Territorial Bancorp Inc.
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2011

or

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

For transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

Maryland	**26-4674701**
(State or Other Jurisdiction of Incorporation)	**(I.R.S. Employer Identification No.)**
1132 Bishop Street, Suite 2200, Honolulu, Hawaii	**96813**
(Address of Principal Executive Offices)	**(Zip Code)**

(808) 946-1400

Registrant s telephone number, including area code

Not Applicable

(Former name or former address, if changed since last report)

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 ¨.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the Issuer s classes of common stock as of the latest practicable date. 11,980,510 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of April 30, 2011.

TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	March 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 158,789	$ 194,435
Investment securities available for sale	14,678	15,010
Investment securities held to maturity, at amortized cost (fair value of $614,466 and $546,844 at March 31, 2011 and December 31, 2010, respectively)	603,496	530,555
Federal Home Loan Bank stock, at cost	12,348	12,348
Loans held for sale	660	3,234
Loans receivable, net	652,487	641,790
Accrued interest receivable	4,840	4,536
Premises and equipment, net	5,385	5,426
Bank-owned life insurance	29,506	29,266
Deferred income taxes receivable	947	22
Prepaid expenses and other assets	5,184	6,790
Total assets	$ 1,488,320	$ 1,443,412
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Deposits	$ 1,096,480	$ 1,076,470
Advances from the Federal Home Loan Bank	20,000	10,000
Securities sold under agreements to repurchase	122,200	105,200
Accounts payable and accrued expenses	17,288	20,430
Current income taxes payable	2,668	577
Advance payments by borrowers for taxes and insurance	2,188	3,376
Total liabilities	1,260,824	1,216,053
Commitments and contingencies		
Stockholders Equity		
Preferred stock, $.01 par value; authorized 50,000,000 shares, no shares issued or outstanding		
Common stock, $.01 par value; authorized 100,000,000 shares; issued and outstanding 12,027,642 and 12,177,418 shares at March 31, 2011 and December 31, 2010	122	122
Additional paid-in capital	117,024	119,153
Unearned ESOP shares	(8,686)	(8,808)
Retained earnings	121,606	119,397
Accumulated other comprehensive loss	(2,570)	(2,505)
Total stockholders equity	227,496	227,359
Total liabilities and stockholders equity	$ 1,488,320	$ 1,443,412

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2011	**2010**
Interest and dividend income:		
Investment securities	$ 6,371	$ 6,807
Loans	8,883	8,529
Other investments	92	76
Total interest and dividend income	15,346	15,412
Interest expense:		
Deposits	1,708	2,959
Advances from the Federal Home Loan Bank	86	
Securities sold under agreements to repurchase	1,034	1,084
Total interest expense	2,828	4,043
Net interest income	12,518	11,369
Provision for loan losses	108	
Net interest income after provision for loan losses	12,410	11,369
Non-interest income:		
Total other-than-temporary impairment losses		(3,510)
Portion of loss recognized in other comprehensive income (before taxes)		1,106
Net other-than-temporary impairment losses		(2,404)
Service fees on loan and deposit accounts	558	623
Income on bank-owned life insurance	239	255
Gain on sale of investment securities	66	68
Gain on sale of loans	144	80
Other	119	46
Total non-interest income	1,126	(1,332)
Non-interest expense:		
Salaries and employee benefits	5,126	4,660
Occupancy	1,221	1,139
Equipment	766	716
Federal deposit insurance premiums	296	292
Other general and administrative expenses	1,000	982
Total non-interest expense	8,409	7,789
Income before income taxes	5,127	2,248
Income taxes	2,127	787

Net income	$	3,000	$	1,461
Basic earnings per share	$	.27	$	.13
Diluted earnings per share	$	.26	$	.13
Cash dividends declared per common share	$	.07		.05
Basic weighted average shares outstanding		11,262,399		11,309,596
Diluted weighted average shares outstanding		11,360,654		11,309,596

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

and Comprehensive Income (Unaudited)

(Dollars in thousands)

Additional Paid-in Capital	Unearned ESOP Shares
118,823	(9,297)
111	122
118,934	(9,175)
119,153	(8,808)

nt-size:10pt;">, and 10.3% of our consolidated revenue in 2018, 2017, and 2016, respectively.

ingstar Office

ingstar Office is a portfolio and practice management software package for independent registered investment ors (RIAs) that combines portfolio accounting and reporting with Morningstar's data, analytics, and research.

18, Morningstar Office Cloud, our next-generation web-based product for advisors, joined the web-based editions orningstar Direct on the Morningstar Cloud platform. Morningstar Office Cloud product enhancements include des to Presentation Studio, which include a custom reporting solution, improvements to practice billing ilities, user-defined security reclassifications, and a personal finance management component.

ary competitors to Morningstar Office Cloud include Black Diamond, Envestnet's Tamarac, Orion Advisor ces, and Advyzon.

December 31, 2018, approximately 5,500 financial advisors in the U.S. and the United Kingdom were licensed to orningstar Office.

place Solutions

ingstar Workplace Solutions includes several different offerings, including managed retirement accounts (MRA), ary services, Morningstar Lifetime Allocation Funds, and custom models.

ered primarily through the Morningstar Retirement Manager platform, our MRA program helps retirement plan ipants define, track, and achieve their retirement goals. As part of this service, we deliver personalized mendations for a target retirement income goal, a recommended contribution rate to help achieve that goal, a olio mix based on our Total Wealth methodology, and specific investment recommendations. We then manage the ipant's investment portfolio for them, assuming full discretionary control. We also offer Advisor Managed unts, a program that allows financial advisors to specify and assume fiduciary responsibility for the underlying olios that we use in our service. We do not hold assets in custody for the managed retirement accounts we provide.

main competitors in MRA are Financial Engines, Fidelity, and Guided Choice. Companies that provide automated tment advice to consumers, such as Betterment and Wealthfront, are also attempting to break into oyer-sponsored retirement markets.

r fiduciary services offering, we help plan sponsors build out an appropriate investment lineup for their participants helping to mitigate their fiduciary risk. Morningstar Plan Advantage is an extension of our fiduciary services that des a technology platform that enables advisors at broker/dealer firms to more easily offer fiduciary protection, der pricing, and investment reporting services to their plan sponsor clients.

nain competitors in fiduciary services are Mesirow and Wilshire Associates, but we are starting to see growing etition with Envestnet and smaller players such as Leafhouse Financial and Iron Financial. Broker/dealers are also ng to introduce their own fiduciary services in direct competition with recordkeepers.

our custom models, we offer two different services. We work with retirement plan recordkeepers to design ble solutions for their investment lineups, including target maturity models and risk-based models. We also provide m model services direct to large plan sponsors, creating target date funds that are customized around a plan's ipant demographics and investment menus. For custom models, we often compete with retirement plan ltants. We also serve as a nondiscretionary subadvisor and index provider for the Morningstar Lifetime Allocation s, a series of target-date collective investment trust funds (CITs) offered by UBS Asset Management to retirement sponsors. Retirement plan sponsors can select a conservative, moderate, or growth version of the glide path for the based on the needs of participants in the plan. For the Lifetime Allocation Funds, we compete with other ders of target-date funds.

18, we signed our first large wealth management firm onto Morningstar Plan Advantage.

ng for Workplace Solutions depends on several different factors, including the level of services offered (including ner the services involve acting as a fiduciary under the Employee Retirement Income Security Act, or ERISA), the er of participants, the level of systems integration required, and the availability of competing products.

ingstar.com

argest website, Morningstar.com, helps individual investors discover, evaluate, and monitor stocks, bonds, ETFs, nutual funds; build and monitor portfolios; and monitor the markets. Revenue is generated from paid memberships gh Morningstar Premium and Internet advertising sales.

Morningstar Premium offering is focused on bringing clarity and confidence to investment decisions. Members access to proprietary Morningstar research, ratings, data, and tools, including analyst reports, portfolio gement tools (such as Portfolio X-Ray), and stock and fund screeners.

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urrently offer Premium Membership services in Australia, Canada, Italy, the United Kingdom, and the U.S.

e many consumer-facing websites purchase advertising programmatically, Morningstar.com owns and sells digital tising on a direct basis. In our experience, advertisers that desire to reach our significant user base of engaged dual investors support Morningstar.com's value as a unique, high-quality web property.

18, we successfully migrated all of our Premium membership to the newly redesigned Morningstar.com. The new ingstar.com features streamlined navigation, a new quote page with an enhanced Analyst Report interface, and a Investment Center that prescreens our favorite stock, ETF, and mutual fund ideas.

ingstar.com primarily competes with trading platforms that concurrently offer research and investing advice, such delity, Schwab, TD Ameritrade, and eTrade. Research sites, such as The Motley Fool, Seeking Alpha, and Zacks tment Research, also compete with us for paid membership. In addition, free or "freemium" websites such as Yahoo ce, Dow Jones/Marketwatch, The Wall Street Journal, Kiplinger, and TheStreet.com all compete for the tising dollars of entities wishing to reach an engaged audience of investors.

December 31, 2018, Morningstar.com had approximately 10 million registered free members worldwide. We also pproximately 116,000 paid Premium members in the U.S. plus an additional 15,000 Premium members across global markets. We charge a monthly, annual, or multi-year subscription fee for Morningstar.com's Premium bership service.

raph below shows our annual retention rates for subscription-based products, which are primarily ingstar.com's Premium Membership service and newsletter products. In 2018, we estimate that our annual ion rate for subscription-based products was approximately 68%, compared to 66% in 2017.

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ingstar Credit Ratings

ingstar Credit Ratings, LLC is an NRSRO that provides timely new issue and surveillance ratings for structured ce transactions, as well as corporate issuers and financial institutions and their individual debt issuances. We de ratings on a broad range of structured finance securities, including commercial mortgage-backed securities BS), residential mortgage-backed securities (RMBS), single-family rental securities, collateralized loan ations, and other asset-backed securities (ABS). We also provide other (non-credit rating) services such as CMBS monitoring, corporate credit estimates, and operational risk assessment services.

18, we invested heavily in our CMBS rating business, introducing a new methodology for rating CMBS single single borrower (SASB) transactions, and updating our existing methodology for rating CMBS conduit ctions. We also provided RMBS and ABS market participants with cutting edge thought leadership throughout the

usiness competes with several other firms, including DBRS, Fitch, Kroll Bond Ratings, Moody's, and S&P Global gs.

ew-issue ratings, we charge one-time fees to the issuer based on the type of security, the size of the transaction, he complexity of the issue. Our rating fees also can cover surveillance of the transaction until the securities e. We charge annual fees for our subscription-based CMBS monitoring service. Pricing for this service varies nding on the solution and the level of access within a client organization.

ingstar Indexes

ffer a broad range of indexes that can be used as performance benchmarks and for the purposes of creating tment products. Our indexes track major asset classes, including global equity, global fixed income and nodities. We offer multi-asset indexes, strategic beta indexes based on Morningstar's proprietary research, and nability indexes.

18, several global asset managers launched low-cost investment vehicles tracking Morningstar's beta indexes. In on, products based on our factor-based indexes, which included dividend-based indexes and moat-focused indexes raw upon our proprietary research launched in the U.S., Europe, and Asia. We launched additional nability-focused index families, including Low Carbon Risk, Sustainable Environment, and Sustainability ers.

than 100 firms have now joined the Morningstar Open Indexes Project, which allows asset managers and other the ability to benchmark their investments against more than 100 Morningstar global equity indexes for free. The of the project is to lower benchmarking costs for the industry and improve outcomes for investors in response to calating costs of licensing market-cap-weighted equity indexes. Participants receive price return, total return, net , and month-end constituent data for indexes included in the project.

cense Morningstar Indexes to numerous institutions that offer ETFs, exchange-traded notes, and structured cts based on the indexes. Firms license Morningstar Indexes for both product creation (where we typically receive reater of a minimum fee or basis points tied to assets under management) and data licensing (where we typically ve annual licensing fees). In both cases, our pricing varies based on the level of distribution, the type of user, and pecific indexes licensed.

r competitors for Morningstar Indexes include FTSE Russell, MSCI, S&P Dow Jones Indices (offered through Global), and Bloomberg Indices.

st Customer

18, our largest customer accounted for less than 2% of our consolidated revenue.

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isitions and Divestitures

our founding in 1984, we've supported our organic growth by introducing new products and services and nding our existing offerings. From 2006 through 2018, we also completed 31 acquisitions to support our growth tives. We did not make any significant acquisitions in 2018. We divested our 15(c) board consulting services ct line in the first quarter of 2018.

nore information about our acquisitions and divestitures, refer to Notes 8 and 9 of the Notes to our Consolidated cial Statements.

national Operations

onduct our business operations outside of the U.S. through wholly owned or majority-owned operating subsidiaries in each of the following 26 countries: Australia, Brazil, Canada, Chile, Denmark, France, Germany, India, Italy, , Luxembourg, Mexico, the Netherlands, New Zealand, Norway, People's Republic of China (both Hong Kong and ainland), Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, United Arab ates, and the United Kingdom. See Note 6 of the Notes to our Consolidated Financial Statements for additional mation concerning revenue from customers and long-lived assets from our business operations outside the U.S.

ectual Property and Other Proprietary Rights

eat our brand name and logo, product names, databases and related content, software, technology, know-how, and ke as proprietary. We seek to protect this intellectual property by using: (i) trademark, copyright, patent and trade s laws; (ii) licensing and nondisclosure agreements; and (iii) other security and related technical measures ned to restrict unauthorized access and use. For example, we generally provide our intellectual property to third s through the use of standard licensing agreements, which define the extent and duration of any third-party usage and provide for our continued ownership in any intellectual property furnished.

use of the value of our brand name and logo, we generally seek to register one or both of them as trademarks in all ant international classes in any jurisdiction in which we have business offices or significant operations. We have ered the Morningstar name and/or logo in approximately 50 jurisdictions, including the European Union, and have rations pending in several others. In some jurisdictions, we may also choose to register one or more product s.

ningstar" and the Morningstar logo are both registered marks of Morningstar in the U.S. The table below includes of the trademarks and service marks referenced in this report:

ingstar® Advisor Workstation℠	Morningstar® Plan Advantage℠
ingstar Analyst Rating™	Morningstar® Portfolio X-Ray®
ingstar® ByAllAccounts®	Morningstar Rating™
ingstar® Data	Morningstar® Retirement Manager℠
ingstar Direct℠	Morningstar Style Box™
ingstar® Enterprise Components	Morningstar Sustainability Rating™
ingstar® Indexes	Morningstar.com®
ingstar® Managed Portfolios℠	PitchBook®
ingstar Market Barometer℠	
ingstar Office℠	

dition to trademark registrations, we hold several patents in the U.S., including a patent for a coordinate-based ment processing system and several patents held by our wholly owned subsidiary, Morningstar Investment gement LLC, for lifetime asset allocation and asset allocation with annuities.

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se Agreements

cense our products and related intellectual property to our customers, generally for a fee. Generally, we use our ard agreement forms, and we do not provide our products and services to customers or other users without having reement in place.

naintain licensing agreements with most of our larger Morningstar operating companies around the world to allow to access and use our intellectual property, including, without limitation, our products, trademarks, databases and nt, technology, and know-how. We put these agreements in place to allow our operating companies to both market ard Morningstar products and services in their operating territories and to develop and sell territory-specific nts of those products under the Morningstar name in their specific territories.

ordinary course of our business, we obtain and use intellectual property from a variety of sources, including sing it from third-party providers, developing it internally, and gathering it through publicly available sources (e.g., atory filings).

nality

elieve our business has a minimal amount of seasonality. Some of our smaller products, such as our annual tment conference in Chicago, generate the majority of their revenue in the first or second quarter of the year. We nost of our products with subscription or license terms of at least one year and we recognize revenue ratably over rm of each subscription or license agreement. This tends to offset most of the seasonality in our business.

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

etitive Landscape

conomic and financial information industry includes a few large firms as well as numerous smaller companies, ding startup firms. Some of our main competitors include Bloomberg, S&P Global, and Thomson Reuters. These anies have financial resources that are significantly greater than ours. We also compete with a variety of other anies in specific areas of our business. We discuss some of the key competitors in each area in the Major Products ervices section of this report.

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

rch and Development

aspect of our growth strategy is to expand our investment research capabilities and enhance our existing products ervices. We strive to adopt new technology that can improve our products and services. As a general practice, we ge our own websites and build our own software rather than relying on outside vendors. This allows us to control chnology development and better manage costs, enabling us to respond quickly to market changes and to meet mer needs efficiently. As of December 31, 2018, our technology team consisted of approximately programmers and technology and infrastructure professionals.

rnment Regulation

d States

tment advisory and broker/dealer businesses are subject to extensive regulation in the U.S. at both the federal and evel, as well as by self-regulatory organizations. Financial services companies are among the nation's most sively regulated. The SEC is responsible for enforcing the federal securities laws and oversees federally registered tment advisors and broker/dealers.

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of our subsidiaries, Morningstar Investment Management LLC, Morningstar Investment Services LLC, and ingstar Research Services LLC, are registered as investment advisors with the SEC under the Investment Advisers f 1940 (Advisers Act). As Registered Investment Advisors, these companies are subject to the requirements and ations of the Advisers Act. These requirements relate to, among other things, record-keeping, reporting, and ards of care, as well as general anti-fraud prohibitions. As Registered Investment Advisors, these subsidiaries are ct to on-site examination by the SEC.

18, Morningstar Funds Trust's registration as an open-end management investment company under the Investment pany Act of 1940, as amended (Investment Company Act), was declared effective by the SEC. Morningstar tment Management serves as the sponsor and investment advisor of the Trust; and therefore is subject to the rements of the Investment Company Act. These requirements relate to, among other things, record-keeping, ting, standards of care, valuation, and distribution. As sponsor and investment advisor to the Trust, Morningstar tment Management is subject to on-site examinations by the SEC.

ected with the Trust, Morningstar Investment Management is registered with the U.S. Commodity Futures Trading mission as a 'commodity pool operator' (CPO) and a member of the National Futures Association (NFA). As such, ingstar Investment Management is subject to the requirements and regulations applicable to CPOs under the modity Exchange Act. These requirements relate to, among other things, record-keeping and reporting. As a CPO, ingstar Investment Management is subject to on-site examinations for the NFA and/or the U.S. Commodity es Trading Commission.

dition, in cases where these subsidiaries provide investment advisory services to retirement plans and their ipants, they may be acting as fiduciaries under the Employee Retirement Income Security Act of 1974 (ERISA). luciaries under ERISA, they have duties of loyalty and prudence, as well as duties to diversify investments and to v plan documents to comply with the applicable portions of ERISA.

ingstar Investment Services LLC is a broker/dealer registered under the Securities Exchange Act of 1934 ange Act) and a member of FINRA. The regulation of broker/dealers has, to a large extent, been delegated by the l securities laws to self-regulatory organizations, including FINRA. Subject to approval by the SEC, FINRA s rules that govern its members. FINRA and the SEC conduct periodic examinations of the brokerage operations of ingstar Investment Services.

er/dealers are subject to regulations that cover all aspects of the securities business, including sales, capital ure, record-keeping, and the conduct of directors, officers, and employees. Violation of applicable regulations can in the revocation of a broker/dealer license, the imposition of censures or fines, and the suspension or expulsion of or its officers or employees. As a registered broker/dealer, Morningstar Investment Services is subject to certain pital requirements under the Exchange Act. These requirements are designed to regulate the financial soundness quidity of broker/dealers.

ingstar Credit Ratings, LLC is registered with the SEC as a Nationally Recognized Statistical Rating Organization RO) specializing in rating structured finance investments, corporate credit issuers, and financial institutions. As an RO, Morningstar Credit Ratings is subject to certain requirements and regulations under the Exchange Act. These rements relate to, among other things, record-keeping, reporting, governance, and conflicts of interest. As part of RSRO registration, Morningstar Credit Ratings is subject to annual examination by the SEC.

alia

ingstar Australasia Pty Limited and Morningstar Investment Management Australia Ltd. are subsidiaries that de financial information services and advice in Australia. They are registered under an Australian Financial ces license and subject to oversight by the Australian Securities and Investments Commission (ASIC). This license res them to, among other things, maintain positive net asset levels and sufficient cash resources to cover three hs of expenses and to comply with the audit requirements of the ASIC.

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d Kingdom

ingstar Investment Management Europe Ltd. is authorized and regulated by the Financial Conduct Authority) to provide advisory services in the United Kingdom. As an authorized firm, Morningstar Investment gement Europe Ltd. is subject to the requirements and regulations of the FCA. Such requirements relate to, among things, financial reporting and other reporting obligations, record-keeping, and cross-border requirements.

dition, our index business, as a non-European Union administrator of indexes, will be seeking recognition from the under EU benchmark regulations so that our indexes can continue to be used by EU sponsors or investable cts (e.g., ETFs). Morningstar Investment Management Europe Ltd. will act as our legal representative for this se in the EU. Compliance with these regulations will require us to, among other things, comply with the IOSCO iples for Financial Benchmarks and related certification requirements.

Regions

ave a variety of other entities (including in Canada, France, Hong Kong, India, Japan, Korea, and South Africa) re registered with their respective regulatory bodies; however, the amount of business conducted by these entities d to the registration is relatively small.

ional legislation and regulations--including those not directly tied to investment advisory activities (e.g. privacy ybersecurity) as well as changes in rules imposed by the SEC or other U.S. or non-U.S. regulatory authorities and egulatory organizations--or changes in the interpretation or enforcement of existing laws and rules may adversely our business and profitability.

oyees

ad 5,416 employees globally as of December 31, 2018. Our U.S.-based employees are not represented by any s, and we have never experienced a walkout or strike.

utive Officers

March 1, 2019, we had nine executive officers. The table below summarizes information about each of these rs.

e	Age	Position
Iansueto	62	Executive Chairman
l Kapoor	43	Chief Executive Officer
Dubinsky	45	Chief Financial Officer
Desmond	52	Head of Talent and Culture
y Dunn	43	Chief Revenue Officer
ood Kelly	50	Head of Global Research
Ialoney	61	General Counsel
el Needham	40	President and Chief Investment Officer, Investment Management
Rothschild	52	Chief Product Officer

Iansueto

Iansueto founded Morningstar in 1984 and became executive chairman in 2017. He has served as chairman of the since the company's inception. He served as our chief executive officer from 1984 to 1996 and again from 2000 to

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r Joe’s leadership, Morningstar has been named twice to Fortune magazine’s “100 Best Companies to Work For” list, 11 and 2012. The Chicago Tribune recognized Morningstar as one of the top 100 workplaces in the Chicago area 10, 2011, and 2012, and Crain’s Chicago Business listed Morningstar in its Fast Fifty feature in 2007, 2008, 2009, 011. Morningstar won the 2010 AIGA Chicago Chapter Corporate Design Leadership Award, which recognizes rd-thinking organizations that have advanced design by promoting it as a meaningful business policy.

cember 2016, InvestmentNews named Joe to its list of 20 Icons & Innovators. MutualFundWire.com recognized s one of the 10 most influential individuals in the mutual fund industry in 2015, and he was the recipient of NSPONSOR’s Lifetime Achievement Award in 2013. In 2010, Joe received the Tiburon CEO Summit award, alFundWire.com named him ninth on its list of the 100 Most Influential People of the year, and Chicago magazine Joe among its top 40 Chicago pioneers over the past four decades. In 2007, SmartMoney magazine recognized n the “SmartMoney Power 30,” its annual list of the 30 most powerful forces in business and finance. He received istinguished Entrepreneurial Alumnus Award from The University of Chicago Booth School of Business in 2000.

olds a bachelor's degree in business administration from The University of Chicago and a master's degree in ess administration from The University of Chicago Booth School of Business.

l Kapoor

l Kapoor is chief executive officer of Morningstar and a member of our board of directors. Before assuming his nt role in 2017, he served as president, responsible for product development and innovation, sales and marketing, riving strategic prioritization across the firm.

e becoming president in 2015, Kunal was head of global products and client solutions. Kunal became head of our l client solutions group in 2013 and took on additional responsibility for the products group in February 2014. For f 2013, he was president of our Data Division, and from 2010 until 2012, he was president of Equity and Market Software. In 2009 and 2010, he was president of Individual Software. Kunal joined Morningstar in 1997.

olds a bachelor's degree in economics and environmental policy from Monmouth College and a master's degree in ess administration from The University of Chicago Booth School of Business. He also holds the Chartered cial Analyst (CFA) designation.

Dubinsky

Dubinsky is chief financial officer for Morningstar, responsible for controllership, tax, treasury, internal audit, cial planning and analysis, real estate, procurement, and investor relations.

e joining Morningstar in 2017, Jason served as senior vice president and chief financial officer of planning and al operations for Walgreens Boots Alliance, Inc., where he was responsible for accounting and shared service ons for Walgreens' U.S. operations and led the financial planning and analysis function for the global business. to the merger of Walgreens and Alliance Boots in 2014, he was Walgreens' vice president of finance and treasurer, responsibility for business unit finance, treasury operations, risk management, and investor relations. Before g Walgreens in 2009, he served as vice president of investment banking at Goldman Sachs and Lehman Brothers, e he led mergers and acquisitions and corporate finance activity for clients across various industries.

holds a bachelor's degree in business administration from the University of Michigan and a master’s degree in ess administration from New York University's Stern School of Business.

n Desmond

n Desmond is head of talent and culture, a role she has held since 2010. She is responsible for overseeing talent and re for all of Morningstar’s global operations. Previously, she was head of global markets from 2010 to 2017 and of international operations from 2001 until 2010. She joined Morningstar in 1993.

n holds a bachelor's degree in psychology from St. Mary's College.

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y Dunn

y Dunn is chief revenue officer for Morningstar. He is responsible for sales philosophy, strategy, and execution to revenue growth.

e joining Morningstar in 2016, Danny was vice president of the Midwest enterprise unit for IBM, a global mation technology firm. He was responsible for marketing, strategy, sales, channels, and customer service for the lete IBM portfolio, including Cloud, Software, Services, Systems, and IBM Credit, LLC in the region. Prior to he was regional director for IBM's Chicago enterprise unit in 2013 and 2014, territory director for IBM's onsin business unit from 2011 until June 2013, and territory sales leader for IBM Global Services from 2009 until 2011. Before joining IBM in 2007, he led sales, account management, and client service at Neology, a software and ology consulting division of SmithBucklin Corporation.

y holds a bachelor’s degree from the University of Vermont and a master’s degree in business administration, with entrations in marketing, strategy, and managerial economics, from the Kellogg School of Management at western University.

ood Kelly
ood Kelly is head of global research for Morningstar and oversees our global fund, equity, and credit research and operations. Before taking on his current role in January 2014, he was head of equity and credit research since 2009 ook on additional responsibility for equity data in 2013. Haywood joined Morningstar in 1991.
olds a bachelor’s degree in economics from The University of Chicago, where he graduated as a member of Phi Kappa. He also holds the CFA designation.
Ialoney

Ialoney is general counsel for Morningstar. He is responsible for directing Morningstar’s legal department and ging its relationships with outside counsel. He also oversees Morningstar’s compliance department.

e joining Morningstar in June 2016, Pat was a partner at Sheppard Mullin Richter & Hampton LLP from July 2012 gh April 2016 in the firm’s corporate and securities practice. Previously, he was a partner at K&L Gates LLP and gacy predecessor firm, Bell, Boyd & Lloyd LLP. Early in his career, he was an associate with the New York law of Dewey Ballantine and an Assistant General Counsel with the Prudential Insurance Company of America.

olds a bachelor’s degree with honors from The University of Chicago and a juris doctor degree with honors from University of Chicago Law School. He is admitted to practice law in Illinois and New York.
el Needham
el Needham is president and chief investment officer (CIO) of Morningstar Investment Management and is nsible for building investment management solutions based on our proprietary research. Before taking on his nt role in February 2015, he served as CIO for Morningstar Investment Management and was previously managing or and CIO for Morningstar Investment Management’s Asia-Pacific Operations. He joined our company when ingstar acquired Intech Pty Ltd. (now Ibbotson Associates Australia) in 2009, where he served as CIO. Before g Intech in 2002, Daniel worked for Zurich Financial Services in Sydney.
olds a bachelor's degree in commerce with a major in finance and economics from the University of Sydney. He holds the CFA designation.

Rothschild

n Rothschild is chief product officer for Morningstar. She is responsible for product strategy, innovation, opment, and execution for the solutions delivered to clients.

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e taking on her current role in January 2017, Tricia was head of global advisor solutions for Morningstar, setting rategic direction for our wealth management and online brokerage business and overseeing priorities for this mer group. From September 2012 until February 2013, Tricia was senior vice president of advisor software for ingstar. Previously, she served as senior vice president for Morningstar's equity research business and held a y of research and product management roles after joining Morningstar in 1993.

holds a bachelor’s degree from Northwestern University and a master’s degree in Russian and Central European omics from Indiana University. She also holds the CFA designation.

pany Information

ere incorporated in Illinois on May 16, 1984. Our corporate headquarters is located at 22 West Washington Street, go, Illinois, 60602.

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

1A. Risk Factors

hould carefully consider the risks described below and all of the other information included in this Form 10-K deciding whether to invest in our common stock or otherwise evaluating our business. If any of the following risks ialize, our business, financial condition, or operating results could suffer. In that case, the trading price of our non stock could decline, and you may lose all or part of your investment. Our operations could also be affected by risks that are not presently known to us or that we currently consider to be immaterial to our operations.

nvestment management operations may subject us to liability for any losses that result from a breach of our ary duties.
of our subsidiaries, Morningstar Investment Management LLC, Morningstar Investment Services LLC, and ingstar Research Services LLC, are registered as investment advisors with the SEC under the Advisers Act. As tered Investment Advisors, these companies are subject to the requirements and regulations of the Advisers Act. requirements relate to, among other things, record-keeping, reporting, and standards of care, as well as general raud prohibitions. As Registered Investment Advisors, these subsidiaries are subject to on-site examination by the

dition, in cases where these subsidiaries provide investment advisory services to retirement plans and their ipants, they may be acting as fiduciaries under the Employee Retirement Income Security Act of 1974. As aries under ERISA, they have obligations to act in the best interest of their clients. They also have duties of loyalty rudence, as well as duties to diversify investments and to follow plan documents to comply with the applicable ons of ERISA.

ubsidiaries outside the U.S. that have investment advisory operations are subject to similar requirements.

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nay face liabilities for actual or claimed breaches of our fiduciary duties, particularly in areas where we provide ment advice and managed retirement accounts. In some of our retirement contracts, we act as an ERISA fiduciary r example, selecting and monitoring a broad range of diversified plan options. We also provide a managed account e for retirement plan participants who elect to have their accounts managed by our programs. Such activities have the subject of increasing class action litigation in recent years. For example, in 2017, a participant in a pension filed a putative class action proceeding against us alleging that we, together with other defendant parties, violated acketeer Influenced and Corrupt Organizations Act by allegedly engaging in actions to steer plan participants into cost investments that pay unwarranted fees to the defendants. As described in more detail in Item 3 of this Form under Legal Proceedings, our motion to dismiss that proceeding was recently granted, but there can be no ance that other putative class action proceedings based on the same or other legal theories may not be brought st us in different contexts or, if brought, will be successfully dismissed. As of December 31, 2018, we had $58.2 n in assets under management in our managed retirement accounts. We could face substantial liabilities related to nanagement of these assets.

ely on automated investment technology for our retirement advice and managed retirement accounts services. The ch Forecasting Engine is our core advice and managed accounts engine that determines appropriate asset ations for retirement plan participants and assigns individuals to portfolios. We also rely on automated portfolio ruction tools. Problems could arise if these programs do not work as intended, particularly if we failed to detect am errors over an extended period. Clients may take legal action against us for an actual or claimed breach of a ary duty. If we make an error, we may be subject to potentially large liabilities for make-whole payments and/or tion. We cannot quantify the potential size of these liabilities with any level of precision.

dition, we may face other legal liabilities based on the quality and outcome of our investment advisory nmendations, even in the absence of an actual or claimed breach of fiduciary duty or based on our investment gement fees and expenses. In total, we provided investment advisory and management services on approximately 0 billion in assets as of December 31, 2018. We could face substantial liabilities related to our work on these .

g to maintain and protect our brand, independence, and reputation may harm our business. Our reputation and ess may also be harmed by allegations made about possible conflicts of interest or by other negative publicity or a reports.

elieve independence is at the core of our business, and our reputation is our greatest corporate asset. We rely on eputation for integrity and high-caliber products and services. Any failure to uphold our high ethical standards and e that our customers have a consistently positive experience with us could damage our reputation as an objective, t, and credible source for investment research and information. Allegations of improper conduct, whether the ate outcome is favorable or unfavorable to us, as well as any negative publicity or media reports about ingstar, whether valid or not, may harm our reputation and damage our business.

rovide ratings, analyst research, and investment recommendations on mutual funds and other investment products ed by our institutional clients. We also provide investment advisory and investment management services. While on't charge asset management firms for their products to be rated, we do charge licensing fees for the use of our s. We also receive payments from issuers for our new-issue credit ratings on various types of asset-backed ities and corporate bond issues. These payments may create the perception that our ratings, research, and nmendations are not impartial.

perception may undermine the confidence of our customers and potential customers in our reputation as a provider dependent research and investment recommendations. Any such loss of confidence or damage to our reputation hurt our business.

eputation may also be harmed by factors outside of our control, such as news reports about our clients or adverse
city about certain investment products. Our reputation could also suffer if we fail to produce competitive
rmance in our investment management offerings.

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g to differentiate our products and continuously create innovative, proprietary research tools, or to successfully tion clients to new versions of such tools, may harm our competitive position and business results.

tribute much of our company's success over the past 35 years to our ability to develop innovative, proprietary rch tools, such as Gamma, the Morningstar Rating, Morningstar Style Box, Ownership Zone, and Portfolio X-Ray. recently, we've developed unique concepts and tools such as Investor Pulse, which combines fund data with ctive analytics. We believe these innovations set us apart because most of our competitors focus on providing data tware rather than creating their own proprietary research frameworks. We also believe our ability to develop ative, proprietary research tools is at the core of what drives Morningstar's value for all of our customer groups.

fail to continuously innovate and develop new tools to meet the needs of our customers, our competitive position usiness results may suffer. In addition, our reputation could be harmed if we're perceived as not moving quickly gh to meet the changing needs of investors. Clients may also delay purchases of our currently offered research tools icipation of us offering new products or enhanced versions of existing products. Our competitive position and ess results may also suffer if other companies are able to successfully introduce innovative, proprietary research that gain attention from our clients. We believe lower technology costs, the growth of open software platforms, loud computing technologies have lowered the barriers to entry for new competitors, making it easier for new rs to enter the market. Smaller companies, including startup firms funded by private equity and venture capital, be able to move more quickly to develop research and tools that gain a wide following.

dition, the value of our data, research and software tools may be negatively affected by the increasing amount of mation and tools that are available for free, or at low cost, through Internet sources or other low-cost delivery ms. Although we believe our products and services contain value-added features and functionality that deeply d them in our customers' workflows, such developments may over time reduce the demand for, or customers' gness to pay for, certain of our products and services.

fail to introduce innovative, proprietary research tools and frameworks, we may not generate enough interest from tial clients to win new business. We cannot guarantee that we will successfully develop new product features and that differentiate our product offerings from those of our competitors.

dition, we must make long-term investments and commit significant resources often before knowing whether such tments will result in products or services that satisfy our clients' needs or generate revenues sufficient to justify nvestments. In addition, from time to time, we also incur costs to transition clients to new or enhanced products or ces. A current example of a product in transition is our web-based version of Morningstar Direct, to which we hope nsition clients who use the desktop version over the next three years. Such transitions can involve material tion risks and challenges. If we are unable to manage these investments and transitions successfully, our business, cial condition, and results of operations could be materially adversely affected.

ould face liability related to our storage of personal information about individuals as well as portfolio and nt-level information as a result of successful cyberattacks, the failure of cybersecurity systems and procedures, or ilure to implement data privacy legal requirements.

omers routinely enter personal investment and financial information, including portfolio holdings, account ers, and credit card information, on our websites. In addition, we handle increasing amounts of personally fiable information in areas such as Morningstar Retirement Manager, Morningstar Managed Portfolios, lAccounts, Morningstar Office, and Morningstar.com. ByAllAccounts uses technology to collect, consolidate, and form financial account data and deliver it to any platform, and accordingly, it handles a large volume of personally fiable information as part of its normal business operations.

ailure to safeguard this information could damage our reputation and business results. We must continuously t in systems, processes, and controls to guard against the risk of improper access to this information, which could sclosed through employee errors, other inadvertent release, social engineering, hacking, computer malware, failure trict access, or failure to properly purge and protect data. We may suffer malicious attacks by individuals or groups ng to attack our products and services or penetrate our network and databases to gain access to personal data or to h or coordinate distributed denial of service attacks. These attacks have become increasingly frequent, sticated, and difficult to detect. Any material cybersecurity failures or incidents could cause us to experience ational harm, loss of customers, regulatory actions, sanctions or other statutory penalties, litigation or financial s that are either not insured against or not fully covered through any insurance maintained by us, and increased nses related to addressing or mitigating the risks associated with any such material failures or incidents.

actual commitments to customers as well as laws and industry regulations related to data protection, system bility, and privacy require us to safeguard critical data. We are also required to take appropriate steps to safeguard card numbers, Social Security numbers, and other information about individuals or their accounts. In the pean Union, the General Data Protection Regulation (GDPR), which became effective May 25, 2018, imposes, g other things, stringent requirements regarding the information to be provided to, and the consents required from, duals to justify a business using their personal data in certain circumstances, as well as new rights of data subjects rect or delete data about them, data portability rights, and the right to object to certain automated decision-making sses. Failure to comply with GDPR requirements could result in penalties of up to 4% of worldwide revenues. privacy regulation continues to proliferate, as various jurisdictions such as the People's Republic of China, the blic of Brazil, and the State of California join the European Union in adopting comprehensive data privacy ation. Because operations in the financial services industry require the processing of significant amounts of nally identifiable information (PII), we believe the burdens of regulation, and possibly inconsistent regulation, will erate, and we expect to continue to be subject to increased scrutiny by clients and regulators. We could be subject bility if we were to inappropriately collect, retain, or disclose any user's personal information under the rements of laws and regulations such as the GDPR, which contemplate substantial enterprise-level penalties for ompliance.

usiness continuity program may not be adequate in the event of a material emergency affecting one or more of our or offshore business centers or adverse political or regulatory developments in countries in which we have ficant data and development operations.

ave approximately 1,500 employees working at our corporate headquarters in Chicago, Illinois. These include of our executive leadership team, as well as substantial numbers of employees involved in the delivery of most of ajor products and services. If our headquarters were to become unusable due to a natural disaster, a violent ent, or another dangerous emergency, we might not be able to continue business operations at an acceptable level vould meet all our legal and contractual commitments. Our failure to successfully implement and deploy a business nuity plan, either at an enterprise level or with respect to particular business centers, could materially affect our ess operations and have a material adverse effect on our financial condition and results of operations.

ow have approximately 1,000 employees working in our data and technology development center in Shenzhen, . We rely on these employees to maintain and update our mutual fund database and work on other projects. use China has a restrictive government under centralized control and the relationship between the U.S. and China is iencing a period of increased political, military, trade, and other commercial tensions, our operations are subject to cal and regulatory risk, which is inherently unpredictable. Laws and regulations relating to data privacy, security, ction of intellectual property rights, and acceptable telecommunication infrastructure in China, as well as the cement environment for such laws and regulations, are in certain cases uncertain and evolving. In addition, this y is subject from time to time to extreme weather events. The concentration of certain types of development and work carried out at this facility also involves operational risks for parts of our network infrastructure. While we short-term backup plans in place, it would be difficult for us to maintain and update our mutual fund database if we unable to access our Shenzhen operations for an extended period of time. Any difficulties that we face in nuing to operate our development center in China may harm our business and have a negative impact on the cts and services we provide.

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ave approximately 1,250 employees who work at our data collection, technology and operational center in bai, India. These employees maintain and update our equity database and PitchBook's data and research tions, and provide shared services to many of our operations. This location is subject to extreme weather events olitical unrest, including public protests that can disrupt transportation and make it difficult for employees to nute to and from work. The electrical infrastructure of Mumbai is also subject to more frequent interruptions than xperienced at our other major facilities. In addition, Mumbai has experienced and may in the future experience ist attacks. While we have short-term backup plans in place to address such business continuity issues, it would be enging for us to maintain and update our equity database or continue to provide certain shared services to our wide operations if we were unable to access our Mumbai operations for an extended period of time.

ave approximately 145 contract employees based in Kolkata, India who support the PitchBook data and research tions and approximately 165 contract employees based in Ukraine who work on software development for the Book product. Ukraine has been subject to significant political unrest and military incursions. Any extended ptions to our contract operations in these locations would make it difficult for us to meet our operating goals d to PitchBook Data.

g to respond to technological change, keep pace with new technology developments, or adopt a successful ology strategy may negatively affect our competitive position and business results.

elieve the technology landscape has been changing at an accelerating rate over the past several years. Changes in ology are fundamentally changing the ways investors access data and content. Examples include the shift from network computing to cloud-based systems, the proliferation of wireless mobile devices, rapid acceleration in the f social media platforms, and the dissemination of data through application programming interfaces that permit ime updating rather than raw data feeds.

oftware development process is based on frequently rolling out new features so that we can quickly incorporate feedback. While some changes in technology may offer opportunities for Morningstar, we cannot guarantee that we uccessfully adapt our product offerings to meet evolving customer needs. If we fail to develop and implement new ology rapidly enough, we may sacrifice new business opportunities or renewals from existing customers. We may ncur additional operating expense if major software projects take longer than anticipated. Our competitive position usiness results may suffer if we fail to develop new technologies to meet client demands, if our execution speed is ow, or if we adopt a technology strategy that doesn't align with changes in the market.

esults could suffer if the mutual fund industry continues to experience slower growth, if actively managed equity continue to attract less investor attention, or if the industry continues to meaningfully consolidate.

enerate a significant portion of our revenue from products and services related to mutual funds, and part of our h since 1984 can be attributed to favorable industry trends. The mutual fund industry has experienced substantial h over the past 35 years but suffered during the market downturn of 2008 and 2009. Since then, fund assets have ased, but at a slower rate than in previous years. Some of that slower growth is attributable to the growth of ETFs mutual fund alternative, and we have accordingly expanded our research coverage and analyst ratings to include . However, ETFs generally track passive investing strategies and charge lower management fees than active gies, which may affect both the profitability of asset managers, on whose success we in part depend, and the ived value of our research regarding ETFs.

nificant portion of our fund research has historically focused on equity-related funds. In addition, we are known for our data and analyst research on actively managed equity funds. Over the past 15 years, passively ged index funds have seen greater investor interest, and this trend has accelerated in recent years. In 2018, actively ged mutual funds and ETFs suffered about $303 billion in net outflows, compared with net inflows of more than billion for passively managed funds and ETFs. Overall, we estimate that passively managed portfolios now nt for more than one-third of combined mutual fund and ETF assets. The growth of online wealth management that provide automated, algorithm-based portfolio management advice, sometimes called robo-advice, may further erate the adoption of passively managed portfolios and reduce demand for our data and analyst research.

rowth of the mutual fund industry is also being affected by increasing merger and acquisition activity within the management industry, which is reducing the number of asset managers offering mutual funds and ETFs, the ng by some mutual fund and ETF platforms of the number of funds available for purchase, and the continuing cts of regulation. With respect to regulation, the revised Markets in Financial Instruments Directive (MiFID II) in uropean Union (EU), which became effective in January 2018, requires that asset managers pay banks and brokers vestment research. This may give larger asset managers, which are better able to absorb such costs, a competitive tage. While MiFID II has presented us with new business opportunities, it has also caused some of our clients to their business practices and pricing models significantly to reflect or avoid these new costs, which may adversely their demand for our services. In addition, the continuing uncertainty around the withdrawal of the United dom from the EU, known as Brexit, has created substantial concern among our U.K. client base around their future tions.

nged downturns or volatility in the financial markets, increased investor interest in other investment vehicles, or a of investor confidence could continue to reduce investor interest and investment activity. In addition, a continued ning of investor interest in actively managed equity funds could decrease demand for our products, including our are, data, and analyst research.

tage of our database, technology-based products and services or network facilities could result in reduced revenue e loss of customers, and our movement of parts of our technological infrastructure to the public cloud could e us to various third party provider risks.

uccess of our business depends upon our ability to deliver time-sensitive, up-to-date data and information. We rely rily on our computer equipment, database storage facilities, and other network equipment, which is located across ple facilities in the U.S. We also have extensive information systems outside the U.S. Our mission-critical ases and networks are complex and interdependent, which increases the risk of failure. Problems in our network ms may lead to cascading effects involving product downtime, overloading of third-party data centers, and other s that may affect our clients. Many of our client contracts contain service-level agreements that require us to meet n obligations for delivering time-sensitive, up-to-date data and information. We may not be able to meet these ations in the event of failure or downtime in our information systems.

perations and those of our suppliers and customers are vulnerable to interruption by fire, earthquake, power loss, ommunications failure, terrorist attacks, wars, computer viruses, and other events beyond our control. Our database etwork facilities may also be vulnerable to external attacks that misappropriate our data, corrupt our databases, or access to our information systems. To defend against these threats, we implement a series of controls focusing on prevention and detection, including firewalls, intrusion detection systems, automated scanning and testing, server ning, antivirus software, training, and patch management. We make significant investments in servers, storage, and network infrastructure to prevent incidents of network failure and downtime, but we cannot guarantee that these s will work as planned.

of our products and services depend heavily on our electronic delivery systems and the Internet, although we are ng the delivery of several of our products and services to cloud-based delivery systems. Our ability to deliver mation using the Internet may be impaired because of infrastructure failures, service outages at third-party Internet ders, malicious attacks, or other factors. If disruptions, failures, or slowdowns of our electronic delivery systems or ternet occur, our ability to distribute our products and services effectively and to serve our customers may be red.

aintain off-site backup facilities for our data, but we cannot guarantee that these facilities will operate as expected g an interruption that affects our headquarters. There may be single points of failure that affect our core databases, ransfer interfaces, or storage area networks. We may not be able to fully recover data or information lost during a ase or network facility outage. Any losses, service disruption, or damages incurred by us could have a material se effect on our business, operating results, or financial condition.

novement of parts of our technological infrastructure to the public cloud and software-as-a-service (SaaS) solutions nts a variety of additional risks, including risks relating to sharing the same computing resources with other users, se by cloud and SaaS providers of virtualization products and various security issues relating thereto, reliance on and SaaS providers' authentication, authorization and access control mechanisms, a lack of control over cloud and providers' redundancy systems and fault tolerances, and a reduced ability to directly address client concerns over ecurity and privacy. Any disruption of or interference with our use of the public cloud or SaaS solutions, or any mation security breach at any cloud or SaaS provider, could materially impact our operations and have an adverse on our business. Over time, a growing dependence of our technology infrastructure on the public cloud and SaaS ons also risks us becoming overly dependent on particular suppliers, which could adversely affect the pricing we ve from such suppliers and limit our ability to transition away from such suppliers in the event of service-quality s.

pliance failures, regulatory action, or changes in laws applicable to our investment advisory or credit rating tions could adversely affect our business.

nvestment management operations are a growing part of our overall business. The securities laws and other laws overn our investment advisory activities are complex. The activities of our investment advisory operations in the are subject to provisions of the Advisers Act, ERISA, and, in the case of our advisory relationship with the ingstar Funds Trust, the Investment Company Act of 1940 and the Commodity Exchange Act. In addition, ingstar Investment Services is a broker/dealer registered under the Exchange Act and is subject to the rules of A. We also provide investment advisory services in other areas around the world, and our operations are subject to onal regulations in markets outside the U.S. If we fail to comply with securities laws and other regulatory rements, we may be subject to fines or other events that could have a negative effect on our business. In addition, nding on the outcome of the negotiations between the United Kingdom and the EU over the terms of Brexit, our tment management operations in the United Kingdom could lose their "passporting" permissions that permit them nduct business in other European jurisdictions. Such a loss of permissions could require us to restructure our pean investment management operations in order to reacquire necessary "passporting" permissions and preserve relationships, which restructuring could have an adverse effect on the cost structure and results of operations of usiness.

the past several years, we have also made significant investments in our credit rating business. Our Morningstar t Ratings, LLC subsidiary is an NRSRO that specializes in structured finance, corporate credit issuers, and cial institutions. Credit rating and research providers continue to be subject to intensive regulatory scrutiny. As an RO, Morningstar Credit Ratings is subject to various requirements and regulations under the Exchange Act relating nong other things, record-keeping, reporting, governance, and conflicts of interest. As part of its NRSRO ration, Morningstar Credit Ratings is subject to annual examination by the SEC, as well as periodic investigations e SEC and other governmental authorities relating to matters of regulatory interest such as industry practices and nnel matters. The cost and management distraction resulting from such examinations and investigations may have ative effect on our credit rating business.

ndex business could be negatively affected by increased regulation of benchmarks generally, which could increase osts and risks of producing and administering indexes. For example, since January 2018, the benchmark industry een subject to new regulation in the EU. Such regulations may discourage market participants from continuing to dminister or contribute to indexes, trigger changes in the rules or methodologies relating indexes, and/or lead to ning demand for indexes.

aws, rules, and regulations, and their interpretations, applicable to our business may change in the future, and we not be able to comply with these changes without extensive changes to our business practices. In addition, the scope of our business operations makes it more difficult to monitor areas that may be subject to regulatory and liance risk. If we fail to comply with any applicable law, rule, or regulation, we could be fined, sanctioned, or d from providing investment advisory, credit rating or index services in the future, which could adversely affect usiness.

ility in the financial sector, global financial markets, and global economy may impact our results, resulting in revenue from asset-based fees and credit ratings business, as well as other parts of our business to a lesser extent.

usiness results are partly driven by factors outside of our control, including general economic and financial market s. Any unfavorable changes in the environment we operate in could cause a corresponding negative effect on our ess results. As a result, we may experience lower revenue, operating income, and other financial results in the of a market downturn.

of our customers are asset management firms and other financial services companies, which are also subject to nal trends and changes. For example, the financial crisis of 2008 and 2009 led to spending cutbacks among many companies to which we sell. Some institutional clients have implemented additional review processes for new acts or started providing certain services, such as investment management, in-house rather than hiring outside ce providers. Some institutional clients have also reduced the scope of their operations, and merger and acquisition ty in the asset management sector has in the past, and may in the future, reduce the number of potential asset gement clients.

companies in the financial services industry have also been subject to increasing government regulation and ure to reduce fees. In turn, many of these firms have sought to reduce their operating costs by working with fewer ce providers and/or negotiating lower fees for services they purchase.

dition, our revenue from asset-based fees may be adversely affected by market declines, cash outflows from olios that we help manage, and the industrywide trend toward lower asset-based fees.

18, asset-based revenue made up 19.6% of our consolidated revenue. The amount of asset-based revenue we earn rily depends on the value of assets on which we provide advisory services, and the size of our asset base can ase or decrease along with trends in market performance. In 2018, the U.S. and many international markets ienced valuation decreases, which in some cases were substantial. These market trends were unfavorable in terms value of assets we have under management or advisement and the effect on our asset-based revenue, and there e no assurance such trends will not continue.

levels can also be affected if net inflows into the portfolios on which we provide investment advisory services or if these portfolios experience redemptions. A drop in net inflows or an increase in redemptions can result from a y of factors, including overall market conditions and volatility or a decline in investment performance. If the level ets on which we provide investment advisory or investment management services goes down, we expect our ased revenue to show a corresponding decline.

18, the Morningstar Funds Trust, a registered open-end mutual fund for which Morningstar Investment gement acts as investment advisor under an investment management agreement, commenced investment tions. The Board of Trustees of the Morningstar Funds Trust must annually approve the terms of the investment gement agreement (including fees) and can terminate the agreement upon 60-days' notice. If the Morningstar s Trust seeks to lower the fees that we receive or terminate its contract with us, we would experience a decline in arned from the Morningstar Funds, which could have a material adverse effect on the revenues and net income of vestment advisory services.

usiness results may also be hurt by negative trends in Internet advertising sales, which made up 2.7% of lidated revenue in 2018. Many advertisers have shifted some of their advertising spend to programmatic buying rms that target users on other sites, which has from time to time had a negative effect on advertising revenue for ebsite for individual investors, Morningstar.com. We are uncertain whether this trend will continue.

tructured credit rating business, which made up 3.6% of consolidated revenue in 2018, is subject to volatility from s in new issuance of commercial mortgage-backed securities and other structured credits. If industrywide issuance ch securities declines, our revenue associated with this line of business may also go down. We have also expanded overage to include corporate credit issuers and financial institutions, which are also subject to volatility in issuance ns based on market conditions.

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itchBook Data business may also be subject to cyclical trends. Many of PitchBook's clients are investment banks ther participants in the capital and merger and acquisition markets, which are subject to periodic business turns driven by changes in such markets. During these downturns, they often seek to reduce spending on party services as well as the number of employees, which would directly affect the number of prospective clients tchBook. As a data and research provider focusing on the private capital markets (including venture capital, e equity, and M&A), PitchBook may also be subject to volatility based on the amount of activity and market st in these areas.

cquisitions and other investments may not produce the results we anticipate. We may also incur debt in connection acquisitions, which may limit our financial flexibility.

ave completed numerous acquisitions over the past 10 years, and we intend to continue to pursue selective sitions to support our business strategy. However, there can be no assurance we can identify suitable acquisition dates at acceptable prices. In addition, each acquisition presents potential challenges and risks. We may not ve the growth targets that we established for the acquired business at the time of the acquisition. The process of ation may require more resources than we anticipated. We may assume unintended liabilities or experience ting difficulties or costs that we did not anticipate. We may also fail to retain key personnel of the acquired ess which would make it difficult to follow through on our operating goals for the business. If an acquisition does enerate the results we anticipate, it could have a material adverse effect on our business, financial condition, and s of operations.

nnection with certain acquisitions, we have incurred indebtedness. Under our existing revolving credit facility, we orrow up to $300.0 million. The term of this facility expires in December 2020. Under the terms of our agreement he lender, we are subject to certain restrictions and financial covenants, which may limit our financial flexibility. December 31, 2018, borrowings in the principal amount of $70.0 million are outstanding under such facility.

so have, and intend to continue to make, various investments in companies where we do not have or obtain a olling interest. Such investments are motivated both by their prospective financial return and the access they give certain new technologies, products, business ideas and management teams. While we obtain various rights in ction with such investments, the future value of such investments is highly dependent on the management skill of anagers of those companies.

xpect to continue making acquisitions and establishing investments and joint ventures as part of our long-term ess strategy. Acquisitions, investments, and joint ventures involve a number of risks. They can be time-consuming nay divert management's attention from day-to-day operations, particularly if numerous acquisitions are in process same time. Financing an acquisition could result in dilution from issuing equity securities, reduce our financial ility because of reductions in our cash balance, or result in a weaker balance sheet from incurring debt.

uture success depends on our ability to recruit, develop, and retain qualified employees.

xperience competition for analysts, technology experts, and other employees from other companies and izations. Competition for these employees is intense, and we may not be able to retain our existing employees or le to recruit and retain other highly qualified personnel in the future. In addition, we are exposed to overall rising scales in the employment markets in which some of our facilities are located, such as our development center in , which negatively affects our ability to hire personnel generally without significantly increasing our ensation costs. In China, we believe our ability to hire qualified personnel is also being negatively impacted by the rence of job candidates to work for Chinese companies, as opposed to multinationals, in a period of increasing ational tensions.

uture success also depends on the continued service of our executive officers, including Joe Mansueto, our tive chairman and controlling shareholder. At the end of 2016, Joe changed his role to focus less on our o-day business operations, but he remains heavily involved our strategy and overall company direction. The loss of ur chief executive officer, Kunal Kapoor, or other executive officers could hurt our business, operating results, or cial condition. We do not have employment agreements, noncompete agreements, or life insurance policies in with any of our executive officers. They may leave us and work for our competitors or start their own competing esses.

perations outside of the U.S. involve additional challenges that we may not be able to meet.

perations outside of the U.S. generated $255.7 million in revenue in 2018, or about 25% of our consolidated ue. There are risks inherent in doing business outside the U.S., including challenges in reaching new markets se of established competitors and limited brand recognition; difficulties in staffing, managing, and integrating J.S. operations; difficulties in coordinating and sharing information globally; differences in laws and policies from ry to country; exposure to varying legal standards, including intellectual property protection laws; potential tax ure related to transfer pricing and other issues; heightened risk of fraud and noncompliance; and currency nge rates and exchange controls. In addition, new risks have arisen from the assertion by various national nments of greater control over the movements of people and information across national borders. For example, ges to immigration policy in the United Kingdom as a result of Brexit and in the U.S. as a result of the current nistration's more restrictive immigration enforcement could adversely affect our ability to attract and retain talent other countries, In addition, China's government has recently backed various measures that could compromise the cy and security of our proprietary information or information concerning our customers including a ban on ate sanctioned virtual private networks and requirements that multinational firms acquire and use equipment from ese telecom suppliers. These risks could hamper our ability to expand around the world, which may hurt our cial performance and ability to grow.

on't engage in currency hedging or have any positions in derivative instruments to hedge our currency risk. Our ted revenue could suffer if certain foreign currencies decline relative to the U.S. dollar, although the impact on ting income may be offset by an opposing currency impact on locally based operating expense.

ould face liability for the information we publish or the reports and other documents produced by our software cts, including information, reports, and documents based on data we obtain from other parties.

ay be subject to claims for securities law violations, defamation (including libel and slander), negligence, or other s relating to the information we publish, including our research and credit ratings on issuers of structured credits rporate credits. For example, investors may take legal action against us if they rely on published information that ins an error, or a company may claim that we have made a defamatory statement about it or its employees.

of our products support the investment processes or the client account reporting practices and other activities of ients who manage significant assets of other parties. Use of our products as part of such activities creates the risk lients, or the parties whose assets are managed by our clients, may pursue claims for us for losses that may have connection to our products. In the case of software products, even though most of our contracts for such products in limitations of our liability in such cases, we may be required to make such clients or their customers whole for osses in order to maintain our business relationships. We could also be subject to claims based on the content that essible from our website through links to other websites.

ely on a variety of outside parties as the original sources for the information we use in our published data. These es include securities exchanges, fund companies, hedge funds, transfer agents, and other data providers. We also porate data from a variety of third-party sources for PitchBook Data. Accordingly, in addition to possible exposure blishing incorrect information that results directly from our own errors, we could face liability based on inaccurate provided to us by others.

ould be subject to claims by providers of publicly available data and information we compile from websites and sources that we have improperly obtained that data in violation of the source's copyrights or terms of use or based e provisions of new legislation such as GDPR that limits the bases on which businesses can collect personal mation from and about individuals. We could also be subject to claims from third parties from which we license

nd information that we have used or redistributed the data or information in ways not permitted by our license
. Defending claims based on the information we publish could be expensive and time-consuming and could
sely impact our business, operating results, and financial condition.

re to protect our intellectual property rights, or claims of intellectual property infringement against us, could harm rand and ability to compete effectively.

teps we have taken to protect our intellectual property may not be adequate to safeguard our proprietary mation. We rely primarily on patent, trademark, copyright, and trade secret rights, as well as contractual ctions and technical safeguards, to protect our intellectual property rights and proprietary information. Despite efforts, third parties may still attempt to challenge, invalidate, or circumvent our rights or improperly obtain our ietary information. Further, effective trademark, copyright, and trade secret protection may not be available in country in which we offer our services. Failure to adequately protect our intellectual property could harm our , devalue our proprietary content, and affect our ability to compete in the marketplace.

time to time, we encounter jurisdictions in which one or more third parties have a pre-existing trademark ration in certain relevant international classes that may prevent us from registering our own marks in those dictions. Our continued ability to use the “Morningstar” name or logo, either on a stand-alone basis or in association certain products or services, could be compromised in those jurisdictions because of these pre-existing rations. Similarly, from time to time, we encounter situations in certain jurisdictions where one or more third s are already using the Morningstar name, either as part of a registered corporate name, a registered domain name, herwise. Our ability to effectively market certain products and/or services in those locations could be adversely ed by these pre-existing usages.

ave from time to time been subject to claims by third parties alleging infringement of their intellectual property . Such claims can also be alleged against clients, customers, or distributors of our products or services whom we agreed to indemnify against third party claims of infringement. The defense of such claims can be costly and ime valuable management time and attention. We may be forced to settle such claims on unfavorable terms, which nclude the payment of damages, the entry into royalty or licensing arrangements on commercially unfavorable , or the suspension of our ability to offer affected products or services. If litigation were to arise from any such , there can be no certainty we would prevail in it. If any of these risks were to materialize, it could have a material se effect on our business, financial condition, or results of operations.

ol by a principal shareholder could adversely affect our other shareholders.

December 31, 2018, Joe Mansueto, our executive chairman, owned approximately 54% of our outstanding non stock. As a result, he has the ability to control substantially all matters submitted to our shareholders for val, including the election and removal of directors and any merger, consolidation, or sale of our assets. He also e ability to control our management and affairs. This concentration of ownership may delay or prevent a change in ol; impede a merger, consolidation, takeover, or other business combination involving Morningstar; discourage a tial acquirer from making a tender offer or otherwise attempting to obtain control of the company; or result in ns that may be opposed by other shareholders.

uations in our operating results may negatively affect our stock price.

elieve our business has relatively large fixed costs and low variable costs, which magnify the impact of revenue ations on our operating results. As a result, a decline in our revenue may lead to a larger decline in operating ne. In addition, because we manage our business with a long-term perspective, we generally don’t make significant tments to our strategy or cost structure in response to short-term factors. As a result, our operating results may in the short term. In addition, we do not provide earnings guidance or hold one-on-one meetings with institutional tors and research analysts. Because of this policy and limited analyst coverage on our stock, our stock price not always reflect the intrinsic value of our business and assets. If our operating results or other operating metrics meet the expectations of outside research analysts and investors, the market price of our common stock decline.

uture sale of shares of our common stock may negatively affect our stock price.

significant shareholders sell substantial amounts of our common stock, the market price of our common stock fall. A reduction in ownership by Joe Mansueto or any other large shareholder could cause the market price of our non stock to fall. In addition, the average daily trading volume in our stock is relatively low. The lack of trading ty in our stock may lead to greater fluctuations in our stock price. Low trading volume may also make it difficult areholders to make transactions in a timely fashion.

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1B. Unresolved Staff Comments

o not have any unresolved comments from the Staff of the Securities and Exchange Commission regarding our dic or current reports under the Exchange Act.

2. Properties

December 31, 2018, we leased approximately 474,000 square feet of office space for our U.S. operations, rily for our corporate headquarters located in Chicago, Illinois. We also lease another 443,000 square feet of office in 26 other countries around the world, including approximately 121,000 square feet in Shenzhen, China. We ve that our existing and planned office facilities are adequate for our needs and that additional or substitute space is ble to accommodate growth and expansion.

3. Legal Proceedings

ael D. Green
gust 2017, Michael D. Green, individually and purportedly on behalf of all others similarly situated, filed a laint in the U.S. District Court for the Northern District of Illinois. The complaint named as defendants ingstar, Inc., Prudential Investment Management Services LLC, and Prudential Retirement Insurance and Annuity nd contained one count alleging violation of the Racketeer Influenced and Corrupt Organizations Act (RICO). iff, a participant in a pension plan, alleged that the defendants engaged in concerted racketeering actions to steer participants into high-cost investments that pay unwarranted fees to the defendants. The complaint sought cified compensatory damages for plaintiff and the members of the putative class, treble damages, injunctive relief, and attorneys' fees. We filed a motion to dismiss the complaint for failure to state a claim, which the court granted ut prejudice on March 16, 2018. On April 13, 2018, plaintiff filed an amended complaint, substituting Morningstar tment Management LLC for Morningstar, Inc. as a defendant, and which again contained one count alleging ion of RICO and sought unspecified compensatory damages for plaintiff and the members of the putative class, damages, injunctive relief, costs, and attorneys' fees. We moved to dismiss the amended complaint on May 11, which the court granted with prejudice on January 16, 2019. No appeal was taken by the deadline for doing so.

Matters
e involved from time to time in legal proceedings and litigation that arise in the normal course of our business. e it is difficult to predict the outcome of any particular proceeding, we do not believe the result of any of these rs will have a material adverse effect on our business, operating results, or financial position.

4. Mine Safety Disclosures

pplicable.

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5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ommon stock is listed on the Nasdaq Global Select Market under the symbol "MORN".

February 15, 2019, there were 969 shareholders of record of our common stock.

aid four dividends during 2018. In the fourth quarter of 2018, we increased our quarterly cash dividend from 25 per share to 28 cents per share. While subsequent dividends will be subject to board approval, we expect to pay a ar quarterly dividend of 28 cents per share in 2019.

determination to pay dividends in the future will be at the discretion of our board of directors and will be dependent our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, and factors deemed relevant by the board of directors. Future indebtedness and loan facilities could also prohibit or ct our ability to pay dividends and make distributions to our shareholders.

r Purchases of Equity Securities

ct to applicable law, we may repurchase shares at prevailing market prices directly on the open market or in tely negotiated transactions in amounts that we deem appropriate.

ave an ongoing authorization, most recently approved by the board of directors on December 8, 2017, to chase up to $500.0 million in shares of the company's outstanding common stock. The authorization expires on mber 31, 2020.

ollowing table presents information related to repurchases of common stock we made during the three months l December 31, 2018:

d:	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Approximate dollar value of shares that may yet be purchased under the programs
ber 1, 2018 - October 31, 2018	24,300	$ 115.44	24,300	$486,676,922
mber 1, 2018 - November 30, 2018	11,539	116.54	11,539	485,331,944
mber 1, 2018 - December 31, 2018	57,117	109.80	57,117	479,059,100
	92,956	$ 112.11	92,956	

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10b5-1 Sales Plans

irectors and executive officers may exercise stock options or purchase or sell shares of our common stock in the et from time to time. We encourage them to make these transactions through plans that comply with Exchange Act 10b5-1(c). Morningstar will not receive any proceeds, other than proceeds from the exercise of stock options, d to these transactions. The following table, which we are providing on a voluntary basis, shows the Rule 10b5-1 plans entered into by our directors and executive officers that were in effect as of January 31, 2019:

e and Position	Date of Plan	Plan Termination Date	Number of Shares to be Sold under the Plan	Timing of Sales under the Plan	Number of Shares Sold under the Plan through January 31, 2019	Projected Beneficial Ownership (1)
Iansueto utive man	3/20/2018	4/30/2019	1,600,000	Shares to be sold under the plan if the stock reaches specified prices	1,200,000	22,597,901
Iansueto utive man	11/26/2018	4/30/2020	1,600,000	Shares to be sold under the plan if the stock reaches specified prices beginning May 1, 2019	—	20,997,901

g the fourth quarter of 2018, the previously disclosed Rule 10b5-1 sales plan for Gail Landis and Bill Lyons leted in accordance with their terms.

his column reflects an estimate of the number of shares Joe Mansueto will beneficially own following the sale of ares under the Rule 10b5-1 sales plan. This information reflects the beneficial ownership of our common stock ecember 31, 2018, and includes shares of our common stock subject to options that were then exercisable or that ave become exercisable by March 1, 2019 and restricted stock units that will vest by March 1, 2019. The estimates t reflect any changes to beneficial ownership that may have occurred since December 31, 2018. Joe may amend or nate his Rule 10b5-1 sales plans and may adopt additional Rule 10b5-1 plans in the future.

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6. Selected Financial Data

elected historical financial data shown below should be read in conjunction with Management's Discussion and ysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and related notes ded elsewhere in this Annual Report on Form 10-K. We have derived our Consolidated Statements of Income Data onsolidated Cash Flow Data for the years ended December 31, 2018, 2017, and 2016 and Consolidated Balance Data as of December 31, 2018 and 2017 from our audited Consolidated Financial Statements included elsewhere s Annual Report on Form 10-K. The Consolidated Statements of Income Data and Consolidated Cash Flow Data e years ended December 31, 2015 and 2014 and Consolidated Balance Sheet Data as of December 31, 2016, 2015, 014 were derived from our audited Consolidated Financial Statements that are not included in this Annual Report rm 10-K.

olidated Statements of Income Data illions except per share amounts)	2014		2015		2016		2017		2018	
nue	$760.1		$788.8		$798.6		$911.7		$1,019.9	(1)
ating expense	654.5	(2)	598.2		617.8		741.9		804.1	
ating income	105.6	(2)	190.6		180.8		169.8		215.8	(1)
operating income, net	8.4		3.1		44.1	(3)	11.3	(3)	17.1	(3)
ne before income taxes and equity in net income (loss) of nsolidated entities	114.0		193.7		224.9		181.1		232.9	
y in net income (loss) of unconsolidated entities	—		1.8		(0.2	)	(1.3	)	(2.1	)
ne tax expense	35.7		62.7		63.7		42.9		47.8	
olidated net income	78.3		132.8		161.0		136.9		183.0	
ncome attributable to noncontrolling interests	—		(0.2	)	—		—		—	
ncome attributable to Morningstar, Inc.	$78.3		$132.6		$161.0		$136.9		$183.0	
ncome per share attributable to Morningstar, Inc.:										
:										
nuing operations	$1.75		$3.00		$3.74		$3.21		$4.30	
ed:										
nuing operations	$1.74		$3.00		$3.72		$3.18		$4.25	
ends per common share:										
ends declared per common share	$0.70		$0.79		$0.89		$0.94		$1.03	
ends paid per common share	$0.68		$0.76		$0.88		$0.92		$1.00	
hted average common shares outstanding:										
	44.7		44.2		43.0		42.7		42.6	
ed	44.9		44.3		43.3		43.0		43.0	

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olidated Cash Flow Data (in millions)	2014	2015	2016	2017	2018
provided by operating activities	$136.6 (2)	$241.5	$213.7	$250.1	$314.8 (1)
al expenditures	(58.3)	(57.3)	(62.8)	(66.6)	(76.1)
cash flow (4)	$78.3 (2)	$184.2	$150.9	$183.5	$238.7 (1)
used for investing activities (5)	$(31.2)	$(79.5)	$(274.2)	$(60.8)	$(49.9)
provided by (used for) financing activities (6)	$(76.1)	$(127.5)	$123.7	$(157.5)	$(188.8)

olidated Balance Sheet Data December 31 (in millions)	2014	2015	2016	2017	2018
cash equivalents, and investments	$224.6	$248.6	$304.0	$353.3	$395.9
ing capital	97.0	105.5	177.1	206.6	238.8
assets	1,010.3	1,029.0	1,350.9	1,405.7	1,453.8
red revenue (7)	146.0	152.0	179.5	185.5	210.0
-term liabilities	62.1	84.0	359.2 (8)	277.6 (8)	156.3 (8)
equity	654.4	640.6	696.8	804.9	934.7

evenue, operating income, and free cash flow in 2018 includes a $10.5 million revenue benefit related to an ded license agreement and a corresponding favorable cash impact.

perating income and free cash flow for 2014 included a $61.0 million litigation settlement expense and sponding cash outflow.

on-operating income in 2016 included a $37.1 million holding gain related to the purchase of the remaining rship interest in PitchBook, which was previously a minority investment. Non-operating income in 2017 included .7 million gain related to the sale of HelloWallet. Non-operating income in 2018 includes a $10.5 million gain d to the sale of our 15(c) board consulting services product line.

ree cash flow is considered a non-GAAP financial measure under SEC regulations. We present this measure as ementental information to help investors better understand trends in our business results over time. Our management uses free cash flow to evaluate our business. Free cash flow is not equivalent to any measure required to be ted under GAAP, nor should this data be considered an indicator of liquidity. Moreover, the free cash flow tion we use may not be comparable to similarly titled measures reported by other companies.

ash used for investing activities consists primarily of cash used for acquisitions, purchases of investments, net of eds from the sale of investments, capital expenditures, purchases of equity and cost-method investments, and eds from the sale of businesses, product lines, and equity investments. The level of investing activities can vary period to period depending on the level of activity in these categories. Refer to Item 7—Management's Discussion nalysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for more information erning cash used for investing activities.

ash provided by (used for) financing activities consists primarily of cash used to make repayments on our ving credit facility, repurchase outstanding common stock through our share repurchase program, and dividend ents. These cash outflows are partially offset by proceeds from our revolving credit facility and stock option ises. Refer to Item 7—Management's Discussion and Analysis of Financial Condition and Results of ations—Liquidity and Capital Resources for more information concerning cash used for financing activities.

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'e frequently invoice or collect cash in advance of providing services or fulfilling subscriptions for our customers ecord these balances as deferred revenue. These amounts represent both current and non-current deferred revenue.

ong-term liabilities in 2016, 2017, and 2018 includes $250.0 million, $180.0 million, and $70.0 million of term debt, respectively.

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

iscussion included in this section, as well as other sections of this Annual Report on Form 10-K, contains rd-looking statements as that term is used in the Private Securities Litigation Reform Act of 1995. These nents are based on our current expectations about future events or future financial performance. Forward-looking nents by their nature address matters that are, to different degrees, uncertain, and often contain words such as "may," d," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," or "continue." These statements involv n and unknown risks and uncertainties that may cause the events we discuss not to occur or to differ significantly what we expect. For us, these risks and uncertainties le, among others:

ity for any losses that result from an actual or claimed breach of our fiduciary duties;
g to maintain and protect our brand, independence, and reputation;
g to differentiate our products and continuously create innovative, proprietary research tools;
ity related to the storage of personal information related to individuals as well as portfolio and account-level mation;
quacy of our business continuity program in the event of a material emergency or adverse political or regulatory opments;
g to respond to technological change, keep pace with new technology developments, or adopt a successful ology strategy;
s in the asset management industry, including the decreasing popularity of actively managed investment vehicles ncreased industry consolidation;
tage of our database, technology-based products and services, or network facilities or the movement of parts of our ology infrastructure to the public cloud;
liance failures, regulatory action, or changes in laws applicable to our investment advisory or credit rating tions;
lity in the financial sector, global financial markets, and global economy and its effect on our revenue from -based fees and credit ratings business;
ilure of acquisitions and other investments to produce the results we anticipate;
ilure to recruit, develop, and retain qualified employees;
enges faced by our non-U.S. operations, including the concentration of data and development work at our offshore ties in China and India;
ity relating to the acquisition or redistribution of data or information we acquire or errors included therein; and
ilure to protect our intellectual property rights or claims of intellectual property infringement against us.

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

ollar and percentage comparisons, which are often accompanied by words such as "increase," "decrease," "grew," ined," "was up," "was down," "was flat," or "was similar" refer to a comparison with the prior year unless otherwise stated.

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rstanding Our Company

Business Characteristics

ffer an extensive line of products and services for individual investors, financial advisors, asset managers, ment plan providers and sponsors, and institutional investors and other participants in the private capital markets. of our products are sold through subscriptions or license agreements. As a result, we typically generate recurring ue.

nue

enerate revenue by selling a variety of investment-related products and services. We sell many of our products and ces, including Morningstar Data, Morningstar Advisor Workstation, Morningstar Direct, Morningstar Research, itchBook Data, through license agreements. Our license agreements typically range from one to three years. We ome of our other products, such as Premium Membership service on Morningstar.com, via subscriptions. These riptions are mainly offered for a one-year term, although we offer terms ranging from one month to three years.

nvestment management products have multiple fee structures, which vary by client and region. In general, we seek eive asset-based fees for any work we perform that involves managing investments or acting as a subadvisor to tment portfolios. For any individual contract, we may receive flat fees, variable asset-based fees, or a combination two. Some of our contracts include minimum fee levels that provide us with a flat payment up to a specified asset above which we also receive variable asset-based fees. In the majority of our contracts that include variable based fees, we bill clients quarterly in arrears based on average assets for the quarter. Other contracts may include sions for monthly billing or billing based on assets as of the last day of the billing period rather than on average .

Workplace Solutions area, our contracts may include one-time setup fees, technology licensing fees, asset-based or managed retirement accounts, fixed and variable fees for advice and guidance, or a combination of these fee ures. We also offer plan sponsor advice and custom target-date consulting arrangements. Fees for these services be based on the level of assets under advisement.

so generate transaction-based revenue, including the sale of advertising on our websites and sponsorship of rences. In our credit ratings business, we primarily generate revenue through our provision of ratings on new of securities.

red Revenue

nvoice some of our clients and collect cash in advance of providing services or fulfilling subscriptions for our mers. We use some of this cash to fund our operations and invest in new product development. Deferred revenue is rgest liability on our Consolidated Balance Sheets and totaled $210.0 million (of which $195.8 million was fied as a current liability with an additional $14.2 million included in other long-term liabilities) at the end of For 2017, the amount of deferred revenue was $185.5 million (of which $171.3 million was classified as a current ty with an additional $14.2 million included in other long-term liabilities). We expect to recognize this deferred ue in future periods as we fulfill the service obligations under our subscription, license, and service agreements.

ficant Operating Leverage

usiness requires significant investments to create and maintain proprietary software, databases, and content. While xed costs of the investments we make in our business are relatively high, the variable cost of adding customers is vely low. This reflects our business focus on Internet-based platforms and assets under management. At times, we make investments in building our databases and content that cause weaker short-term operating results. During periods, our profitability may improve because we're able to increase revenue without increasing our cost base at me rate. When revenue decreases, however, we may not be able to adjust our cost base at a corresponding rate.

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ating Expense

assify our operating expense into separate categories for cost of revenue, sales and marketing, general and nistrative, and depreciation and amortization, as described below. We include stock-based compensation expense, propriate, in each of these categories.

t of revenue. This category includes compensation expense for employees who produce the products and services eliver to our customers. For example, this category covers production teams and analysts who write investment rch reports. It also includes compensation expense for programmers, designers, and other employees who develop products and enhance existing products. In some cases, we capitalize the compensation costs associated with n software development projects. This reduces the expense that we would otherwise report in this category. Cost venue also includes other expenses such as third-party data purchases and data lines.

s and marketing. This category includes compensation expense for our sales teams, product managers, and eting professionals. We also include the cost of advertising, direct mail campaigns, and other marketing and otion efforts in this category.

eral and administrative. This category includes compensation expense for our management team and other rate functions, including employees in our compliance, finance, human resources, and legal departments. It also des costs for corporate systems and facilities.

reciation and amortization. Our capital expenditures are mainly for capitalized software development costs, mation technology equipment, and leasehold improvements. We depreciate property and equipment primarily using raight-line method based on the useful lives of the assets, which range from three to seven years. We amortize hold improvements over the lease term or their useful lives, whichever is shorter. We amortize capitalized software opment costs over their estimated economic life, generally three years. We also include amortization related to fiable intangible assets, which is mainly driven by acquisitions, in this category. We amortize intangible assets the straight-line method over their estimated economic useful lives, which range from one to 25 years.

national Operations

December 31, 2018, we had majority-owned operations in 26 countries outside of the U.S. and included their s of operations and financial condition in our consolidated financial statements. We account for certain rity-owned investments in international locations, including Morningstar Japan K.K. (MJKK) and Sustainalytics ng B.V. (Sustainalytics), using the equity method.

We Evaluate Our Business

our analysts evaluate a stock, they focus on assessing the company's estimated intrinsic value, which is based on ated future cash flows, discounted to their value in today's dollars. Our approach to evaluating our own business s the same way.

oal is to increase the intrinsic value of our business over time, which we believe is the best way to create value for hareholders. We do not make public financial forecasts for our business because we want to avoid creating any tives for our management team to make speculative statements about our financial results that could influence our price or take actions that help us meet short-term forecasts, but may not build long-term shareholder value.

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

evenue (including organic revenue);
perating income (loss); and
ee cash flow.

nic revenue and free cash flow are not measures of performance set forth under U.S. generally accepted accounting ples (GAAP).

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efine organic revenue as consolidated revenue excluding acquisitions, divestitures, adoption of accounting ges, and foreign currency translations. We present organic revenue because we believe it helps investors better are our period-to-period results, and our management team uses this measure to evaluate the performance of our ess. We exclude revenue from businesses acquired or divested from organic revenue for a period of 12 months we complete the acquisition or divestiture. For adoption of accounting changes, we exclude the effects of the ion for the new revenue recognition standard effective January 1, 2018, as prior period results have not been ted. Organic revenue is not equivalent to any measure required under GAAP and may not be comparable to arly titled measures reported by other companies.

efine free cash flow as cash provided by or used for operating activities less capital expenditures. We present free low as supplemental information to help investors better understand trends in our business results over time. Our gement team uses free cash flow to evaluate our business. Free cash flow is not equivalent to any measure required GAAP and should not be considered an indicator of liquidity. Moreover, the free cash flow definition we use may comparable to similarly titled measures reported by other companies.

aluate how successful we've been in maintaining existing business for products and services that have renewable ue, we calculate retention and renewal rates using two different methods. For subscription-based products, we late a retention rate based on the number of subscriptions retained during the year as a percentage of the number of riptions up for renewal. For products sold through contracts and licenses, we use the contract value method, which ed on tracking the dollar value of renewals compared with the total dollar value of contracts up for renewal during eriod. We include changes in the contract value in the renewal amount, unless the change specifically results from g a new product that we can identify. We also include variable-fee contracts in this calculation and use the actual ue for the previous comparable fiscal period as the base rate for calculating the renewal percentage. The renewal xcludes setup and customization fees, migrations to other Morningstar products, and contract renewals that were ng as of January 31, 2019.

ear 2018 in Review

ontinually monitor developments in the economic and financial information industry. We use these insights to help n our company strategy, product development plans, and marketing initiatives.

ility characterized global equity markets in 2018, as the prospect of trade wars shook global economic tations, a decade’s worth of low-interest rates began reversing, and political uncertainty in the U.S. and Europe r impacted the outlook. The Morningstar U.S. Market Index, a broad market benchmark, hit a record high on mber 20, 2018, then fell 14.6% by year-end. This index finished 2018 with a full-year loss of 5.1%, ending a run asted the better part of a decade. International equities fared even worse, as Morningstar’s Global Markets ex-U.S. finished 2018 down 13.7%, with the Developed Markets ex-U.S. Index down 13.9% and the Emerging Markets down 13.2%.
g interest rates, especially at the long end of the yield curve, along with widening corporate bond credit spreads ered fixed-income returns in 2018. Over the course of the year, the interest rate on 10-year U.S. Treasury bonds 27 basis points. The total annual return for Morningstar's Core Bond Index (our broadest measure of the -income universe) was essentially unchanged for the year. Breaking the overall index down, Morningstar's -Term Core Bond Index rose approximately 1.5% and the Intermediate Core Bond Index rose 0.9%, but these were offset by the Long-Term Core Bond Index, which fell 3.2%.

l on Morningstar Asset Flows data, U.S. fund assets, composed of both long-term open-end mutual funds and nge-traded funds (ETFs), totaled about $17.0 trillion as of December 31, 2018, compared with over $18.1 trillion

December 31, 2017. Ending the year at approximately $3.4 trillion in assets under management, the U.S. ETF try remained largely flat year-over-year, as market declines slightly offset investor inflows. In contrast, assets management in U.S. long-term open-end funds declined to $13.6 trillion from $14.7 trillion in the prior year due h market declines and investor outflows. In 2018, investors continued to favor passively-managed vehicles, with flows of more than $457.0 billion for passively managed funds and ETFs.

ugh actively-managed vehicles in aggregate experienced over $303.0 billion of outflows in 2018, most of the ne came from actively-managed U.S. equity mutual funds. Actively-managed ETFs attracted almost $27 billion of tor flows through 2018.

d on PitchBook Platform data, on an aggregated basis, U.S. private capital markets experienced record performance 18, as evidenced by many different metrics. Over $713 billion worth of private equity-backed transactions were ded across an estimated 4,828 completed deals, setting a record for the number of completed deals in a year. The deal-value figure represented the second-highest yearly figure PitchBook has ever reported. In addition, despite ficant volatility in various asset classes, valuations across private equity and M&A remained stable.
U.S. venture capital market also set a record in 2018 for the most capital ever invested in a single year. Driven by d amounts of capital invested in financing rounds of at least $100 million, roughly $131 billion in capital was ted. Over $55 billion in capital was raised by new vehicles, representing a 62.7% year-over-year increase and g a record for the most capital raised in a single year. European markets also experienced a surge in total capital yed by venture capital investors. Driven by an increase in the median deal size across all investment stages, over billion was raised by European-headquartered startups in 2018, the largest figure in at least a decade.
latory Environment

dition to industry developments in 2018, there are several longer-term regulatory trends we consider relevant to our ess, as outlined below.

wake of the financial crisis of 2008 and 2009, regulators have continued to implement new frameworks for cial services companies globally. Many of these rules relate to financial advisor compensation, fees and expenses, tor disclosure, and the use of hedge funds and alternative investments.

United Kingdom, for example, the Retail Distribution Review (RDR), which emphasizes increased regulation of ory fees, higher professional standards for financial advisors, and "whole of market" investment solutions, became ive in January 2013. The RDR also restricted the use of commission payments for products sold to individual tors. The U.K. regulator is monitoring the implementation of RDR and is scheduled to publish a review of its ngs in 2019. In addition to the RDR, the U.K. regulator and Her Majesty's Treasury (HMT) launched the Financial ce Market Review (FAMR) in 2015 in light of concerns that the market for financial advice was not working well onsumers. FAMR aimed to explore ways in which the government, industry, and regulators could take collective to stimulate the development of a market, which delivers affordable and accessible financial advice and guidance eryone. FAMR's final report, published in March 2016, set out 28 recommendations intended to tackle barriers to mers accessing advice. The Financial Conduct Authority (FCA) and HMT will review the outcomes of FAMR in

United Kingdom, the FCA will also publish the final report of its Platforms Market Study in 2019. The Study res the value offered, competition and whether the relationships between platforms, advisers, asset managers and ratings providers work in the interests of investors. Also, as of September 2019, U.K. fund managers must appoint imum of two independent directors to their boards and conduct an annual assessment of the value that they deliver estors. These new rules are borne from the regulators Asset Management Market Study that sought to ensure fund gers compete on the value they deliver and act in the interests of investors.

European Union, the new version of the Markets in Financial Instruments Directive (MiFID II), became effective uary 2018. The main provisions include, among other things, limits on portfolio managers' use of third-party rch, quality and organizational rules regarding the provision of advice, additional governance requirements for the facturing and distribution of financial instruments and structured deposits, requirements for firms to provide s with details of all costs and charges related to their investments, and new rules for disclosing the cumulative of costs on investor returns.

respect to indexes, European Union Benchmarks Regulation 2016/1011 came into force on June 30, 2016 with a rity of its provisions having a compliance date of January 1, 2018. The principal objective of the Regulation is to e benchmarks used in financial instruments and financial contracts or to measure the performance of investment (e.g., a tracking index of a ETF) are free of conflicts of interest, are used appropriately and reflect the actual et or economic reality they are intended to measure. This Regulation applies to Morningstar’s index group as a of making available its indexes to European investable product sponsors (e.g., ETF sponsors) as the tracking for their investable product.

European Commission announced its Action Plan on Sustainable Finance in May 2018. The proposed dments would adjust the Benchmarks Regulation to create a new category of low-carbon and positive carbon hmarks as well as change MiFID II to include ESG preferences in the advice they offer to investors. The Plan also osed new regulations on disclosures relating to sustainable investments and risks and on the establishment of a d classification system on what can be considered an environmentally sustainable economic activity.

stralia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry een investigating banking and wealth management businesses. In a final report issued on February 1, 2019, the nission did not recommend the elimination of vertically integrated wealth management business models but has osed a tighter set of rules around such vertical integration to make it more difficult to inappropriately incentivize le of financial products through aligned distribution channels. In particular financial advisers will be required to ose to a client why they are not independent, impartial and unbiased before providing advice. The commission has ecommended a stronger regulatory presence with the imposition of more fines and an increase in enforcement tion. The fund management industry also continues to be an area of regulatory reform with the introduction of the Region Funds Passport and Corporate Collective Investment Vehicle Schemes, the review of fees and costs osure for managed investment and superannuation funds, and a suite of seven new and updated regulatory guides e fund management industry.

U.S., the U.S. Department of Labor’s (DOL) new fiduciary standard that would have expanded the definition of a ary for certain financial advisors who provide advice related to retirement planning was struck down by the U.S. of Appeals for the Fifth Circuit in March 2018. The new rule was previously scheduled to go into effect in April In April 2018, the SEC proposed “Regulation Best Interest” and may finalize this rule in 2019. Regulation Best st echoes many of the principals of the DOL’s rule, although it does not contain the same types of bright-line bitions on certain kinds of compensation, nor expose advisors to class-action lawsuits.

lators in the financial services industry have indicated they are increasingly concerned by risk factors related to r management accountability, data protection and privacy, and cybersecurity. For example, jurisdictions such as Kong, the U.K., Australia, and Singapore have adopted or are considering the adoption of more stringent rules vill require that specific individuals be identified as responsible for certain senior management functions and will a firm’s senior management team personally accountable for their own and their firm’s actions and conduct. Data cy regulation continues to proliferate, as various jurisdictions such as the People's Republic of China, the Republic azil, and the State of California join the European Union in adopting comprehensive data privacy regulation. Since tions in the financial services industry require the processing of significant amounts of personally identifiable mation (PII), we believe the burdens of regulation, and possibly inconsistent regulation, will proliferate. As a d matter, issues of cybersecurity as they relate to the identification and mitigation of system vulnerabilities should grow in prominence as services rendered by the industry become increasingly digital over time. For example, the s Office of Compliance Inspections and Examinations has indicated that its 2019 examination programs will tize cybersecurity with an emphasis on, among other things, proper configuration of network storage devices, mation security governance, and policies and procedures related to retail trading information security.

elieve these regulatory tends will continue in financial markets worldwide.

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emental Operating Metrics (Unaudited)

ables below summarize our key product metrics and other supplemental data.

	As of December 31,						
	2018	2017		2016		2018 Change	2017 Change
usiness							
ingstar.com Premium Membership subscriptions)	116,402	118,462		118,339		(1.7)%	0.1 %
ingstar.com average monthly unique users (U.S.)	2,090,971	1,964,513		1,941,218		6.4 % (1)	1.2 %
sor Workstation clients (U.S.)	171	182		175		(6.0)%	4.0 %
ingstar Office licenses (U.S.)	4,378	4,330		4,286		1.1 %	1.0 %
ingstar Direct licenses	15,033	13,884		12,492		8.3 %	11.1 %
Book Platform licenses	22,979	13,908		9,723		65.2 %	43.0 %
value linked to Morningstar Indexes ($bil)	$46.8	$ 34.4		$ 25.5		36.0 %	34.9 %
s under management and advisement (approximate) (2)							
kplace Solutions							
anaged Accounts (3)	58.2	57.6		46.9		1.0 %	22.8 %
ciary Services	41.0	42.5		34.3		(3.5)%	23.9 %
om Models	29.0	28.0		23.2		3.6 %	20.7 %
kplace Solutions (total)	$128.2	$ 128.1		$ 104.4		0.1 %	22.7 %
ningstar Investment Management							
ningstar Managed Portfolios	41.7	40.5	(4)	31.0	(4)	3.0 %	30.6 %
tutional Asset Management	16.8	16.4	(5)	56.8	(5)	2.4 %	(71.1)%
t Allocation Services	6.5	9.5		7.2		(31.6)%	31.9 %
ningstar Investment Management (total)	$65.0	$ 66.4	(6)	$ 95.0	(6)	(2.1)%	(30.1)%
rage assets under management and advisement ($bil)	$200.1	$ 206.2		$ 192.0		(3.0)%	7.4 %
ber of new-issue ratings completed	138	97		70		42.3 %	38.6 %
t value of new-issue ratings ($bil)	$58.2	$ 39.0		$ 30.7		49.2 %	27.0 %
employees (approximate)							
ldwide headcount	5,416	4,920		4,550	(7)	10.1 %	8.1 %

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	Year ended December 31,										
nillions)	2018	2017		2016		2018 Change			2017 Change		
product and investment area revenue (8)											
ningstar Data (9)	$185.2	$166.1	(10)	$154.7	(10)	11.5	%		7.3	%	
ningstar Direct	137.9	124.4		110.5		10.9	%		12.6	%	
ningstar Investment Management (11)	111.2	101.0	(10)	92.2	(10)	10.1	%		9.5	%	
Book Data	99.6	63.6		4.1	(12)	56.6	%		NMF		
ningstar Advisor Workstation	90.0	87.3		82.4		3.1	%		6.0	%	
kplace Solutions	75.3	73.5		71.3		2.4	%	(13)	3.2	%	(13)
ningstar Credit Ratings	36.3	31.4		26.4		15.6	%		18.8	%	
enue by Type (8)											
nse-based (14)	$751.6	$667.7	(10)	$579.4	(10)	12.6	%		15.2	%	
t-based (15)	200.4	182.2	(10)	163.6	(10)	10.0	%		11.4	%	
saction-based (16)	67.9	61.8	(10)	55.6	(10)	9.8	%		11.2	%	

prior periods, the Company estimated traffic on Morningstar.com using a combination of internal tools and a party platform. The new website launched in the first quarter of 2018 now allows tracking of 100% of website c using a third-party platform. The Company believes the current reporting is a more accurate representation of c, and this change in methodology is the primary driver of the difference in reported traffic numbers versus 2017.

he asset totals shown above (including assets we either manage directly or for which we provide consulting or visory work) only include assets for which we receive basis-point fees. Some of our client contracts include ces for which we receive a flat fee, but we do not include those assets in the total reported.

ding changes related to new contracts and cancellations, changes in the value of assets under advisement can come two primary sources: gains or losses related to overall trends in market performance, and net inflows or outflows d when investors add to or redeem shares from these portfolios.

from Morningstar Managed Portfolios, it's difficult for our Investment Management business to quantify these nflows and outflows. The information we receive from most of our clients does not separately identify the effect h inflows and outflows on asset balances for each period. We also cannot specify the effect of market appreciation preciation because the majority of our clients have discretionary authority to implement their own portfolio tions.

any factors can cause changes in assets under management and advisement for our managed retirement accounts, ding employer and employee contributions, plan administrative fees, market movements, and participant loans and hip withdrawals. The information we receive from the plan providers does not separately identify these ctions or the changes in balances caused by market movement.

17 and 2016 amounts are revised to include assets from Australia, which were previously reflected in Institutional Management. 2016 was also revised to include assets from South Africa.

he 2017 decline was due to client losses related to a strategic shift away from our customized investment gement offerings to Managed Portfolios. Also, 2017 and 2016 numbers were revised to exclude Australia and Africa assets, which are reflected in Morningstar Managed Portfolios.

xcludes $1.4 billion and $1.2 billion of assets under advisement and management related to Manager Selection ces as of December 31, 2017 and 2016, respectively, that were reclassified to Morningstar Data. The associated ue is included in Morningstar Data.

evised to exclude temporary employees and part-time employees who work less than 30 hours a week.

ey product and investment area revenue and revenue by type includes the effect of foreign currency translations.

he adoption of ASC Topic 606 favorably impacted Morningstar Data revenue during 2018 by $1.5 million.

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Restated from prior periods due to realignment of individual products within the product groups.

The adoption of ASC Topic 606 favorably impacted Morningstar Investment Management revenue during 2018 by million.

Morningstar did not acquire full ownership of PitchBook until December 2016; therefore 2016 results reflected one n of operations.

Excluding the negative 6.5 percentage point impact of the HelloWallet divestiture, revenue increased by 9.7% for ll year in 2017. Excluding the negative 4.6 percentage point impact of the HelloWallet divestiture, revenue ased by 7.0% for the full year in 2018.

License-based revenue includes Morningstar Data, Morningstar Direct, Morningstar Advisor Workstation, ingstar Enterprise Components, Morningstar Research, PitchBook Data, and other similar products. License-based ue during 2018 included a $10.5 million revenue benefit related to an amended license agreement.

Asset-based revenue includes Morningstar Investment Management, Workplace Solutions, and Morningstar es.

Transaction-based revenue includes Morningstar Credit Ratings, Internet advertising sales, and Conferences.

olidated Results

Metrics (in millions)	2018	2017	2016	2018 Change	2017 Change
nue	$1,019.9	$911.7	$798.6	11.9 %	14.2 %
ating income	$215.8	$169.8	$180.8	27.1 %	(6.0)%
ating margin	21.2 %	18.6 %	22.6 %	2.6 pp	(4.0) pp
used for investing activities	$(49.9)	$(60.8)	$(274.2)	(17.9)%	(77.8)%
provided by (used for) financing activities	$(188.8)	$(157.5)	$123.7	19.9 %	(227.3)%
provided by operating activities	$314.8	$250.1	$213.7	25.9 %	17.0 %
al expenditures	(76.1)	(66.6)	(62.8)	14.3 %	6.1 %
cash flow	$238.7	$183.5	$150.9	30.1 %	21.6 %

percentage points

efine free cash flow as cash provided by or used for operating activities less capital expenditures. Please refer to scussion in How We Evaluate our Business for more detail.

olidated Revenue

illions)	2018	2017	2016	2018 Change	2017 Change
olidated revenue	$1,019.9	$911.7	$798.6	11.9 %	14.2 %

18 and 2017, our consolidated revenue rose 11.9% and 14.2%, respectively. Foreign currency movements
ased revenue by $4.0 million in 2018 and had no net material impact on revenue in 2017.

xperienced strong revenue growth across all revenue types during 2018.

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se-based revenue grew 12.6% during 2018. We experienced continued demand for license-based products, such as Book Data, Morningstar Data, and Morningstar Direct. Revenue from PitchBook Data increased by $36.0 million rimarily to strong sales of new licenses and high renewal rates. The number of PitchBook Platform licenses ased to 22,979 at the end of 2018, compared with 13,908 at the end of 2017 and 9,723 at the end of 2016. ingstar Data revenue increased by $19.1 million in 2018, as result of adding new clients and expanding our onships with existing clients by adding additional datasets primarily within our managed products and market data ct lines.

nue from Morningstar Direct rose $13.5 million in 2018, reflecting growth in licenses for both new and existing s and certain price increases. The number of licenses for Morningstar Direct increased to 15,033 worldwide at the f 2018, compared with 13,884 at the end of 2017 and 12,492 at the end of 2016, with growth in both the U.S. and ationally.

g 2018, licensed-based revenue also included a $10.5 million revenue benefit related to an amended license ment recorded in the third quarter.

-based revenue increased 10.0% during 2018, primarily driven by Morningstar Managed Portfolios and Workplace ions. The adoption of Topic 606 favorably impacted asset-based revenue growth by 2.7 percentage points during See Note 18 of the Notes to our Consolidated Financial Statements (Note 18) for additional information. ingstar Investment Management revenue increased $10.2 million during 2018 due to growth in Morningstar ged Portfolios offset by declines in institutional asset management. Workplace Solutions revenue increased 2.4% g 2018. Excluding the negative 4.6 percentage point impact of the HelloWallet divestiture in 2017, Workplace ions revenue increased by 7.0% for the full year in 2018. The asset-based revenue we earn in both Morningstar tment Management and Workplace Solutions is generally based on average asset levels during each quarter. ge assets under management and advisement (calculated based on available average quarterly or monthly data) approximately $200.1 billion in 2018, compared with $206.2 billion in 2017 and $192.0 billion in 2016.

action-based revenue grew 9.8% during 2018, driven by Morningstar Credit Ratings and ad sales on ingstar.com. Morningstar Credit Ratings completed 138 new-issue ratings, primarily of structured finance ities, representing a 49.2% increase in the asset value of the issues rated during 2018 compared to 2017.

of the main contributors to the 2017 revenue increase were PitchBook Data, Morningstar Direct, Morningstar Morningstar Managed Portfolios, Workplace Solutions, and Morningstar Credit Ratings.

nic revenue

ow for more meaningful comparisons of our results in different periods, we provide information about organic ue, which reflects our underlying business excluding acquisitions, divestitures, adoption of accounting changes, e effect of foreign currency translations. In 2018, we divested our 15(c) board consulting services product line and t make any significant acquisitions. We also adopted Topic 606 on January 1, 2018, which had a favorable impact venue. In 2017, we divested HelloWallet and did not make any acquisitions.

xclude revenue from acquired businesses from our organic revenue growth calculation for a period of 12 months we complete the acquisition. For divestitures, we exclude revenue in the prior period for which there is no arable revenue in the current period.

gn currency translation had a favorable effect of $4.0 million on revenue in 2018. Our 2017 results included ue of $6.1 million from our divestitures of HelloWallet and our 15(c) board consulting services product line, n did not recur in 2018. Our adoption of Topic 606 on January 1, 2018 also favorably impacted revenue by $6.7 on during 2018, primarily revenue from Institutional Asset Management and Morningstar Managed Portfolios. See 18 for additional information. Excluding acquisitions, divestitures, adoption of accounting changes, and foreign ncy translations, organic revenue increased 11.4% in 2018.

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17, we had $57.5 million in incremental revenue from acquisitions, primarily from PitchBook. Revenue in 2016 ded $4.4 million of revenue from HelloWallet, which we divested in the second quarter of 2017 that did not recur second half of 2017. Revenue from PitchBook was treated as acquired revenue through November 2017 and was porated into organic growth statistics after December 1, 2017. Because HelloWallet was divested in the second er of 2017, we excluded HelloWallet's last six months of 2016 revenue from our organic revenue growth lation. In addition, foreign currency translations had no net material impact on revenue in 2017. Excluding sitions, divestitures, and foreign currency translations, organic revenue increased 7.6% in 2017.

ables below reconcile consolidated revenue with organic revenue:

vs. 2017 (in millions)	2018	2017	Change
olidated revenue	$1,019.9	$911.7	11.9 %
acquisitions	—	—	—
divestitures	—	(6.1)	NMF
adoption of accounting changes	(6.7)	—	NMF
t of foreign currency translations	(4.0)	—	NMF
nic revenue	$1,009.2	$905.6	11.4 %
vs. 2016 (in millions)	2017	2016	Change
olidated revenue	$911.7	$798.6	14.2 %
acquisitions	(57.5)	—	NMF
divestitures	—	(4.4)	NMF
adoption of accounting changes	—	—	—
t of foreign currency translations	—	—	—
nic revenue	$854.2	$794.2	7.6 %

— Not meaningful

nic revenue (revenue excluding acquisitions, divestitures, adoption of accounting changes, and the effect of foreign ncy translations) is considered a non-GAAP financial measure. The definition of organic revenue we use may not e same as similarly titled measures used by other companies. Organic revenue should not be considered an ative to any measure of performance as promulgated under GAAP.

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nue by region

	Year ended December 31				
illions)	2018	2017	2016	2018 Change	2017 Change
d States	$764.2	$687.0	$590.5	11.2 %	16.3 %
d Kingdom	72.4	64.7	61.1	11.9 %	5.9 %
nental Europe	81.2	69.9	62.6	16.2 %	11.7 %
alia	40.9	34.6	32.2	18.2 %	7.5 %
da	30.7	29.4	28.2	4.4 %	4.3 %
	24.5	21.2	20.0	15.6 %	6.0 %
	6.0	4.9	4.0	22.4 %	22.5 %
International	255.7	224.7	208.1	13.8 %	8.0 %
olidated revenue	$1,019.9	$911.7	$798.6	11.9 %	14.2 %

national revenue comprised approximately 25% of our consolidated revenue in 2018 and 2017, compared with 26% 16. About 60% of our international revenue is from Continental Europe and the United Kingdom. We also have a large revenue base in Australia and Canada.

nue from international operations increased $31.0 million, or 13.8%, in 2018 and $16.6 million, or 8.0% in 2017.

ables below present a reconciliation from international revenue to international organic revenue:

vs. 2017 (in millions)	2018	2017	Change
national revenue	$255.7	$224.7	13.8 %
acquisitions	—	—	—
divestitures	—	—	—
adoption of accounting changes	(6.4)	—	NMF
t of foreign currency translations	(4.0)	—	NMF
national organic revenue	$245.3	$224.7	9.2 %

vs. 2016 (in millions)	2017	2016	Change
national revenue	$224.7	$208.1	8.0 %
acquisitions	—	—	—
divestitures	—	—	—
adoption of accounting changes	—	—	—
t of foreign currency translations	—	—	—
national organic revenue	$224.7	$208.1	8.0 %

national organic revenue (international revenue excluding acquisitions, divestitures, adoption of accounting ges, and the effect of foreign currency translations) is considered a non-GAAP financial measure. The definition of national organic revenue we use may not be the same as similarly titled measures used by other companies. national organic revenue should not be considered an alternative to any measure of performance as promulgated GAAP.

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national organic revenue increased 9.2% during 2018. Morningstar Data, Morningstar Direct, and Morningstar ged Portfolios were the main contributors to the organic international growth. Our adoption of Topic 606 on ry 1, 2018 also favorably impacted international revenue by $6.4 million during 2018, primarily revenue from utional Asset Management and Morningstar Managed Portfolios in Australia. See Note 18 for additional mation.

17, international organic revenue increased 8.0%.

wal Rates

scussed in How We Evaluate Our Business, we calculate retention and renewal rates to help measure how ssful we've been in maintaining existing business for products and services that have renewable revenue.

raph below illustrates our retention metrics over the past five years for contract-based products and services, rily Morningstar Data, Morningstar Direct, PitchBook, Morningstar Advisor Workstation, and Morningstar Office.

hese contract-based products and services, we estimate that our weighted average annual renewal rate was ximately 100% in 2018, compared with 102% in 2017. The figure for contract-based products includes the effect ce changes; increasing client bases upon contract renewal; changes to the contract value upon renewal (such as ased users); and changes in the value of variable-fee contracts. These factors, therefore, can lead to a renewal rate ntage over 100%.

olidated Operating Expense

illions)	2018	2017	2016	2018 Change	2017 Change
of revenue	$411.1	$386.6	$344.3	6.3 %	12.3 %
f revenue	40.3 %	42.4 %	43.1 %	(2.1) pp	(0.7) pp
and marketing	148.5	134.3	97.6	10.6 %	37.6 %
f revenue	14.6 %	14.7 %	12.2 %	(0.1) pp	2.5 pp
ral and administrative	147.8	129.8	105.2	13.9 %	23.3 %
f revenue	14.5 %	14.2 %	13.2 %	0.3 pp	1.0 pp
eciation and amortization	96.7	91.2	70.7	6.0 %	28.9 %
f revenue	9.5 %	10.0 %	8.9 %	(0.5) pp	1.1 pp
operating expense	$804.1	$741.9	$617.8	8.4 %	20.1 %
f revenue	78.8 %	81.4 %	77.4 %	(2.6) pp	4.0 pp

18, operating expense increased $62.2 million, or 8.4%. Foreign currency translations increased our operating
ise by $2.6 million in 2018.

ensation expense (which primarily consists of salaries, bonus, and other company-sponsored benefits) increased
million in 2018. Salary expense increased by $17.4 million, primarily driven by higher headcount at PitchBook.
ccrued higher bonus expense of $16.5 million in 2018 due to stronger performance against our internal targets.

ction expense increased $9.7 million in 2018, related primarily to our adoption of Topic 606. See Note 18 for
onal information. Depreciation expense increased $8.4 million in 2018, driven mainly by depreciation expense
d to capitalized software development incurred over the past several years. Stock-based compensation expense
ised $7.7 million in 2018 due to stronger performance against our incentive plan targets as well as accelerated
g related to retirement or service provisions.

tting these expenses in 2018 was an increase in capitalized software development of $7.2 million. Lower
gible amortization of $2.9 million also offset the increase in expenses in 2018 as certain intangible assets from
of our earlier acquisitions are now fully amortized. Commission expense also decreased $2.9 million as a result of
loption of Topic 606.

ad 5,416 employees worldwide at the end of 2018, compared with 4,920 in 2017. This increase reflects continued
tment in our key growth initiatives, including operations in India and PitchBook in the U.S. and Europe.

17, our operating expense increased $124.1 million, or 20.1%. Foreign currency translations reduced our operating
ise by $0.6 million in 2017.

r compensation expense, depreciation expense, professional fees, and sales commission expense were the main
s that contributed to the increase in operating expense in 2017.

ensation expense increased $65.5 million in 2017 with bonus expense increasing $18.7 million. Bonus expense
igher due to stronger performance against our internal targets. Depreciation expense in 2017 included a $4.1
n impairment charge for certain software licenses due to a shift toward a cloud-based strategy.

lly offsetting our 2017 total operating expense increase was an increase in internally developed capitalized
are. In 2017, we capitalized $46.3 million of software development expense compared to $28.2 million of software
opment expense in 2016.

ad 4,920 employees worldwide at the end of 2017, compared with 4,550 in 2016. This increase reflected continued
tment in our key growth initiatives, including data operations in India and China and PitchBook in the U.S. and
e.

of revenue

of revenue is our largest category of operating expense, representing about one-half of our total operating expense.
usiness relies heavily on human capital, and cost of revenue includes the compensation expense for employees
produce our products and services. We include compensation expense for approximately 80% of our employees in
ategory.

of revenue increased $24.5 million, or 6.3%, in 2018. Higher compensation expense of $15.8 million was the
t contributor to the increase with bonus expense increasing $9.8 million. Higher production expense also

ibuted to the unfavorable variance in this category and includes $6.7 million of expense related to our adoption of 606. See Note 18 for additional information.

er internally developed capitalized software partially offset these increases. Continuous focus on development of najor software platforms, coupled with bringing new products and capabilities to market, resulted in an increase in alized software development, which in turn reduced operating expense. During 2018, we capitalized $53.5 million iated with software development activities, mainly related to enhanced capabilities in our products, internal tructure, and software, including PitchBook, Morningstar Cloud Platform, and Morningstar Enterprise ponents. In comparison, we capitalized $46.3 million in 2017.

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of revenue increased $42.3 million in 2017. Higher compensation expense of $36.1 million was the largest butor to the increase with bonus expense increasing $12.0 million. Professional fees and production expense also buted to the increase in this category.

lly offsetting these increases was an increase in internally developed capitalized software. We accelerated opment of our major software platforms, resulting in an increase in capitalized software development, which ed operating expense. During 2017, we capitalized $46.3 million, associated with software development activities, y related to PitchBook, Morningstar Data, Workplace Solutions, and additional enhancements to reporting, cial planning, and other capabilities in our products. In comparison, we capitalized $28.2 million in 2016.

percentage of revenue, cost of revenue decreased 2.1 percentage points in 2018 and 0.7 percentage points in 2017.

and marketing

and marketing expense increased $14.2 million, or 10.6%, in 2018, reflecting a $11.8 million increase in ensation expense. Offsetting this increase was a decrease of $2.9 million in commission expense that is now being lized as a result of the adoption of Topic 606. Advertising and marketing spend also decreased $1.1 million during due to a shift in strategy and mix of spend related to greater use of digital channels versus direct mail campaigns.

and marketing expense increased $36.7 million in 2017. Compensation expense increased $21.2 million due rily to higher headcount at PitchBook. Sales commission expense also increased $12.6 million during 2017.

percentage of revenue, sales and marketing expense was flat in 2018 and increased 2.5 percentage points in 2017.

ral and administrative

ral and administrative expense increased $18.0 million, or 13.9%, during 2018. Compensation expense increased million during 2018 with bonus expense increasing $2.9 million. Stock-based compensation increased $5.1 million accelerated vesting related to retirement or service provisions and more equity awards granted. Rent expense ased $2.1 million and software subscriptions increased $2.1 million during 2018.

ral and administrative expense increased $24.6 million, or 23.3%, during 2017. Compensation expense increased million due to higher headcount at PitchBook. Stock-based compensation increased $6.3 million, primarily for gement bonus plan expense related to PitchBook during 2017. Rent expense and software subscriptions also buted to the increase in 2017.

ral and administrative expense as a percentage of revenue was flat in 2018 and 1.0 percentage point in 2017.

eciation and amortization

all, depreciation and amortization increased $5.5 million, or 6.0%, in 2018 and $20.5 million, or 28.9%, in 2017.

eciation expense rose $8.4 million in 2018, mainly driven by depreciation expense related to capitalized software opment incurred over the past several years. Intangible amortization expense decreased $2.9 million in 2018 as n intangible assets from some of our earlier acquisitions are now fully amortized.

eciation expense rose $16.3 million in 2017 from higher depreciation expense related to capitalized software opment and computer equipment incurred over the past several years. Depreciation expense during 2017 also ded a $4.1 million impairment charge for certain software licenses due to a shift toward a cloud-based strategy. gible amortization expense increased $4.2 million in 2017 due to additional amortization expense for the intangible s of PitchBook offset by certain intangible assets from some previous acquisitions that are now fully amortized.

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xpect that amortization of intangible assets will be an ongoing cost. We estimate that this expense will total ximately $19.2 million in 2019. Our estimates of future amortization expense for intangible assets may be affected ditional acquisitions, divestitures, changes in the estimated average useful lives, and foreign currency translation.

olidated Operating Income and Operating Margin

illions)	2018	2017	2016
ating income	$215.8	$169.8	$180.8
ange	27.1 %	(6.0)%	(5.2)%
ating margin	21.2 %	18.6 %	22.6 %
ge	2.6 pp	(4.0) pp	(1.6) pp

olidated operating income increased $46.0 million in 2018 as revenue increased $108.2 million and operating ise increased $62.2 million. Operating margin was 21.2%, an increase of 2.6 percentage points compared with

018, the $10.5 million revenue benefit related to an amended license agreement positively impacted operating ne growth by 6.2 percentage points and operating margin by 0.8 percentage points. This recognition of revenue was ccompanied by a commensurate increase in operating expense.

olidated operating income decreased $11.0 million in 2017 as revenue increased $113.1 million and operating ise increased $124.1 million. Operating margin was 18.6%, a decrease of 4.0 percentage points compared with

Operating Income, Equity in Net Loss of Unconsolidated Entities, and Effective Tax Rate and Income Tax nse

Operating Income

ollowing table presents the components of non-operating income, net:

illions)	2018	2017	2016
st income	$2.3	$1.9	$1.8
st expense	(4.1)	(5.5)	(1.5)
on sale of investments, net	1.0	3.2	0.6
on sale of business	—	16.7	—
on sale of product line	10.5	—	—
on sale of equity investments	5.6	—	—
ng gain upon acquisition of additional ownership of equity-method investments	—	—	37.1
income (expense), net	1.8	(5.0)	6.1
operating income, net	$17.1	$11.3	$44.1

st income mainly reflects interest from our investment portfolio. Interest expense mainly relates to the outstanding pal balance on our credit facility. Gain on sale of business relates to our sale of HelloWallet in June 2017. Gain on f product line relates to the sale of our 15(c) board consulting services product line in the first quarter of 2018. on sale of equity investments relates to the sale of a portion of our equity ownership interest in Morningstar Japan (MJKK) in the third quarter of 2018.

operating income in 2016 includes the $37.1 million gain we recorded with the purchase of the remaining rship interest in PitchBook, which was previously a minority investment.

income (expense), net primarily includes foreign currency exchange gains and losses arising from resulting from dollar denominated short-term investments held in non-U.S. jurisdictions.

y in Net Loss of Unconsolidated Entities

illions)	2018	2017	2016
y in net loss of unconsolidated entities	$(2.1)	$(1.3)	$(0.2)

y in net loss of unconsolidated entities primarily reflects income from Morningstar Japan K.K. (MJKK) offset by s in our other equity method investments.

escribe our investments in unconsolidated entities in more detail in Note 10 of the Notes to our Consolidated cial Statements.

tive Tax Rate and Income Tax Expense

ollowing table summarizes the components of our effective tax rate:

illions)	2018	2017	2016
ne before income taxes and equity in net loss of unconsolidated entities	$232.9	$181.1	$224.9
y in net loss of unconsolidated entities	(2.1)	(1.3)	(0.2)

	$230.8	$179.8	$224.7
ne tax expense	$47.8	$42.9	$63.7
tive tax rate	20.7 %	23.9 %	28.3 %

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Tax Reform

ecember 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (Tax Reform Act). egislation significantly changed U.S. tax law by, among other things, lowering corporate income tax rates, ging to a territorial tax system and imposing a transitional tax on deemed repatriated earnings of foreign diaries. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a 1% rate, effective from January 1, 2018.

ponse to the enactment of the Tax Reform Act, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118) to ss the complexity in accounting which allowed SEC registrants to record provisional amounts in earnings for the ended December 31, 2017. In the fourth quarter of 2017, we recorded provisional estimates in accordance with 118. In the fourth quarter of 2018, we completed our accounting for the Tax Reform Act within the one-year urement period required by SAB 118.

re also subject to additional provisions of the Tax Reform Act effective from January 1, 2018. to Note 15 of the Notes to our Consolidated Financial Statements for information on the provisions of the Tax m Act and the amounts that we recorded in our Consolidated Statements of Income for the year ended December 018, and for a reconciliation of the U.S. federal tax rate to our effective income tax rate.

ffective tax rate in 2018 was 20.7%, a decrease of 3.2 percentage points compared with 23.9% in 2017, primarily o the 2018 tax impacts of the Tax Reform Act and also because of updates to our provisional tax estimates ded in 2017.

ffective tax rate in 2017 was 23.9%, a decrease of 4.4 percentage points compared with 28.3% in 2016, primarily se of the provisional tax impacts of the Tax Reform Act.

dity and Capital Resources

December 31, 2018, we had cash, cash equivalents, and investments of $395.9 million, up $42.6 million from the f 2017. The increase reflects cash provided by operating activities, net proceeds of $15.5 million related to the sale urchase of investments, and proceeds of $10.5 million related to the sale of our 15(c) board consulting services ct line in the first quarter of 2018. The sale of a portion of an equity-method investment also generated proceeds of million. These items were partially offset by $110.0 million of repayments of long-term debt, $76.1 million of l expenditures, dividends paid of $42.6 million, $20.9 million used to repurchase common stock under our share chase program, and $13.3 million for employee taxes paid from withholding of restricted stock units. Purchases of -method investments of $7.4 million also offset the cash inflows.

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provided by operating activities is our main source of cash. In 2018, cash provided by operating activities was 8 million, reflecting $296.3 million of net income, adjusted for non-cash items and $18.5 million in positive ges from our net operating assets and liabilities, which included bonus payments of $48.2 million.

cember 2018, we amended our credit agreement to extend the maturity date to December 21, 2020 with no other ges in terms. The agreement provides us with a borrowing capacity of up to $300.0 million. We had an outstanding pal balance of $70.0 million as of December 31, 2018, leaving borrowing availability of $230.0 million. The credit ment also contains financial covenants under which we: (i) may not exceed a maximum consolidated leverage ratio 0 to 1.00 and (ii) are required to maintain a minimum consolidated interest coverage ratio of not less than 3.00 to We were in compliance with the financial covenants at December 31, 2018.

elieve our available cash balances and investments, along with cash generated from operations and our line of , will be sufficient to meet our operating and cash needs for at least the next 12 months. We invest our cash ves in cash equivalents and investments. We maintain a conservative investment policy for our investments. We t a portion of our investment balance (approximately $24.1 million, or 91% of our total investments balance as of mber 31, 2018) in stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that ate the model portfolios and strategies created by Morningstar. These investment accounts may also include nge-traded products where Morningstar is an index provider.

oximately 67% of our cash, cash equivalents, and investments as of December 31, 2018 was held by our operations le the U.S., down from about 69% as of December 31, 2017. The amount of accumulated undistributed earnings of oreign subsidiaries was approximately $209.2 million as of December 31, 2018. In February 2019, we repatriated ximately $45.8 million of these foreign earnings back to the U.S. Otherwise, we generally consider our U.S. ly-owned foreign subsidiary earnings to be permanently reinvested. We have not recorded deferred income taxes e $209.2 million primarily because most of these earnings were previously subject to the one-time deemed atory repatriation tax under that Tax Reform Act, which we recorded in 2017 as an expense in our Consolidated ment of Income.

ntend to use our cash, cash equivalents, and investments for general corporate purposes, including working capital unding future growth.

cember 2017, the board of directors approved a new share repurchase program that authorizes the company to chase up to $500.0 million in shares of the company's outstanding common stock, effective January 1, 2018. The rization expires on December 31, 2020. In 2018, we repurchased a total of approximately 0.2 million shares for million and had approximately $479.1 million available for future repurchases as of December 31, 2018.

18, we also paid dividends of $42.6 million. In February 2019, our board of directors declared a quarterly dividend cents per share. The dividend is payable on April 30, 2019 to shareholders of record as of April 5, 2019. While quent dividends will be subject to board approval, we expect to make regular quarterly dividend payments of 28 per share in 2019.

xpect to continue making capital expenditures in 2019, primarily for computer hardware and software provided by parties, internally developed software, and leasehold improvements for new and existing office locations. We nue to adopt more public cloud and software as a service applications for new initiatives and are in the process of ting relevant parts of our data center to the public cloud over the next several years. During this migration, we t to run certain applications and infrastructure in parallel. These actions will have some transitional effects on our of capital expenditures and operating expenses.

so expect to use a portion of our cash and investments balances in the first quarter of 2019 to make annual bonus ents of approximately $62.0 million related to the 2018 bonus compared to $48.2 million in 2017.

olidated Free Cash Flow

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

illions)	2018	2017	2016	2018 Change	2017 Change
provided by operating activities	$314.8	$250.1	$213.7	25.9 %	17.0 %
al expenditures	(76.1)	(66.6)	(62.8)	14.3 %	6.1 %
cash flow	$238.7	$183.5	$150.9	30.1 %	21.6 %

enerated free cash flow of $238.7 million in 2018, an increase of $55.2 million versus 2017. The change reflects a million increase in cash provided by operating activities as well as a $9.5 million increase in capital expenditures.

enerated free cash flow of $183.5 million in 2017, an increase of $32.6 million versus 2016. The change reflects a million increase in cash provided by operating activities as well as a $3.8 million increase in capital expenditures.

isitions

aid a total of $193.0 million, less cash acquired, related to acquisitions over the past three years. We describe these sitions in Note 8 of the Notes to our Consolidated Financial Statements.

aid a total of $48.7 million related to purchasing additional investments in unconsolidated entities over the past years. We describe these investments in Note 10 of the Notes to our Consolidated Financial Statements.

titures

old our 15(c) board consulting services product line in 2018 and received a total of $10.5 million related to this We sold HelloWallet in 2017 and received a total of $23.7 million related to this sale. For more information, please ote 9 of the Notes to our Consolidated Financial Statements.

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cation of Critical Accounting Policies and Estimates

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

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

elieve the following critical accounting policies reflect the significant judgments and estimates used in the ration of our Consolidated Financial Statements:

nue Recognition

of our revenue comes from the sale of subscriptions or licenses for data, software, and Internet-based products and ces. We recognize this revenue in equal amounts over the term of the subscription or license, which generally s from one to three years. We also provide research, investment management, retirement advice, and other ces. We recognize this revenue when the service is provided or during the service obligation period defined in the act.

ake significant judgments related to revenue recognition, including identifying the transaction price in a contract. robable that we will collect all of the consideration to which we will be entitled in exchange for the goods or ces that will be transferred to the customer. For contracts that combine multiple products and services, we make ments regarding the value of each element in the arrangement based on selling prices of the items when sold ately. We recognize revenue as we satisfy our performance obligations under the terms of the contracts with our mers. If arrangements include an acceptance provision, we begin recognizing revenue upon the receipt of customer tance.

ake judgments at the beginning of an arrangement regarding whether or not collection of the consideration to n we are entitled is probable. We typically sell to institutional customers with whom we have a history of ssful collections and assess the probability of collection on a case-by-case basis.

red revenue is the amount invoiced or collected in advance for subscriptions, licenses, or services that has not yet recognized as revenue. Deferred revenue is the largest liability on our Consolidated Balance Sheets, and at the end 18, it totaled $210.0 million (of which $195.8 million was classified as a current liability with an additional $14.2 on included in other long-term liabilities). We expect to recognize this deferred revenue in future periods as we our service obligations under our subscription, license, and service agreements.

mount of deferred revenue may increase or decrease based on the mix of contracted products and services and the ne of new and renewal subscriptions. The timing of future revenue recognition may change depending on the terms license agreements and the timing of fulfilling our service obligations. To the extent that there are material ences between our determination of deferred revenue and actual results, our financial condition or results of tions may be affected.

isitions, Goodwill, and Other Intangible Assets
inancial statements reflect the operations of an acquired business starting from the completion of the transaction. ecord the estimated fair value of assets acquired and liabilities assumed as of the date of acquisition.
ating the purchase price to the acquired assets and liabilities involves management judgment. We base the fair estimates on available historical information and on future expectations and assumptions that we believe are nable, but these estimates are inherently uncertain.

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mining the fair value of intangible assets requires significant management judgment in each of the following areas:
ify the acquired intangible assets: For each acquisition, we identify the intangible assets acquired. These intangible s generally consist of customer relationships, trademarks and trade names, technology-related intangibles uding internally developed software and databases), and noncompete agreements.
nate the fair value of these intangible assets: We consider various approaches to value the intangible assets. These de the cost approach, which measures the value of an asset based on the cost to reproduce it or replace it with er asset of like utility; the market approach, which values the asset through an analysis of sales and offerings of arable assets; and the income approach, which measures the value of an asset based on the present value of the omic benefits it is expected to produce.
nate the remaining useful life of the assets: For each intangible asset, we use judgment and assumptions to establish emaining useful life of the asset. For example, for customer relationships, we determine the estimated useful life reference to observed customer attrition rates. For technology-related assets such as databases, we make judgments the demand for current data and historical metrics in establishing the remaining useful life. For internally oped software, we estimate an obsolescence factor associated with the software.
ecord any excess of the purchase price over the estimated fair values of the net assets acquired as goodwill, which amortized. Instead, it is subject to an impairment test annually or whenever indicators of impairment exist. We w the carrying value of goodwill for impairment at least annually based on our assessment of impairment ators. If impairment indicators exist, we reduce the goodwill balance to reflect the revised fair value.
elieve the accounting estimates related to purchase price allocations and subsequent goodwill impairment testing itical accounting estimates because changes in these assumptions could materially affect the amounts and fications of assets and liabilities presented in our Consolidated Balance Sheets, as well as the amount of ization and depreciation expense, if any, recorded in our Consolidated Statements of Income.
-Based Compensation

nclude stock-based compensation expense in each of our operating expense categories. Our stock-based ensation expense primarily reflects grants of restricted stock units, performance share awards, and market stock

neasure stock-based compensation expense at the grant date based on the fair value of the award and recognize the se ratably over the award's vesting period. We measure the fair value of our restricted stock units on the date of based on the market price of the underlying common stock as of the close of trading on the day before the grant. stimate expected forfeitures of stock-based awards at the grant date and recognize compensation cost only for awards expected to vest. We later adjust this forfeiture assumption to the actual forfeiture rate. Therefore, changes forfeiture assumptions do not change the total amount of expense ultimately recognized over the vesting period. d, different forfeiture assumptions would only affect the timing of expense recognition over the vesting period.

djust the stock-based compensation expense to reflect those awards that ultimately vested and update our estimate forfeiture rate that will be applied to awards not yet vested.

ne Taxes

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

use of timing differences required by tax law, the effective tax rate reflected in our Consolidated Financial ments is different from the tax rate reported on our tax return (our cash tax rate). Some of these differences, such as nses that are not deductible in our tax return, are permanent. Other differences, such as depreciation expense, se over time. These timing differences create deferred tax assets and liabilities. We determine our deferred tax and liabilities based on temporary differences between the financial reporting and the tax basis of assets and ties.

December 31, 2018, we had gross deferred tax assets of $37.9 million and gross deferred tax liabilities of $58.1 on. The deferred tax assets include $2.4 million of deferred tax assets related to $10.6 million of net operating s (NOLs) of our non-U.S. operations. In assessing the realizability of our deferred tax assets, we consider whether nore likely than not that some portion or all of the deferred tax assets will not be realized. We have recorded a tion allowance against all but approximately $2.0 million of the non-U.S. NOLs, reflecting the likelihood that the it of the NOLs will not be realized. We have not recorded a valuation allowance against the U.S. federal NOLs of million because we expect the benefit of the U.S. federal NOLs to be fully utilized before expiration.

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

se judgment to identify, recognize, and measure the amounts of uncertain tax positions to be recorded in the cial statements related to tax positions taken or expected to be taken in a tax return. We recognize liabilities to sent our potential future obligations to taxing authorities for the benefits taken in our tax returns. We adjust these ties, including any impact of the related interest and penalties, in light of changing facts and circumstances, such progress of a tax audit. A number of years may elapse before a particular matter for which we have established a ve is audited and finally resolved. The number of years with open tax audits varies depending on the tax iction.

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

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

ngencies

re subject to various claims and contingencies related to legal proceedings and investigations. These legal edings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected s, and government actions. Assessing the probability of loss for such contingencies and determining how to accrue ppropriate liabilities requires judgment. If actual results differ from our assessments, our financial position, results erations, or cash flows would be affected.

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ntly Issued Accounting Pronouncements

s: On February 25, 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases c 842), which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a liability. The new standard became effective for us on January 1, 2019. The new standard originally required the f a modified retrospective approach upon adoption. In July 2018, the FASB issued ASU No. 2018-11, Leases c 842) - Targeted Improvements, which allows an additional transition method to adopt the new lease standard at loption date instead of the beginning of the earliest period presented and recognize a cumulative-effect adjustment beginning balance of retained earnings in the period of adoption. We elected this transition method at the adoption of January 1, 2019. We continue to evaluate the effect that the new standard will have on our consolidated financial nents and related disclosures. We are making meaningful progress on our implementation plan and achieving ct milestones, including a comprehensive review of our lease portfolio to identify all leases where the company is a lessor or lessee. In addition, we implemented lease accounting software in early 2019 to assist in our ongoing data collection, tracking and analysis, and are updating our lease processes and related internal controls to reflect ges required to ensure readiness for adoption. We are updating our accounting policies and plan to make an nting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. We also plan ognize those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term. o not believe the new standard will have a material impact on our liquidity. The adoption of the new lease standard ave no impact on our debt-covenant compliance under our current agreements.

ne Statement-Reporting Comprehensive Income: On February 14, 2018, the FASB issued ASU No. 2018-02, ne Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from mulated Other Comprehensive Income, to address a specific consequence of the Tax Cuts and Jobs Act (the Tax m Act) by allowing a reclassification from accumulated other comprehensive income (loss) to retained earnings randed tax effects resulting from the Tax Reform Act’s reduction of the U.S. federal corporate income tax rate. The tandard became effective for us on January 1, 2019 and is to be applied either in the period of adoption or pectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax m Act is recognized. We are evaluating the effect that the new standard will have on our consolidated financial nents and related disclosures.

pensation—Stock Compensation: On June 20, 2018, the FASB issued ASU No. 2018-07, Compensation—Stock pensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting, which aligns the nting for share-based payment awards issued to employees and nonemployees. Under the new standard, the ng employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not ively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. ost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. dition, the contractual term can be used in lieu of an expected term in the option-pricing model for nonemployee ls. The new standard became effective for us on January 1, 2019 and should be applied to all new awards granted the date of adoption. We are evaluating the effect that the new standard will have on our consolidated financial nents and related disclosures.

l Computing: On August 29, 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Fees Paid in a l Computing Arrangement, which helps entities evaluate the accounting for fees paid by a customer in a cloud uting arrangement (CCA) by providing guidance for determining when an arrangement includes a software license when an arrangement is solely a hosted CCA service. Under the new standard, customers will apply the same ia for capitalizing implementation costs as they would for an arrangement that has a software license. The new nce also prescribes the balance sheet, income statement, and cash flow classification of the capitalized mentation costs and related amortization expense and requires additional quantitative and qualitative disclosures.

ew standard is effective for us on January 1, 2020. Early adoption is permitted, including adoption in any interim d for which financial statements have not been issued. Entities can choose to adopt the new guidance prospectively gible costs incurred on or after the date this guidance is first applied or retrospectively. We are evaluating the effect he new standard will have on our consolidated financial statements and related disclosures.

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actual Obligations

able below shows our known contractual obligations as of December 31, 2018, and the expected timing of cash ents related to these contractual obligations:

illions)	2019	2020	2021	2022	2023	Thereafter	Total
num commitments on non-cancelable operating lease ations (1)	$34.4	$36.0	$32.2	$20.8	$15.1	$ 47.7	$186.2
num payments related to long-term financing agreements	0.8	0.1	—	—	—	—	0.9
num payments on credit facility (2)	2.4	72.4	—	—	—	—	74.8
cognized tax benefits (3)	6.6	—	—	—	—	—	6.6
	$44.2	$108.5	$32.2	$20.8	$15.1	$ 47.7	$268.5

he non-cancelable operating lease obligations are mainly for office space.

he minimum payments on the credit facility reflect the current outstanding principal balance of $70.0 million and imate for interest and commitment fees.

epresents unrecognized tax benefits (including penalties and interest, less the impact of any associated tax its). The amount included in the table represents items that may be resolved through settlement of tax audits or for n the statutes of limitations are expected to lapse during 2019. The table excludes $7.1 million of unrecognized tax its, included as a long-term liability in our Consolidated Balance Sheet as of December 31, 2018, for which we t make a reasonably reliable estimate of the period of payment.

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7A. Quantitative and Qualitative Disclosures about Market Risk

nvestment portfolio is actively managed and may suffer losses from fluctuating interest rates, market prices, or se security selection. These accounts may consist of stocks, bonds, options, mutual funds, money market funds, or nge-traded products that replicate the model portfolios and strategies created by Morningstar. These investment nts may also include exchange-traded products where Morningstar is an index provider. As of December 31, 2018, ash, cash equivalents, and investments balance was $395.9 million. Based on our estimates, a 100 basis-point e in interest rates would not have a material effect on the fair value of our investment portfolio.

re subject to risk from fluctuations in the interest rates related to our long-term debt. The interest rates are based the applicable LIBOR rate plus an applicable margin for such loans or the lender's base rate plus an applicable n for such loans. On an annualized basis, based on December 31, 2018, estimated LIBOR rates, we estimate a 100 point change in the LIBOR rate would have a $0.7 million impact.

re subject to risk from fluctuations in foreign currencies from our operations outside of the U.S. To date, we have ngaged in currency hedging, and we do not currently have any positions in derivative instruments to hedge our ncy risk.

able below shows our exposure to foreign currency denominated revenue and operating income for the year ended mber 31, 2018:

illions, except foreign currency rates)	Euro	British Pound	Australian Dollar	Other Foreign Currencies
gn currency rate in U.S. dollars as of December 31, 2018	1.1446	1.2737	0.7055	—
gn denominated percentage of revenue	5.1 %	7.1 %	3.9 %	8.9 %
gn denominated percentage of operating income	11.1 %	(1.6)%	1.6 %	(11.2)%
ated effect of a 10% adverse currency fluctuation on revenue	$(6.6)	$(10.2)	$ (6.1)	$ (11.6)
ated effect of a 10% adverse currency fluctuation on operating income	$(3.1)	$0.3	$ (0.7)	$ 2.6

able below shows our net investment exposure in foreign currencies as of December 31, 2018:

illions)	Euro	British Pound	Australian Dollar	Other Foreign Currencies
s, net of unconsolidated entities	$153.0	$141.0	$ 54.7	$ 174.6
lities	130.5	27.8	19.5	28.8
urrency position	$22.5	$113.2	$ 35.2	$ 145.8
ated effect of a 10% adverse currency fluctuation on equity	$(2.2)	$(11.3)	$ (3.5)	$ (14.6)

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8. Financial Statements and Supplementary Data

rt of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
ingstar, Inc.:
on on the Consolidated Financial Statements
ave audited the accompanying consolidated balance sheets of Morningstar, Inc. and subsidiaries (the Company) as cember 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial ment Schedule II - Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our on, the consolidated financial statements present fairly, in all material respects, the financial position of the pany as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in ree-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.
lso have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United s) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria lished in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of readway Commission, and our report dated March 1, 2019 expressed an unqualified opinion on the effectiveness of ompany's internal control over financial reporting.
ge in Accounting Principle
scussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for ue from contracts with customers in 2018 due to the adoption of Financial Accounting Standards Board unting Standards Codification Topic 606 - Revenue from Contracts with Customers.
for Opinion
consolidated financial statements are the responsibility of the Company's management. Our responsibility is to ss an opinion on these consolidated financial statements based on our audits. We are a public accounting firm ered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. al securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the OB.
onducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and rm the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material atement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material atement of the consolidated financial statements, whether due to error or fraud, and performing procedures that nd to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and osures in the consolidated financial statements. Our audits also included evaluating the accounting principles used gnificant estimates made by management, as well as evaluating the overall presentation of the consolidated cial statements. We believe that our audits provide a reasonable basis for our opinion.
PMG LLP
ave served as the Company's auditor since 2011.
go, Illinois
h 1, 2019

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rt of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
ingstar, Inc.:
on on Internal Control Over Financial Reporting
ave audited Morningstar, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of mber 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the mittee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all ial respects, effective internal control over financial reporting as of December 31, 2018, based on criteria ished in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of readway Commission.
so have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related lidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year d ended December 31, 2018, and the related notes and financial statement Schedule II - Valuation and Qualifying unts (collectively, the consolidated financial statements), and our report dated March 1, 2019, expressed an alified opinion on those consolidated financial statements.
for Opinion
Company's management is responsible for maintaining effective internal control over financial reporting and for its sment of the effectiveness of internal control over financial reporting, included in the accompanying Mangament's t on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's al control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB re required to be independent with respect to the Company in accordance with the U.S. federal securities laws and pplicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
onducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and rm the audit to obtain reasonable assurance about whether effective internal control over financial reporting was ained in all material respects. Our audit of internal control over financial reporting included obtaining an standing of internal control over financial reporting, assessing the risk that a material weakness exists, and testing valuating the design and operating effectiveness of internal control based on the assessed risk. Our audit also ded performing such other procedures as we considered necessary in the circumstances. We believe that our audit des a reasonable basis for our opinion.
ition and Limitations of Internal Control Over Financial Reporting
mpany's internal control over financial reporting is a process designed to provide reasonable assurance regarding liability of financial reporting and the preparation of financial statements for external purposes in accordance with ally accepted accounting principles. A company's internal control over financial reporting includes those policies rocedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the actions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are ded as necessary to permit preparation of financial statements in accordance with generally accepted accounting ples, and that receipts and expenditures of the company are being made only in accordance with authorizations of gement and directors of the company; and (3) provide reasonable assurance regarding prevention or timely tion of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the cial statements.

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

PMG LLP
go, Illinois
n 1, 2019

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ingstar, Inc. and Subsidiaries
olidated Statements of Income

ended December 31 (in millions except per share amounts)	2018	2017	2016
nue	$1,019.9	$911.7	$798.6
ating expense:			
of revenue	411.1	386.6	344.3
and marketing	148.5	134.3	97.6
ral and administrative	147.8	129.8	105.2
eciation and amortization	96.7	91.2	70.7
operating expense	804.1	741.9	617.8
ating income	215.8	169.8	180.8
operating income:			
est income (expense), net	(1.8)	(3.6)	0.3
on sale of investments, reclassified from other comprehensive income	1.0	3.2	0.6
on sale of business	—	16.7	—
on sale of a product line	10.5	—	—
on sale of equity investments	5.6	—	—
ng gain upon acquisition of additional ownership of equity method investments	—	—	37.1
income (expense), net	1.8	(5.0)	6.1
operating income, net	17.1	11.3	44.1
ne before income taxes and equity in net loss of unconsolidated entities	232.9	181.1	224.9
y in net loss of unconsolidated entities	(2.1)	(1.3)	(0.2)
ne tax expense	47.8	42.9	63.7
olidated net income	$183.0	$136.9	$161.0
ncome per share:			
	$4.30	$3.21	$3.74
ed	$4.25	$3.18	$3.72
ends per common share:			
ends declared per common share	$1.03	$0.94	$0.89
ends paid per common share	$1.00	$0.92	$0.88
hted average shares outstanding:			
	42.6	42.7	43.0
ed	43.0	43.0	43.3

otes to consolidated financial statements.

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ingstar, Inc. and Subsidiaries
olidated Statements of Comprehensive Income

ended December 31 (in millions)	2018	2017	2016
olidated net income	$183.0	$136.9	$161.0
comprehensive income (loss), net of tax:			
gn currency translation adjustment	(26.6)	33.4	(27.8)
alized gains (losses) on securities:			
alized holding gains (losses) arising during period	(1.0)	3.4	3.3
ssification of gains included in net income	(0.8)	(1.9)	(2.4)
comprehensive income (loss)	(28.4)	34.9	(26.9)
rehensive income	$154.6	$171.8	$134.1

otes to consolidated financial statements.

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ingstar, Inc. and Subsidiaries
olidated Balance Sheets

December 31 (in millions except share amounts)	2018	2017
s		
nt assets:		
and cash equivalents	$369.3	$308.2
tments	26.6	45.1
unts receivable, less allowance for doubtful accounts of $4.0 and $3.2, respectively	172.2	148.2
ne tax receivable, net	1.8	—
red commissions	14.8	—
current assets	16.9	28.3
current assets	601.6	529.8
rty, equipment, and capitalized software, net	143.5	147.4
tments in unconsolidated entities	63.1	62.0
will	556.7	564.9
gible assets, net	73.9	95.4
red commissions, non-current	10.3	—
assets	4.7	6.2
assets	$1,453.8	$1,405.7
lities and equity		
nt liabilities:		
unts payable and accrued liabilities	$54.4	$49.2
ued compensation	109.5	92.0
red revenue	195.8	171.3
current liabilities	3.1	10.7
current liabilities	362.8	323.2
ued compensation	11.8	11.7
red tax liability, net	22.2	23.6
-term debt	70.0	180.0
red rent	24.5	26.9
red revenue, non-current	14.2	14.2
long-term liabilities	13.6	21.2
liabilities	519.1	600.8
y:		
ingstar, Inc. shareholders' equity:		
mon stock, no par value, 200,000,000 shares authorized, of which 42,624,118 and 7,707 shares were outstanding as of December 31, 2018 and December 31, 2017, ctively	—	—
ury stock at cost, 10,816,672 and 10,633,637 shares as of December 31, 2018 and mber 31, 2017, respectively	(726.8)	(708.2)
ional paid-in capital	621.7	601.0
ned earnings	1,114.8	958.7
mulated other comprehensive loss:		
rrency translation adjustment	(74.5)	(47.9)
realized gain (loss) on available-for-sale investments	(0.5)	1.3

accumulated other comprehensive loss	(75.0)	(46.6)
equity	934.7	804.9
liabilities and equity	$1,453.8	$1,405.7

otes to consolidated financial statements.

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ingstar, Inc. and Subsidiaries
olidated Statements of Equity

illions, except share amounts)	Morningstar, Inc. Shareholders' Equity Common Stock Shares Outstanding	Par Value	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non Controlling Interest	Total Equity
ce as of December 31, 2015	43,403,076	$ —	$ (619.8)	$ 575.5	$ 739.2	$ (54.6)	$ 0.3	$ 640.6
ncome		—	—	—	161.0	—	—	161.0
comprehensive loss:								
alized gain on available-for-sale tments, net of tax of $1.3		—	—	—	—	3.3	—	3.3
ssification of adjustments for included in net income, net of ne tax of $1.8		—	—	—	—	(2.4)	—	(2.4)
gn currency translation tment, net		—	—	—	—	(27.8)	—	(27.8)
comprehensive loss, net		—	—	—	—	(26.9)	—	(26.9)
nce of common stock related to -option exercises and vesting of cted stock units, net	174,911	—	1.4	(6.0)	—	—	—	(4.6)
-based compensation — restricted units		—	—	14.6	—	—	—	14.6
-based compensation — rmance share awards		—	—	(0.1)	—	—	—	(0.1)
non shares repurchased	(644,993)	—	(49.5)	—	—	—	—	(49.5)
ends declared — common shares nding		—	—	—	(38.3)	—	—	(38.3)
ce as of December 31, 2016	42,932,994	—	(667.9)	584.0	861.9	(81.5)	0.3	696.8
ncome		—	—	—	136.9	—	—	136.9
comprehensive income:								
alized gain on available-for-sale tments, net of tax of $1.8		—	—	—	—	3.4	—	3.4
ssification of adjustments for included in net income, net of ne tax of $1.2		—	—	—	—	(1.9)	—	(1.9)
gn currency translation tment, net		—	—	—	—	33.4	—	33.4
comprehensive income, net		—	—	—	—	34.9	—	34.9
nce of common stock related to -option exercises and vesting of cted stock units, net	161,445	—	1.6	(6.2)	—	—	—	(4.6)

-based compensation — restricted units		—	—	16.5	—	—	—	16.5
-based compensation — rmance share awards		—	—	7.1	—	—	—	7.1
-based compensation — market units		—	—	0.5	—	—	—	0.5
mon shares repurchased	(546,732)	—	(41.9)	—	—	—	—	(41.9)
ends declared — common shares anding		—	—	—	(40.1)	—	—	(40.1)
ase of additional interest in rity-owned investment		—	—	(0.9)	—	—	(0.3)	(1.2)
ce as of December 31, 2017	42,547,707	—	(708.2)	601.0	958.7	(46.6)	—	804.9
lative effect of accounting change d to the adoption of ASU No. 09					17.0			17.0
ncome		—	—	—	183.0	—	—	183.0
comprehensive loss:								
alized loss on available-for-sale tments, net of income tax of $0.7		—	—	—	—	(1.0)	—	(1.0)
ssification of adjustments for included in net income, net of ne tax of $0.3		—	—	—	—	(0.8)	—	(0.8)
gn currency translation tment, net		—	—	—	—	(26.6)	—	(26.6)
comprehensive loss, net		—	—	—	—	(28.4)	—	(28.4)
nce of common stock related to -option exercises and vesting of cted stock units, net of shares eld for taxes on settlements of cted stock units	278,656	—	2.3	(15.5)	—	—	—	(13.2)
ssification of awards previously ty-classified that were converted uity			—	4.5	—	—	—	4.5
-based compensation — restricted units		—	—	19.8	—	—	—	19.8
-based compensation — rmance share awards		—	—	10.2	—	—	—	10.2
-based compensation — market units		—	—	1.7	—	—	—	1.7
mon shares repurchased	(202,245)	—	(20.9)	—	—	—	—	(20.9)
ends declared — common shares anding		—	—	—	(43.9)	—	—	(43.9)
ce as of December 31, 2018	42,624,118	$ —	$(726.8)	$ 621.7	$1,114.8	$ (75.0)	$ —	$934.7

otes to consolidated financial statements.

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ingstar, Inc. and Subsidiaries
olidated Statements of Cash Flows

ended December 31 (in millions)	2018	2017	2016
ating activities			
olidated net income	$183.0	$136.9	$161.0
stments to reconcile consolidated net income to net cash flows from operating ties:			
eciation and amortization	96.7	91.2	70.7
red income taxes	(1.1)	(14.1)	4.7
-based compensation expense	31.7	24.1	14.5
sion for bad debt	2.5	2.3	1.3
y in net loss of unconsolidated entities	2.1	1.3	0.2
on sale of business	—	(16.7)	—
on sale of a product line	(10.5)	—	—
on sale of equity investments	(5.6)	—	—
ng gain upon acquisition of additional ownership of equity-method investments	—	—	(37.1)
, net	(2.5)	1.8	(6.8)
ges in operating assets and liabilities, net of effects of acquisitions:			
unts receivable	(29.6)	(1.2)	(0.1)
assets	13.4	(7.8)	1.1
red commissions	25.1	—	—
unts payable and accrued liabilities	6.0	0.7	3.4
ued compensation	(9.5)	20.2	(8.8)
ne taxes—current	(12.4)	9.7	1.0
red revenue	28.6	2.5	6.7
red rent	(2.0)	2.6	(2.9)
liabilities	(1.1)	(3.4)	4.8
provided by operating activities	314.8	250.1	213.7
ting activities			
ases of investments	(35.7)	(34.9)	(32.0)
eds from maturities and sales of investments	51.2	42.2	28.6
al expenditures	(76.1)	(66.6)	(62.8)
isitions, net of cash acquired	(0.4)	(1.0)	(191.6)
eds from sale of a business, net	—	23.7	—
eds from sale of a product line	10.5	—	—
eds from sale of equity-method investments	7.9	—	—
ases of equity- and cost-method investments	(7.4)	(24.8)	(16.5)
, net	0.1	0.6	0.1
used for investing activities	(49.9)	(60.8)	(274.2)
cing activities			
mon shares repurchased	(20.9)	(42.3)	(48.8)
ends paid	(42.6)	(39.3)	(37.9)
eds from short-term debt	—	—	40.0
yment of short-term debt	—	—	(15.0)
eds from long-term debt	—	—	190.0

yment of long-term debt	(110.0)	(70.0)	—
eds from stock-option exercises	0.1	0.2	0.4
oyee taxes withheld for restricted stock units	(13.3)	(4.8)	(5.0)
, net	(2.1)	(1.3)	—
provided by (used for) financing activities	(188.8)	(157.5)	123.7
t of exchange rate changes on cash and cash equivalents	(15.0)	17.3	(11.2)
ncrease in cash and cash equivalents	61.1	49.1	52.0
and cash equivalents—beginning of period	308.2	259.1	207.1
and cash equivalents—end of period	$369.3	$308.2	$259.1

	2018	2017	2016
emental disclosure of cash flow information:			
paid for income taxes	$67.0	$47.1	$58.0
paid for interest	$3.7	$5.4	$1.2
emental information of non-cash investing and financing activities:			
alized gain (loss) on available-for-sale investments	$(2.7)	$2.0	$1.2
vare and equipment obtained under long-term financing arrangement	$—	$0.6	$9.0

otes to consolidated financial statements.

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NINGSTAR, INC. AND SUBSIDIARIES
ES TO CONSOLIDATED FINANCIAL STATEMENTS

scription of Business

ingstar, Inc. and its subsidiaries (Morningstar, we, our, the company) provide independent investment research for tors around the world. We offer an extensive line of products and services for individual investors, financial ors, asset managers, retirement plan providers and sponsors, and private market/venture capital investors. We have tions in 27 countries.

nmary of Significant Accounting Policies

cronyms that appear in these Notes to our Consolidated Financial Statements refer to the following:
Accounting Standards Codification
Accounting Standards Update
Emerging Issues Task Force
B Financial Accounting Standards Board
Securities and Exchange Commission

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

ccount for investments in entities in which we exercise significant influence, but do not control, using the equity od.

rt of our investment management operations, we manage certain funds outside of the U.S. that are considered ble interest entities. For the majority of these variable interest entities, we do not have a variable interest. In cases e we do have a variable interest, we are not the primary beneficiary. Accordingly, we do not consolidate any of variable interest entities.

f Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in .S. requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, xpenses during the reporting period. Actual results may differ from these estimates.

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

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

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

ng: We classify certain other investments, primarily equity securities, as trading securities as these relate mainly to tments tracking the strategies of our newsletter portfolios. We include realized and unrealized gains and losses iated with these investments as a component of our operating income in our Consolidated Statements of Income. ecord these securities at their fair value in our Consolidated Balance Sheets.

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

Value Measurements. FASB ASC 820, Fair Value Measurements (FASB ASC 820) defines fair value, establishes a ework for measuring fair value, and expands disclosures about fair value measurements. Under FASB ASC 820, alue is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly action between market participants as of the measurement date. The standard applies whenever other standards re (or permit) assets or liabilities to be measured at fair value.

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

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

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

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

rovide additional information about our cash equivalents and investments that are subject to valuation under FASB 820 in Note 7.

entration of Credit Risk. No single customer is large enough to pose a significant credit risk to our operations or cial condition. For the years ended December 31, 2018, 2017, and 2016, no single customer represented 5% or of our consolidated revenue. If receivables from our customers become delinquent, we begin a collections process. maintain an allowance for doubtful accounts based on our estimate of the probable losses of accounts receivable.

erty, Equipment, and Depreciation. We state property and equipment at historical cost, net of accumulated ciation. We depreciate property and equipment primarily using the straight-line method based on the useful life of set, which generally is three years. We amortize leasehold improvements over the lease term or their useful lives, hever is shorter.

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

able below summarizes our depreciation expense related to internally developed software for the past three years:

illions)	2018	2017	2016
nally developed software depreciation expense	$42.8	$30.6	$20.0

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

illions)	2018	2017	2016

alized software development costs	$53.5	$46.3	$28.2

ess Combinations. When we make acquisitions, we allocate the purchase price to the assets acquired, liabilities ned, and goodwill. We follow FASB ASC 805, Business Combinations. We recognize and measure the fair value acquired operation as a whole, as well as the assets acquired and liabilities assumed, at their full fair values as of te we obtain control, regardless of the percentage ownership in the acquired operation or how the acquisition was ved. We expense direct costs related to the business combination, such as advisory, accounting, legal, valuation, ther professional fees, as incurred. We recognize restructuring costs, including severance and relocation for oyees of the acquired entity, as post-combination expenses unless the target entity meets the criteria of FASB ASC Exit or Disposal Cost Obligations, on the acquisition date.

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

will. Changes in the carrying amount of our recorded goodwill are mainly the result of business acquisitions, titures, and the effect of foreign currency translations. In accordance with FASB ASC 350, Intangibles—Goodwill Other, we do not amortize goodwill; instead, goodwill is subject to an impairment test annually, or whenever ators of impairment exist. An impairment would occur if the carrying amount of a reporting unit exceeded the fair of that reporting unit. We performed annual impairment reviews in the fourth quarter of 2018 and 2017. We did cord any impairment losses in 2018, 2017, and 2016.

gible Assets. We amortize intangible assets using the straight-line method over their estimated useful lives, which from one to 20 years. We have no intangible assets with indefinite useful lives. In accordance with FASB ASC 0-35, Subsequent Measurement—Impairment or Disposal of Long-Lived Assets, we review intangible assets for rment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the of future undiscounted cash flows is less than the carrying amount of an asset group, we record an impairment ased on the excess of the carrying amount over the fair value of the asset group. We did not record any impairment s in 2018, 2017, and 2016.

nue Recognition. On January 1, 2018, we began recognizing revenue in accordance with ASC Topic 606, Revenue Contracts with Customers. The Company has retained much of the same accounting treatment used to recognize ue under ASC Topic 606 as under accounting standards in effect in prior periods (see Note 18 for additional mation).

r ASC Topic 606, we recognize revenue by applying the following five-step model to each of our customer gements:

ntify the customer contract;
ntify the performance obligations in the contract;
ermine the transaction price;
ocate the transaction price to the performance obligations; and
ognize revenue when (or as) performance obligations are satisfied.

nues are recognized when (or as) performance obligations are satisfied by transferring a promised product or e to the customer. Products or services are transferred when (or as) the customer obtains control of the product or e. The transaction price for a customer arrangement is the amount we expect to be entitled to in exchange for erring the promised product or service. The transaction price may include fixed amounts, variable amounts, or

Amounts invoiced in excess of the revenue recognized for the services transferred during the period will result in crease to deferred revenue. The timing of cash payments is typically thirty to sixty days after the performance ation has been satisfied and these payments reduce our outstanding accounts receivable.

nue from contracts with customers is derived from license-based arrangements, asset-based arrangements, and ction-based arrangements.

se-based revenue is generated through subscription contracts with our customers of Morningstar Data, ingstar Direct, Morningstar Advisor Workstation, Morningstar Enterprise Components, PitchBook Data, and other ar products. Our performance obligations under these contracts are typically satisfied over time, as the customer ccess to the product or service during the term of the subscription license and the level of service is consistent g the contract period. Therefore, we recognize revenue for these performance obligations on a straight-line basis, ally over terms of 12 to 36 months.

-based revenue is generated through consulting service contracts with our customers of Morningstar Investment gement, Workplace Solutions, and Morningstar Indexes. Our performance obligations under these contracts are ied over time as the customer receives continuous access to a service for the contract term. We recognize revenue he contract term based on the value of assets under management and a tiered fee agreed to with the customer cally in a range of 30-55 basis points of the customer’s average daily portfolio balance). Asset-based arrangements ally have a term of 12 to 36 months. The fees from such arrangements represent variable consideration, and the mer does not make separate purchasing decisions that result in additional performance obligations. Significant ges in the underlying fund assets, or significant disruptions in the market, are evaluated to determine if revisions on ates of earned asset-based fees for the current quarter are needed. An estimate of variable consideration is included initial transaction price only to the extent it is probable that a significant reversal in the amount of revenue nized will not occur. Estimates of asset-based fees are based on the most recently reported quarter, and, as a result, nlikely a significant reversal of revenue would occur.

action-based revenue is generated through contracts with our customers for Internet advertising, Morningstar erences, and Morningstar Credit Ratings. Our performance obligations for Internet advertising and Morningstar erences are satisfied as the service is delivered, and therefore we recognize revenue when the performance ation is satisfied (as the customer’s advertisements are displayed and at the completion of the Morningstar erence). Our performance obligations for Morningstar Credit Ratings include the issuance of the rating and may de surveillance services for a period of time as agreed with the customer. We allocate the transaction price to the erables based on their relative selling price, which is generally based on the price we charge when the same erable is sold separately. Our performance obligation for the issuance of the rating is satisfied when the rating is d, which is when we recognize the related revenue. Our performance obligations for surveillance services is ied over time, as the customer has access to the service during the surveillance period and the level of service is stent during the contract period. Therefore, we recognize revenue for this performance obligation on a straight-line

ontracts with customers may include multiple performance obligations. For most of these arrangements, we ally allocate revenue to each performance obligation based on its estimated standalone selling price. We generally mine standalone selling prices based on prices charged to customers when the same performance obligation is sold ately.

ontracts with customers may include third-party involvement in providing goods or services to the customer. The sion of third-party content does not result in separate performance obligations because is it not delivered separately the other license obligations. In these arrangements, the customer has contracted to receive a single, bundled on with third-party and Morningstar content delivered via Morningstar’s subscription services. Revenue and related of revenue from third-party content is presented on a gross basis within the condensed consolidated financial nents.

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

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

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Commissions. Under prior accounting standards, the Company expensed sales incentive compensation costs, commissions) as incurred. However, upon adopting ASC Topic 606 and ASC 340-40, Other Assets and Deferred - Contracts with Customers, on January 1, 2018 (see Note 18 for additional information), we began capitalizing commissions, which are considered directly attributable to obtaining a customer contract. Such costs are alized using a portfolio approach that aggregates these costs by legal entity within their geographical regions. alized sales commissions are amortized using the straight-line method over a period that is consistent with the fer of the products or services to the customer to which the sales commission relates. The period of transfer for portfolio is the shorter of the weighted-average customer life, or the economic life of the underlying technology elivers the products or services. As of December 31, 2018, the period of transfer was determined to be two to three . Discretionary amounts which are added to sales commission payments are expensed as incurred, as they are not dered to be directly attributable to obtaining a customer contract.

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

illions)	2018	2017	2016
rtising expense	$6.4	$7.0	$7.6

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

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

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

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

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

edit Arrangements

cember 2018, we amended our credit agreement to extend the maturity date to December 21, 2020 with no other ges in terms. The credit agreement provides us with a borrowing capacity of up to $300.0 million and provides for nce of up to $25.0 million of letters of credit under the revolving credit facility.

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nterest rate applicable to any loan under the credit agreement is, at our option, either: (i) the applicable London ank offered rate (LIBOR) plus an applicable margin for such loans, which ranges between 1.00% and 1.75%, on our consolidated leverage ratio or (ii) the lender's base rate plus the applicable margin for such loans, which s between 2.00% and 2.75%, based on our consolidated leverage ratio.

redit agreement also contains financial covenants under which we: (i) may not exceed a maximum consolidated ge ratio of 3.00 to 1.00 and (ii) are required to maintain a minimum consolidated interest coverage ratio of not less .00 to 1.00. We were in compliance with the financial covenants as of December 31, 2018.

ad an outstanding principal balance of $70.0 million at a one-month LIBOR interest rate plus 100 basis points as of mber 31, 2018, leaving borrowing availability of $230.0 million.

ome Per Share

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

illions, except per share amounts)	2018	2017	2016
net income per share attributable to Morningstar, Inc.:			
come attributable to Morningstar, Inc.	$183.0	$136.9	$161.0
hted average common shares outstanding	42.6	42.7	43.0
net income per share attributable to Morningstar, Inc.	$4.30	$3.21	$3.74
ed net income per share attributable to Morningstar, Inc.:			
come attributable to Morningstar, Inc.	$183.0	$136.9	$161.0
hted average common shares outstanding	42.6	42.7	43.0
ffect of dilutive stock options and restricted stock units	0.4	0.3	0.3
hted average common shares outstanding for computing diluted income per share	43.0	43.0	43.3
ed net income per share attributable to Morningstar, Inc.	$4.25	$3.18	$3.72

umber of weighted average restricted stock units, performance share awards, and market stock units excluded our calculation of diluted earnings per share, as their inclusion would have been anti-dilutive, was immaterial g the periods presented.

venue

gregation of Revenue

ollowing table presents our revenue disaggregated by revenue type. Sales and usage-based taxes are excluded from ue.

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illions)	Year ended December 31		
	2018	2017	2016
se-based	$751.6	$667.7	$579.4
-based	200.4	182.2	163.6
action-based	67.9	61.8	55.6
olidated revenue	$1,019.9	$911.7	$798.6

se-based performance obligations are generally satisfied over time as the customer has access to the product or ce during the term of the subscription license and the level of service is consistent during the contract period. se-based agreements typically have a term of 12 to 36 months. License-based revenue is generated from the sale of ingstar Data, Morningstar Direct, Morningstar Advisor Workstation, Morningstar Enterprise Components, ingstar Research, PitchBook Data, and other similar products.

-based performance obligations are satisfied over time as the customer receives continuous access to a service for rm. Asset-based arrangements typically have a term of 12 to 36 months. The asset-based fees represent variable deration and the customer does not make separate purchasing decisions that result in additional performance ations. Significant changes in the underlying fund assets, or significant disruptions in the market, are evaluated to mine if revisions of estimates of earned asset-based fees are needed for the current quarter. An estimate of variable deration is included in the initial transaction price only to the extent it is probable that a significant reversal in the nt of the revenue recognized will not occur. Estimates of asset-based fees are based on the most recently leted quarter and as a result, it is unlikely a significant reversal of revenue would occur. Asset-based revenue des Morningstar Investment Management, Workplace Solutions, and Morningstar Indexes.

action-based performance obligations are satisfied when the product or service is completed or delivered. action-based revenue includes Morningstar Credit Ratings, Internet Advertising Sales, and Conferences. ingstar Credit Ratings may include surveillance services, which are recognized over time, as the customer has s to the service during the surveillance period.

act liabilities

ontract liabilities represent deferred revenue. We record contract liabilities when cash payments are received or n advance of our performance, including amounts which are refundable. The contract liabilities balance as of mber 31, 2018 had a net increase of $24.5 million, primarily driven by cash payments received or due in advance isfying our performance obligations. We recognized $163.0 million of revenue in 2018 that was included in the act liabilities balance as of December 31, 2017.

xpect to recognize revenue related to our contract liabilities for 2019 and subsequent years as follows:

illions)	As of December 31, 2018
	$ 388.9
	93.7
	28.0
	11.0
	5.4
after	43.6
	$ 570.6

ggregate amount of revenue we expect to recognize for 2019 and subsequent years is higher than our contract ty balance of $210.0 million as of December 31, 2018. The difference represents the value of performance ations for signed contracts where we have not yet begun to satisfy the performance obligations, partially satisfied rmance obligations, or have not yet billed the customer.

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able above does not include variable consideration for unsatisfied performance obligations related to certain of our ed-based, asset-based, and transaction-based contracts as of December 31, 2018. We are applying the optional ption as the variable consideration relates to these unsatisfied performance obligations being fulfilled as a series. erformance obligations related to these contracts are expected to be satisfied over the next 12 to 36 months as ces are provided to the client. For licensed-based contracts, the consideration received for services performed is on future user count, which will be known at the time the services are performed. The variable consideration for evenue can be affected by the number of user licenses. For asset-based contracts, the consideration received for ces performed is based on future asset values, which will be known at the time the services are performed. The ble consideration for this revenue can be affected by changes in the underlying value of fund assets due to client nptions, additional investments, or significant movements in the market. For transaction-based contracts such as net advertising, the consideration received for services performed is based on the number of impressions, which e known once impressions are created. The variable consideration for this revenue can be affected by the timing uantity of impressions in any given period.

able above also does not include revenue for unsatisfied performance obligations related to certain of our e-based and transaction-based contracts as of December 31, 2018. We are applying the optional exemption as the rmance obligations for such contracts have an expected duration of one year or less. For certain license-based acts, the remaining performance obligation is expected to be less than one year based on the corresponding ription terms. For transaction-based contracts, such as new credit rating issuances and the Morningstar conference, lated performance obligations are expected to be satisfied within the next twelve months.

act Assets

ontract assets represent accounts receivable, less allowance for doubtful accounts and deferred commissions. We ot record any impairment losses on receivables or deferred commissions in 2018.

ollowing table summarizes our contract assets balance:

illions)	As of December 31, 2018	As of December 31, 2017
unts receivable, less allowance for doubtful accounts	$ 172.2	$ 148.2
red commissions	14.8	—
red commissions, non-current	10.3	—
contract assets	$ 197.3	$ 148.2

ollowing table shows the change in our deferred commissions balance from January 1, 2018 to December 31,

	(in millions)
ce as of January 1, 2018	$ 22.7
missions earned and capitalized	19.4
rtization of capitalized amounts	(17.0)
ce as of December 31, 2018	$ 25.1

gment and Geographical Area Information

ent Information

eport our results in a single reportable segment, which reflects how our chief operating decision maker allocates rces and evaluates our financial results. Because we have a single reportable segment, all required financial ent information can be found directly in the Consolidated Financial Statements. The accounting policies for our table segment are the same as those described in Note 2. We evaluate the performance of our reporting segment on revenue and operating income.

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raphical Area Information

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

nal revenue by geographical area

	Year ended December 31		
illions)	2018	2017	2016
d States	$764.2	$687.0	$590.5
d Kingdom	72.4	64.7	61.1
nental Europe	81.2	69.9	62.6
alia	40.9	34.6	32.2
da	30.7	29.4	28.2
	24.5	21.2	20.0
	6.0	4.9	4.0
International	255.7	224.7	208.1
olidated revenue	$1,019.9	$911.7	$798.6

-lived assets by geographical area

	As of December 31	
illions)	2018	2017
d States	$126.4	$131.9
d Kingdom	3.8	6.0
nental Europe	1.3	1.7
alia	5.0	2.3
da	0.3	0.2
	6.5	5.2
	0.2	0.1
International	17.1	15.5
olidated property, equipment, and capitalized software, net	$143.5	$147.4

ong-lived asset by geographical area does not include deferred commissions, non-current as the balance is not ficant.

estments and Fair Value Measurements

lassify our investments into three categories: available-for-sale, held-to-maturity, and trading. Our investment olio consists of stocks, bonds, options, mutual funds, money market funds, or exchange-traded products that ate the model portfolios and strategies created by Morningstar. These investment accounts may also include nge-traded products where Morningstar is an index provider. We classify our investment portfolio as shown :

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	As of December 31	
illions)	2018	2017
able-for-sale	$20.1	$21.5
to-maturity	2.5	21.9
ng securities	4.0	1.7
	$26.6	$45.1

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

	As of December 31, 2018				As of December 31, 2017			
illions)	Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost	Unrealized Gain	Unrealized Loss	Fair Value
able-for-sale:								
y securities and exchange-traded funds	$17.9	$ 1.2	$ (1.8)	$17.3	$17.1	$ 2.4	$ (0.6)	$18.9
al funds	3.0	—	(0.2)	2.8	2.4	0.2	—	2.6
	$20.9	$ 1.2	$ (2.0)	$20.1	$19.5	$ 2.6	$ (0.6)	$21.5
to-maturity:								
ficates of deposit	$2.5	$ —	$ —	$2.5	$19.9	$ —	$ —	$19.9
ertible note	—	—	—	—	2.0	—	—	2.0
	$2.5	$ —	$ —	$2.5	$21.9	$ —	$ —	$21.9

December 31, 2018 and December 31, 2017, investments with unrealized losses for greater than a 12-month
d were not material to the Consolidated Balance Sheets and were not deemed to have other than temporary declines
ue.

able below shows the cost and fair value of investments classified as available-for-sale and held-to-maturity based
eir contractual maturities as of December 31, 2018 and December 31, 2017.

	As of December 31, 2018		As of December 31, 2017	
illions)	Cost	Fair Value	Cost	Fair Value
able-for-sale:				
y securities, exchange-traded funds, and mutual funds	$20.9	$ 20.1	$19.5	$ 21.5
	$20.9	$ 20.1	$19.5	$ 21.5
to-maturity:				
n one year or less	$2.3	$ 2.3	$19.7	$ 19.7
n one to three years	0.2	0.2	2.2	2.2
	$2.5	$ 2.5	$21.9	$ 21.9

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

illions)	2018	2017	2016
zed gains	$1.8	$3.4	$1.6
zed losses	(0.8)	(0.2)	(1.0)
zed gains, net	$1.0	$3.2	$0.6

etermine realized gains and losses using the specific identification method.

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

illions)	2018	2017	2016
alized gains (losses), net	$(0.2)	$0.1	$ —

able below shows the fair value of our assets subject to fair value measurements that are measured at fair value on
urring basis using a fair value hierarchy:

1: Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access.
Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

	Fair Value	Fair Value Measurements as of December 31, 2018		
	as of	Using Fair Value Hierarchy		
illions)	December 31, 2018	Level 1	Level 2	Level 3
able-for-sale investments				
y securities and exchange-traded funds	$ 17.3	$ 17.3	$ —	$ —
al funds	2.8	2.8	—	—
ng securities	4.0	4.0	—	—
equivalents	0.1	0.1	—	—
	$ 24.2	$ 24.2	$ —	$ —

	Fair Value	Fair Value Measurements as of December 31, 2017		
	as of	Using Fair Value Hierarchy		
illions)	December 31, 2017	Level 1	Level 2	Level 3
able-for-sale investments				
y securities and exchange-traded funds	$ 18.9	$ 18.9	$ —	$ —
al funds	2.6	2.6	—	—
ng securities	1.7	1.7	—	—
equivalents	0.5	0.5	—	—
	$ 23.7	$ 23.7	$ —	$ —

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

neasure the fair value of money market funds, mutual funds, equity securities, and exchange-traded funds based on d prices in active markets for identical assets or liabilities. We did not hold any securities categorized as Level 2 or 3 as of December 31, 2018 and December 31, 2017.

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quisitions, Goodwill, and Other Intangible Assets

Acquisitions

id not complete any significant acquisitions in 2018.

Acquisitions

id not complete any significant acquisitions in 2017.

Acquisitions

ased Ownership Interest in PitchBook Data, Inc. (PitchBook)

cember 2016, we acquired an additional 78% interest in PitchBook Data, Inc. (PitchBook), increasing our rship to 100% from 22%. PitchBook delivers data, research, and technology covering the private capital markets, ding venture capital, private equity, and mergers and acquisitions. We began consolidating the financial results of cquisition in our Consolidated Financial Statements on December 1, 2016. PitchBook contributed $4.1 million of ue and $7.5 million of operating expense during the one-month period that PitchBook was included in our lidated results for 2016.

Book's total estimated fair value of $235.1 million as of the acquisition date includes $188.2 million in cash paid to re the remaining 78% interest in PitchBook as well as a $46.9 million fair value related to our previous 22% rship interest. The book value of this ownership immediately prior to the acquisition date was $9.8 million, and we ded a noncash holding gain of $37.1 million for the difference between the fair value and the book value of our ously held investment. We used the income approach and a discounted cash flow analysis of PitchBook's projected ue, operating expense, and other amounts to arrive at the estimated fair value. The gain is classified as "Holding upon acquisition of additional ownership of equity-method investments" in our Consolidated Statement of Income e year ended December 31, 2016.

ransaction has been accounted for using the acquisition method of accounting, which requires that assets acquired abilities assumed be recognized at their fair values as of the acquisition date.

stments recorded in the measurement period to the purchase price allocation were not significant. The following summarizes our allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of sition:

	(in millions)
and cash equivalents	$ 12.4
unts receivable	10.8
current and non-current assets	3.2
gible assets	60.7
will	192.0
red revenue	(22.0)
red tax liability, net	(12.3)
current and non-current liabilities	(9.7)
fair value of PitchBook	$ 235.1

unts receivable acquired were recorded at gross contractual amounts receivable, which approximates fair value.

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llocation includes $60.7 million of acquired intangible assets, as follows:

	(in millions)	Weighted Average Useful Life (years)
omer-related assets	$ 17.1	10
nology-based assets	40.8	5
ectual property (trademarks and trade names)	2.8	4
intangible assets	$ 60.7	6

ecognized a net deferred tax liability of $12.3 million mainly because the amortization expense related to certain gible assets is not deductible for income tax purposes.

will of $192.0 million represents the excess over the fair value of the net tangible and intangible assets acquired his acquisition. We paid this premium for a number of reasons, including the opportunity to offer comprehensive coverage across the full life cycle of private market transactions. The goodwill is not deductible for income tax oses.

dited Pro Forma Information for PitchBook Acquisition

ollowing unaudited pro forma information presents a summary of our Consolidated Statements of Income for the ended December 31, 2016 and 2015, as if we had completed the PitchBook acquisition as of January 1, 2015.

unaudited pro forma information is presented for illustrative purposes and is not intended to represent or be ative of the actual results of operations of the combined company that would have been achieved had the sition occurred at the beginning of the earliest period presented, nor is it intended to represent or be indicative of e results of operations.

culating the pro forma information below, we included an estimate of amortization expense related to the gible assets acquired, stock-based compensation expense related to the PitchBook bonus plan (see Note 13 for onal information), and interest expense incurred on the long-term debt. The 2016 pro forma net income excludes 37.1 million noncash holding gain generated in connection with the transaction.

dited Pro Forma Financial Information (in millions)	2016	2015
nue	$834.1	$813.3
ating income	157.7	170.0
ncome	105.5	117.1
net income per share attributable to Morningstar, Inc.	$2.45	$2.65
ed net income per share attributable to Morningstar, Inc.	$2.44	$2.65

iSight, LLC (RightPond)

arch 31, 2016, we acquired RequiSight, LLC, which does business as RightPond, a provider of business gence data and analytics on defined-contribution and defined-benefit plans for financial services firms. We began lidating the financial results of RightPond in our Consolidated Financial Statements on March 31, 2016.

tSoft Technology, Inc. (InvestSoft)

ay 31, 2016, we acquired InvestSoft Technology, Inc. (InvestSoft), a provider of fixed-income analytics. We
consolidating the financial results of InvestSoft in our Consolidated Financial Statements on May 31, 2016.

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will

ollowing table shows the changes in our goodwill balances from January 1, 2017 to December 31, 2018:

	(in millions)
ce as of January 1, 2017	$ 556.8
titure of HelloWallet (See Note 9)	(2.4)
gn currency translation and adjustments to purchase price allocation	10.5
ce as of December 31, 2017	$ 564.9
, primarily foreign currency translation	(8.2)
ce as of December 31, 2018	$ 556.7

id not record any impairment losses in 2018, 2017, or 2016 as the estimated fair value of our reporting unit ded its carrying value. We perform our annual impairment testing during the fourth quarter of each year.

gible Assets

ollowing table summarizes our intangible assets:

	As of December 31, 2018				As of December 31, 2017			
illions)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)
ectual property	$30.8	$ (29.2)	$1.6	9	$31.5	$ (28.9)	$2.6	9
omer-related assets	153.0	(111.7)	41.3	12	156.6	(108.1)	48.5	12
ier relationships	0.2	(0.1)	0.1	20	0.2	(0.1)	0.1	20
nology-based assets	126.9	(96.3)	30.6	7	127.9	(84.2)	43.7	7
competition agreements	2.4	(2.1)	0.3	5	2.5	(2.0)	0.5	5
intangible assets	$313.3	$ (239.4)	$73.9	10	$318.7	$ (223.3)	$95.4	10

ollowing table summarizes our amortization expense related to intangible assets:

illions)	2018	2017	2016
rtization expense	$20.7	$23.6	$19.4

id not record any impairment losses involving intangible assets in 2018, 2017, or 2016.

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

d on acquisitions and divestitures completed through December 31, 2018, we expect intangible amortization se for 2019 and subsequent years to be as follows:

	(in millions)
	$ 19.2
	16.2
	12.9
	5.0

	5.0
after	15.6

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stimates of future amortization expense for intangible assets may be affected by additional acquisitions, titures, changes in the estimated average useful life, and foreign currency translation.

vestiture

Divestitures

uary 2018, we sold our 15(c) board consulting services product line for $10.5 million and recorded a gain of $10.5 n on the sale.

Divestitures

ne 30, 2017, we sold HelloWallet to KeyBank National Association, a bank-based financial services company. We ded a noncash gain on the sale of $16.7 million. This gain mainly represents the sale proceeds of $23.7 million less million of goodwill and the write-off of the remaining net book value of the acquired intangible assets. As some ts of HelloWallet had been integrated into Morningstar's single reporting unit, the goodwill attributable to this ction was calculated using a relative fair value allocation method.

ale of HelloWallet did not meet the criteria to be classified as a discontinued operation because the divestiture did present a strategic shift that has, or will have, a major effect on our operations and financial results.

ollowing table summarizes the amounts included in the gain on sale of business for the year ended December 31,

illions)	Year ended December 31 2017
eds received	$ 23.7
gibles and internally developed software	(4.5)
will	(2.4)
assets and liabilities	(0.1)
gain on sale of business	$ 16.7

vestments in Unconsolidated Entities

nvestments in unconsolidated entities consist primarily of the following:

	As of December 31	
illions)	2018	2017
tment in MJKK	$23.9	$26.4
tment in Sustainalytics	25.7	20.7
-equity method investments	10.3	12.6
tments accounted for using the cost method	3.2	2.3
investments in unconsolidated entities	$63.1	$62.0

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

	As of December 31	
	2018	2017
ingstar's approximate ownership of MJKK	30 %	34 %
oximate market value of Morningstar's ownership in MJKK:		
ese yen (¥ in millions)	¥7,525.4	¥10,649.6
valent U.S. dollars ($ in millions)	$68.4	$94.6

inalytics Holding B.V. In July 2017, we acquired a minority stake in Sustainalytics Holding B.V. (Sustainalytics),
n is an independent environmental, social, and governance and corporate governance research, ratings, and analysis
supporting investors around the world with the development and implementation of responsible investment
gies. Our ownership in Sustainalytics was 44% as of December 31, 2018 and 40% as of December 31, 2017.

roperty, Equipment, and Capitalized Software

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

	As of December 31	
illions)	2018	2017
alized software	$294.8	$239.2
alized equipment	83.5	81.6
ture and fixtures	29.6	27.6
hold improvements	77.3	72.5
hone equipment	2.1	2.3
truction in progress	7.9	8.9
erty, equipment, and capitalized software, at cost	495.2	432.1
accumulated depreciation	(351.7)	(284.7)
erty, equipment, and capitalized software, net	$143.5	$147.4

ollowing table summarizes our depreciation expense:

illions)	2018	2017	2016
eciation expense	$76.0	$67.6	$51.3

eciation expense in 2017 includes a $4.1 million impairment charge for certain software licenses due to a shift
d a cloud-based strategy.

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perating Leases

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

num Future Rental Commitments	(in millions)
	$ 34.4
	36.0
	32.2
	20.8
	15.1
after	47.7
	$ 186.2

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

illions)	2018	2017	2016
expense	$32.5	$30.3	$26.3

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

	As of December 31	
illions)	2018	2017
red rent	$28.6	$31.2

tock-Based Compensation

-Based Compensation Plans

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

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

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

s awarded under the 2011 Plan or the 2004 Plan that are forfeited, canceled, settled, or otherwise terminated ut a distribution of shares, or shares withheld by us in connection with the exercise of options, will be available for ls under the 2011 Plan. For any shares subject to awards that are withheld by us in connection with the payment of equired income tax withholding, the 2011 Plan provides for the ability to have these shares become available for wards, but this feature of the 2011 plan has not been implemented.

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

As of
December

	31
illions)	2018
s available for future grants	3.1

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unting for Stock-Based Compensation Awards

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

	Year ended December 31		
illions)	2018	2017	2016
icted stock units	$19.8	$16.5	$14.6
rmance share awards	10.2	7.1	(0.1)
et stock units	1.7	0.5	—
stock-based compensation expense	$31.7	$24.1	$14.5
ne tax benefit related to the stock-based compensation expense	$7.0	$7.8	$4.3

ollowing table summarizes the stock-based compensation expense included in each of our operating expense ories for the past three years:

	Year ended December 31		
illions)	2018	2017	2016
of revenue	$11.7	$9.6	$7.5
and marketing	3.5	3.0	1.9
ral and administrative	16.5	11.5	5.1
stock-based compensation expense	$31.7	$24.1	$14.5

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

	Unrecognized stock-based compensation expense (in millions)	Weighted average expected amortization period (months)
icted stock units	$ 36.9	33
et stock units	5.2	28
unrecognized stock-based compensation nse	$ 42.1	32

cordance with FASB ASC 718, Compensation—Stock Compensation, we estimate forfeitures of employee -based awards and recognize compensation cost only for those awards expected to vest.

icted Stock Units

icted stock units represent the right to receive a share of Morningstar common stock when that unit vests. icted stock units granted to employees vest ratably over a four-year period. Restricted stock units granted to mployee directors vest ratably over a three-year period.

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

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

icted Stock Units (RSUs)	Unvested	Vested but Deferred	Total	Weighted Average Grant Date Value per RSU
Outstanding - December 31, 2015	572,526	14,924	587,450	$ 72.14
ed	241,609	—	241,609	77.82
end equivalents	370	136	506	56.52
d	(225,590)	—	(225,590)	69.39
d	—	(5,312)	(5,312)	44.47
ited	(47,670)	—	(47,670)	74.45
Outstanding - December 31, 2016	541,245	9,748	550,993	$ 75.77
ed	331,470	—	331,470	78.33
end equivalents	—	78	78	60.99
d	(212,005)	—	(212,005)	75.38
d	—	(6,547)	(6,547)	49.40
ited	(55,831)	—	(55,831)	76.49
Outstanding - December 31, 2017	604,879	3,279	608,158	$ 77.52
ed	243,614	—	243,614	108.60
end equivalents	—	16	16	73.28
d	(279,774)	—	(279,774)	80.68
d	—	(3,295)	(3,295)	73.28
ited	(41,254)	—	(41,254)	86.47
Outstanding - December 31, 2018	527,465	—	527,465	$ 89.53

rmance Share Awards

rch 2016, executive officers, other than Joe Mansueto, and certain other employees, were granted performance awards. These awards entitle the holder to a number of shares of Morningstar common stock equal to the number tional performance shares that become vested. Each award specifies a number of performance shares that will vest -established target performance goals are attained. The number of performance shares that actually vest may be or less than the specified number of performance shares to the extent Morningstar exceeds or fails to achieve, ctively, the target performance goals over a three-year performance period.

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

able below shows target performance share awards granted and shares that would be issued at current performance for performance share awards granted as of December 31, 2018:

	As of December 31, 2018
t performance share awards granted	41,439
hted average fair value per award	$ 81.71
er of shares that would be issued based on current performance levels	—
ortized expense, based on current performance levels (in millions)	$ —

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et Stock Units
ay and November 2017 and 2018, executive officers, other than Joe Mansueto, and certain other employees, were ed market stock units. These market stock units represent the right to receive a target number of shares that will t the end of a three-year performance period depending on the company's total shareholder return over that -year period.

neasure the fair value of our market stock units on the date of grant using a Monte Carlo valuation model. We tize that value to stock-based compensation expense ratably over the vesting period.

sed the following assumptions to estimate the fair value of our market stock units during 2017 and 2018:

	Assumptions for Monte Carlo Valuation Model		
Date	Expected volatility	Dividend yield	Risk-free interest rate
15, 2017	17.4 %	1.20 %	1.49 %
mber 15, 2017	17.7 %	1.04 %	1.79 %
15, 2018	17.4 %	0.89 %	2.70 %
mber 15, 2018	19.6 %	0.83 %	2.92 %

able below shows market stock units granted and target market stock units outstanding as of December 31, 2018:

	As of December 31, 2018
et stock units granted	84,153
hted average fair value per award	$ 89.58
per of target market stock units outstanding	81,274
nortized expense, based on current performance levels (in millions)	$ 5.2

Book Bonus Plan
nnection with our acquisition of PitchBook, we adopted a management bonus sub-plan under the 2011 Plan for n employees of PitchBook (the PitchBook Plan). Pursuant to the terms of the PitchBook Plan, awards having an gate target value equal to $30.0 million will be available for issuance with annual grants of $7.5 million for 2017, million in 2018, and $15.0 million in 2019. Subject to the satisfaction of certain conditions, we have agreed to y the PitchBook Plan for the 2020-2022 period. Pursuant to the terms of this renewal, awards having an aggregate value equal to $30.0 million will be available for issuance with annual grants of $7.5 million for 2020, $7.5 on in 2021, and $15.0 million in 2022.

grant will consist of performance-based share unit awards which will vest over a one-year period and will be ured primarily based on the achievement of certain annual revenue targets specifically related to PitchBook's ess. Upon achievement of these targets, earned performance units will be settled in shares of our common stock on -for-one basis. If PitchBook exceeds certain performance conditions, the PitchBook Plan participants will receive ent for performance units in excess of the aggregate target values described above. If PitchBook fails to meet hold performance conditions, the PitchBook Plan participants will not be entitled to receive payment for any rmance units.

able below shows target performance share awards granted and shares that will be issued based on final rmance levels for performance share awards granted as of December 31, 2018:

	As of December 31, 2018
t performance share awards granted	77,716
hted average fair value per award	$ 95.53
per of shares that will be issued based on final 2018 performance levels	106,854
nortized expense, based on current performance levels (in millions)	$ —

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Options

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

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

mptions for Black-Scholes Option Pricing Model	
cted life (years)	7.4
ility factor	35.1 %
end yield	0.35 %
st rate	2.87 %

ollowing table summarizes stock option activity in the past three years for our various stock option grants:

	2018		2017		2016	
n Grants	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price	Underlying Shares	Weighted Average Exercise Price
ns outstanding—beginning of year	41,685	$ 57.28	46,001	$ 57.28	52,096	$ 57.52
ed	—	—	—	—	—	—
eled	—	—	—	—	—	—
ised	(1,000)	57.28	(4,316)	57.28	(6,095)	59.35
ns outstanding—end of year	40,685	$ 57.28	41,685	$ 57.28	46,001	$ 57.28
ns exercisable—end of year	40,685	$ 57.28	41,685	$ 57.28	46,001	$ 57.28

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

illions)	2018	2017	2016
sic value of options exercised	$ 0.1	$ 0.1	$ 0.1

able below shows additional information for options outstanding and exercisable as of December 31, 2018:

	Options Outstanding				Options Exercisable			
e of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Exercisable Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)
8	40,685	2.37	$ 57.28	$ 2.1	40,685	2.37	$ 57.28	$ 2.1
d or Expected to Vest								
8	40,685	2.37	$ 57.28	$ 2.1				

ggregate intrinsic value in the table above represents the total pretax intrinsic value all option holders would have ved if they had exercised all outstanding options on December 31, 2018. The intrinsic value is based on our closing price of $109.84 on December 31, 2018.

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efined-Contribution Plan

ponsor a defined-contribution 401(k) plan, which allows our U.S.-based employees to voluntarily contribute pretax
s up to a maximum amount allowable by the U.S. Internal Revenue Service. In 2018, 2017, and 2016, we made
ing contributions to our 401(k) plan in the U.S. in an amount equal to 75 cents for every dollar of an employee's
bution, up to a maximum of 7% of the employee's compensation in the pay period.

ollowing table summarizes our matching contributions:

illions)	2018	2017	2016
) matching contributions	$11.0	$10.4	$9.0

come Taxes

e Tax Expense and Effective Tax Rate

ollowing table shows our income tax expense and our effective tax rate for the years ended December 31, 2018,
and 2016:

illions)	2018	2017	2016
e before income taxes and equity in net loss of unconsolidated entities	$232.9	$181.1	$224.9
y in net loss of unconsolidated entities	(2.1)	(1.3)	(0.2)
	$230.8	$179.8	$224.7
e tax expense	$47.8	$42.9	$63.7
tive tax rate	20.7 %	23.9 %	28.3 %

ecember 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation
ficantly changed U.S. tax law by, among other things, lowering corporate income tax rates, changing to a territorial
stem and imposing a transitional tax on deemed repatriated earnings of foreign subsidiaries. The Tax Reform Act
anently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective from
ry 1, 2018.

consolidated financial statements for the year ended December 31, 2017, we recognized a $10.6 million discrete
x benefit. SAB 118 allowed for the recording of provisional amounts which were primarily comprised of the
ing:

4.7 million deferred tax benefit from revaluing our net U.S. deferred tax liabilities at December 31, 2017 to reflect
ew U.S. corporate tax rate.

expense of $7.5 million for the transitional tax liability on deemed repatriated earnings of foreign subsidiaries.
ax expense was offset by a tax benefit of a $6.4 million reduction of a deferred tax liability previously recorded
r foreign equity method investments.

expense of $3.0 million related to changes in our indefinite reinvestment assertion. We recorded deferred taxes in
mount of $3.0 million for foreign withholding taxes that would be due upon remittance of dividends from certain
r foreign affiliates.

fourth quarter of 2018, we completed our accounting for the Tax Reform Act within the one-year measurement d required by SAB 118. Changes from our provisional estimates recorded in 2017 were not significant but were able and resulted in an additional decrease in our tax expense recorded in our Consolidated Statements of Income 18.

dition to the reduction of the U.S. corporate income tax rate to a flat 21% rate discussed above, we are subject to llowing provisions of the Tax Reform Act effective from January 1, 2018:

se a new minimum tax on certain non-U.S. earnings, irrespective of the territorial system of taxation, and generally s for the repatriation of future earnings of foreign subsidiaries without incurring additional U.S. taxes by tioning to a territorial system of taxation (Global Intangible Low-Taxed Income or GILTI Tax);

nate tax incentives for domestic production activities in the United States (the Section 199 Deduction) but create centive for U.S. companies to sell, lease or license goods and services abroad by allowing for a new deduction for gn-Derived Intangible Income (the FDII Deduction);

ct certain payments made by a U.S. company to related foreign companies to certain minimum taxes (Base Erosion Abuse Tax or BEAT);

ow net business interest deductions in excess of 30% of adjusted U.S. taxable income without regard to interest nse, interest income, taxes, net operating losses, depreciation and amortization for years beginning before January 22, (generally, EBITDA) and taxable income without regard to interest and taxes (EBIT) thereafter with indefinite forwards of excess interest expense (the 163(j) Interest Limitation);

es deductions with respect to certain employee fringe benefits and reduces deductions for compensation paid to fied executive officers.

respect to the above provisions, our effective tax rate in the 12 months ended December 31, 2018 is favorably cted as a result of the federal statutory income tax rate change from 35% of 21% and the tax benefits of the FDII ction. The impact of these favorable provisions is offset by the loss of tax benefits eliminated with the repeal of the on 199 Deduction, the incremental tax expense attributable to GILTI Tax and, to a lesser extent, the incremental pense for disallowed deductions for employee fringe benefits and executive compensation. Our effective tax rate 12 months ended December 31, 2018 was not impacted by BEAT or the 163(j) Interest Limitation.

respect to the GILTI Tax, we are required to make an accounting policy election of either (1) treating taxes due on nclusions in taxable income related to the GILTI Tax as a current period expense when incurred or (2) factoring amounts into the measurement of our deferred taxes. We have elected to account for GILTI Tax as a period se in the period in which it is incurred, and, therefore, have not provided for any deferred tax impact of GILTI Tax r Consolidated Statements of Income or Consolidated Balance Sheets.

mount of accumulated undistributed earnings of our foreign subsidiaries was approximately $209.2 million as of mber 31, 2018. In February 2019, we repatriated approximately $45.8 million of these foreign earnings back to the Otherwise, we generally consider our U.S. directly-owned foreign subsidiary earnings to be permanently ested. We have not recorded deferred income taxes on the $209.2 million primarily because most of these earnings previously subject to the one-time deemed mandatory repatriation tax under that Tax Reform Act, which we ded in 2017 as an expense in our Consolidated Statements of Income. Certain foreign affiliate parent companies ot indefinitely reinvested, and thus, we maintain a deferred tax liability for foreign withholding taxes.

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ollowing table reconciles our income tax expense at the U.S. federal income tax rate to income tax expense as
ded:

	2018		2017		2016	
illions, except percentages)	Amount	%	Amount	%	Amount	%
ne tax expense at U.S. federal rate	$48.5	21.0 %	$63.0	35.0 %	$78.6	35.0 %
income taxes, net of federal income tax benefit	7.4	3.2	3.0	1.7	4.5	2.0
ge in U.S. tax rate	(0.6)	(0.3)	(14.7)	(8.2)	—	—
ned mandatory repatriation	(1.2)	(0.5)	7.5	4.2	—	—
ction of deferred tax liabilities for foreign equity method tments	(0.5)	(0.2)	(6.4)	(3.6)	—	—
holding tax - repatriation	—	—	3.0	1.7	—	—
-based compensation activity	(2.6)	(1.1)	0.3	0.2	(0.6)	(0.3)
y in net income of unconsolidated subsidiaries (including holding upon acquisition)	1.0	0.4	1.2	0.7	(12.1)	(5.4)
gain over tax gain on sale of HelloWallet	—	—	(6.8)	(3.8)	—	—
hange in valuation allowance related to non-U.S. deferred tax , primarily net operating losses	(0.2)	(0.1)	0.1	0.1	(0.1)	—
rence between U.S. federal statutory and foreign tax rates	0.2	0.1	(5.2)	(2.9)	(5.3)	(2.4)
ge in unrecognized tax benefits	1.0	0.4	1.2	0.7	2.6	1.2
ts and incentives	(3.6)	(1.6)	(3.7)	(2.1)	(3.7)	(1.6)
I tax	1.4	0.6	—	—	—	—
deduction	(5.1)	(2.2)	—	—	—	—
- net	2.1	0.9	0.4	0.2	(0.2)	(0.1)
income tax expense	$47.8	20.7 %	$42.9	23.9 %	$63.7	28.3 %

ne tax expense consists of the following:

	Year ended December 31		
illions)	2018	2017	2016
nt tax expense:			
al	$31.0	$40.3	$42.8
	11.1	6.6	6.5
J.S.	12.3	9.9	9.7
nt tax expense	54.4	56.8	59.0
red tax expense (benefit):			
al	(3.0)	(10.9)	5.1
	(1.7)	(1.9)	0.4
J.S.	(1.9)	(1.1)	(0.8)
red tax expense, net	(6.6)	(13.9)	4.7
ne tax expense	$47.8	$42.9	$63.7

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ollowing table provides our income before income taxes and equity in net income (loss) of unconsolidated entities, ated by our U.S. and non-U.S. operations:

	Year ended December 31		
illions)	2018	2017	2016
	$188.2	$143.5	$186.5
J.S.	44.7	37.6	38.4
ne before income taxes and equity in net loss of unconsolidated entities	$232.9	$181.1	$224.9

red Tax Assets and Liabilities

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

	As of December 31	
illions)	2018	2017
red tax assets:		
-based compensation expense	$4.7	$3.7
ued liabilities	17.0	14.2
red revenue	3.7	3.5
perating loss carryforwards - U.S. federal and state	0.2	1.9
perating loss carryforwards - Non-U.S.	2.4	3.1
ts and incentive carryforwards	—	0.3
red royalty revenue	0.3	0.2
vance for doubtful accounts	1.4	1.1
red rent	7.4	6.2
lized exchange losses, net	0.2	—
	0.6	0.3
deferred tax assets	37.9	34.5
red tax liabilities:		
ired intangible assets	(16.5)	(18.6)
rty, equipment, and capitalized software	(26.7)	(24.6)
lized exchange gains, net	—	(0.6)
id expenses	(7.1)	(3.9)
tments in unconsolidated entities	(4.8)	(5.4)
holding tax - foreign dividends	(3.0)	(3.0)
deferred tax liabilities	(58.1)	(56.1)
eferred tax liability before valuation allowance	(20.2)	(21.6)
ation allowance	(2.0)	(2.0)
red tax liability, net	$(22.2)	$(23.6)

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

	As of December 31	
illions)	2018	2017
red tax liability, net	$(22.2)	$(23.6)

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

	As of December 31			
illions)	2018	Expiration Dates	2017	Expiration Dates
ederal NOLs subject to expiration dates	$1.0	2023	$9.1	2023-2036

et decrease in the U.S. federal NOL carryforwards as of December 31, 2018 compared with 2017 primarily ts the utilization of U.S. federal NOLs. We have not recorded a valuation allowance against the U.S. federal NOLs 0 million because we expect the benefit of the U.S. federal NOLs to be fully utilized before expiration.

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

	As of December 31	
illions)	2018	2017
J.S. NOLs subject to expiration dates from 2019 through 2038	$5.5	$5.7
J.S. NOLs with no expiration date	5.1	9.1
	$10.6	$14.8
J.S. NOLs not subject to valuation allowances	$2.0	$5.4

hange in non-U.S. NOL carryforwards as of December 31, 2018 compared with 2017 primarily reflects the use of carryforwards offset by NOLs generated.

essing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion of the deferred tax assets will not be realized. We have recorded a valuation allowance against all but ximately $2.0 million of the non-U.S. NOLs, reflecting the likelihood that the benefit of these NOLs will not be ed.

cognized Tax Benefits

onduct business globally and as a result, we file income tax returns in U.S. federal, state, local, and foreign ictions. In the normal course of business, we are subject to examination by tax authorities throughout the . The open tax years for our U.S. Federal tax returns and most state tax returns include the years 2015 to the nt.

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

December 31, 2018, our Consolidated Balance Sheet included a current liability of $6.6 million and a non-current ty of $7.1 million for unrecognized tax benefits. As of December 31, 2017, our Consolidated Balance Sheet ded a current liability of $8.7 million and a noncurrent liability of $7.0 million for unrecognized tax benefits. These nts include interest and penalties, less any associated tax benefits.

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

illions)	2018	2017
unrecognized tax benefits - beginning of the year	$18.7	$18.4
ases as a result of tax positions taken during a prior-year period	0.8	1.4
eases as a result of tax positions taken during a prior-year period	(0.3)	(0.4)
ases as a result of tax positions taken during the current period	1.6	1.9
eases relating to settlements with tax authorities	(2.5)	—
ctions as a result of lapse of the applicable statute of limitations	(5.2)	(2.6)
unrecognized tax benefits - end of the year	$13.1	$18.7

18, we recorded a net increase of $2.1 million of gross unrecognized tax benefits before settlements and lapses of es of limitations, of which $2.1 million increased our income tax expense by $2.1 million.

dition, we reduced our unrecognized tax benefits by $7.7 million for settlements and lapses of statutes of tions, of which $1.5 million decreased our income tax expense by $1.4 million.

eduction in our unrecognized tax benefits and the decrease to our tax expense for settlements and lapses of statutes itation were attributable to the following:

first quarter of 2018, we settled certain of our U.S. federal and state tax audits including our federal audit for the eriods covering 2008 to 2012. The impact of the audit settlements decreased our gross unrecognized tax benefits by million but the impact on our tax expense was nominal because the liabilities that we reserved for these audits were oximate to the final settlement amounts.

cond and third quarters of 2018, there were lapses of statutes of limitation for unsuccessful state refund claims n decreased our gross unrecognized tax benefits by $3.4 million. We did not previously record a financial nent benefit for the state refund claims, and, therefore, this decrease had no impact on our income tax expense.

third and fourth quarters of 2018, there were other lapses of statutes of limitation, which decreased our gross ognized tax benefits by $1.9 million and our income tax expense by $1.4 million.

December 31, 2018, we had $13.1 million of gross unrecognized tax benefits, of which $13.1 million, if nized, would reduce our effective income tax rate and decrease our income tax expense by $12.6 million.

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

	As of December 31	
illions)	2018	2017
lities for interest and penalties	$1.3	$1.7

ecorded the decrease in the liabilities for penalties and interest, net of any tax benefits, to income tax expense in onsolidated Statement of Income in 2018.

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ontingencies

ael D. Green
gust 2017, Michael D. Green, individually and purportedly on behalf of all others similarly situated, filed a laint in the U.S. District Court for the Northern District of Illinois. The complaint named as defendants ingstar, Inc., Prudential Investment Management Services LLC, and Prudential Retirement Insurance and Annuity nd contained one count alleging violation of the Racketeer Influenced and Corrupt Organizations Act (RICO). iff, a participant in a pension plan, alleged that the defendants engaged in concerted racketeering actions to steer participants into high-cost investments that pay unwarranted fees to the defendants. The complaint sought cified compensatory damages for plaintiff and the members of the putative class, treble damages, injunctive relief, and attorneys’ fees. We filed a motion to dismiss the complaint for failure to state a claim, which the court granted ut prejudice on March 16, 2018. On April 13, 2018, plaintiff filed an amended complaint, substituting Morningstar tment Management LLC for Morningstar, Inc. as a defendant, and which again contained one count alleging ion of RICO and sought unspecified compensatory damages for plaintiff and the members of the putative class, damages, injunctive relief, costs, and attorneys' fees. We moved to dismiss the amended complaint on May 11, which the court granted with prejudice on January 16, 2019. No appeal was taken by the deadline for doing so.

Audits and Reviews
global data business, we include in our products or directly redistribute to our customers data and information ed from third-party vendors. Our compliance with the terms of these licenses is subject to audit by the third-party rs, and we also regularly review our compliance with the terms of the licenses. We are undergoing several such party vendor audits and internal reviews, and the results and findings may indicate that we may be required to a payment for prior data usage. Due to lack of available information and data, as well as potential variations of the or internal review findings, we are not able to reasonably estimate a possible loss, or range of losses for some rs. While we cannot predict the outcomes, we do not believe the results of any audits will have a material adverse on our business, operating results, or financial position.

ecord accrued liabilities for litigation, regulatory, and other business matters when those matters represent loss ngencies that are both probable and estimable. In these cases, there may be an exposure to loss in excess of any nts accrued. When a loss contingency is not both probable and estimable, we do not establish an accrued liability. itigation, regulatory, or other business matter develops, we evaluate on an ongoing basis whether such matter nts a loss contingency that is probable and estimable.

Matters
e involved from time to time in legal proceedings and litigation that arise in the normal course of our business. it is difficult to predict the outcome of any particular proceeding, we do not believe the result of any of these rs will have a material adverse effect on our business, operating results, or financial position.

hare Repurchase Program

cember 2017, the board of directors approved a new share repurchase program that authorizes the company to chase up to $500.0 million in shares of the company's outstanding common stock effective January 1, 2018. The rization expires on December 31, 2020. We may repurchase shares from time to time at prevailing market prices open market or in private transactions in amounts that we deem appropriate.

December 31, 2018, we had repurchased a total of 202,245 shares for $20.9 million under this authorization, g $479.1 million available for future repurchases.

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ecent Accounting Pronouncements

ntly adopted accounting pronouncements

nue Recognition: On May 28, 2014, the FASB issued ASU No. 2014-09 (Topic 606), Revenue from Contracts Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the fer of promised goods or services to customers. The original effective date for ASU 2014-09 would have required adopt it beginning on January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, Revenue from acts with Customers—Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 for one year ermitted early adoption as early as the original effective date. We elected the deferral, and the new standard was ive for us on January 1, 2018. We also adopted ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-11, ASU 016-12, and ASU No. 2016-20 on January 1, 2018.

dopted Topic 606 using the modified retrospective transition method applied to those contracts which were not leted as of January 1, 2018. Upon adoption, we recognized the cumulative effect of adopting this guidance as an tment to our opening balance of retained earnings. Prior periods were not retrospectively adjusted.

mpact to revenue as a result of applying Topic 606 was an increase of $6.7 million for the year ended December 018 and relates to a change in presentation of revenue and costs associated with third-party content and data. Such ue and costs were presented on a net basis prior to the adoption of Topic 606 and are now presented on a gross

so changed our accounting for expenses related to our sales commission plans as a result of adopting Topic 606. o our method of adoption, we recorded a deferred commission asset, and related deferred tax liability, as of ry 1, 2018 for sales commissions that were expensed in prior periods. This change resulted in an opening net tment to retained earnings of $17.0 million, with an offsetting increase to our deferred commissions and deferred ne tax liabilities relating to prior periods.

ollowing table summarizes the cumulative effect of the changes to our unaudited condensed consolidated balance as of January 1, 2018 from the adoption of Topic 606:

illions)	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
s:			
red commissions, current and non-current	$ —	$ 22.7	$ 22.7
lities:			
red income tax liability	$ —	$ 5.7	$ 5.7
y:			
ned earnings	$ —	$ 17.0	$ 17.0

ollowing table illustrates the impact that adopting Topic 606 has had on our reported results in the audited lidated balance sheet as of December 31, 2018 and the audited consolidated statements of income for the year l December 31, 2018:

As of December 31, 2018

illions)	As Reported	Impact of adopting Topic 606	Balances without adoption of Topic 606
ce Sheet:			
unts receivable, less allowance	$ 172.2	$ —	$ 172.2
red commissions, current and non-current	25.1	25.1	—
red revenue, current and non-current	210.0	—	210.0

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illions)	2018 As Reported	Impact of adopting Topic 606	Balances without adoption of Topic 606
ne Statement:			
nue	$1,019.9	$ 6.7	$1,013.2
of revenue	411.1	6.7	404.4
and marketing	148.5	2.9	151.4
ating income	215.8	(2.9)	212.9

gibles—Goodwill and Other: On January 26, 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and , which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill rment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the nt by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. her goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to rm a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step rment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. es will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. ew standard is effective for us on January 1, 2020. The new standard is required to be applied prospectively. Early ion is permitted for any impairment tests performed after January 1, 2017. We elected to early adopt the new ard on October 1, 2018 as we perform our annual impairment review in the fourth quarter. The adoption did not an impact on our consolidated financial statements and related disclosures.

ntly Issued Accounting Pronouncements Not Yet Adopted

s: On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will require lessees to nize almost all leases on their balance sheet as a right-of-use asset and a lease liability. The new standard became ive for us on January 1, 2019. The new standard originally required the use of a modified retrospective approach adoption. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) - Targeted Improvements, which s an additional transition method to adopt the new lease standard at the adoption date instead of the beginning of rliest period presented, and recognize a cumulative-effect adjustment to the beginning balance of retained earnings period of adoption. We elected this transition method at the adoption date of January 1, 2019. We continue to ate the effect that the new standard will have on our consolidated financial statements and related disclosures. We aking meaningful progress on our implementation plan and are achieving project milestones, including a rehensive review of our lease portfolio to identify all leases where the company is either a lessor or lessee. In on, we implemented lease accounting software in early 2019 to assist in our ongoing lease data collection, tracking nalysis, and are updating our lease processes and related internal controls to reflect changes required to ensure ness for adoption. We are updating our accounting policies and plan to make an accounting policy election to keep with an initial term of 12 months or less off of the balance sheet. We also plan to recognize those lease payments Consolidated Statements of Income on a straight-line basis over the lease term. We do not believe the new ard will have a material impact on our liquidity. The adoption of the new lease standard will have no impact on our covenant compliance under our current agreements.

ne Statement-Reporting Comprehensive Income: On February 14, 2018, the FASB issued ASU No. 2018-02, ne Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from mulated Other Comprehensive Income, to address a specific consequence of the Tax Reform Act by allowing a

sification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects
ing from the Tax Reform Act's reduction of the U.S. federal corporate income tax rate. The new standard became
ive for us on January 1, 2019 and is to be applied either in the period of adoption or retrospectively to each period
ich the effect of the change in the U.S. federal corporate income tax rate in the Tax Reform Act is recognized. We
valuating the effect that the new standard will have on our consolidated financial statements and related
osures.

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pensation—Stock Compensation: On June 20, 2018, the FASB issued ASU No. 2018-07, Compensation—Stock pensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting, which aligns the nting for share-based payment awards issued to employees and nonemployees. Under the new standard, the ng employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not ively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. ost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. dition, the contractual term can be used in lieu of an expected term in the option-pricing model for nonemployee ls. The new standard became effective for us on January 1, 2019 and should be applied to all new awards granted the date of adoption. We are evaluating the effect that the new standard will have on our consolidated financial nents and related disclosures.

l Computing: On August 29, 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Fees Paid in a l Computing Arrangement, which helps entities evaluate the accounting for fees paid by a customer in a cloud uting arrangement (CCA) by providing guidance for determining when an arrangement includes a software license when an arrangement is solely a hosted CCA service. Under the new standard, customers will apply the same ia for capitalizing implementation costs as they would for an arrangement that has a software license. The new nce also prescribes the balance sheet, income statement, and cash flow classification of the capitalized mentation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. ew standard is effective for us on January 1, 2020. Early adoption is permitted, including adoption in any interim d for which financial statements have not been issued. Entities can choose to adopt the new guidance prospectively gible costs incurred on or after the date this guidance is first applied or retrospectively. We are evaluating the effect he new standard will have on our consolidated financial statements and related disclosures.

elected Quarterly Financial Data (unaudited)

	2017				2018			
illions except per share amounts)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
nue	$209.5	$229.2	$229.9	$243.1	$243.5	$252.4	$261.3 (1)	$262.7
operating expense	181.1	183.2	177.1	200.5	196.0	198.8	195.9	213.4
ating income	28.4	46.0	52.8	42.6	47.5	53.6	65.4	49.3
operating income (expense), net	(1.3)	15.3 (2)	(2.0)	(0.7)	9.3 (2)	1.4	7.3	(0.9)
ne before income taxes and equity income (loss) of unconsolidated es	27.1	61.3	50.8	41.9	56.8	55.0	72.7	48.4
y in net income (loss) of nsolidated entities	(0.8)	(0.2)	—	(0.3)	(1.5)	(0.4)	0.3	(0.5)
ne tax expense	8.3	15.0	16.9	2.7 (3)	13.4	12.8	16.1	5.5
olidated net income	$18.0	$46.1	$33.9	$38.9	$41.9	$41.8	$56.9	$42.4
ncome per share:								
	$0.42	$1.07	$0.80	$0.91	$0.99	$0.98	$1.33	$0.99
ed	$0.42	$1.07	$0.79	$0.91	$0.98	$0.97	$1.32	$0.99
ends per common share:								
ends declared per common share	$0.23	$0.23	$—	$0.48	$0.25	$0.25	$—	$0.53
ends paid per common share	$0.23	$0.23	$0.23	$0.23	$0.25	$0.25	$0.25	$0.25
hted average shares outstanding:								
	42.9	42.9	42.5	42.5	42.5	42.6	42.6	42.7

ed	43.2	43.1	42.8	42.9	42.9	43.0	43.1	43.1

evenue in the third quarter of 2018 includes a $10.5 million revenue benefit related to an amended license ment.

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on-operating income in the second quarter of 2017 included a $17.5 million gain on the sale of HelloWallet. We ded an immaterial adjustment to this gain in the fourth quarter of 2017. Non-operating income in first quarter of includes a $10.5 million gain related to the sale of our 15(c) board consulting services product line.

ax expense in the fourth quarter of 2017 includes a net benefit of $10.6 million related to the impact of the Tax m Act.

9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

pplicable.

9A. Controls and Procedures

valuation of Disclosure Controls and Procedures

esign disclosure controls and procedures to reasonably assure that information required to be disclosed in the ts filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time ds specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls rocedures designed to reasonably assure that information required to be disclosed in the reports filed under the ange Act is accumulated and communicated to management, including the chief executive officer and chief cial officer, as appropriate, to allow timely decisions regarding required disclosure.

arried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, fined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2018. Management, including our executive officer and chief financial officer, participated in and supervised this evaluation. Based on that ation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures fective to provide reasonable assurance that information required to be disclosed in the reports we file or submit the Exchange Act meets the requirements listed above.

Management's Report on Internal Control Over Financial Reporting

nanagement is responsible for establishing and maintaining adequate internal control over financial reporting. Our al control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of cial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally ted accounting principles.

arried out an evaluation, under the supervision and with the participation of our management, including our chief tive officer and chief financial officer, of the effectiveness of our internal control over financial reporting based on amework set forth in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring nizations of the Treadway Commission.

l on that evaluation, our management concluded that our internal control over financial reporting was effective as cember 31, 2018.

G LLP, our independent registered public accounting firm, has issued its report on the effectiveness of our internal ol over financial reporting, which is included in Part II, Item 8 of this Form 10-K under the caption "Financial ments and Supplementary Data" and incorporated herein by reference.

hanges in Internal Control Over Financial Reporting

nning on January 1, 2018, we implemented ASU No. 2014-09, Revenue from Contracts with Customers and the d revenue ASUs. Although the new revenue standard had an immaterial impact on our ongoing net income, we did ment changes to our processes related to revenue recognition and the control activities within them. These ded the development of new policies based on the five-step model provided in the new revenue standard, new ng, ongoing contract review requirements, and gathering of information provided for disclosures. We also mented changes to our processes related to sales commissions and the control activities related to such processes.

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than the changes noted above, there were no changes in our internal control over financial reporting during the ear ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our al control over financial reporting.

9B. Other Information

is no information that was required to be disclosed in a report on Form 8-K during the fourth quarter of the year ed by this Annual Report on Form 10-K that was not reported.

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II

10. Directors, Executive Officers, and Corporate Governance

nformation contained under the headings Proposal 1—Election of Directors, Board of Directors and Corporate rnance—Independent Directors, Board of Directors and Corporate Governance—Board Committees and Charters, and on 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement for our 2019 Annual ng of Shareholders (the Proxy Statement) and the information contained under the heading Executive Officers in of this report is incorporated herein by reference in response to this item.

ave adopted a code of ethics, which is posted in the Investor Relations area of our corporate website at //shareholders.morningstar.com in the Governance section. We intend to include on our website any amendments waivers from, a provision of the code of ethics that apply to our principal executive officer, principal financial r, principal accounting officer, or controller that relates to any element of the code of ethics definition contained in 406(b) of SEC Regulation S-K. Shareholders may request a free copy of these documents by sending an e-mail to tors@morningstar.com.

11. Executive Compensation

nformation contained under the headings Board of Directors and Corporate Governance—Directors' Compensation, pensation Discussion and Analysis, Compensation Committee Report, Compensation Committee Interlocks and r Participation, and Executive Compensation in the Proxy Statement is incorporated herein by reference in nse to this item.

12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

nformation contained under the headings Security Ownership of Certain Beneficial Owners and Management and y Compensation Plan Information in the Proxy Statement is incorporated herein by reference in response to this

13. Certain Relationships and Related Transactions, and Director Independence

nformation contained under the headings Certain Relationships and Related Party Transactions and Board of tors and Corporate Governance—Independent Directors in the Proxy Statement is incorporated herein by reference in nse to this item.

14. Principal Accountant Fees and Services

nformation contained under the headings Audit Committee Report and Principal Accounting Firm Fees in the Statement is incorporated herein by reference in response to this item.

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15. Exhibits and Financial Statement Schedules

nsolidated Financial Statements

ollowing documents are filed as part of this Annual Report on Form 10-K under Item 8—Financial Statements and ementary Data:

rt of KPMG LLP, Independent Registered Public Accounting Firm

cial Statements:
solidated Statements of Income—Years ended December 31, 2018, 2017, and 2016
solidated Statements of Comprehensive Income—Years ended December 31, 2018, 2017, and 2016
solidated Balance Sheets—December 31, 2018 and 2017
solidated Statements of Equity—Years ended December 31, 2018, 2017, and 2016
solidated Statements of Cash Flows—Years ended December 31, 2018, 2017, and 2016
s to Consolidated Financial Statements

ancial Statement Schedules

ORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

eport of KPMG LLP dated March 1, 2019 concerning the Financial Statement Schedule II, Morningstar, Inc., and diaries Valuation and Qualifying Accounts, is included at the beginning of Part II, Item 8 of this Annual Report on 10-K for the years ended December 31, 2018, December 31, 2017, and December 31, 2016.

ollowing financial statement schedule is filed as part of this Annual Report on Form 10-K:

dule II: Valuation and Qualifying Accounts

her schedules have been omitted as they are not required, not applicable, or the required information is otherwise ded.

illions)	Balance at Beginning of Year	Charged (Credited) to Costs & Expenses	Additions (Deductions) Including Currency Translations	Balance at End of Year
vance for doubtful accounts:				
ended December 31,				
	$ 3.2	$ 2.4	$ (1.6)	$ 4.0
	2.1	2.3	(1.2)	3.2
	1.8	1.3	(1.0)	2.1

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hibits

bit	Description
	Amended and Restated Articles of Incorporation of Morningstar are incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, as amended, Registration No. 333-115209 (the Registration Statement).
	By-laws of Morningstar, as in effect on February 27, 2018, are incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K that we filed with the SEC on February 28, 2018.
	Specimen Common Stock Certificate is incorporated by reference to Exhibit 4.1 to the Registration Statement.
	Form of Indemnification Agreement is incorporated by reference to Exhibit 10.1 to the Registration Statement.
	Morningstar Incentive Plan, as amended and restated effective January 1, 2014, is incorporated by reference to Exhibit 10.2 to our Annual Report on Form 10-K for the year ended December 31, 2013.
	Morningstar 2004 Stock Incentive Plan, as amended and restated effective as of July 24, 2009, is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
	Morningstar 2011 Stock Incentive Plan is incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K that we filed with the SEC on May 18, 2011.
	Form of Morningstar 2004 Stock Incentive Plan Stock Option Agreement for awards made on May 15, 2011 is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (the June 2011 10-Q).
	Form of Morningstar 2004 Stock Incentive Plan Director Stock Option Agreement for awards made on May 15, 2011 is incorporated by reference to Exhibit 10.2 to the June 2011 10-Q.
	Form of Morningstar 2011 Stock Incentive Plan Restricted Stock Unit Award Agreement for awards made on and after May 15, 2013 is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (the June 2013 10-Q).
	Form of Morningstar 2011 Stock Incentive Plan Director Restricted Stock Unit Award Agreement, as amended and restated effective December 3, 2015 is incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K for the year ended December 31, 2015 (the 2015 10-K).
	Form of Morningstar 2011 Stock Incentive Plan Performance Share Award Agreement, as amended and restated effective December 3, 2015, for awards made on and after March 15, 2015 is incorporated by reference to Exhibit 10.14 to the 2015 10-K.
*	Form of Morningstar 2011 Stock Incentive Plan CEO Restricted Stock Unit Award Agreement for award made on January 3, 2017 is incorporated by reference to Exhibit 10.11 to our Annual Report on Form 10-K for the year ended December 31, 2016.
*	Form of Morningstar 2011 Stock Incentive Plan Market Stock Unit Award Agreement for awards made on May 15, 2017 is incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017.
*	Form of Morningstar 2011 Stock Incentive Plan Market Stock Unit Award Agreement for awards made on and after November 15, 2017 is incorporated by reference to Exhibit 10.12 to our Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 10-K).
*	Form of Morningstar 2011 Stock Incentive Plan Restricted Stock Unit Award Agreement for awards made on and after November 15, 2017 is incorporated by reference to Exhibit 10.13 to the 2017 10-K.
*	Form of Morningstar 2011 Stock Incentive Plan CFO Restricted Stock Unit Award Agreement for award made on November 15, 2017 is incorporated by reference to Exhibit 10.14 to the 2017 10-K.
	Amended and Restated Credit Agreement dated as of November 4, 2016 and Amendment No. 1 to Amended and Restated Credit Agreement dated as of December 21, 2018, each among Morningstar, Inc., certain subsidiaries of Morningstar, Inc., and Bank of America, N.A. are incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K that we filed with the SEC on December 28, 2018.
	Subsidiaries of Morningstar.
	Consent of KPMG LLP.

Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
The following financial information from Morningstar Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 1, 2019, formatted in XBRL: (i) Consolidated Statements of Income, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

nagement contract with a director or executive officer or a compensatory plan or arrangement in which directors or tive officers are eligible to participate.

d or furnished herewith.

16. Form 10-K Summary

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ATURES

ant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly
d this report to be signed on its behalf by the undersigned thereunto duly authorized on March 1, 2019.
MORNINGSTAR, INC.

s/ Kunal Kapoor
Kunal Kapoor
Title: Chief Executive Officer

ant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following
ns on behalf of the registrant and in the capacities and on the dates indicated.

ture	Title	Date
unal Kapoor l Kapoor	Chief Executive Officer (principal executive officer) and Director	March 1, 2019
son Dubinsky Dubinsky	Chief Financial Officer (principal financial officer)	March 1, 2019
mberly McGarry erly McGarry	Chief Accounting Officer (principal accounting officer)	March 1, 2019
e Mansueto Iansueto	Chairman of the Board	March 1, 2019
obin Diamonte n Diamonte	Director	March 1, 2019
neryl Francis yl Francis	Director	March 1, 2019
even Kaplan n Kaplan	Director	March 1, 2019
ail Landis Landis	Director	March 1, 2019
ll Lyons yons	Director	March 1, 2019
ck Noonan Noonan	Director	March 1, 2019
roline Tsay ine Tsay	Director	March 1, 2019
ugh Zentmyer Zentmyer	Director	March 1, 2019