange-traded funds, hedge funds, commodities, options, bonds, and other investments to help them conduct research and track performance. In addition, Morningstar.com features extensive market data, articles, proprietary portfolio tools, and educational content to help investors of all levels access timely, relevant investment information. Morningstar.com also includes Portfolio X-Ray, which helps investors reduce risk and understand key characteristics of their portfolios, and a variety of other portfolio tools.

We also offer free local websites for investors in 35 countries around the world, including new sites launched in Estonia, India, Iceland, Ireland, Latvia, Lithuania, and Thailand in 2009.

We use our free content as a gateway into paid Premium Membership, which includes access to written analyst reports on more than 1,700 stocks, 1,700 mutual funds, and 300 exchange-traded funds, as well as Analyst Picks and Pans, Stewardship Grades, and Premium Stock and Fund Screeners. We currently offer Premium Membership services in Australia, China, the United Kingdom, and the United States.

In 2009, we re-launched our site for individual investors in Australia supported by a significant branding campaign. The product integrates *Your Money Weekly* content with managed funds data and research. With the new site, we now offer qualitative research that was previously available only to professionals to individual investors in this market.

For Morningstar.com in the United States, in 2009 we added real-time stock and ETF quotes, as well as expanded market data. During the year we also doubled the number of free articles published to about 40 per week and introduced a new mobile application for the iPhone. In its December 2009 issue, *Kiplinger s Personal Finance* magazine named Morningstar.com as one of two best investing websites.

In early 2010, we acquired the Footnoted.org website and the Footnoted Pro service, which provide insight and analysis gathered from corporate SEC filings. We plan to make some content from Footnoted.org available on Morningstar.com.

Morningstar.com competes with the personal finance websites of AOL Money & Finance, Google Finance, The Motley Fool, MSN Money, Seeking Alpha, The Street.com, Yahoo! Finance, and The Wall Street Journal Online.

As of December 31, 2009, we had 150,473 paid Premium subscribers for Morningstar.com in the United States plus an additional 16,000 paid Premium subscribers in Australia, the United Kingdom, and China. We currently charge $19.95 for a monthly subscription, $179 for an annual subscription, $299 for a two-year subscription, and $399 for a three-year subscription for Morningstar.com s Premium service in the United States. We also sell advertising space on Morningstar.com.

Morningstar.com (including local language versions outside of the United States) is one of our five largest products based on revenue and accounted for 8.2% of our consolidated revenue in 2009, compared with 9.1% of our consolidated revenue in 2008 and 9.0% in 2007.

Morningstar Direct

Morningstar Direct is a web-based institutional research platform that provides advanced research on the complete range of securities in Morningstar s global database. This comprehensive research platform allows research and marketing professionals to conduct advanced performance comparisons and in-depth analyses of a portfolio s underlying investment style. Morningstar Direct includes access to numerous investment universes, including U.S. mutual funds; European and offshore funds; funds based in most major markets around the world; stocks; separate accounts; hedge funds; closed-end funds; exchange-traded funds; global equity ownership data; variable annuity and life portfolios; and market indexes.

In 2009, we made several key enhancements to Morningstar Direct, including a new Presentation Studio that allows clients to create reusable templates of customized presentations, reports, and fact sheets; improved capabilities for performance attribution; and expanded performance reporting, importing, and batch scheduling. We also added new data on fund flows; descriptive text on separate accounts; Target Date Fund Series Reports; more specialized fund categories; qualitative analyst reports and ratings; and data on unit investment trusts. We introduced local language versions of Morningstar Direct in China and Italy in 2009 and plan to launch additional versions in Spain, France, and Germany in 2010.

For Morningstar Direct, our primary competitors are eVestment Alliance, FactSet Research Systems, Markov Processes International, Strategic Insight, Thomson Reuters, and Zephyr Associates in the United States, and Europerformance, Feri, FinEx, Mercer, MoneyMate, and Style Research in non-U.S. markets.

Morningstar Direct had 3,524 licensed users worldwide as of December 31, 2009.

Pricing for Morningstar Direct is based on the number of licenses purchased. We charge $16,000 for the first user, $10,500 for the second user, and $8,000 for each additional user.

Morningstar Principia

Principia is our CD-ROM-based investment research and planning software for financial planners and had 35,844 subscriptions as of December 31, 2009. The modules offered in Principia provide data on mutual funds, stocks, separate accounts, variable annuity/life subaccounts, closed-end funds, defined contribution plans, asset allocation, presentations and education, and exchange-traded funds. Each module is available separately or together and features searching, screening, and ranking tools. Principia allows advisors to create integrated portfolios for clients and offers three-page Portfolio Snapshot reports that provide a comprehensive picture of the client s portfolio. The Snapshot report shows overall style and sector weightings as well as the cumulative exposure to individual stocks. The Snapshot report is among those approved by the

National Association of Securities Dealers for financial advisors to distribute and review with their clients.

In 2009, we began offering electronic delivery for Principia, which allows us to deliver data to customers faster and at lower cost. We introduced a new CAMS (Client Account Manager Service) module that incorporates the portfolio accounting and performance reporting functionality we acquired through our purchase of Financial Computer Support, Inc. in 2008. We also introduced new functionality for point-in-time historical analysis, portfolio comparisons, and investment policy statements.

Principia prices generally range from approximately $710 per year for monthly updates on one investment database to $3,345 per year for monthly updates on the complete package spanning all investment universes, or $7,535 for all investment universes plus additional modules for asset allocation, defined contribution plans, and portfolio management.

Major competitors for Principia include Standards & Poor s and Thomson Reuters.

Morningstar Site Builder and Licensed Tools

We offer an extensive set of online tools and editorial content that institutional clients can license to use in their websites and software products. Within the United States, we offer Morningstar Site Builder, a set of integrated tools, content, and reports that investment firms can easily add to their existing advisor websites. Outside of the United States, we offer Licensed Tools, which can be customized to meet the needs of international audiences. Clients can select from more than 30 customizable investment tools for retail and advisor websites or purchase modules focusing on screening and performance tools, editorial commentary and educational articles, and goal planning and portfolio analysis. Site Builder and Licensed Tools can be customized to analyze a set of investments, focus on client-defined data points, or perform calculations required by specific products or services. We also offer licenses for investment research and portfolio analysis tools. Morningstar Site Builder and Licensed Tools can be integrated with a client s existing website and allow users to drill down into the underlying data when researching a potential investment.

In 2009, we added several new tools to the Site Builder suite, including Portfolio Planner, Retirement Analyzer, Watchlist, News, Ticker Tape, and IRA Calculators as well as a new administrative tool. We have also launched new charting capabilities, market monitoring tools, and real-time market data.

We also added several new tools to our Licensed Tools offerings outside the United States, including Portfolio Planner, Asset Allocator, real-time market data, and new equity tools, including Stock Quickrank and Stock Reports.

Major competitors for Morningstar Site Builder and Licensed Tools include Interactive Data Corporation, QuoteMedia, Thomson Reuters, and Wall Street On Demand.

Pricing for Morningstar Site Builder and Licensed Tools depends on the audience, the level of distribution, and the scope of information and functionality licensed.

Newsletters and Other Publications

We offer a variety of print and electronic publications about investing. Some of these include *Morningstar Mutual Funds,* a reference publication that features our signature one-page reports on approximately 1,500 mutual funds; *Morningstar FundInvestor,* a monthly newsletter that provides information and insight on 500 of the most popular mutual funds and a list of 150 Analyst

Picks; *Morningstar StockInvestor,* a monthly newsletter that focuses on companies with strong competitive positions and stock prices that we believe are low enough to provide investors with a margin of safety; and the *Ibbotson Stocks, Bonds, Bills, and Inflation Yearbook,* a definitive study of historical capital markets data in the United States. In addition, we offer several other investment newsletters and a series of books about investing and personal finance, which are available directly from us and in bookstores.

Our Investment Information segment also includes several publications for investors in Australia, including *IFA Magazine,* Australia s leading magazine for independent financial advisors, and *Your Money Weekly*, which focuses on investment recommendations and portfolios ideas for companies listed in Australia.

In 2009, we created companion websites for two of our publications. We also moved *Your Money Weekly* in Australia to an online format that integrates content from the magazine with data and research on managed investment funds.

Our print publications compete with Agora Publishing, Forbes, InvestorPlace Media, The Motley Fool, and Value Line in the United States and Intelligent Investor, InvestSmart, and The Rivkin Report in Australia.

Morningstar Equity Research

As of December 31, 2009, we offered independent equity research on approximately 2,000 companies. Our approach to stock analysis focuses on long-term fundamentals. Our analysts evaluate companies by assessing each firm s competitive advantage, analyzing the level of business risk, and completing an in-depth projection of future cash flows. For the companies we cover, our analysts prepare a fair value estimate, a Morningstar Rating for stocks, a rating for business risk, and an assessment of the company s economic moat. Economic moat is a concept originally developed by Warren Buffett that describes a company s competitive advantage relative to other companies. For the remaining stocks included in our database, we offer quantitative grades for growth, profitability, and financial health, as well as an explanation of the company s business operations. We currently deliver our equity research to individual investors as part of our Premium Membership service on Morningstar.com, as well as to several other companies who provide our research to their affiliated financial advisors or to individual investors.

From June 2004 through July 2009, we also provided independent equity research to six major investment banks under the terms of the Global Analyst Research Settlement. For further discussion about this issue, see Item 1A Risk Factors.

We currently provide analyst reports on virtually all of the most widely held stocks in the S&P 500 index, as well as numerous companies included in other major indexes. We had approximately 108 stock analysts around the world as of December 31, 2009, compared with 128 as of December 31, 2008.

In 2009, we entered into an agreement with the NASDAQ OMX Group, Inc. to provide equity research profile reports on more than 3,600 NASDAQ OMX-listed companies. In January 2010, we announced an expanded agreement with NASDAQ OMX that gives NASDAQ-listed companies the option of contracting with NASDAQ OMX for comprehensive analyst research reports provided by Morningstar.

We also began publishing credit ratings on 100 of the largest corporate issuers in 2009. In 2010, we plan to produce credit ratings for up to 1,000 companies currently covered by our equity analyst team. The ratings are available on Morningstar.com, and we offer forecasts and scores underlying the ratings to our institutional equity research clients.

Our Equity Research services compete with The Applied Finance Group, Credit Suisse HOLT, Renaissance Capital, Standard & Poor s, Value Line, Zacks Investment Research, and several smaller research firms. Competitors for our fixed-income credit research include Credit Sights, Egan-Jones, Fitch, Gimme Credit, Moody s, and Standard & Poor s.

Pricing for Morningstar Equity Research varies based on the level of distribution, the number of securities covered, the amount of custom coverage required, and the length of the contract term.

Morningstar Indexes

We offer an extensive set of investment indexes that can be used to benchmark the market and create investment products. Our index family includes a series of U.S. equity indexes that track the U.S. market by capitalization, sector, and investment style; a dividend index; a focused stock index capturing performance of wide moat stocks with the most attractive valuations; a series of bond indexes that track the U.S. market by sector and term structure; global bond indexes; commodity indexes; and asset allocation indexes. Investment firms can license the Morningstar Indexes to create investment vehicles, including mutual funds, ETFs, and derivative securities. We charge licensing fees for the Morningstar Indexes, with fees consisting of an annual licensing fee as well as fees linked to assets under management.

We currently license the Morningstar Indexes to several institutions that offer exchange-traded funds or exchange-traded notes based on the indexes, including Barclays Global Investors, First Trust, and Merrill Lynch.

In 2009, we introduced a family of asset allocation indexes that serve as benchmarks for target-date and target-risk investments and expanded our family of commodity- and managed futures- based indexes. We believe we re the only index provider that offers indexes spanning all asset categories, which allows us to develop indexes that blend various asset classes.

Investment Management Segment

The largest products and services in this segment based on revenue are Investment Consulting, which focuses on investment monitoring and asset allocation for funds of funds, including mutual funds and variable annuities; Retirement Advice, including the Morningstar Retirement Manager and Advice by Ibbotson platforms; and Morningstar Managed Portfolios, a fee-based discretionary asset management service that includes a series of mutual fund, exchange-traded fund, and stock portfolios tailored to meet a range of investment time horizons and risk levels that financial advisors can use for their clients taxable and tax-deferred accounts.

Our client base in this segment includes banks, brokerage firms, insurance companies, mutual fund companies, and retirement plan sponsors and providers. We currently offer investment management services in the United States, Europe, Japan, and Australia. Our license agreements in the Investment Management segment have an average contract term of approximately three years, although some of our agreements allow for early termination.

About 7.7% of Investment Management segment revenue was from outside the United States in 2009.

Many of our largest customers are insurance companies, including variable annuity providers, followed by mutual fund companies and other asset management firms, retirement plan sponsors and providers, broker-dealers, and banks. We plan to develop additional distribution channels to reach other client types, including foundations and endowments, defined contribution plans, defined benefit plans, and wealth management firms. We also expect to continue expanding our Investment Management business outside the United States.

For Morningstar Managed Portfolios, our target audience consists of home offices of insurance companies, broker-dealers, and registered investment advisors, as well as independent financial advisors.

We market our Investment Management services almost exclusively through our institutional sales team, including both strategic account managers and sales representatives within each business unit. We employ a consultative sales approach and often tailor customized solutions to meet the needs of larger institutions. We have a regional sales team responsible for expanding relationships for Morningstar Managed Portfolios.

We believe our institutional clients value our independence, breadth of information, and customized services; in addition, we believe our research, tools, and advice reach many individual investors through this channel. We also reach approximately 1,900 financial advisors through our Managed Portfolios platform.

The Investment Management segment has not historically shown seasonal business trends; however, business results for this segment are typically more variable because of our emphasis on asset-based fees, which change along with market movements and other factors.

Our largest customer in the Investment Management segment made up approximately 9% of segment revenue in 2009.

Investment Consulting

Our Investment Consulting area provides a broad range of services, many of which emphasize investment monitoring and asset allocation for funds of funds, including mutual funds and variable annuities. We offer Investment Consulting services through Morningstar Associates, LLC, Morningstar Associates Europe, Ltd, Ibbotson Associates, Inc., Ibbotson Advisors, LLC, and Intech Pty Ltd, which are registered investment advisors and wholly owned subsidiaries of Morningstar, Inc. We emphasize contracts where we re paid a percentage of assets under management for ongoing investment management and consulting, as opposed to one-time relationships where we re paid a flat fee.

Morningstar Associates generally focuses on a small number of large relationships, focusing on customized solutions that improve the investor experience and help our clients build their businesses.

Our investment professionals evaluate investment plans, recommend strategies, help set investment policies, develop asset allocation programs, construct portfolios, and monitor ongoing performance. We offer these consulting services to clients in the United States, Asia, Australia, Canada, and Europe, including insurance companies, investment management companies, mutual fund companies, and broker-dealers. We also provide services for retirement plan sponsors and providers, including developing plan lineups, creating investment policy statements, and monitoring investment performance.

Our team of investment consultants draws on both quantitative research tools and qualitative expertise to assess investment programs, provide detailed analysis of performance and portfolio characteristics, and make comprehensive recommendations for improvement. We also offer investment manager search services. Our staff combines the depth of Morningstar s historical fundamental databases with detailed investment knowledge and investment experience to recommend qualified candidates for subadvisory firms, mutual fund managers, variable insurance trust managers, and separate account managers. Our investment monitoring services include analyst reports, customizable board reports, select lists, watch lists, and in-depth attribution analysis.

In 2009, Morningstar Associates introduced several new multimanager portfolios, including one incorporating a risk management overlay and one using managed futures and foreign exchange managers for distribution to accredited investors. We also developed a technology solution that enables advisors or plan sponsors to create time, risk, or hybrid models to select funds for defined contribution plan lineups.

In early 2010, Morningstar Associates announced an agreement with Pax World Funds to create and manage a series of four asset allocation portfolios featuring investment managers who incorporate environment, social, and governance issues in their investment process.

Pax World is the investment advisor to these portfolios, and Morningstar Associates is charged with manager selection, asset allocation, and portfolio construction and monitoring. We invested $8 million as seed money in the portfolios in 2009.

We significantly expanded our Investment Consulting area in 2006 when we acquired Ibbotson Associates, which has a well-established consulting business that began in 1977. Ibbotson s Investment Consulting unit is a leading authority on asset allocation and draws on its knowledge of capital markets and portfolio building to construct portfolios from the top down, starting at the asset class level. Ibbotson develops customized asset allocation programs for mutual fund firms, banks, broker-dealers, and insurance companies.

Ibbotson provides a range of consulting services, including licensing its asset allocation models, providing consulting services, and acting as a portfolio subadvisor. Ibbotson works with different types of investment options, including mutual funds, variable annuities, and exchange-traded funds, and provides both strategic and dynamic asset allocation services. The group offers consulting services and fund-of-funds subadvisory services, as well as tailored model portfolios, fund classification schemes, and questionnaire design.

In 2009, Ibbotson Associates added capabilities for forecasting and modeling the glide paths of target-maturity funds; launched a lifetime financial advice solution that combines insurance and annuities as part of investors portfolios over time; expanded its target-maturity portfolio construction services to large plan sponsors; began specifically incorporating an analysis of statistically unlikely (aka fat tail) events in its portfolio construction process for some clients; and introduced alternative investment strategy portfolios for clients in the United States.

Ibbotson is also developing active investment management capabilities based on founder Roger Ibbotson s liquidity methodology. We launched two seed portfolios in October 2009 with an investment of $2 million to begin establishing a track record for this methodology.

As discussed on page 7, in June 2009 we acquired Intech Pty Ltd, a leading provider of multimanager and investment portfolio solutions in Sydney, Australia, from IOOF Holdings Limited. Intech manages the Intech Investment Trusts, a range of single sector, alternative strategy, and diversified investment portfolios. In 2009, Intech launched several additional unit trusts, including five multimanager solutions and two trusts emphasizing different levels of growth and income. We rebranded Intech under the Ibbotson name in February 2010.

Our Investment Consulting business competes primarily with Mercer, Mesirow Financial, Russell Investments, Watson Wyatt, and Wilshire Associates, as well as some smaller firms in the retirement consulting business and various in-house providers of investment advisory services.

Pricing for the consulting services we provide through Morningstar Associates and Ibbotson Associates is based on the scope of work and the level of service required. In the majority of our contracts, we receive asset-based fees, reflecting our work as a portfolio construction manager or subadvisor for a mutual fund or variable annuity.

Investment Consulting was our third-largest product based on revenue in 2009 and accounted for 13.3%, 15.5%, and 17.4% of our consolidated revenue in 2009, 2008, and 2007, respectively.

Retirement Advice

We have two Retirement Advice offerings that help retirement plan participants plan and invest for retirement: Morningstar Retirement Manager (offered by Morningstar Associates) and Advice by Ibbotson (offered by Ibbotson Associates).

Morningstar Retirement Manager is designed to help retirement plan participants determine how much to invest and which investments are most appropriate for their portfolios. It gives guidance explaining whether participants suggested plans are on target to meet their retirement goals. As part of this service, we deliver personalized recommendations for a target savings goal, a recommended contribution rate to help achieve that goal, a portfolio mix based on risk tolerance, and specific fund recommendations. Morningstar Retirement Manager includes a managed account service designed for plan participants who choose to delegate management of their portfolios to Morningstar s investment professionals. We offer these services primarily through retirement plan providers typically third-party asset management companies or companies that offer administrative services to retirement plans. These providers often offer proprietary mutual funds to retirement plan sponsors and their participants.

In 2009, we introduced a new advisory service for individuals in retirement that provides recommendations for drawing down their portfolios to create sustainable income and managing their remaining assets. We also created a custom models platform that enables retirement plan sponsors and advisors to develop custom retirement date, lifestyle, or blended portfolios using the plans investment lineup.

As of December 31, 2009, approximately 11.2 million plan participants had access to Morningstar Retirement Manager through approximately 83,000 plan sponsors and 16 plan providers. Pricing for Morningstar Retirement Manager depends on the number of participants, as well as the level of service we provide.

Advice by Ibbotson offers a set of services and proprietary software to give retirement plan participants access to investment education, self-service advice, and managed retirement accounts. We offer these services mainly through retirement plan providers. The platform includes installed software advice solutions that can be co-branded by retirement plan sponsors and providers. Advice by Ibbotson combines asset allocation and patented human capital methodologies that help participants determine how to prepare for retirement based on their financial assets as well as their future earnings and savings power. Advice by Ibbotson s customized software can be integrated with existing systems to help investors accumulate wealth, transition into retirement, and manage income during retirement.

In 2009, we launched our proprietary Advice by Ibbotson technology platform serving defined contribution plan providers; expanded the services available in Advice by Ibbotson to provide financial advice to retirement plan participants through all stages of their lives (including wealth accumulation, transition, and retirement); began incorporating simulations of statistically unlikely (aka fat tail) events in Advice by Ibbotson s wealth-forecasting process for defined contribution plans; and enhanced our reporting capabilities for retirement-plan sponsors and plan participants.

As of December 31, 2009, approximately 9.5 million plan participants had access to Advice by Ibbotson through approximately 68,000 plan sponsors and seven plan providers. Pricing for Advice by Ibbotson depends on the number of participants, as well as the level of service we provide.

In the retirement advice market, we compete primarily with Financial Engines, Guided Choice, and ProManage.

Morningstar Managed Portfolios

Morningstar Managed Portfolios is a fee-based discretionary asset management service that includes a series of mutual fund, ETF, and stock portfolios tailored to meet specific investment time horizons and risk levels. This program is only available through financial advisors. Our team of investment professionals uses a disciplined process for asset allocation, fund selection, and portfolio construction. They actively monitor the portfolios and make adjustments as needed. We complement these asset management services with online client-management functions such as risk profiling and access to client statements, transaction capabilities, and performance reports.

We had approximately $2.1 billion in assets under management with about 1,900 financial advisors using the service as of December 31, 2009. We charge asset-based fees for Morningstar Managed Portfolios. The management fee is based on a tiered schedule that depends on the client s average daily portfolio balance. Fees for our mutual fund and exchange-traded fund portfolios generally range from 30 to 40 basis points. We charge 55 basis points for the Select Stock Baskets, which are a managed account service consisting of individually customized stock portfolios based on Morningstar s proprietary indexes and independent equity research.

In 2009, Morningstar Investment Services introduced a series of Lifetime Wealth Portfolios in partnership with Ibbotson Associates and a large insurance company. The Lifetime Wealth Portfolios incorporate insurance as an integral part of an asset allocation. The solution builds on Ibbotson s Human Capital concept, which models the value and risk of an individual s human capital and recommends a face value of life insurance (or an annuity) to hedge that capital. As a first-of-its-kind solution, the portfolios help to define and contextualize an investor s insurance needs within a holistic financial plan.

For Morningstar Managed Portfolios, our primary competitors are Brinker Capital, Curian Capital, Envestnet PMC, FundQuest, and SEI Investments.

The Morningstar Managed Portfolios program is offered through Morningstar Investment Services, Inc., a registered investment advisor, registered broker-dealer, member of the Financial Industry Regulatory Authority, Inc. (FINRA), and wholly owned subsidiary of Morningstar, Inc.

Marketing and Sales

We promote our print, software, web-based products and services, and consulting services with a staff of sales and marketing professionals, as well as an in-house public relations team. Our marketing staff includes both product specialists and a corporate marketing group that manages company initiatives. Our sales team includes several strategic account managers who oversee all aspects of our largest institutional client relationships. We also have a sales operations staff, which focuses on tracking and forecasting sales and other tasks to support our sales team. Across our business, we emphasize high levels of product support to help our customers use our products effectively and provide our product managers with feedback from customers. We had approximately 400 sales and marketing professionals on staff as of December 31, 2009.

International Operations

We conduct our business operations outside of the United States, which have been increasing as a percentage of our consolidated revenue, through wholly owned or majority-owned operating subsidiaries doing business in each of the following countries: Australia, Canada, France, Germany, India, Italy, Japan, Korea, the Netherlands, New Zealand, Norway, People s Republic of China (both Hong Kong and the mainland), Singapore, South Africa, Spain, Switzerland, Taiwan, Thailand, and the United Kingdom. See Note 4 of the Notes to our Consolidated

Financial Statements for additional information concerning revenue from customers and long-lived assets from our business operations outside the United States.

In addition, we hold minority ownership positions in operating companies based in Denmark, Japan, and Sweden. As of December 31, 2009, we owned approximately 34% of the outstanding shares in Morningstar Japan K.K. (Morningstar Japan) and our share had a market value of approximately $28.5 million. Morningstar Japan is publicly traded under ticker 4765 on the Osaka Stock Exchange Hercules Market. See Note 7 of the Notes to our Consolidated Financial Statements for information on our investments in unconsolidated entities.

To enable these companies to do business in their designated territories, we provide them with the rights to the Morningstar name and logo and with access to certain of our products and technology. Each company is responsible for developing marketing plans tailored to meet the specific needs of investors within its country and working with Morningstar s data collection and development centers to create and maintain databases, develop new products, and enhance existing products.

See Item 1A Risk Factors for a discussion of the risks related to our business operations outside of the United States.

Intellectual Property and Other Proprietary Rights

We treat our brand, product names and logos, software, technology, databases, and other products as proprietary. We try to protect this intellectual property by using trademark, copyright, patent and trade secrets laws, licensing and nondisclosure arrangements, and other security measures. For example, in the normal course of business, we only provide our intellectual property to third parties through standard licensing agreements. The purposes of these agreements are to both define the extent and duration of any third-party usage rights and to provide for our continued ownership in any intellectual property furnished.

Because of the value of our brand name and logo, we have tried to register one or both of them in all of the relevant international classes under the trademark laws of most of the jurisdictions in which we maintain operating companies. As we move into new countries, we consider adding to these registrations and, in some jurisdictions, register certain product identifiers as well. We have registered our name and/or logo in numerous countries and the European Union and have applied for registrations in several other countries.

Morningstar and the Morningstar logo are registered marks of Morningstar in the United States and in certain other jurisdictions. The table below includes some of the trademarks or service marks that we use:

Advice by Ibbotson ®	Morningstar ® Managed Portfolios SM
Hemscott ®	Morningstar ® Managed Portfolios SM Select Stock Baskets
Ibbotson Associates®	Morningstar Market BarometerSM
Ibbotson ® SBBI ®	Morningstar ® Mutual Funds TM
Morningstar ® Advisor Workstation SM	Morningstar OfficeSM

Morningstar ® Advisor Workstation SM Enterprise Edition	Morningstar ® Ownership Zone SM
Morningstar ® Analyst Research Center	Morningstar® Pension & Endowment CenterSM
Morningstar® Annuity AnalyzerSM	Morningstar ® Portfolio Builder SM
Morningstar® Back Office ServicesSM	Morningstar ® Portfolio X-Ray ®
Morningstar Direct SM	Morningstar ® Principia ®
Morningstar® Enterprise Data Management	Morningstar Qualitative Rating
Morningstar ® Equity Research Services SM	Morningstar Rating TM
Morningstar ® Essentials TM	Morningstar® Real-Time Data
Morningstar ® ETFInvestor TM	Morningstar ® Retirement Income Strategist SM
Morningstar ® FundInvestor TM	Morningstar ® Retirement Manager SM
Morningstar ® Global Document Library SM	Morningstar ® Site Builder SM
Morningstar® Hypothetical IllustratorSM	Morningstar ® Stewardship Grade SM
Morningstar® Institutional Equity Research ServicesSM	Morningstar ® StockInvestor TM
Morningstar® Investment Guide	Morningstar Style Box TM
Morningstar ® Investment Profiles TM	Morningstar® Traded Fund CenterSM
Morningstar ® Licensed Data SM	Morningstar ® Wide Moat Focus SM Index
Morningstar ® Licensed Tools and Content	Morningstar.com ®

In addition to trademarks, we currently hold several patents in the United States, United Kingdom, and Canada. We are in the process of registering another patent in the United States. We believe these patents represent our commitment to developing innovative products and tools for investors.

License Agreements

In the majority of our licensing agreements, we license our products and/or other intellectual property to our customers for a fee. We generally use our standard agreements, whether in paper or electronic form, and we do not provide our products and services to customers or other users without having an agreement in place.

We maintain licensing agreements with each of our minority-owned operations. We put these agreements in place so these companies can use our intellectual property, such as our products and trademarks, to develop and market similar products under our name in their operating territories.

In the ordinary course of our business, we obtain and use intellectual property from a wide variety of sources. We license some of this intellectual property from third parties and obtain other portions of it directly from public filings.

Seasonality

We believe our business has a modest amount of seasonality. Some of our smaller products, such as the *Ibbotson Stocks, Bonds, Bills, and Inflation Yearbook* and one of our investment conferences, generate the majority of their revenue in the first or second quarter of the year. Most of our products are sold with subscription or license terms of at least one year, though, and we recognize revenue ratably over the term of each subscription or license agreement. This tends to moderate seasonality in sales patterns for individual products.

We believe market movements generally have more influence on our performance than seasonality. The amount of revenue we earn from asset-based fees depends on the value of assets on which we provide advisory services, and the size of our asset base can increase or decrease along with trends in market performance.

Largest Customer

In 2009, our largest customer accounted for less than 5% of our consolidated revenue.

Competitive Landscape

The economic and financial information industry has been marked by increased consolidation over the past five years, with the strongest players generally gaining market share at the expense of smaller competitors. Some of our major competitors include Thomson Reuters; Standard & Poor s, a division of The McGraw-Hill Companies; Bloomberg; and Yahoo!. These companies

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have financial resources that are significantly greater than ours. We also have a number of smaller competitors in our two business segments, which we discuss in Business Segments, Products, and Services above.

We believe the most important competitive factors in our industry are brand and reputation, data accuracy and quality, breadth of data coverage, quality of investment analysis and analytics, design, product reliability, and value of the products and services provided.

Major Competitors by Product

	Licensed Data	Investment Consulting	Morningstar Advisor Workstation	Morningstar.com	Principia	Morningstar Direct
Advent Software			•		•	
Bloomberg	•			•		•
eVestment Alliance	•					•
FactSet Research Services	•					•
Financial Express	•		•			
Interactive Data Corporation	•					
News Corporation*				•		
Standard & Poor s	•		•		•	
Thomson Reuters**	•		•		•	•
Wilshire Associates		•				•
Yahoo!				•		
Zephyr Associates						•

* News Corporation includes Dow Jones, MarketWatch, and *SmartMoney*

** Thomson Reuters includes Lipper

Research and Development

A key aspect of our growth strategy is to expand our investment research capabilities and enhance our existing products and services. We strive to rapidly adopt new technology that can improve our products and services. We have also built a flexible technology platform that allows our products to work together across a full range of investment databases, delivery formats, and market segments. As a general practice, we manage our own websites and build our own software rather than relying on outside vendors. This allows us to control our development and better manage costs, enabling us to respond quickly to market changes and to meet customer needs efficiently. As of December 31, 2009, our technology team consisted of approximately 500 programmers and technology and infrastructure professionals.

In 2009, 2008, and 2007, our development expense represented 8.0%, 8.0%, and 8.1%, respectively, of our revenue. We expect that development expense will continue to represent a meaningful percentage of our revenue in the future.

Government Regulation

United States

Investment advisory and broker-dealer businesses are subject to extensive regulation in the United States at both the federal and state level, as well as by self-regulatory organizations. Financial services companies are among the nation s most extensively regulated. The SEC is responsible for enforcing the federal securities laws and oversees federally registered investment advisors and broker-dealers.

As of December 31, 2009, four of our subsidiaries, Ibbotson Associates, Inc., Ibbotson Associates Advisors, LLC, Morningstar Associates, LLC, and Morningstar Investment Services, Inc. are registered as investment advisors with the SEC under the Investment Advisers Act of 1940, as amended (Advisers Act). As registered investment advisors, these companies are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, record-keeping, reporting, and standards of care, as well as general anti-fraud prohibitions.

In addition, because these four subsidiaries provide investment advisory services to retirement plans and their participants, they may be acting as fiduciaries under the Employee Retirement Income Security Act of 1974 (ERISA). As fiduciaries under ERISA, they have duties of loyalty and prudence, as well as duties to diversify investments and to follow plan documents to comply with the applicable portions of ERISA.

We provide each of our investment advisor companies with financial, operational, and administrative support. However, each of them operates independently from each other and from other areas of Morningstar, using separate personnel and supervisory structures and making independent investment decisions.

Morningstar Investment Services is a broker-dealer registered under the Securities Exchange Act of 1934 (Exchange Act) and a member of FINRA. The regulation of broker-dealers has, to a large extent, been delegated by the federal securities laws to self-regulatory organizations, including FINRA. Subject to approval by the SEC, FINRA adopts rules that govern its members. FINRA conducts periodic examinations of the operations of Morningstar Investment Services. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales, capital structure, record-keeping, and the conduct of directors, officers, and employees. Violation of applicable regulations can result in the revocation of a broker-dealer license, the imposition of censures or fines, and the suspension or expulsion of a firm or its officers or employees. Morningstar Investment Services is subject to certain net capital requirements under the Exchange Act. The net capital requirements, which specify minimum net capital levels for registered broker-dealers, are designed to measure the financial soundness and liquidity of broker-dealers.

Australia

Our subsidiaries that provide financial information services in Australia, Morningstar Australasia Pty Limited and Intech Fiduciaries Limited, must hold an Australian Financial Services License and submit to the jurisdiction of the Australian Securities and Investments Commission (ASIC). This license requires them to maintain positive net asset levels and sufficient cash resources to cover three months of expenses and to comply with the audit requirements of the ASIC.

United Kingdom

Morningstar Associates Europe Limited is authorized and regulated by the U.K. Financial Services Authority as an investment advisor. As an authorized firm, this company is subject to the requirements and regulations of the Financial Services Authority.

Such requirements relate to, among other things, financial reporting and other reporting obligations, record-keeping, and cross-border requirements.

Additional legislation and regulations, including those relating to the activities of investment advisors and broker-dealers, changes in rules imposed by the SEC or other U.S. or non-U.S. regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may adversely affect our business and profitability. Our businesses may be materially affected not only by regulations applicable to it as an investment advisor or broker-dealer, but also by regulations that apply to companies generally.

Employees

We had approximately 2,600 employees as of December 31, 2009, including approximately 480 data analysts, 75 designers, 290 investment analysts (including consulting and quantitative research analysts), 490 programmers and technology staff, and 400 sales and marketing professionals. Our employees are not represented by any unions, and we have never experienced a walkout or strike.

Executive Officers

As of February 26, 2010, we had 13 executive officers. The table below summarizes information about each of these officers.

Name	Age	Position
Joe Mansueto	53	Chairman, Chief Executive Officer, and Director
Chris Boruff	44	President, Advisor Software
Peng Chen	39	President, Ibbotson Associates, Inc.
Scott Cooley	41	Chief Financial Officer
Bevin Desmond	43	President, International Division and Institutional Software
Catherine Gillis Odelbo	47	President, Equity Research
Tao Huang	47	Chief Operating Officer
Kunal Kapoor	34	President, Individual Investor Software
Elizabeth Kirscher	45	President, Data Services
Don Phillips	47	President, Fund Research and Managing Director
Patrick Reinkemeyer	44	President, Morningstar Associates LLC
Richard Robbins	47	General Counsel and Corporate Secretary
David W. Williams	49	Managing Director, Design

Joe Mansueto

Joe Mansueto founded Morningstar in 1984. He has served as our chairman since our inception and as our chief executive officer from our inception to 1996 and from 2000 to the present. He holds a bachelor s degree in business administration from The University of Chicago and a master s degree in business administration from The University of Chicago Booth School of Business. He is a member of the board of directors for Trans Union LLC.

Chris Boruff

Chris Boruff has been the president of our advisor business since 2000 and became president of our advisor software business in 2009. He is responsible for overseeing strategy, development, and marketing associated with our software for financial advisors. He joined us in 1996 as product manager for Principia, and from 1997 to 1998, he served as senior product manager of advisor products. From 1999 to 2000, he served as vice president of advisor products, where he was responsible for all marketing related to financial advisors. He holds a bachelor s degree in economics and psychology from Northwestern University.

Peng Chen

Peng Chen has been president of Ibbotson Associates, Inc. since August 2006. Prior to Morningstar s acquisition of Ibbotson in 2006, he served as Ibbotson s managing director and chief investment officer. He joined Ibbotson in 1997 and played a key role in the development of its investment consulting and 401(k) advice/managed retirement account services. He received a bachelor s degree in industrial management engineering from Harbin Institute of Technology and master s and doctorate degrees in consumer economics from The Ohio State University.

Scott Cooley

Scott Cooley has been our chief financial officer since August 2007. Before joining Morningstar in 1996 as a stock analyst, he was a bank examiner for the Federal Deposit Insurance Corporation (FDIC), where he focused on credit analysis and asset-backed securities. From 1996 until 2003, he was an analyst, editor, and manager for Morningstar.com, *Morningstar Mutual Funds*, and other Morningstar publications. He became CEO of Morningstar Australia and Morningstar New Zealand in 2003 and served as co-CEO of these operations following our acquisition of Aspect Huntley in July 2006. He holds a bachelor s degree in economics and social science and a master s degree in history from Illinois State University.

Bevin Desmond

Bevin Desmond has been president of our international business since 2000. She is responsible for identifying and developing our business in new countries, managing and directing operations, and launching new products. In 2009, Bevin took on additional responsibilities as president of institutional software, including oversight of Morningstar Direct and other institutional software platforms. She joined us in 1993 and was one of three employees who started our international business. From 1998 to 2000, she served as manager of all international ventures. She holds a bachelor s degree in psychology from St. Mary s College.

Catherine Gillis Odelbo

Catherine Gillis Odelbo was president of our Individual segment from 2000 through 2008 and became president of our equity research business in 2009. She joined us in 1988 as a mutual fund analyst and from 1999 to 2000 served as senior vice president of content development for the company, as well as publisher and editor of our stock and closed-end fund research. She holds a bachelor s degree in American history from The University of Chicago and a master s degree in business administration from The University of Chicago Booth School of Business.

Tao Huang

Tao Huang has been our chief operating officer since 2000. He is responsible for corporate strategy and overseeing our business results and day-to-day operations. He joined us in 1990 as a software developer and from 1996 to 1998 served as chief technology officer. From 1998 to 2000, he served as senior vice president of business development and head of international operations. He holds a bachelor s degree in computer science from Hunan University in China, a master s degree in computer science from Marquette University, and a master s degree in business administration from The University of Chicago Booth School of Business.

Kunal Kapoor

Kunal Kapoor has been president of individual investor software since 2009. He joined us in 1997 as a data analyst and became a fund analyst in 1998. In 2001 he joined Morningstar Investment Services as a senior research analyst. He was named editor of *Morningstar Mutual Funds* in 2003, and in 2004 was appointed director of mutual fund analysis. In 2006, he was named director of business strategy for Morningstar s international operations. He became president and chief investment officer of Morningstar Investment Services in 2007. Kunal holds a bachelor s degree in economics and environmental policy from Monmouth College and a master s degree in business administration from The University of Chicago Booth School of Business. He also holds the Chartered Financial Analyst (CFA) designation and is a member of the Investment Analysts Society of Chicago.

Elizabeth Kirscher

Elizabeth Kirscher has been president of our data services business since 2000. She is responsible for managing our investment databases and related products. She joined us in 1995 as a major accounts manager in our institutional sales area. From 1998 to 1999, she served as international product manager and worked on the launch of Morningstar Japan. From 1999 to 2000, she was director of sales and business development for Morningstar.com and marketed Morningstar.com data and tools to other websites. She holds a bachelor s degree from Vassar College and a master s degree in business administration from the Columbia Business School at Columbia University.

Don Phillips

Don Phillips has been a managing director since 2000 and in 2009 took on additional responsibilities as president of fund research. He is responsible for overseeing our research on mutual funds, exchange-traded funds, and alternative investments, as well as our corporate communications area. He joined us in 1986 as our first analyst. He served as our vice president and publisher from 1991 to 1996, as our president from 1996 to 1998, and as our chief executive officer from 1998 to 2000. He has served on our board of directors since August 1999. He also serves on the board of directors for Morningstar Japan. He holds a bachelor s degree from the University of Texas and a master s degree from The University of Chicago.

Patrick Reinkemeyer

Patrick Reinkemeyer has been president of Morningstar Associates, LLC since October 2004. He is responsible for Morningstar s Investment Consulting and Retirement Advice businesses. He joined us in 1996 and directed our print and software variable annuity/life products from 1996 to 1997. From 1998 until 2001, he was director of Morningstar s Investment Consulting business. From 2001 until October 2004, he served as president of Investment Consulting. He holds a bachelor s degree in history from Middlebury College and a master s degree in business administration from The University of Chicago Booth School of Business. He also holds the Chartered Financial Analyst (CFA) designation and is a member of the Investment Analysts Society of Chicago.

Richard Robbins

Richard Robbins has been our general counsel and corporate secretary since August 2005. He is responsible for directing Morningstar s legal department and managing our relationships with outside counsel. From May 1999 until he joined Morningstar, he was a partner at Sidley Austin Brown & Wood LLP (now Sidley Austin LLP), which he joined as an associate in August 1991. He holds bachelor s and master s degrees in computer science and electrical engineering from the Massachusetts Institute of Technology and a juris doctor degree from The University of Chicago Law School.

David W. Williams

David W. Williams has been one of our managing directors since 2000. He is in charge of design and its application to brand identity, products, communications, and the workplace. He joined us in 1993 and has been instrumental in establishing design as one of our recognized core capabilities. He holds a bachelor s degree in industrial design from The Ohio State University and a master s degree in fine arts from the Yale University School of Art.

Company Information

We were incorporated in Illinois on May 16, 1984. Our corporate headquarters are located at 22 West Washington Street, Chicago, Illinois, 60602.

We maintain a website at *http://corporate.morningstar.com*. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to any of these documents are available free of charge on this site as soon as reasonably practicable after the reports are filed with or furnished to the SEC. We also post quarterly press releases on our financial results and other documents containing additional information related to our company on this site. We provide this website and the information contained in or connected to it for informational purposes only. That information is not part of this Annual Report on Form 10-K.

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

The discussion included in this section, as well as other sections of this Annual Report on Form 10-K, contains forward-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. These statements are based on our current expectations about future events or future financial performance. Forward-looking statements by their nature address matters that are, to different degrees, uncertain, and often contain words such as may, could, expect, intend, plan, seek, anticipate, believe, estimate, predict, potential, or continue. These statements involve known and unknown risks and uncertainties that may cause the events we discuss not to occur or to differ significantly from what we expect. For us, these risks and uncertainties include, among others, general industry conditions and competition, including current global financial uncertainty; the impact of market volatility on revenue from asset-based fees; damage to our reputation resulting from claims made about possible conflicts of interest; liability for any losses that result from an actual or claimed breach of our fiduciary duties; financial services industry consolidation; a prolonged outage of our database and network facilities; challenges faced by our non-U.S. operations; and the availability of free or low-cost investment information.

A more complete description of these risks and uncertainties can be found in Item 1A Risk Factors of this Annual Report on Form 10-K. If any of these risks and uncertainties materialize, our actual future results may vary significantly from what we expected. We do not undertake to update our forward-looking statements as a result of new information or future events.

All dollar and percentage comparisons, which are often accompanied by words such as increase, decrease, grew, declined, was up, was down, was flat, or was similar refer to a comparison with the same period in the prior year unless otherwise stated.

Understanding Our Company

Our mission is to create great products that help investors reach their financial goals. We offer an extensive line of data, software, and research products for individual investors, financial advisors, and institutional clients. We also offer asset management services for advisors, institutions, and retirement plan participants. Many of our products are sold through subscriptions or license agreements. As a result, we typically generate recurring revenue.

Morningstar has two operating segments: Investment Information and Investment Management. The Investment Information segment includes all of our data, software, and research products and services. These products and services are typically sold through subscriptions or license agreements. The Investment Management segment includes our asset management operations, which operate as registered investment advisors and earn more than half of their revenue from asset-based fees. We emphasize a decentralized approach to running our business to empower our managers and to create a culture of responsibility and accountability.

Historically, we have focused primarily on organic growth by introducing new products and services and marketing our existing products. However, we have made and expect to continue to make selective acquisitions that support our five key growth strategies, which are:

- Enhance our position in key market segments by focusing on our three major Internet-based platforms;
- Become a global leader in funds-of-funds investment management;
- Continue building thought leadership in independent investment research;
- Create a premier global investment database; and
- Expand our international brand presence, products, and services.

Key Business Characteristics

Revenue

We generate revenue by selling a variety of investment-related products and services. We sell many of our offerings, such as newsletters, Principia software, and Premium service on Morningstar.com, via subscriptions. These subscriptions are mainly offered for a one-year term, although we also offer terms ranging from one month to three years. We also sell advertising on our websites throughout the world. Several of our other products are sold through license agreements, including Morningstar Advisor Workstation, Morningstar Equity Research, Morningstar Direct, Retirement Advice, and Licensed Data. Our license agreements typically range from one to three years.

For some of our other institutional services, mainly Investment Consulting, we generally base our fees on the scope of work and the level of service we provide and calculate them as a percentage of assets under advisement. We also earn fees relating to Morningstar Managed Portfolios and the managed retirement accounts offered through Morningstar Retirement Manager and

Advice by Ibbotson that we calculate as a percentage of assets under management. Overall, revenue tied to asset-based fees accounted for about 12% of our consolidated revenue in 2009.

Deferred Revenue

We frequently invoice our clients and collect cash in advance of providing services or fulfilling subscriptions for our customers. As a result, we use some of this cash to fund our operations and invest in new product development. The businesses we acquired over the past several years have similar business models, and as a result, we acquired their deferred revenue. Deferred revenue is the largest liability on our Consolidated Balance Sheets and totaled $127.1 million as of December 31, 2009 and $130.3 million as of December 31, 2008. We expect to recognize this deferred revenue in future periods as we fulfill the service obligations under our subscription, license, and service agreements.

Significant Operating Leverage

Our business requires significant investments to create and maintain proprietary databases and content. We strive to leverage these costs by selling a wide variety of products and services to multiple investor segments, through multiple media, and in many geographic markets. In general, our businesses have high fixed costs, and we expect our revenue to increase or decrease more quickly than our expenses. We believe that while the fixed costs of the investments in our business are relatively high, the variable cost of adding customers is considerably lower, particularly as a significant portion of our products and services focus on Internet-based platforms and assets under management. At times, we will make investments in building our databases and content that will hurt our short-term operating results. During other periods, our profitability will improve because we re able to increase revenue without increasing our cost base at the same rate. When revenue decreases, however, the significant operating leverage in our business may reduce our profitability.

Operating Expense

We classify our operating expense into separate categories for cost of goods sold, development, sales and marketing, general and administrative, and depreciation and amortization, as described below. We include stock-based compensation expense, as appropriate, in each of these categories.

- *Cost of goods sold.* This category includes compensation expense for employees who produce the products and services we deliver to our customers. For example, this category covers production teams and analysts who write investment research reports. Cost of goods sold also includes other expense such as postage, printing, and CD-ROM replication, as well as shareholder servicing fees for Morningstar Managed Portfolios.

- *Development.* This category includes compensation expense for programmers, designers, and other employees who develop new products and enhance existing products. In some cases, we capitalize the compensation costs associated with certain development projects. This reduces the expense that we would otherwise report in this category. We amortize these capitalized costs over the estimated economic life of the software, which is generally three years, and include this expense in depreciation and amortization.

- *Sales and marketing.* This category includes compensation expense for our sales teams, product managers, and other marketing professionals. We also include the cost of advertising, direct mail campaigns, and other marketing programs to promote our products.

- *General and administrative.* This category consists mainly of compensation expense for each segment s management team, as well as human resources, finance, and support employees for each segment. The category also includes compensation expense for senior management and other corporate costs, including corporate systems, finance and accounting, legal, and facilities expense.

- *Depreciation and amortization.* Our capital expenditures consist of computers, leasehold improvements, and capitalized product development costs related to certain software development projects. 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. We amortize capitalized product development costs over their estimated economic life, which is generally three years. We also include amortization related to intangible assets, which is mainly driven by acquisitions, in this category. We amortize intangible assets using the straight-line method over their estimated economic useful lives, which range from one to 25 years.

International Operations

We have majority-owned operations in 19 countries outside of the United States and include these in our consolidated financial statements. We account for our minority-owned investments in Japan, Denmark, and Sweden using the equity method.

How We Evaluate Our Business

When our analysts evaluate a stock, they focus on assessing the company s estimated intrinsic value the value of the company s future cash flows, discounted to their worth in today s dollars. Our approach to evaluating our own business works the same way. Our goal is to increase the intrinsic value of our business over time, which we believe is the best way to create value for our shareholders.

We do not make public financial forecasts for our business because we want to avoid creating any incentives for our management team to make speculative statements about our financial results that could influence the stock price, or to take actions that help us meet short-term forecasts but may not be in the long-term interest of building shareholder value.

We provide three specific measures that can help investors generate their own assessment of how our intrinsic value has changed over time:

- Revenue (including organic revenue);
- Operating income (loss); and
- Free cash flow, which we define as cash provided by or used for operating activities less capital expenditures.

Organic revenue is considered a non-GAAP financial measure under Securities and Exchange Commission (SEC) regulations. We define organic revenue as consolidated revenue excluding acquisitions and foreign currency translations. We present organic revenue because we believe it helps investors better compare our period-to-period results, and our management team uses this measure to evaluate the performance of our business.

Free cash flow is also considered a non-GAAP financial measure. We present this measure as supplemental information to help investors better understand trends in our business results over time. Our management team uses free cash flow to evaluate the performance of our business. Free cash flow is not equivalent to any measure of performance required under U.S. generally accepted accounting principles (GAAP) and should not be considered an indicator of our overall financial performance or liquidity. Moreover, the free cash flow definition we use may not be comparable to similarly titled measures reported by other companies.

To evaluate how successful we ve been in maintaining existing business for products and services that have renewable revenue, we calculate a retention rate. We use two different methods for calculating retention. For subscription-based products (including our print newsletters, Morningstar.com Premium Membership service, and Principia software), we track the number of subscriptions retained during the year. For products sold through contracts and licenses, we use the contract value method, which is based on tracking the dollar value of renewals compared with the total dollar value of contracts up for renewal during the period. We include changes in the contract value in the renewal amount, unless the change specifically results from adding a new product that we can identify. We also include variable-fee contracts in this calculation and use the previous quarter s actual revenue as the base rate for calculating the renewal percentage. The retention rate excludes setup and customization fees, migrations to other Morningstar products, and contract renewals that were pending as of January 31, 2010.

The Year 2009 in Review

Industry Overview

We monitor developments in the economic and financial information industry on an ongoing basis. We use these insights to help inform our company strategy, product development plans, and marketing initiatives.

Following the severe market downturn in 2008, the U.S. market rebounded sharply by the end of 2009. Despite continued negative performance in the first quarter of 2009, the equity market gained 28.5% for the year as measured by Morningstar s U.S. Market Index, a broad market index. Global markets also rallied, as did most fixed-income investments.

Total U.S. mutual fund assets rose to $11.1 trillion as of December 31, 2009, compared with $9.6 trillion as of December 31, 2008, based on data from the Investment Company Institute (ICI). Although aggregate cash flows to mutual funds were strong for the year, investors continued to show caution by heavily favoring fixed-income funds rather than equity funds. U.S. stock funds had negative net cash flows for the year, although less so than in 2008. Global mutual fund assets showed a similar trend, with total assets rising after 2008 s decline, but asset flows weighted toward fixed-income portfolios.

The downturn in 2008 also led to contraction in the number of funds. The number of mutual funds in the United States fell to about 7,700 in 2009 (excluding multiple share classes) from 8,000 in 2008, based on data from the ICI. Global mutual funds also contracted, with the number of funds totaling 66,000 as of September 30, 2009, compared with more than 69,000 as of September 30, 2008, based on ICI data.

Despite strong market performance in 2009, we estimate that hedge funds included in Morningstar s database had about $55 billion in net outflows through December 31, 2009, compared with about $57 billion for the same period in 2008. However, many hedge-fund categories had positive inflows later in the year.

Exchange-traded funds continued to increase in popularity relative to traditional mutual funds. The U.S. ETF industry closed out 2009 with $784.9 billion in assets under management based on Morningstar s data, up from $533.4 billion at the end of 2008.

Based on data from Nielsen/Net Ratings, aggregate page views and the number of unique users for financial and investment sites in 2009 both declined by about 5% to 10% compared with 2008, while the amount of time spent per visit was down more. We attribute these trends to the unusual level of market volatility in 2008, which increased investor interest in financial and investment sites in the year-ago period. Although unique users and page views for Morningstar.com also declined during 2009, the site continued to perform well based on metrics such as pages viewed per visit and time spent per visit.

Economic uncertainty continued to weigh on the global advertising market. Magna, a division of Interpublic Group, estimates that industry-wide revenue for online advertising was down about 3% in 2009. Although online advertising has held up better than other areas as advertisers have continued to shift spending from traditional media to the Internet, we believe that spending in the financial services area remains under pressure. Following 2009 s downturn in advertising sales, several surveys conducted by the American Marketing Association and other organizations have projected moderate increases in overall ad spending for 2010.

Asset managers and other financial services firms continued to consolidate in the wake of the global financial crisis. If one of our clients is acquired, we may lose business if we re not able to continue providing services or expand our business with the combined organization.

The financial crisis of 2009 and 2008 caused sharp cutbacks in investment research spending by institutional clients and financial advisors, many of whom had staff layoffs or other reductions in spending. We believe individual investors also reduced discretionary spending because of the weak economic environment in 2009.

Despite spending pressures, we believe our clients continue to find value in our services. Some of our products allow clients to streamline the number of third-party applications they use and save money. We ve also created a new Enterprise Data Management business that offers back-office service bureau and performance reporting operations to financial advisors. By outsourcing these services, clients can leverage our infrastructure and capabilities to offload non-core tasks and save money.

The global financial crisis has led to increased regulatory scrutiny of financial services around the world. In Germany and France, for example, independent financial advisors have been under pressure to provide more written evidence for their advice to clients.

Hong Kong regulators recently implemented increased regulatory requirements for risk disclosure to retail clients.

The United Kingdom s Retail Distribution Review (RDR), which emphasizes increased regulation of advisory fees, higher professional standards for financial advisors, and an emphasis on whole of market investment solutions, is scheduled to come into effect at the end of 2012. Because advisors will be obligated to give clients a choice of all investment vehicles (including funds, ETFs, and structured products) and demonstrate that they consider different investment options without bias, we believe it may increase the business need for investment information on multiple investment types, which we offer through products such as Morningstar Direct and Morningstar Advisor Workstation.

The Obama administration has proposed numerous financial regulatory reforms. We don t believe the majority of these reforms would have a direct impact on our business, although they will likely impact many of our clients. Several proposed regulations may also impact investment advice and retirement plans, including additional regulations on asset custody, privacy, and other investor protection issues. We continue to monitor the potential impact of these proposed regulations on our business.

Overall, we remain cautious because of the difficult market environment, which persisted in the wake of the financial crisis that began in 2007. Despite the recent upturn in the U.S. equity market, we believe asset management firms and other financial services companies continue to carefully scrutinize their spending levels, creating additional pricing pressure and increasing the time required to close new business and renewals. On the positive side, however, we believe some of the uncertainty in the financial services sector began easing during 2009, with business trends improving toward the end of the year. As discussed in more detail in the Consolidated Operating Income section below, in early 2010 we began phasing in some of the benefits and other compensation-related expenses we previously reduced.

Performance Summary

The list below summarizes the key accomplishments and challenges that our management team has highlighted related to our 2009 performance:

Accomplishments

- We completed six acquisitions, four of which were outside the United States. These acquisitions represent approximately $38 million in annual revenue. We increased our ownership interest in Morningstar Korea, making it one of our majority-owned operations. We also integrated many capabilities from previous acquisitions.

- We continued investing in our three key web-based platforms, Morningstar.com, Morningstar Advisor Workstation, and Morningstar Direct. Licensed Data had strong renewal rates and ranks as our largest product by revenue. Morningstar Direct continued its strong growth and now ranks as our fifth-largest product by revenue.

- We expanded our research offerings, including the launch of corporate credit ratings on 100 public companies; basic profile reports for NASDAQ-listed companies; target-date fund series ratings and research reports for 20 of the largest fund series; qualitative research and ratings for more than 830 European and Asian funds; and a Global Fund Investor Experience study across 16 countries.

- In our Investment Management segment, we continued our work in custom target-date funds and lifetime financial advice and expanded our consulting services internationally.

- We added database coverage of more than 40,000 securities and expanded our fundamental data on global stocks and exchange-traded funds.

- We created a new Enterprise Data Management business that offers back-office service bureau and performance reporting operations to financial advisors.

Challenges

- Despite an upturn in the market, revenue declined for the second time in our history, and operating income fell 10%. Many of our clients were cutting budgets, reducing staff, and experiencing the effects of industry consolidation, all of which had a direct impact on our business.

- We had lower revenue for Investment Consulting because one client did not renew its contract in the fourth quarter of 2008 and another client did not renew its contract in May 2009.

- The independent equity research we provided to six banks under the terms of the Global Analyst Research Settlement ended in July 2009. As a result, equity research revenue was $9.4 million lower in 2009 versus 2008.

- Internet advertising sales were down sharply, Premium Membership subscriptions for Morningstar.com fell 15%, and revenue for Morningstar Principia was down for the year.

- Our 2009 results include a total of $9.5 million in operating expense related to two unanticipated matters. We recorded a $6.1 million operating expense related to adjusting the tax treatment of some stock options that were originally considered incentive stock options, and we incurred $3.4 million in operating expense for penalties related to the timing of deposits for taxes withheld on stock option exercises from 2006 through 2009.

Consolidated Results

($000)		**2009**		**2008**		**2007**	**2009 Change**	**2008 Change**
Revenue	$	478,996	$	502,457	$	435,107	(4.7)%	15.5%
Operating income		125,320		139,119		117,254	(9.9)%	18.6%
Operating margin		26.2%		27.7%		26.9%	(1.5)pp	0.8pp
Cash used for investing activities	$	(174,675)	$	(179,124)	$	(102,838)	(2.5)%	74.2%
Cash provided by financing activities		30,394		47,630		52,465	(36.2)%	(9.2)%
Cash provided by operating activities	$	96,182	$	152,446	$	112,368	(36.9)%	35.7%
Capital expenditures		(12,372)		(48,519)		(11,346)	(74.5)%	327.6%
Free cash flow	$	83,810	$	103,927	$	101,022	(19.4)%	2.9%

pp percentage point(s)

As noted in *How We Evaluate Our Business*, we define free cash flow as cash provided by or used for operating activities less capital expenditures. Please refer to the discussion on page 43 for more detail.

Because we ve made several acquisitions in recent years, comparing our financial results from year to year is complex. To make it easier for investors to compare our results in different periods, we provide information on both revenue from acquisitions and organic revenue, which reflects our underlying business excluding revenue from acquisitions and the impact of foreign currency translations. We include an acquired operation as part of our revenue from acquisitions for 12 months after we complete the acquisition. After that, we include it as part of our organic revenue.

Consolidated organic revenue (revenue excluding acquisitions and the impact of foreign currency translations) is considered a non-GAAP financial measure. The definition of organic revenue we use may not be the same as similarly titled measures used by other companies. Organic revenue should not be considered an alternative to any measure of performance as promulgated under GAAP.

The table below shows the periods in which we included each acquired operation in revenue from acquisitions:

Consolidated Revenue

In 2009, our consolidated revenue decreased 4.7% to $479.0 million. We had about $29.6 million in incremental revenue from acquisitions during the year, mainly reflecting additional revenue from Tenfore Systems Limited (Tenfore), as well as 10-K Wizard Technology, LLC (10-K Wizard), the equity research and data business from C.P.M.S. (CPMS), Intech Pty Limited (Intech), Fundamental Data Limited (Fundamental Data), and others. However, this was more than offset by lower organic revenue, largely reflecting a drop in revenue from Investment Consulting as well as lower Equity Research revenue related to the Global Analyst

Research Settlement. Investment Consulting revenue declined because two clients did not renew their contracts, one in October 2008 and the other in May 2009. The Global Analyst Research Settlement period expired in July 2009.

Our 2009 results also suffered because of the continuing effects of the severe market downturn in 2008, which put pressure on client budgets and led to consolidation among some of our clients. Our organic growth rate decelerated during 2008 because of these adverse market conditions and continued deteriorating during the first half of 2009. While our organic revenue was down for the year, we believe the trend in the second half is encouraging. Our organic revenue fell 10.2% in the third quarter of 2009, but only 6.6% in the fourth quarter.

Our consolidated revenue increased 15.5% to $502.5 million in 2008, reflecting positive organic growth for the year as well as new revenue from acquisitions, with the majority driven by the Hemscott businesses we acquired in January 2008. Acquired operations contributed $27.1 million of revenue and represented 6 percentage points of our consolidated revenue growth in 2008.

The tables below reconcile consolidated revenue with organic revenue (revenue excluding acquisitions and the impact of foreign currency translations):

2009 vs. 2008 ($000)		**2009**		**2008**	**Change**
Consolidated revenue	$	478,996	$	502,457	(4.7)%
Revenue from acquisitions		(29,590)			NMF
Unfavorable impact of foreign currency translations		8,987			NMF
Organic revenue	$	458,393	$	502,457	(8.8)%

2008 vs. 2007 ($000)		**2008**		**2007**	**Change**
Consolidated revenue	$	502,457	$	435,107	15.5%
Revenue from acquisitions		(27,125)			NMF
Favorable impact of foreign currency translations		(1,850)			NMF
Organic revenue	$	473,482	$	435,107	8.8%

2007 vs. 2006 ($000)		**2007**		**2006**	**Change**
Consolidated revenue	$	435,107	$	315,175	38.1%
Revenue from acquisitions		(44,226)			NMF
Favorable impact of foreign currency translations		(3,808)			NMF
Organic revenue	$	387,073	$	315,175	22.8%

While organic revenue and acquisitions had the most significant impact on revenue in 2009 and 2008, we also enjoyed a benefit from foreign currency translations because of the weakness in the U.S. dollar during 2007 and the first half of 2008. Late in 2008, the currency trend reversed. As a result, foreign currency translations reduced revenue by nearly $9.0 million in 2009.

Revenue for our Investment Information segment, which accounts for about 81% of company-wide revenue, declined by 1% in 2009, as the lower revenue across various product lines was partially offset by revenue from acquisitions. Acquisitions contributed $25.9 million to segment revenue in 2009.

Investment Management segment revenue was down 17.4% in 2009, driven by the two Investment Consulting non-renewals mentioned above. Combined, these contracts represented about $17 million of revenue in 2008. Acquisitions contributed $3.7 million to segment revenue in 2009.

In 2008, Investment Information segment revenue rose 19.3%. Acquisitions contributed $27.1 million to segment revenue for the year. Software products, including Morningstar Advisor Workstation and Morningstar Direct, were the largest drivers behind the revenue increase. Licensed Data was another significant contributor to revenue growth, and investment research revenue also rose for the year.

Investment Management segment revenue rose 3.7% in 2008. Total assets under advisement for Investment Consulting declined approximately 32%, partly driven by the market downturn as well as the impact of one client not renewing its contract. New client wins for Ibbotson Associates partly offset the impact of these factors.

Revenue from international operations increased as a percentage of total revenue in 2009 and 2008. Our non-U.S. revenue increased to 27.0% of consolidated revenue in 2009, compared with 24.2% in 2008 and 20.6% in 2007. Several of our recent acquisitions have extensive operations outside the United States. The majority of our international revenue is from Europe, Australia, and Canada. Acquisitions contributed $23.4 million to international revenue in 2009 and $19.4 million in 2008.

Foreign currency translations reduced revenue by approximately $9.0 million in 2009, reversing the trend from 2008, when foreign currency translations had a positive impact of $1.9 million. Excluding acquisitions and the impact of foreign currency translations, our non-U.S. revenue declined 5.5% in 2009 and increased 11.7% in 2008.

International organic revenue (international revenue excluding acquisitions and the impact of foreign currency translations) is considered a non-GAAP financial measure. The definition of international organic revenue we use may not be the same as similarly titled measures used by other companies. International organic revenue should not be considered an alternative to any measure of performance as promulgated under GAAP. The tables below present a reconciliation from international revenue to international organic revenue:

2009 vs. 2008 ($000)		**2009**		**2008**	**Change**
International revenue	$	129,160	$	121,436	6.4%
Revenue from acquisitions		(23,371)			NMF
Unfavorable impact of foreign currency translations		8,987			NMF
International organic revenue	$	114,776	$	121,436	(5.5)%

2008 vs. 2007 ($000)		**2008**		**2007**	**Change**
International revenue	$	121,436	$	89,680	35.4%
Revenue from acquisitions		(19,426)			NMF
Favorable impact of foreign currency translations		(1,850)			NMF
International organic revenue	$	100,160	$	89,680	11.7%

2007 vs. 2006 ($000)		2007		2006	Change
International revenue	$	89,680	$	44,276	102.5%
Revenue from acquisitions		(31,690)			NMF
Favorable impact of foreign currency translations		(3,808)			NMF
International organic revenue	$	54,182	$	44,276	22.4%

Our five largest products based on revenue Licensed Data, Investment Consulting, Morningstar Advisor Workstation, Morningstar.com, and Morningstar Direct made up about 61% of consolidated revenue in 2009. While the percentage of revenue made up by our top five products has remained relatively consistent over the past three years, the relative size of products within the top five has changed each year. Licensed Data became our largest product in 2008 and continued increasing as a percentage of revenue in 2009, partly because of incremental revenue from Tenfore, 10-K Wizard, and Fundamental Data. Investment Consulting moved down to become the third-largest product in 2009, while Morningstar Direct moved up to become the fifth-largest product because of continued license growth.

In 2009, as a part of the changes to our organizational structure with a focus on our global product lines, we no longer include Morningstar Site Builder as part of Morningstar Advisor Workstation. Site Builder consists of a set of integrated tools, content, and reports that investment firms can seamlessly add to their existing advisor websites. In addition, we re continuing to globalize the Premium subscriptions and advertising revenue generated by Morningstar.com websites, which operate in a variety of markets. As a result, we now include advertising revenue for all non-U.S. sites as part of Morningstar.com and have reclassified prior-year product revenue for consistency with current-year presentation. These reclassifications did not have any impact on the order of our top five products in 2008 or 2007.

Top Five Products (Segment) 2009		Revenue ($000)	% of Consolidated Revenue
Licensed Data (Investment Information)	$	91,524	19.1%
Morningstar Advisor Workstation (Investment Information)		65,673	13.7%
Investment Consulting (Investment Management)		63,748	13.3%
Morningstar.com (Investment Information)		39,454	8.2%
Morningstar Direct (Investment Information)		29,968	6.3%

Top Five Products (Segment) 2008		Revenue ($000)	% of Consolidated Revenue
Licensed Data (Investment Information)	$	78,329	15.6%
Investment Consulting (Investment Management)		77,757	15.5%
Morningstar Advisor Workstation (Investment Information)		64,222	12.8%
Morningstar.com (Investment Information)		45,684	9.1%
Principia (Investment Information)		27,791	5.5%

Top Five Products (Segment) 2007		Revenue ($000)	% of Consolidated Revenue
Investment Consulting (Investment Management)	$	75,595	17.4%
Licensed Data (Investment Information)		59,207	13.6%
Morningstar Advisor Workstation (Investment Information)		53,755	12.4%
Morningstar.com (Investment Information)		39,367	9.0%
Principia (Investment Information)		28,760	6.6%

As discussed in *How We Evaluate Our Business*, we calculate retention and renewal rates to help measure how successful we ve been in maintaining existing business for products and services that have renewable revenue. The following graph illustrates these two metrics over the past five years:

In 2009, we estimate that our retention rate for subscription-based products, such as Principia, Morningstar.com Premium Membership service, and print and online newsletters, was on the higher end of the range between 55% and 60%, down from 60% to 65% in 2008. For contract-based products and services, we estimate that our weighted average renewal rate was on the low end of the range between 80% and 85% and was down about 9.5 percentage points from our renewal rate in 2008. The decline in renewal rates in 2009 was largely driven by the end of the Global Analyst Research Settlement period. Excluding this factor, the 2009 renewal rate declined about 3 percentage points from 2008. This decline reflects lower renewal rates for several product lines, including Investment Consulting, institutional software, and advisor software. Many of our clients were cutting budgets, reducing staff, and experiencing the effects of industry consolidation during 2009. The figure for contract-based products includes the impact of price changes and changes to the contract value upon renewal, as well as changes in the value of variable-fee contracts.

Consolidated Operating Expense

($000)	**2009**	**2008**	**2007**
Operating expense	$ 353,676	$ 363,338	$ 317,853
% change	(2.7)%	14.3%	33.7%
% of revenue	73.8%	72.3%	73.1%
Change	1.5pp	(0.8)pp	(2.3)pp

Our consolidated operating expense decreased $9.6 million, or 2.7%, in 2009. To better align operating expense with revenue in a challenging business environment, we took a number of steps to reduce costs beginning in 2008, with the largest cutbacks effective January 1, 2009. We changed our bonus plan in 2009 to reduce bonus expense, our single largest discretionary cost. As a result, bonus expense was down about $28.9 million in 2009. The significant reduction in bonus expense also reflects a slowdown in our financial performance in 2009 compared with 2008.

We also suspended matching contributions to our 401(k) program in the United States, which reduced operating expense by about $6.6 million. In addition, we reduced discretionary spending in travel, advertising, and marketing. Travel costs were about $4.5 million lower in 2009. Advertising and marketing costs declined by $4.3 million in 2009. We ve been carefully evaluating spending in this area and cutting back on programs with lower returns. In addition, we discontinued three publications previously published, which contributed to lower marketing expense in 2009.

The positive impact of these cost reductions was partially offset by incremental costs from acquisitions. We completed six acquisitions in 2009 and six in 2008. Because of the timing of these acquisitions, our 2009 results include operating expense that did not exist in 2008. Headcount and salary expense increased year over year, partly because of incremental employees added through acquisitions. We had approximately 2,605 employees worldwide as of December 31, 2009, a 9.7% increase, from 2,375 employees as of December 31, 2008. We added approximately 170 employees through acquisitions over the 12 months ending December 31, 2009. The remainder of the increase in headcount reflects continued hiring for our development center in China.

The cost reductions were further offset by a total of $9.5 million of operating expense for two separate matters. First, we recorded a $6.1 million operating expense related to adjusting the tax treatment of certain stock options that were originally considered incentive stock options (ISOs). In 1998, 1999, and 2000, we granted ISOs to many employees. Upon exercise, ISOs typically have a favorable tax treatment for the employee relative to the tax treatment for non-qualified stock options (NQSOs). In 2009, we determined that certain ISOs granted to one former and two current executives should have been treated as NQSOs for the executives and our income tax purposes. As a result, Morningstar will pay these individuals a total of $4.9 million to compensate for the difference in tax treatment. We also recorded $1.2 million, primarily for potential penalties related to this matter. This $6.1 million expense is included in our operating expenses as a general and administrative expense.

Second, we recorded an operating expense of $3.4 million for penalties related to the timing of deposits for taxes withheld on stock option exercises. The expense impacted each of our operating expense categories, with approximately half recorded as general and administrative expense. For some companies, including Morningstar, it is common practice for taxes withheld on stock-based compensation to be paid with the company s regularly scheduled payroll deposit. This approach, however, does not technically comply with Internal Revenue Service (IRS) guidelines concerning deposits of taxes withheld in connection with stock-based compensation, which generally require that if a company s cumulative deposit liability for all compensation exceeds $100,000, the tax withholding must be deposited by the following business day. Transactions related to stock-based compensation frequently cause companies to exceed this threshold outside of their regularly scheduled payroll cycles, thus triggering the accelerated deposit rules. The subject of tax deposit penalties was part of an IRS audit that began in 2009 and concluded in early 2010. We have concluded the matter with the IRS and have increased the frequency of deposits for taxes withheld on stock option exercises.

Our operating expense in 2009 also includes additional rent expense of $2.7 million to increase a liability related to vacant office space, primarily for the former Ibbotson headquarters. We increased the liability because we anticipate receiving lower sublease income and expect it will take more time than previously estimated to identify a tenant.

Despite significant reductions to bonus expense, operating expense as a percentage of revenue increased 1.5 percentage points in 2009, mainly driven by the $9.5 million of incremental operating expenses described above and other expense increases.

In 2008, our consolidated operating expense increased $45.4 million, or 14.3%. Compensation-related expense, excluding bonuses, accounted for two-thirds of the increase in 2008, mainly because of a 38% increase in worldwide headcount and higher sales commission expense. Lower bonus expense partially offset these increases. We had approximately 2,375 employees worldwide as of December 31, 2008, compared with 1,720 as of December 31, 2007. Approximately half of the growth in headcount was from acquisitions. In addition, in 2008 we hired 50 employees for the Morningstar Development Program, a two-year rotational training program for entry-level college graduates. Bonus expense declined $2.1 million because of lower growth in our financial performance compared with the previous year.

Excluding compensation-related expense and bonus expense, operating expense increased $18.5 million in 2008. About one-third of this operating expense increase was from higher lease expense for our new headquarters and other global offices. During 2008, we recorded lease expense for our new headquarters as well as for our former headquarters, which was occupied until December 2008. Depreciation and amortization rose $4.7 million in 2008, and we incurred additional costs across all operating expense categories from acquisitions. Higher costs in these areas were partially offset by lower legal and professional fees, which declined $2.1 million. In 2007, we recorded $0.9 million in expense related to the settlement of litigation in Australia. In addition, we had about $1.6 million in product implementation costs for Advice by Ibbotson in 2007 that did not recur in 2008.

As a percentage of revenue, operating expense in 2008 declined 0.8 percentage points.

Cost of Goods Sold

($000)		2009		2008		2007
Cost of goods sold	$	128,616	$	130,085	$	113,777
% change		(1.1)%		14.3%		30.8%
% of revenue		26.9%		25.9%		26.1%
Change		1.0pp		(0.2)pp		(1.5)pp
Gross profit	$	350,380	$	372,372	$	321,330
% change		(5.9)%		15.9%		40.8%
Gross margin		73.1%		74.1%		73.9%
Change		(1.0)pp		0.2pp		1.5pp

Cost of goods sold is our largest category of operating expense, accounting for more than one-third of our total operating expense over the past three years. Our business relies heavily on human capital, and cost of goods sold includes the compensation expense for employees who produce our products and services.

Cost of goods sold decreased $1.5 million in 2009, with the majority of the decline driven by lower bonus expense and lower fulfillment expense, partially offset by incremental costs from acquisitions.

Cost of goods sold increased $16.3 million in 2008. Three-quarters of the increase was driven by higher compensation expense, excluding incentive compensation, which was partly offset by a reduction in product implementation expense. In 2007, we recorded $1.6 million for outsourced product implementation expense associated with the Advice by Ibbotson service. These costs did not recur in 2008. Incremental costs from acquisitions contributed to the higher compensation expense, and were the largest contributor to the remainder of the cost increases. Incentive compensation in 2008 was about the same as in 2007.

Gross margin declined by about one percentage point in 2009, reversing the trend in the two previous years.

Development Expense

($000)		2009		2008		2007
Development expense	$	38,378	$	40,340	$	35,116
% change		(4.9)%		14.9%		19.1%
% of revenue		8.0%		8.0%		8.1%
Change				(0.1)pp		(1.3)pp

Development expense decreased $1.9 million in 2009, mainly because of lower bonus expense, which was partially offset by incremental compensation costs from acquisitions. Development expense as a percentage of revenue in 2009 was consistent with

2008 and 2007.

Sales and Marketing Expense

($000)		2009		2008		2007
Sales and marketing expense	$	71,772	$	81,651	$	68,835
% change		(12.1)%		18.6%		36.0%
% of revenue		15.0%		16.3%		15.8%
Change		(1.3)pp		0.5pp		(0.3)pp

Sales and marketing expense decreased $9.9 million in 2009. Lower bonus expense and advertising and marketing were the two largest factors driving this change, with each contributing about 40% of the decline. We reduced advertising and marketing from higher levels in 2008 because of the challenging business environment. In 2009, we also discontinued three of the publications we previously published in the first quarter of each year *Morningstar Funds 500*, *Morningstar Stocks 500*, and *Morningstar ETFs 150* and therefore didn t incur costs to promote these publications. Reduced spending on travel, training, and conferences also contributed to the decrease, but to a lesser extent.

Sales and marketing expense increased $12.9 million in 2008. Higher compensation expense, including sales commissions, was the main contributor to the change. In addition, we had incremental costs from acquisitions because of growth in headcount and the number of products and services sold.

As a percentage of revenue, sales and marketing expense decreased about 1 percentage point in 2009, following a slight increase in 2008.

General and Administrative Expense

($000)	**2009**	**2008**	**2007**
General and administrative expense	$ 82,949	$ 85,266	$ 78,868
% change	(2.7)%	8.1%	41.9%
% of revenue	17.3%	17.0%	18.1%
Change	0.3pp	(1.1)pp	0.5pp

General and administrative (G&A) expense decreased $2.3 million in 2009. Most of the decline reflects lower bonus expense included in this category. Decreases in travel, training, and conferences also contributed to lower expense in this area, but to a lesser extent.

These cost reductions were partially offset by the $6.1 million operating expense related to adjusting the tax treatment of certain stock options originally considered incentive stock options as well as an operating expense for the deposit penalty, which contributed $1.8 million to general and administrative expense in 2009. We discuss both of these matters in more detail in the Consolidated Operating Expense section, on page 50.

G&A expense increased $6.4 million in 2008 as lease costs grew. In 2008, lease costs rose because we recorded lease expense for our new Chicago headquarters as well as for the office space we occupied until December 2008. Compensation expense also increased, but was offset by the favorable impact of lower bonus expense. Increases in this cost category were also offset by a $2.1 million reduction in legal and professional fees.

As a percentage of revenue, G&A expense increased 0.3 percentage points in 2009.

Depreciation and Amortization Expense

($000)	**2009**	**2008**	**2007**
Depreciation expense	$ 12,998	$ 9,348	$ 8,488
Amortization expense	18,963	16,648	12,769
Total depreciation and amortization expense	$ 31,961	$ 25,996	$ 21,257

% change	22.9%	22.3%	41.9%
% of revenue	6.7%	5.2%	4.9%
Change	1.5pp	0.3pp	0.1pp

Deprecation expense rose $3.7 million in 2009, primarily from higher depreciation expense associated with our new corporate headquarters. Amortization expense increased $2.3 million in 2009 and $3.8 million in 2008, reflecting amortization of intangible assets related to acquisitions.

As a percentage of revenue, depreciation and amortization increased 1.5 percentage points in 2009.

We expect that amortization of intangible assets will be an ongoing cost for the remaining life of the assets. Based on acquisitions completed through December 31, 2009, we estimate that aggregate amortization expense for intangible assets will be $23.4 million in 2010. Our estimates of future amortization expense for intangible assets may be affected by changes to the preliminary purchase price allocations associated with our 2009 acquisitions.

Stock-Based Compensation Expense

Stock-based compensation expense is included in each of our operating expense categories, as shown below:

($000)		2009		2008		2007
Cost of goods sold	$	2,666	$	2,058	$	1,706
Development		1,570		1,402		1,256
Sales and marketing		1,587		1,449		1,397
General and administrative		5,770		6,372		6,619
Stock-based compensation expense	$	11,593	$	11,281	$	10,978
% change		2.8%		2.8%		28.0%
% of revenue		2.4%		2.2%		2.5%
Change		0.2pp		(0.3)pp		(0.2)pp

Our stock based compensation expense mainly relates to grants of restricted stock units, and to a lesser extent, to stock options granted in previous years:

($000)		2009		2008		2007
Restricted stock units	$	10,591	$	7,571	$	4,503
Stock options		1,002		3,710		6,475
Stock-based compensation expense	$	11,593	$	11,281	$	10,978

We began granting restricted stock units (RSUs) in May 2006 and made additional grants in 2007, 2008, and 2009, typically in the second quarter of each year. We recognize the expense related to RSUs over the vesting period, which is generally four years. We estimate forfeitures of all stock-based awards and typically adjust the estimated forfeitures to actual forfeiture experience in the second quarter, which is when most of our larger equity grants typically vest. In the second quarters of 2009, 2008, and 2007, we recorded approximately $0.2 million, $0.2 million, and $0.8 million, respectively, of additional stock-based compensation expense as a result of these adjustments.

Our stock-based compensation expense related to RSUs has increased over the past three years, reflecting the additional RSU grants. In contrast, the stock-based compensation expense related to stock options has declined over the past three years reflecting no stock option grants in 2009 and 2008, a small grant in 2007, and that stock options granted prior to 2007 were fully expensed by 2009.

As discussed above, in 2009 we adjusted the tax treatment of certain stock options that were originally considered incentive stock options. This change did not impact the amount of stock-based compensation expense we recorded related to these stock options.

Based on grants made through December 31, 2009, we anticipate that stock-based compensation expense will be $10.3 million in 2010. This amount is subject to change based on additional equity grants or changes in our estimated forfeiture rate related to these grants.

Bonus Expense

($000)		2009		2008		2007
Bonus expense	$	21,019	$	49,912	$	52,014
% change		(57.9)%		(4.0)%		35.7%
% of revenue		4.4%		9.9%		12.0%
Change		(5.5)pp		(2.1)pp		(0.2)pp

Bonus expense, which we include in each of our operating expense categories, declined $28.9 million in 2009. This reduction reflects changes we made to our bonus program for 2009 as part of our efforts to better align our cost structure with revenue in the challenging business environment. The significant reduction in bonus expense also reflects a slowdown in our financial performance in 2009 compared with 2008. Overall, bonus expense as a percentage of revenue declined about 5.5 percentage points in 2009.

In 2008, bonus expense declined about $2.1 million, or 4.0%. Bonus expense declined to 9.9% of revenue in 2008, compared with 12.0% in 2007, reflecting the lower operating income growth in 2008 compared with 2007.

The amount of bonus expense is not a fixed cost. Instead, the size of the bonus pool varies each year based on a number of items, including changes in full-year operating income relative to the previous year and other factors. We review and update our estimates and the bonus pool size quarterly. We record bonus expense throughout the year and pay out annual bonuses to employees in the first quarter of the following year.

Consolidated Operating Income

($000)	2009	2008	2007
Operating income	$ 125,320	$ 139,119	$ 117,254
% change	(9.9)%	18.6%	51.2%
Operating margin	26.2%	27.7%	26.9%
Change	(1.5)pp	0.8pp	2.3pp

Consolidated operating income decreased $13.8 million in 2009, as the $23.5 million decline in revenue was partially offset by a $9.7 million reduction in operating expense. We took a number of steps to reduce our cost structure in 2009 mainly by reducing employee benefit costs and bonus expense. While cost reductions began in 2008, the largest reductions were effective January 1, 2009. We reduced our single largest discretionary cost, bonus expense, by $28.9 million, with changes to the bonus plan in 2009. We also suspended matching contributions to our 401(k) program in the United States, which accounted for about $6.6 million of expense in 2008. In addition, 2008 lease-related costs incurred in the fourth quarter of 2008 did not recur in 2009 because we no longer incur lease costs for both our new and former corporate headquarters in Chicago.

Although we reduced operating expense in several areas with the cost-savings initiatives implemented at the beginning of 2009, we recorded a total of $9.5 million of unanticipated expense for two separate matters, including $6.1 million of operating expense related to adjusting the tax treatment of incentive stock options granted in previous years and $3.4 million of operating expense for penalties related to the timing of deposits for taxes withheld on stock option exercises.

Because operating expense declined at a slower pace than revenue, the 2009 operating margin was down about 1.5 percentage points from 2008 s operating margin. The $9.5 million of operating expense described above represented about 2 percentage points of the margin decline.

In 2010, we began phasing in some of the benefits we temporarily suspended in 2009. We re now matching 50% of employee contributions (up to 7% of salary) to our 401(k) plan in the United States, compared with a full match up to 7% of salary before 2009. We kept salary levels flat for nearly all of our employees in 2009, but expect to make some moderate compensation increases later in 2010. We ve also been hiring for some previously unfilled positions.

Consolidated operating income increased $21.8 million in 2008. In 2008, the operating margin increased by 0.8 percentage points partly because of lower bonus expense and legal expense as a percentage of revenue, as well as the $1.6 million decline in product implementation expense associated with the Advice by Ibbotson service. Higher lease expense as a percentage of revenue offset these positive factors and contributed to the lower operating margin growth compared with the two previous years. Incremental costs added by acquisitions, such as amortization of intangible assets and higher compensation costs, also contributed to slower growth in the operating margin.

Importantly, the 2008 annual operating margin reflects a mix of higher operating margins early in the year and lower margins in the latter part of the year, which worsened as the business environment became more challenging. Our operating margin was 24.1% in the fourth quarter of 2008, compared with 28.2% in fourth quarter of 2007.

Consolidated Free Cash Flow

We define free cash flow as cash provided by or used for operating activities less capital expenditures. We present free cash flow solely as supplemental disclosure to help investors better understand how much cash is available after we spend money to operate our business. Our management team uses free cash flow to evaluate the performance of our business. Free cash flow is not a measure of performance set forth under GAAP. Also, the free cash flow definition we use may not be comparable to similarly titled measures used by other companies.

We generated positive free cash flow in 2009, 2008, and 2007 as our cash provided by operating activities has consistently exceeded our level of capital expenditures, as shown below:

($000)	2009	2008	2007	2009 Change	2008 Change
Cash provided by operating activities	$ 96,182	$ 152,446	$ 112,368	(36.9)%	35.7%
Capital expenditures	(12,372)	(48,519)	(11,346)	(74.5)%	327.6%
Free cash flow	$ 83,810	$ 103,927	$ 101,022	(19.4)%	2.9%

Free cash flow fell $20.1 million in 2009, reflecting a $56.2 million decrease in cash provided by operating activities, which was partially offset by a $36.1 million decrease in capital expenditures. Free cash flow increased $2.9 million in 2008, reflecting a $40.1 million increase in cash flow provided by operating activities, which was offset by a $37.2 million increase in capital expenditures.

Cash provided by operating activities: Cash provided by operating activities decreased $56.2 million in 2009. The decline in cash provided by operating activities reflects a lower cash benefit from accrued compensation as well as an increase of $9.6 million for bonus payments. We made bonus payments of $58.9 million in the first quarter of 2009, compared with $49.3 million in the first quarter of 2008. Bonuses paid in the first quarter of 2009 included $10.0 million in payments deferred from 2007. We revised our bonus program in January 2009 and no longer defer payment of a portion of bonuses recorded in the prior year. In addition, cash provided by operating activities in 2008 included a $16.3 million benefit from deferred rent, primarily for tenant improvement allowances related to the construction of our new corporate headquarters. This benefit did not recur in 2009. Excess tax benefits declined $9.8 million in 2009 because of a reduction in the number of options exercised and lower average stock prices on the exercise dates.

Cash provided by operating activities increased $40.1 million in 2008 compared with 2007. The increase resulted from the positive impact of higher net income (adjusted for non-cash items) of $43.0 million and an increase in deferred rent of $16.0 million. These increases were offset by the impact of higher cash paid for bonuses of $14.0 million and a decrease in the impact of accrued income taxes and accrued compensation. Deferred rent includes the tenant improvement allowance received in connection with the build-out of our new headquarters. The tenant improvement allowance will be amortized over the lease term as a reduction in office lease expense.

To provide investors with additional insight into our financial results, we provide a comparison between the change in consolidated net income and the change in cash provided by operating activities:

($000)	2009	2008	2007	2009 Change	2008 Change
Consolidated net income	$ 82,324	$ 92,929	$ 73,922	$ (10,605)	$ 19,007
Adjustments to reconcile consolidated net income to net cash flows from operating activities:					
Excess tax benefits from stock option exercises and vesting of restricted stock units	(13,767)	(23,531)	(30,428)	9,764	6,897
Depreciation and amortization expense	31,961	25,996	21,257	5,965	4,739
Stock-based compensation expense	11,593	11,281	10,978	312	303
All other non-cash items included in net income	(1,537)	8,889	(3,214)	(10,426)	12,103
Changes in operating assets and liabilities, net of effects of acquisitions:					
Cash paid for bonuses	(58,867)	(49,253)	(35,269)	(9,614)	(13,984)
Cash paid for income taxes	(38,009)	(19,782)	(27,795)	(18,227)	8,013
Accounts receivable	12,364	(658)	(11,723)	13,022	11,065
Deferred revenue	(8,704)	(1,595)	8,401	(7,109)	(9,996)
Income taxes current	49,685	41,860	53,024	7,825	(11,164)
Accrued compensation	32,138	46,920	58,387	(14,782)	(11,467)
Deferred rent	(790)	16,346	380	(17,136)	15,966
Other assets	2,521	1,573	(3,536)	948	5,109
Reduction of Australian litigation reserve			(2,091)		2,091
Accounts payable and accrued liabilities	(3,654)	3,008	2,729	(6,662)	279
All other	(1,076)	(1,537)	(2,654)	461	1,117
Cash provided by operating activities	$ 96,182	$ 152,446	$ 112,368	$ (56,264)	$ 40,078

In 2009, the decline in cash provided by operating activities was greater than the decline in consolidated net income, reflecting the difference in timing between cash receipts or disbursements and when these items are recognized in revenue or expense. Deferred rent of $16.3 million, primarily for tenant improvement allowances received in connection with the build-out of our new headquarters benefited cash flow in 2008, but did not recur in 2009. The tenant improvement allowance received in 2008 is being amortized as a reduction in office lease expense over the lease term and will be deducted from net income to arrive at cash provided by operating activities. The $18.2 million increase in tax payments as well as the $9.6 million increase in bonuses paid in 2009 compared with 2008 also contributed to the difference between net income and cash provided by operations. A lower cash flow benefit from accrued compensation, primarily reflecting the reduction in the 2009 bonus expense, also contributed to the difference between net income and cash from operations.

The $40.1 million increase in cash provided by operating activities in 2008 outpaced the $19.0 million increase in consolidated net income. The tenant improvement allowance of $16.3 million received in connection with the build-out of our new headquarters represented a significant benefit to cash flow in 2008. Non-cash items included in net income were a primary driver of the difference between net income and cash provided by operations in 2008.

FASB ASC 718, *Compensation Stock Compensation*, requires that we classify excess tax benefits as a financing activity, which contributes to the difference between net income and cash from operations. In 2009, 2008, and 2007 we classified $13.8 million, $23.5 million, and $30.4 million of excess tax benefits, respectively, as financing activities. We describe these excess tax benefits in the Liquidity and Capital Resources section.

Capital expenditures: Capital expenditures decreased $36.1 million in 2009 mainly because of the timing of payments related to our new corporate headquarters in Chicago. In 2008, capital expenditures were $48.5 million, an increase of $37.2 million from 2007. The 2008 increase was almost entirely driven by capital expenditures for our new headquarters.

Segment Results

($000)	2009	2008	2007	2009 Change	2008 Change
Revenue					
Investment Information	$ 386,642	$ 390,693	$ 327,372	(1.0)%	19.3%
Investment Management	92,354	111,764	107,735	(17.4)%	3.7%
Consolidated revenue	$ 478,996	$ 502,457	$ 435,107	(4.7)%	15.5%
Operating income					
Investment Information	$ 138,576	$ 138,902	$ 114,948	(0.2)%	20.8%
Investment Management	52,889	60,396	55,395	(12.4)%	9.0%
Intangible amortization and corporate depreciation expense	(26,349)	(20,550)	(18,522)	28.2%	10.9%
Corporate unallocated	(39,796)	(39,629)	(34,567)	0.4%	14.6%
Consolidated operating income	$ 125,320	$ 139,119	$ 117,254	(9.9)%	18.6%
Operating margin					
Investment Information	35.8%	35.6%	35.1%	0.2pp	0.5pp
Investment Management	57.3%	54.0%	51.4%	3.3pp	2.6pp
Consolidated operating margin	26.2%	27.7%	26.9%	(1.5)pp	0.8pp

Investment Information Segment

The Investment Information segment includes all of our data, software, and research products and services, which are typically sold through subscriptions or license agreements.

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

The Investment Information segment also includes Morningstar Equity Research, which we distribute through several channels. From June 2004 through July 2009, our equity research was distributed through six major investment banks to meet the requirements for independent research under the Global Analyst Research Settlement (GARS). The period covered by GARS expired at the end of July 2009. The investment banks covered by it are no longer required to provide independent investment research to their clients. For further discussion about this issue, see Item 1A Risk Factors.

We also sell equity research to several other companies that purchase our research for their own use or provide our research to their affiliated financial advisors or to individual investors.

We also offer a variety of financial communications and newsletters, other investment software, and investment indexes.

This segment represented 80.7%, 77.8%, and 75.2% of our consolidated revenue in 2009, 2008, and 2007, respectively.

Revenue

Revenue for our Investment Information segment declined $4.1 million in 2009. Acquisitions contributed $25.9 million to segment revenue in 2009, partially offsetting the decline across a number of our product lines. Revenue from our investment research products was down 24.1%, mainly reflecting the end of GARS and, to a lesser extent, lower revenue from investment newsletters. Organic revenue for software product lines was down about 2.2%, driven by declines in the U.S. version of Morningstar.com and, to a much lesser extent, advisor software. These declines were partly offset by higher revenue for institutional software and data-related products and services.

As mentioned above, the period covered by GARS expired at the end of July 2009, and as previously disclosed, our post-settlement equity research revenue was significantly lower in 2009. GARS revenue was $12.5 million in 2009, compared with $21.9 million in 2008. We entered into new equity research contracts with two of the banks that were clients under GARS; however, these contracts only represent about 10% of the previous annual GARS revenue. In addition, we re continuing to provide broad equity coverage to individual investors, financial advisors, and institutions through a variety of other channels. For further discussion about this issue, see Item 1A Risk Factors.

Revenue from our other investment research products declined in 2009 primarily because of lower revenue from newsletters and books. In the first quarter of 2009, we discontinued three of the print publications we previously published in the first quarter of each year: *Morningstar Funds 500*, *Morningstar Stocks 500*, and *Morningstar ETFs 150*. Lower advertising revenue from publications sold in Australia and lower revenue from the annual Morningstar Investment Conference held in the second quarter also contributed to the decline.

The U.S. version of Morningstar.com, which includes Internet advertising sales and Premium Membership subscriptions, was the second-largest driver behind the revenue decline in the segment. Negative trends in Internet advertising drove most of the decrease. In addition, subscriptions for the Morningstar.com Premium service fell by 15.2% to 150,473 as of December 31, 2009, compared with 177,518 as of December 31, 2008 because of negative trends in subscriber growth and new trials. However, we moderately increased subscription prices for Premium Membership in both January 2009 and 2008, which partially offset lower revenue from the subscription decline.

Advisor software revenue was down in 2009, reflecting lower Principia revenue partially offset by higher revenue for Advisor Workstation and other products. Principia subscriptions totaled 35,844 as of December 31, 2009, a 16.7% decrease from 43,019 as of December 31, 2008. The decline partly reflects clients migrating from Principia to Advisor Workstation, but also reflects a lower retention rate as the economic environment weakened.

Advisor Workstation revenue increased in 2009 because of higher revenue in the first half of the year. The number of U.S. licenses for Morningstar Advisor Workstation decreased to 148,392 as of December 31, 2009 compared with 151,874 as of December 31, 2008. The decrease reflects clients migrating to Site Builder and a change in the scope of some licenses, partially offset by new contracts in 2009. In 2009, as a part of the changes to our organizational structure with a focus on our global product lines, we no longer include Morningstar Site Builder as part of Morningstar Advisor Workstation. Site Builder consists of a set of integrated tools, content, and reports that investment firms can seamlessly add to their existing advisor websites. The number of Advisor Workstation licenses reported in 2008 has been adjusted to reflect this change.

Higher revenue from our institutional software and data product lines partially offset the declines in individual and advisor software. Institutional software revenue increased mainly because of Morningstar Direct. The number of licenses for Morningstar Direct grew 19.0% to 3,524 worldwide as of December 31, 2009, compared with 2,961 as of December 31, 2008. Revenue from Licensed Data also increased in 2009.

In 2008, revenue from the Investment Information segment increased $63.3 million. Acquisitions contributed approximately $27.1 million of revenue. Excluding acquisitions, the 2008 revenue expansion was driven by Morningstar Advisor Workstation, Licensed Data, Morningstar Direct, and Morningstar.com.

The number of U.S. licenses for Morningstar Advisor Workstation increased to 151,874 as of December 31, 2008 compared with 150,505 as of December 31, 2007. The revenue growth reflects new client contracts as well as additional users and functionality for existing clients. Part of this growth reflects expansions in the scope of some contracts to full-site licenses (where we include all eligible advisors in our total license count), from tools-only licenses (where we include a smaller number of advisors based on actual usage).

Licensed Data was also a major contributor to organic revenue growth in this segment in 2008, as demand for data feeds and other services remained strong for most of the year. Morningstar Direct also had a positive impact, as the number of licenses for Morningstar Direct totaled 2,961 worldwide as of December 31, 2008, up 32.8% compared with 2,229 as of December 31, 2007.

Morningstar.com Premium Membership and Internet advertising sales contributed to organic revenue growth in 2008, but slowed throughout the year. Subscriptions for Morningstar.com Premium service fell slightly to 177,518 as of December 31, 2008 compared with 180,366 as of December 31, 2007 as general market weakness affected subscriber growth and new trials. In addition, we moderately increased subscription prices for Premium Membership in January 2008. As a result, revenue grew despite the decline in the number of subscriptions.

Operating Income

In 2009, operating income for the Investment Information segment was $138.6 million, a slight decrease compared with 2008, as the $4.1 million decline in revenue was partially offset by lower operating expense.

Operating expense decreased $3.8 million in 2009 as cost reductions for discretionary expense such as bonuses, other compensation expense, and advertising and marketing were partially offset by additional operating expense from acquisitions. Bonus expense declined $11.0 million in 2009. Most of this reduction reflects the changes we made to our bonus program for 2009 as part of our efforts to better align our cost structure with revenue. The reduction in bonus expense also reflects a slowdown in our financial performance in 2009 compared with 2008. Other compensation-related expense was down, primarily because we suspended matching contributions to our 401(k) plan in the United States, reducing operating expense by $4.3 million in 2009.

Sales and marketing costs decreased $8.3 million in 2009. Most of the decline reflects lower spending on advertising and marketing (primarily direct mail expense) and lower travel costs, which we pared back because of the challenging business environment. As mentioned above, we discontinued three of the publications we previously published in the first quarter of each year, and therefore didn t incur costs to promote these publications in 2009.

Our Investment Information segment operating margin improved slightly in 2009 because of operating expense reductions partially offset by the impact of acquisitions in 2009.

Operating income for the segment increased $24.0 million in 2008. Operating expense increased $39.3 million, with compensation-related expense generating most of the increase. Incremental costs added from acquired businesses also accounted for a portion of the increase across all cost categories. The operating margin in 2008 grew modestly, up 0.5 percentage points, because operating expense grew at a slower rate than revenue.

Investment Management Segment

The Investment Management segment includes all of our asset management operations, which operate as registered investment advisors and earn more than half of their revenue from asset-based fees.

The key products and services in this segment based on revenue are Investment Consulting, which focuses on investment monitoring and asset allocation for funds of funds, including mutual funds and variable annuities; Retirement Advice, including the Morningstar Retirement Manager and Advice by Ibbotson platforms; and Morningstar Managed Portfolios, a fee-based discretionary asset management service that includes a series of mutual fund and exchange-traded fund portfolios tailored to meet a range of investment time horizons and risk levels that financial advisors can use for their clients taxable and tax-deferred accounts. Acquisitions, primarily the Intech acquisition in Australia, contributed revenue of $3.7 million to this segment in 2009.

This segment represented 19.3%, 22.2% and 24.8% of our consolidated revenue in 2009, 2008, and 2007, respectively.

Revenue

Although revenue declined across all products in the Investment Management segment, Investment Consulting, which has been a leading contributor to revenue growth in previous years, accounted for about three-fourths of the segment s revenue decline in 2009 and was relatively flat year over year in 2008. Our Investment Consulting business suffered in 2009 because one client did not renew its contract when it expired in the fourth quarter of 2008 and another client did not renew its contract in May 2009. Combined, these contracts represented about $17 million of revenue in 2008.

We provided advisory services on approximately $61.4 billion in assets as of December 31, 2009, compared with approximately $66.2 billion as of December 31, 2008 and approximately $97.5 billion as of December 31, 2007. These asset totals include relationships for which we receive basis-point fees, including consulting and agreements where we act as a portfolio construction manager for a mutual fund or variable annuity. We also provide Investment Consulting services for some assets under management for which we receive a flat fee; these assets are not included in the total assets reported above. Excluding changes related to contract wins or cancellations, changes in the value of assets under advisement can come from two primary sources: gains or losses related to overall trends in market performance, and net inflows or outflows caused when investors add to or redeem shares from these portfolios.

Total assets under advisement for Investment Consulting as of December 31, 2009 declined approximately 7.3% compared with December 31, 2008, as assets under advisement from Morningstar Associates declined 27.4%, which was partially offset by assets under advisement from Ibbotson Associates, which increased about 9.0%. The majority of the asset decline in 2009 reflects the loss of one of the contracts discussed above, partially offset by positive market performance, and, to a lesser extent, from net inflows and new client wins in assets under advisement.

Total assets under advisement for Investment Consulting declined approximately 32% as of December 31, 2008 compared with December 31, 2007. In 2008, the U.S. stock market fell about 37% and was the main factor behind the decline in assets for most portfolios. The reduction in assets under advisement compared with 2007 also reflects the client non-renewal in the fourth quarter of 2008. As a result, assets under advisement for Morningstar Associates declined more than the market for the year.

	As of December 31		
Assets under advisement for Investment Consulting ($ billions)	**2009**	**2008**	**2007**
Ibbotson Associates	$ 39.9	$ 36.6	$ 40.9
Morningstar Associates	21.5	29.6	56.6
Total	$ 61.4	$ 66.2	$ 97.5

In addition, total assets under management for Intech (now doing business as Ibbotson Associates) were $3.4 million as of December 31, 2009.

Retirement Advice revenue was also down in 2009, although less than Investment Consulting. We primarily earn license-based fees for the advice and guidance services we provide through our Retirement Advice platform, and revenue for these services declined because of several smaller client nonrenewals in 2009. Assets under management for Retirement Advice increased to $15.7 billion as of December 31, 2009, compared with $11.0 billion as of December 31, 2008 and $13.7 billion as of December 31, 2007. In 2008, Retirement Advice revenue was up slightly compared with 2007.

	As of December 31		
Assets under management for managed retirement accounts ($ billions)	**2009**	**2008**	**2007**
Advice by Ibbotson	$ 14.2	$ 10.0	$ 12.7
Morningstar Retirement Manager	1.5	1.0	1.0
Total	$ 15.7	$ 11.0	$ 13.7

The tables below show the breakdown of retirement plan participants who had access to the services offered through Morningstar Retirement Manager and Advice by Ibbotson, as well as the number of plan sponsors and plan providers that provide this access.

	As of December 31		
Plan Participants (millions)	**2009**	**2008**	**2007**
Advice by Ibbotson	9.5	8.9	6.6
Morningstar Retirement Manager	11.2	8.3	8.8
Total	20.7	17.2	15.4

Plan Sponsors (approximate)	**2009**	**2008**	**2007**
Advice by Ibbotson	68,000	68,000	60,000
Morningstar Retirement Manager	83,000	72,000	75,000
Total	151,000	140,000	135,000

Plan Providers	**2009**	**2008**	**2007**
Advice by Ibbotson	7	7	8
Morningstar Retirement Manager	16	17	22
Total	23	24	30

Morningstar Managed Portfolios also contributed to the segment s revenue decline in 2009, although to a much lesser extent than Investment Consulting. The lower revenue mainly reflects lower average asset levels during 2009 compared with the same period in 2008. Assets under management for Morningstar Managed Portfolios regained asset levels observed in previous years, ending at $2.1 billion as of December 31, 2009 compared with $1.6 billion as of December 31, 2008 and $2.2 billion as of December 31, 2007. Revenue for Morningstar Managed Portfolios was flat in 2008 compared with 2007.

Operating Income

Operating expense in the segment decreased $11.9 million, or 23.2%, in 2009. The decrease was primarily because of lower bonus and other compensation-related expense, partially offset by the additional operating expense related to the Intech acquisition. Bonus expense declined $10.4 million in 2009. Most of this reduction reflects the changes we made to our bonus program for 2009 as part of our efforts to better align our cost structure with revenue. The reduction in bonus expense also reflects a slowdown in our financial performance in 2009 compared with 2008. Other compensation-related expense was down, primarily because we suspended matching contributions to our 401(k) plan in the United States, reducing operating expense by $1.3 million in 2009. A slight reduction in product implementation fees related to our Advice by Ibbotson service also contributed to the decrease.

Operating margin was 57.3% in 2009, an increase of 3.3 percentage points over 2008. Lower bonus expense as a percentage of revenue was the main driver of the margin improvement. The decrease in other compensation-related expense also contributed to the margin improvement, although to a much lesser extent. These factors were offset by incremental costs from the Intech acquisition and higher compensation expense as a percentage of revenue.

Operating expense decreased $1.0 million in 2008, driven by lower bonus expense and a reduction in product implementation fees related to our Advice by Ibbotson service. The 2008 expense decrease was partially offset by an increase in compensation expense, excluding bonus.

Operating margin was 54.0% in 2008 compared with 51.4% in 2007. Product implementation fees related to our Advice by Ibbotson service represented 1.6% of revenue in 2007, but were significantly lower in 2008. Lower bonus expense as a percentage of revenue also had a favorable impact on the margin.

Corporate Items

This category includes corporate costs, which we do not allocate to our business segments. The corporate items category also includes amortization expense related to intangible assets recorded for acquisitions. The table below shows the components of corporate items that impacted our consolidated operating income:

($000)		**2009**		**2008**		**2007**
Amortization expense	$	18,963	$	16,648	$	12,769
Depreciation expense		7,386		3,902		5,753

Corporate unallocated	39,796	39,629	34,567
Corporate items	$ 66,145	$ 60,179	$ 53,089
% change	9.9%	13.4%	29.3%

Amortization of intangible assets increased $2.4 million in 2009 and $3.8 million in 2008. We paid $240.1 million for acquisitions during the past three years. As of December 31, 2009 and December 31, 2008, respectively, we had $135.5 million and $119.8 million recorded for net intangible assets. We amortize these intangible assets over their estimated lives, ranging from one to 25 years. Based on acquisitions completed through December 31, 2009, we estimate that aggregate amortization expense for intangible assets will be $23.4 million in 2010. Some of the purchase price allocations are preliminary, and the values assigned to intangible assets and the associated amortization expense may change in future periods.

Depreciation expense for corporate departments increased $3.5 million in 2009. We relocated to our new corporate headquarters in the fourth quarter of 2008, resulting in higher depreciation expense. Depreciation expense included in this category declined in 2008 because computer equipment and internal product development costs capitalized in previous years were fully depreciated.

Corporate unallocated increased $0.2 million in 2009. In 2009, this category includes $6.1 million of operating expense related to adjusting the tax treatment of certain stock options originally considered incentive stock options, as well as an operating expense for the deposit penalty of $3.4 million. This category also includes a $2.7 million expense to increase lease vacancy reserves, primarily for the former Ibbotson headquarters. These additional costs were almost entirely offset by lower bonus expense and other compensation-related expense, as well as lower travel expense.

Corporate unallocated increased $5.0 million in 2008, primarily because of higher lease expense. Lease costs rose because we recorded lease expense for our new headquarters as well as for the former headquarters space we occupied until December 2008. The higher lease expense was partially offset by a decrease in professional fees. We recorded an expense of $0.9 million related to settling our Australian litigation in 2007, but this expense did not recur in 2008 or 2009.

Equity in Net Income of Unconsolidated Entities, Non-Operating Income, and Income Tax Expense

Equity in Net Income of Unconsolidated Entities

($000)	2009	2008	2007
Equity in net income of unconsolidated entities	$ 1,165	$ 1,321	$ 1,694

Equity in net income of unconsolidated entities includes our portion of the net income (loss) of Morningstar Japan K.K. (MJKK), Morningstar Danmark A/S, Morningstar Sweden AB, and Morningstar Korea Co., Ltd. In 2009, 2008, and 2007, equity in net income of unconsolidated entities was primarily from our position in MJKK. In 2009, we acquired an additional 40% ownership interest in Morningstar Korea, increasing our ownership percentage to 80%. As a result of the majority ownership, we no longer account for our investment in Morningstar Korea using the equity method. Beginning in September 2009, we consolidate the assets, liabilities, and results of operations of this operation in our Consolidated Financial statements. We describe our investments in unconsolidated entities in more detail in Note 7 of the Notes to our Consolidated Financial Statements.

Non-Operating Income

The following table presents the components of net non-operating income:

($000)	2009	2008	2007
Interest income, net	$ 3,016	$ 5,687	$ 7,134
Other expense, net	(82)	(1,435)	(905)
Non-operating income, net	$ 2,934	$ 4,252	$ 6,229

Net interest income mainly reflects interest from our investment portfolio. Net interest income decreased $2.7 million in 2009 and $1.4 million during 2008. The decrease in both years reflects lower returns on our invested balances during the year.

Other expense, net, mainly reflects foreign currency exchange gains and losses arising from the ordinary course of business related to our U.S. and non-U.S. operations. It also includes royalty income from MJKK and realized gains and losses from our investment portfolio. In 2009, this category includes a holding gain of approximately $0.4 million resulting from the difference between the fair value and the book value of our investment in Morningstar Korea.

The larger expense in 2008 was influenced primarily by foreign currency exchange losses in the fourth quarter driven by a significantly stronger U.S. dollar.

Income Tax Expense

The following table summarizes our effective tax rate:

($000)	2009	2008	2007
Income before income taxes and equity in net income of unconsolidated entities	$ 128,254	$ 143,371	$ 123,483
Equity in net income of unconsolidated entities	1,165	1,321	1,694
Net (income) loss attributable to noncontrolling interests	132	(397)	
Total	$ 129,551	$ 144,295	$ 125,177
Income tax expense	$ 47,095	$ 51,763	$ 51,255
Effective tax rate	36.4%	35.9%	40.9%

For a reconciliation of the U.S. federal tax rate to our effective income tax rate, refer to Note 14 of the Notes to our Consolidated Financial Statements.

In 2009, our effective tax rate increased by 0.5 percentage points compared with 2008, reflecting the net impact of a number of items. State income taxes represented 2.7 percentage points of our effective tax rate compared with 1.5 percentage points in 2008, due to a favorable impact from reducing accruals for state income taxes in 2008 that did not recur in 2009.

Second, in 2009, we recorded an operating expense of $3.4 million for penalties related to the timing of deposits for taxes withheld on stock option exercises. This penalty is not deductible for income tax purposes and increased our effective tax rate by 1.1 percentage points.

A third item that increased the effective tax rate in 2009 relates to disqualifying dispositions of incentive stock options. A disqualifying disposition occurs when the option holder sells shares within one year of exercising an incentive stock option. We receive a cash tax benefit when a disqualifying disposition occurs. A portion of this tax benefit is recorded as a reduction to income tax expense in our Statement of Income, reducing our effective income tax rate. In 2009, we adjusted the amount of the tax benefit recognized in our previous years Statements of Income related to disqualifying dispositions. While this adjustment did not impact the amount of cash tax benefit we received for the disqualifying dispositions, it increased our effective tax rate by 1.4 percentage points in 2009. As of December 2009, all incentive stock options have been exercised, and therefore we do not expect that disqualifying dispositions will impact our effective tax rate in the future.

The $6.1 million of operating expense related to adjusting the tax treatment of stock options originally considered incentive stock options increased the effective tax rate by 0.8 percentage points, as these operating expenses are subject to deduction limitations for income tax purposes.

The above items, which increased our effective tax rate, were partially offset by three primary items. First, research and development and foreign tax credits, some from previous years, reduced the 2009 effective tax rate by 2.5 percentage points. A reversal of reserves for uncertain tax positions, primarily as a result of a lapse in the statute of limitations, also reduced our effective tax rate by 1.4 percentage points in 2009. Lastly, our income tax expense included a non-cash tax benefit of $1.3 million related to adjusting the treatment of stock options that were originally considered ISOs. This tax benefit lowered the effective tax rate by 1 percentage point.

In 2008, our effective tax rate declined 5.0 percentage points. The 2008 effective tax rate reflects the favorable, but variable, benefit from incentive stock-option transactions and a decrease in our U.S. state tax rate following a 2007 change in state tax law. These reductions were partially offset by an increase in liabilities for certain tax positions in the company s U.S. and non-U.S. operations.

As of December 31, 2009, we had net operating loss (NOL) carryforwards of $50.6 million related to our non-U.S. operations and have recorded a valuation allowance against all but $4.4 million of these NOLs. Because of the historical operating losses for certain non-U.S. operations, a valuation allowance is required because we do not believe that we will be able to use all of our non-U.S. NOLs.

Certain positions we have taken or intend to take on our U.S. and non-U.S. tax returns may be reviewed by tax authorities in the jurisdictions in which we operate. As of December 31, 2009, we had approximately $6.1 million of gross unrecognized tax benefits, of which $5.3 million, if recognized, would reduce our effective income tax rate and decrease our income tax expense by $4.7 million. In 2010, we expect changes to our liability for uncertain tax positions of approximately $0.8 million for settlements with tax authorities. It is not possible to estimate the impact of current audits on previously recorded unrecognized tax benefits.

We anticipate that our effective income tax rate may continue to fluctuate related to the creation or reversal of valuation allowances for our non-U.S. operations as well as to changes in unrecognized tax benefits.

Liquidity and Capital Resources

We believe our available cash balances and investments, along with cash generated from operations, will be sufficient to meet our operating and cash needs for the foreseeable future. We invest our cash reserves in cash equivalents and investments, consisting primarily of fixed-income securities. We maintain a conservative investment policy for our investments, emphasizing principal preservation, and invest a portion of these assets in municipal securities with high-quality stand-alone credit ratings. Investments in our portfolio have a maximum maturity of two years; the weighted average maturity is approximately one year.

We intend to use our cash, cash equivalents, and investments for general corporate purposes, including for working capital and for funding future growth. To date we have not needed to access any significant commercial credit and have not attempted to borrow or establish any lines of credit. Over the past three years, we invested $240.1 million for acquisitions, less cash acquired, with internally generated funds.

Cash, Cash Equivalents, and Investments

As of December 31, 2009, we had cash, cash equivalents, and investments of $342.6 million, an increase of $45.0 million compared with December 31, 2008. This increase mainly reflects cash provided by operating activities and proceeds received from employee stock option exercises, partially offset by payments for acquisitions and capital expenditures.

We used a portion of our cash and investments balances in the first quarter of 2010 to make annual bonus payments of approximately $21 million. In addition, in the first quarter of 2010, we paid $4.9 million to one former and two current executives, related to adjusting the tax treatment of certain stock options originally considered incentive stock options. We expect that this payment will be partially offset by a cash tax benefit in the future.

Cash Provided by Operating Activities

Our main source of capital is cash generated from operating activities.

In 2009, cash provided by operating activities was $96.2 million driven by $110.6 million of net income (adjusted for non-cash items) partially offset by $14.4 million in changes from our net operating assets and liabilities, mainly driven by bonus payments. We paid $58.9 million for bonuses in 2009, including $10.0 million in deferred payments from 2007. The cash flow impact of these payments was partially offset by the cash flow benefit from accrued compensation for the 2009 bonuses.

In 2008, cash provided by operating activities was $152.4 million, driven by $115.5 million of net income (adjusted for non-cash items) and $36.9 million of changes in our net operating assets and liabilities. Changes in our operating assets and liabilities mainly benefited from a $16.3 million increase in deferred rent related to tenant improvement allowances received in connection with the build-out of our new headquarters, a $46.9 million increase in accrued compensation, and a $41.9 million increase in income taxes payable. Bonus payments of approximately $49.3 million and tax payments of $19.8 million offset these cash flow benefits.

In 2007, cash provided by operating activities was $112.4 million, driven by net income (adjusted for non-cash items) of $72.5 million, and changes in our net operating assets and liabilities of $39.9 million. Changes in net operating assets mainly benefited from a $58.4 million increase in accrued compensation and a $53.0 million increase in income taxes payable. These benefits were offset by bonus payments of $35.3 million and tax payments of $27.8 million.

Cash Used for Investing Activities

Cash used for investing activities consists primarily of cash used for acquisitions, purchases of investments (net of proceeds from the maturity or sale of investments), and capital expenditures. The level of cash used for investing activities can vary from period to period depending on the level of activity in these three categories. Cash used for investing activities was $174.7 million in 2009, $179.1 million in 2008, and $102.8 million in 2007.

Cash used for acquisitions in 2009, net of cash acquired, was $74.2 million. We completed six acquisitions in 2009. The majority of the cash used for acquisitions was related to our purchase of Logical Information Machines, Inc. and our acquisition of the equity research and data business of C.P.M.S. Computerized Portfolio Management Services, Inc. In 2008, cash used for acquisitions, net of cash acquired, of $105.4 million. The majority of this amount pertains to our acquisition of the Hemscott data, media, and investor relations website businesses and Tenfore Systems Limited. Cash used for acquisitions in 2007, net of cash acquired, was $60.5 million, primarily related to our acquisition of the fund data business from Standard & Poor s.

Purchases of investments, net of proceeds from the maturity or sale of investments, were $83.9 million, $24.9 million, and $31.0 million in 2009, 2008, and 2007, respectively. As of December 31, 2009 and 2008, we had investments, consisting primarily of fixed-income securities, of $212.1 million and $123.7 million, respectively. As of December 31, 2009, our investments represented approximately 62% of our total cash, cash equivalents, and investments, up 20 percentage points compared with December 31, 2008, primarily due to the significant cash outflow for the purchase of Logical Information Machines, Inc. on December 31, 2009.

Capital expenditures were $12.4 million, $48.5 million, and $11.3 million in 2009, 2008, and 2007, respectively. Capital expenditures peaked in 2008 when we paid for the build-out of our new headquarters in Chicago. Some of the cash outlay for this investment continued into 2009. Capital expenditures in 2009 also include investment for a couple of our office locations in Europe. Tenant improvement allowances of $16.3 million, which are included in cash provided by operating activities, reduced the total amount of cash we paid for the build-out in 2008. We expect to make capital expenditures of approximately $16 million in 2010, primarily for leasehold improvements and computer equipment.

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In 2009, we used cash of approximately $4.2 million to acquire minority equity stakes in Pitchbook Data, a private equity data provider, and Bundle Corporation, a start-up company dedicated to helping people make smarter spending and saving choices. This amount also includes the cash we paid to increase our ownership interest in Morningstar Korea, making it one of our majority-owned operations.

Cash Provided by Financing Activities

Cash provided by financing activities consists primarily of proceeds from stock option exercises and excess tax benefits related to stock option exercises and vesting of restricted stock units. Excess tax benefits occur at the time a stock option is exercised when the intrinsic value of the option (the difference between the fair value of our stock on the date of exercise and the exercise price of the option) is greater than the fair value of the option at the time of grant. Similarly, the vesting of restricted stock units generates excess tax benefits when the market value of our common stock on the vesting date exceeds the grant price of the restricted stock units. These excess tax benefits reduce the cash we pay for income taxes in the year they are recognized. It is not possible to predict the timing of stock option exercises or the intrinsic value that will be achieved at the time options are exercised or upon vesting of restricted stock units. As a result, we expect cash flow from financing activities to vary over time. Note 10 in the Notes to our Consolidated Financial Statements includes additional information concerning stock options and restricted stock units outstanding as of December 31, 2009.

In 2009, cash provided by financing activities was $30.4 million. Proceeds from stock option exercises totaled $16.4 million and excess tax benefits related to stock option exercises and vesting of restricted stock units totaled $13.8 million. In 2009, cash provided by financing activities decreased by $17.2 million, or 36.2%, compared with 2008, driven mostly by a $9.8 million decline in excess tax benefits, and to a lesser extent by a $7.0 million decline in proceeds from stock option exercises. The decrease mainly reflects a lower average stock price at the time the stock options were exercised and a decrease in the number of options exercised.

In 2008, cash provided by financing activities was $47.6 million. Proceeds from stock option exercises totaled $23.4 million and excess tax benefits related to stock option exercises and vesting of restricted stock units totaled $23.5 million. In 2008, cash provided by financing activities decreased by $4.8 million, or 9.2%, compared with 2007, driven mostly by a $6.9 million decline in excess tax benefits. The decrease was due primarily to a lower average stock price at the time the stock options were exercised.

Employees exercised approximately 1.4 million, 2.4 million, and 2.5 million stock options in 2009, 2008, and 2007, respectively. The total intrinsic value of options exercised during 2009, 2008, and 2007 was $37.4 million, $113.6 million, and $133.5 million, respectively.

Acquisitions

We invested a total of $240.1 million, less cash acquired, related to acquisitions over the past three years. We describe these acquisitions, including purchase price and product offerings, in Note 6 of the Notes to our Consolidated Financial Statements.

Subsequent Event

See Note 16 in the Notes to our Condensed Consolidated Financial Statements for information on events subsequent to December 31, 2009.

Application of Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. We discuss our significant accounting policies in Note 2 of the Notes to our Consolidated Financial Statements. The preparation of financial statements in accordance with GAAP requires our management team to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expense, and related disclosures included in our Consolidated Financial Statements.

We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and various other assumptions that we believe are reasonable. Based on these assumptions and estimates, we make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our actual results could vary from these estimates and assumptions. If actual amounts are different from previous estimates, we include revisions in our results of operations for the period in which the actual amounts become known.

We believe the following critical accounting policies reflect the significant judgments and estimates used in the preparation of our Consolidated Financial Statements:

Revenue Recognition

Much of our revenue comes from the sale of subscriptions or licenses for print publications, software, and Internet-based products and services. We recognize this revenue in equal amounts over the term of the subscription or license, which generally ranges from one to three years. We also provide analysis, consulting, retirement advice, and other services. We recognize this revenue when the service is provided or during the service obligation period defined in the contract.

We make significant judgments related to revenue recognition, including whether fees are fixed or determinable and whether the collection of payment is probable. For contracts that combine multiple products and services, we make judgments regarding the value of each element in the arrangement based on selling prices of the items when sold separately. Delivery of our products and services is a prerequisite to the recognition of revenue. If arrangements include an acceptance provision, we begin recognizing revenue upon the receipt of customer acceptance.

Deferred revenue is the amount invoiced or collected in advance for subscriptions, licenses, or services that has not yet been recognized as revenue. As of December 31, 2009, our deferred revenue was $127.1 million. We expect to recognize this deferred revenue in future periods as we fulfill our service obligations. The amount of deferred revenue may increase or decrease primarily based on the mix of contracted products and services and the volume of new and renewal subscriptions. The timing of future revenue recognition may change depending on the terms of the license agreements and the timing of fulfilling our service obligations. We believe that the estimate related to revenue recognition is a critical accounting estimate, and to the extent that there are material differences between our determination of deferred revenue and actual results, our financial condition or results of operations may be affected.

Purchase Price Allocation

Over the past several years, we have acquired several companies that complement our business operations. Over the past three years, the total cash paid for acquisitions, less cash acquired, was $240.1 million.

For each acquisition, we allocate the purchase price to the assets acquired, liabilities assumed, and goodwill in accordance with FASB ASC 805, *Business Combinations*. We recognize the assets and liabilities acquired related to these acquisitions at their estimated fair values. As of December 31, 2009, we allocated $192.6 million of gross value to intangible assets, primarily for customer-related assets, technology-based assets, and intellectual property. The estimated useful lives of the intangible assets range from one to 25 years. As of December 31, 2009, we also have recorded $250.0 million of goodwill arising from acquisitions.

Management judgment is required in allocating the purchase price to the acquired assets and liabilities. We use judgment to:

- identify the acquired assets,
- estimate the fair value of these assets,
- estimate the useful life of the assets; and
- assess the appropriate method for recognizing depreciation or amortization expense over the asset s useful life.

We believe that the accounting estimates related to purchase price allocations are critical accounting estimates because the assumptions impact the amounts and classifications of assets and liabilities presented in our Consolidated Balance Sheets, the amount of amortization and depreciation expense, if any, recorded in our Consolidated Statements of Income, and the impairment testing performed in subsequent periods.

Goodwill

Goodwill recorded on our Consolidated Balance Sheet as of December 31, 2009 was $250.0 million. In accordance with FASB ASC 350, *Intangibles Goodwill and Other*, we do not amortize goodwill. Instead, it is subject to at least an annual test for impairment, or whenever indicators of impairment exist, based on a discounted cash-flow model. An impairment would occur if the carrying amount of a reporting unit, including goodwill, exceeded the fair value of that reporting unit.

The process of evaluating the potential impairment of goodwill is subjective and requires significant judgment. In estimating the fair value of the reporting units, we make estimates and judgments about the future cash flows of the reporting unit. These estimates include assumptions about future market growth and trends, forecasted revenue and costs, capital investments, appropriate discount rates, and other variables that can significantly affect the value of the reporting unit.

Although our cash flow forecasts are based on assumptions that are consistent with plans and estimates we use to manage the underlying business, there is significant judgment in determining the cash flows attributable to these businesses over a long-term horizon. We update these assumptions and cash flow estimates at least annually.

We believe that the accounting estimate related to goodwill impairment is a critical accounting estimate because the assumptions used are highly susceptible to changes in the operating results and cash flows of the reporting units included in our segments. If actual results differ from our estimates, future tests may indicate an impairment of goodwill. This would result in a non-cash charge, adversely affecting our results of operations.

Impairment of Long-Lived Assets

Our Consolidated Balance Sheet as of December 31, 2009 includes property, equipment, and capitalized software, net of accumulated depreciation, of $59.8 million and intangible assets, net of accumulated amortization, of $135.5 million. In accordance with FASB ASC 360-10-35*, Subsequent Measurement Impairment or Disposal of Long-Lived Assets*, we review our property, equipment, capitalized software, and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Such events or changes may include deterioration in the business climate for a specific product or service. If the total of projected future undiscounted cash flows is less than the carrying amount of an asset, we may need to record an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Estimates of future cash flows and the estimated useful lives associated with these assets are critical to the assessment of recoverability and fair values. They are susceptible to change from period to period because of the requirement to make assumptions about future cash flows generated over extended periods of time. Changes in these estimates could result in a determination of asset impairment, which would result in a reduction to the carrying value and could adversely affect our operating results in the related period.

Stock-Based Compensation

We include stock-based compensation expense in each of our operating expense categories. Over the past three years, we have mainly granted restricted stock units (RSUs) to employees. Because of these additional RSU grants, stock-based compensation expense related to RSUs has increased over the past three years. In contrast, stock-based compensation expense related to stock options has declined over the past three years reflecting no stock option grants in 2009 and 2008, a small grant in 2007, and that stock options granted prior to 2007 were fully expensed by the end of 2009.

Under FASB ASC 718*, Compensation Stock Compensation*, stock-based compensation expense is measured at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the award s vesting period. We measure the fair value of our restricted stock units on the date of grant based on the market price of the underlying common stock as of the close of trading on the day prior to grant. For stock options, we measured the fair value on the date of grant using a Black-Scholes option-pricing model. We estimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for those awards expected to vest. We ultimately adjust this forfeiture assumption to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Instead, different forfeiture assumptions would only impact the timing of expense recognition over the vesting period.

Because our largest annual equity grants typically have vesting dates in the second quarter of the year, we adjust the stock-based compensation expense at that time to reflect those awards that ultimately vested. In addition, we update our estimate of the forfeiture rate that will be applied to awards not yet vested. In 2009 and 2008, we recorded approximately $0.2 million of additional stock-based compensation expense related to these changes in estimates.

We believe that the estimates related to stock-based compensation expense are critical accounting estimates because the assumptions used could significantly impact the timing and amount of stock-based compensation expense recorded in our Consolidated Financial Statements.

Income Taxes

Our effective tax rate is based on the mix of income and losses in our U.S. and non-U.S. operations, statutory tax rates, and tax-planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required to evaluate our tax positions.

Tax law requires us to include items in our tax return at different times from when these items are reflected in our Consolidated Income Statement. As a result, the effective tax rate reflected in our Consolidated Financial Statements is different from the tax rate reported on our tax return (our cash tax rate). Some of these differences, such as expenses that are not deductible in our tax return, are permanent. Other differences, such as depreciation expense, reverse over time. These timing differences create deferred tax assets and liabilities. We determine our deferred tax assets and liabilities based on temporary differences between the financial reporting and the tax basis of assets and liabilities. The excess tax benefits associated with stock option exercises and vesting of restricted stock units also create a difference between our cash tax rate and the effective tax rate in our Consolidated Income Statement.

As of December 31, 2009, we had gross deferred tax assets of $48.9 million and gross deferred tax liabilities of $39.6 million. The deferred tax assets include $14.0 million of deferred tax assets related to $50.6 million of NOLs of our non-U.S. operations. Because of the historical operating losses of certain of the non-U.S. operations that generated these NOLs, we have recorded a valuation allowance against all but approximately $4.4 million of the NOLs, reflecting the likelihood that the benefit of the NOLs will not be realized. 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.

In assessing the need for a valuation allowance, we consider both positive and negative evidence, including tax-planning strategies, projected future taxable income, and recent financial performance. If we determine a lesser allowance is required at some point in the future, we would record a reduction to our tax expense and valuation allowance. These adjustments would be made in the same period we determined the change in the valuation allowance was needed. This would cause our income tax expense, effective tax rate, and net income to fluctuate.

We assess uncertain tax positions in accordance with FASB ASC 740*, Income Taxes.* We use judgment to identify, recognize, and measure the amounts to be recorded in the financial statements related to tax positions taken or expected to be taken in a tax return. We recognize liabilities to represent our potential future obligations to taxing authorities for the benefits taken in our tax returns. We adjust these liabilities, including any impact of the related interest and penalties, in light of changing facts and circumstances such as the progress of a tax audit. A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction.

We use judgment to classify unrecognized tax benefits as either current or noncurrent liabilities in our Consolidated Balance Sheets. Settlement of any particular issue would usually require the use of cash. We generally classify liabilities associated with unrecognized tax benefits as noncurrent liabilities. It typically takes several years between our initial tax return filing and the final resolution of any uncertain tax positions with the tax authority. We recognize favorable resolutions of tax matters for which we have previously established reserves as a reduction to our income tax expense when the amounts involved become known.

Assessing the future tax consequences of events that have been recognized in our Consolidated Financial Statements or tax returns requires judgment. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations, or cash flows.

Contingencies

We are subject to various claims and contingencies related to legal proceedings and investigations, which we describe in Note 15 of the Notes to our Consolidated Financial Statements. These legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties, and government actions. Assessing the probability of loss for such contingencies and determining how to accrue the appropriate liabilities requires judgment. If actual results differ from our assessments, our financial position, results of operations, or cash flows would be impacted.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16*, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets* and ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.*

These accounting pronouncements change the way entities account for transfers of financial assets and determine what entities must be consolidated. The most significant amendment resulting from ASU No. 2009-16 consists of the removal of the concept of a Qualifying Special-Purpose Entity (QSPE) from ASC 860, *Transfers and Services.* ASU No. 2009-17 addresses the effects of eliminating the QSPE concept from ASC 860, *Transfers and Services,* and responds to concerns about the application of certain key provisions of ASC 810, *Consolidation*, including concerns over the transparency of enterprises involvement with Variable Interest Entities (VIEs). We adopted ASU No. 2009-16 and ASU No. 2009-17 effective January 1, 2010 and do not anticipate any impact on our Consolidated Financial Statements.

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements.* ASU 2009-13 supersedes EITF Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. ASU 2009-13 establishes the accounting and reporting guidance for arrangements when a vendor performs multiple revenue-generating activities, addresses how to separate deliverables, and how to measure and allocate arrangement consideration. Vendors often provide multiple products or services to customers. Because products and services are often provided at different points in time or over different time periods within the same contractual arrangement, this guidance enables vendors to account for products or services separately rather than as a combined unit.

Also in October 2009, the FASB issued ASU No. 2009-14, *Software (Topic 985): Certain Revenue Arrangements That Include Software Elements,* and affects vendors that sell or lease tangible products in an arrangement that contains software that is more than incidental to the tangible product as a whole. ASU No. 2009-14 does not affect software revenue arrangements that do not include tangible products. They also do not affect software revenue arrangements that include services if the software is essential to the functionality of those services.

For Morningstar, ASU No. 2009-13 and ASU No. 2009-14 will be effective prospectively for revenue arrangements entered into from January 1, 2011. Early adoption is permitted. We are in the process of determining the impact, if any, these accounting standard updates will have on our Consolidated Financial Statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. ASU No. 2010-06 requires additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 also amends Topic 820 to further clarify existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the disclosure requirements regarding the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements.

For Morningstar, the requirement to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy will be effective beginning with our 2010 Consolidated Financial Statements. The requirement to separately disclose purchases, sales, issuances, and settlements in the Level 3 rollforward will be effective beginning with our 2011 Consolidated Financial Statements. We are in the process of determining the impact, if any, these accounting pronouncements will have on our Consolidated Financial Statements.

Contractual Obligations

The table below shows our known contractual obligations as of December 31, 2009 and the expected timing of cash payments related to these contractual obligations:

($000)	2010	2011	2012	2013	2014	Thereafter	Total
Minimum commitments on non-cancelable operating lease obligations (1)	$ 17,107	$ 15,446	$ 12,572	$ 10,538	$ 10,792	$ 74,044	$ 140,499
Unrecognized tax benefits (2)	981						981
Total	$ 18,088	$ 15,446	$ 12,572	$ 10,538	$ 10,792	$ 74,044	$ 141,480

(1) The non-cancelable operating lease obligations are mainly for lease commitments for office space.

(2) Represents unrecognized tax benefits (including penalties and interest, less the impact of any associated tax benefits) recorded in accordance with FASB ASC 740, *Income Taxes*. The amount included in the table represents amounts we anticipate may be settled in 2010. The table excludes $5.4 million of unrecognized tax benefits, included as a long-term liability in our Consolidated Balance Sheet as of December 31, 2009, for which we cannot make a reasonably reliable estimate of the period of payment.

There are no purchase commitments as of December 31, 2009 that we believe would have a significant impact on our financial position or cash flows.

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 19, 2010.

MORNINGSTAR, INC.

By: /s/ Richard E. Robbins
Name: Richard E. Robbins
Title: General Counsel and Corporate Secretary