MORNINGSTAR, INC.

FORM 8-K
(Unscheduled Material Events)


Address 225 WEST WACKER DRIVE
          CHICAGO, Illinois 60606
Telephone (312) 696-6000
CIK      0001289419
Industry Computer Services
Sector   Technology
Fiscal Year 12/31
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 23, 2006

MORNINGSTAR, INC.
(Exact name of registrant as specified in its charter)

Illinois
(State or other jurisdiction
of incorporation)

000-51280
(Commission
File Number)

36-3297908
(I.R.S. Employer
Identification No.)

225 West Wacker Drive
Chicago, Illinois
(Address of principal executive offices)

(312) 696-6000
(Registrant’s telephone number, including area code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Item 7.01. Regulation FD Disclosure.

On May 23, 2006, Joe Mansueto, Chairman and Chief Executive Officer, and Martha Dustin Boudos, Chief Financial Officer, of Morningstar, Inc. will make the presentation attached as Exhibit 99.1 at its Annual Shareholders’ Meeting, which will be held at The Conference Center at UBS Tower in Chicago, Illinois at 9:00 a.m. Central Standard Time.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

<table>
<thead>
<tr>
<th>Exhibit No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.1</td>
<td>Annual Meeting Presentation.</td>
</tr>
</tbody>
</table>
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MORNINGSTAR, INC.

Date: May 23, 2006

By: /s/ Martha Dustin Boudos

Name: Martha Dustin Boudos

Title: Chief Financial Officer
<table>
<thead>
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Update on Key Products and Growth Strategies

Joe Mansueto
Chairman &
Chief Executive Officer

Link to searchable text of slide shown above
- Our mission: Create great products to help investors reach their financial goals.
- Established, well-regarded name for independent investment research.
- Serving more than 4.9 million clients through 185,000 advisors, and 750 institutional clients.
- Extensive research and data covers more than 145,000 investment offerings.
- Operations in 13 countries and ownership positions in another.
- 1,250 employees
2005 Highlights

- Increased revenue 26%, operating income 162%, and free cash flow 63.1%
- Completed IPO in May 2005
- Announced agreement to acquire Ibbotson Associates
- Retained all five equity research related to Global Analyst Research Settlement and signed agreement with sixth investment bank
- Launched Morningstar Direct
- Completed acquisition of VAF
- Signed consulting agreement in Italy and China
- Continued to expand development center in China

Revenue, Operating Income, Free Cash Flow
Year Ended December 31 ($000)

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<td>% Growth</td>
<td>26.4%</td>
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</tr>
</tbody>
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(1) Free cash flow is a measure that is not calculated in accordance with U.S. GAAP.
Business Model: Leveraging Fixed Income

Databases

Core Skills

Media

Audience

Geography

Link to searchable text of slide shown above
Completed acquisition on Mar 3rd for $86.4 million

Started in 1977 by Professor Ibbotson

Focused on providing clients education and tools to reduce investment risk and improve returns for investors

Serving more than 70,000 advisors and 700 institutions

Key business lines:
  • Investment consulting and management
  • Planning and analysis software
  • Investment advice
  • Educational and marketing
  • Presentation materials
Ibbotson Associates

Ibbotson will add capabilities that complement our current business

Capital Markets Database

Asset Allocation Expertise

Print, Software, Internet and Services

Advisors and Institutions

Existing presence in Japan and opportunities to expand in other non-U.S. markets

Link to searchable text of slide shown above
$ 63.4 million
27.9% total revenue

35.0% revenue growth
134.8% operating income growth

4.4 million Morningstar reach
91 million investors (U.S. market)

Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
Growth of Morningstar.com Premium Memberships (U.S.)
Year Ended December 31

- Analyst research on 2,000 funds and 1,700 stocks
- Launched Morningstar Stock Grade for Stocks
- Expanded analyst coverage of exchange-traded funds
- Created new home page to highlight most frequently used content
- Moderate increase in Premium now $14.95/month or $135/year
- 2006 priorities:
  - Improve site’s speed
  - Expand base of enthusiasts
  - Increase Premium trials through sampling and other
Fundamental approach favors discount to estimated value and sustainable compe tage (economic moat)

Expanded analyst staff from 14 in 2005 and increased coverage 1,500 to more than 1,700 stocks

Signed contract with sixth institution to provide research and Global Analyst Research Sett

2006 priorities:

Great service and ongoing for Global Settlement clients
Increase coverage outside expand non-U.S. client bas
Expand reach with buy side

Link to searchable text of slide shown above
$72.7 million
32.0% total revenue

19.4% revenue growth
28.1% operating income growth

185,000 Morningstar reach (global)
715,000 advisors (global)

Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
Advisor Workstation Licenses
Year Ended December 31

- Advisor Workstation has been a growth driver and now ranks as the top product in the Advisor segment.
- 2005 enhancements:
  - Advisor Compliance Tools
  - Share Class Analyzer Report
- 2006 priorities:
  - Retirement income solution
  - Suitability manager tool for funds, 529s, variable annuities
  - New portfolio planning tool
- Prices range up to $5,000/user for Office Edition; $80-$2,500 for Enterprise Edition

[Graph showing Advisor Workstation (Internet) and Principia (CD-ROM) licenses from 2001 to 2005]
Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
Morningstar Direct Licenses
Year Ended December 31

- Added global databases and fund data in 2005
- Expanded sales efforts outside United States
- 2006 priorities:
  - Transition clients to 3.0 version
  - Add Ibbotson’s asset allocation capabilities to Morningstar
  - Add portfolio processing/analyze capabilities
  - Add global ownership data, including portfolio data and
- Simple pricing: $15,000 for first user, $10,000 for second user, and each additional user
Licensed Data

- Enhancements in 2005:
  - Added equity database, separate accounts, owners and compliance data
  - Further penetration on large managers and broker-dealers
- Priorities for 2006:
  - Add Ibbotson time series data and other data feeds
  - Hedge fund database
  - Add real-time delivery options
Assets Under Advisement
Year Ended December 31 ($bil)

- Consulting has been a key driver of growth in revenue and operating earnings.
- Ibbotson Associates acquisition contributed to an expanded range of services for asset allocation and expanded client coverage.
- Fits new strategic initiative for growth in the funds-of-funds investment market.

2006 priorities:
- Deliver outstanding service to current clients, while improving investors’ results.
- Add new funds-of-funds relationships.
- Expand international business (Europe and Asia).

* Includes Ibbotson

Link to searchable text of slide shown above
Assets Under Management in Managed Retirement Accounts
Year Ended December 31 ($mil)

- Includes Morningstar Retirement Advice by Ibbotson platform.
- Significant growth potential in retirement accounts—appeal to segment of 401(k) plan participants.
- Ibbotson Associates indicates expanded assets under managed retirement accounts.
- 2006 priority: help investors reach retirement goals by expanding and usage of managed accounts.

* Includes Ibbotson

Link to searchable text of slide shown above
**Growth Strategy:**
*Build Leadership Position in Each Market Segment*

<table>
<thead>
<tr>
<th>Morningstar.com (U.S.) &amp; Other Global Investment Sites</th>
<th>Morningstar Advisor Workstation</th>
<th>Morningstar Direct Retirement Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individuals</strong></td>
<td><strong>Advisors</strong></td>
<td><strong>Institutions</strong></td>
</tr>
<tr>
<td>Opportunities:</td>
<td>Expand functionality to appeal to more advisors</td>
<td>Expand to reach more institutions</td>
</tr>
<tr>
<td>Improve site speed</td>
<td>Tap into international markets</td>
<td>Expand managed retirement accounts</td>
</tr>
<tr>
<td>Expand base of enthusiast investors</td>
<td>Expand portfolio planning tools and retirement income solutions</td>
<td>Add asset allocation and ownership data</td>
</tr>
<tr>
<td>Increase Premium trials</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Meet need among individuals, advisors, and institutions for investment information
- Focus on building a flagship, platform for each of our audience
- Platforms use the same research methodologies, allowing users to access multiple databases
- For all growth platforms, deepen relationships with existing audiences, extend to reach new audiences

*Link to searchable text of slide shown above*
Assets Under Management in Morningstar Managed Portfolios Year Ended December 31 ($mil)

- Morningstar Managed Portfolios
  - Broaden penetration in independent broker-dealer and registered advisor markets
  - Expand distribution through selling agreements
  - Expand ETF-based portfolios and sensitive separate account products in all of our markets
- Investment Consulting:
  - $37 billion in assets under advisement
- Managed retirement accounts:
  - $6 billion in assets under management
Growth Strategy: Expand Range of Products and Services

- Leverage investment in equity
- Expand capabilities in hedge
  - Roll out hedge fund research to qualified/accredited investors
  - Integrate research efforts with quantitative work
  - Continue expanding database
- Develop additional capabilities in managing retirement income
  - Launched Retirement Income Center for advisors
  - Currently developing a retirement income planning application
Growth Strategy: Expand Internationally

- International revenue increased by 15.9% in 2005 and made up 13% of total revenue
- Focusing more resources on Advisor Workstation, Invest PTSD Consulting, and Morningstar Direct platforms to drive growth
- Also adding more analysts in international operations
- Broaden global databases and
- Expand usage of portfolio pla
### Consolidated Income Statement
**Year Ended December 31 ($000, except per share amounts)**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$227,114</td>
<td>$179,658</td>
<td>26.4%</td>
</tr>
<tr>
<td>Operating Expense(^1)</td>
<td>180,634</td>
<td>161,923</td>
<td>11.6%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>46,480</td>
<td>17,735</td>
<td>162.1%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>20.5%</td>
<td>9.9%</td>
<td>10.6pp</td>
</tr>
<tr>
<td>Net Income</td>
<td>$31,117</td>
<td>$8,809</td>
<td>253.2%</td>
</tr>
<tr>
<td>Diluted Income per share</td>
<td>$0.70</td>
<td>$0.21</td>
<td></td>
</tr>
<tr>
<td>Weighted Average Common Shares Outstanding (Diluted)</td>
<td>44,459</td>
<td>41,858</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Includes stock-based compensation expense

- Strong revenue growth from all business segments
- Substantial growth in operating income
- Continued margin expansion and operating income growth in Q1 2006
Revenue: Consistent Growth Over 20 Years

- Have continued to generate significant organic growth
- Ibbotson Associates contributed $4.4 million of revenue in Q1
- Recent growth drivers:
  - Morningstar Advisor Work
  - Equity Research
  - Investment Consulting
  - Licensed Data
  - Morningstar.com

Annual Growth Rates Over the Past Five Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Annual Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$227.1 mil</td>
<td>26%</td>
</tr>
<tr>
<td>2004</td>
<td>$179.7</td>
<td>29%</td>
</tr>
<tr>
<td>2003</td>
<td>$139.5</td>
<td>27%</td>
</tr>
<tr>
<td>2002</td>
<td>$109.6</td>
<td>20%</td>
</tr>
<tr>
<td>2001</td>
<td>$91.2</td>
<td>22%</td>
</tr>
</tbody>
</table>

Link to searchable text of slide shown above
Recurring and Visible Revenue

Revenue Composition
Year Ended December 31 ($mil)

- “Walk-in” and renewal revenue are the primary source of revenue, providing high revenue visibility.
- Many products sold through perpetual licenses, subscriptions, or license agreements, leading to significant recurring revenue streams.
- Remaining portion of revenue is derived from new sales generated during the year.
- At the start of 2005, we had approximately $138.8 million of “walk-in” revenue.
- Cancellations and other routine adjustments reduced this amount by approximately 2% during 2005.
- Estimated “walk-in” revenue for 2006 is approximately $138.8 million as of January 1, 2005.

* Not of cancellations

Link to searchable text of slide shown above
New Metrics: Retention and Renewal

Retention and Renewal Rates
Year Ended December 31, 2005

- For subscription-based products, calculated retention based on the percentage of subscriptions retained.
- Estimate that retention rate for subscription products averaged between 60% and 65% in 2005.
- For products sold through contracts like licenses, track dollar value of contracts associated with sales.
- Weighted average renewal rate for contract-based products and services ranged from 100% to 105%, indicating impact of price increases.

Retention Rate
(subscription-based)

Renewal Rate
(contract-based)
Diversified Revenue

Revenue Composition by Segment
Year Ended December 31, 2005

- Institutional 42.2%
- Advisor 32.0%
- Individual 27.9%

Revenue for Top Five Products
Year Ended December 31, 2005

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Revenue ($mil)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensed Data</td>
<td>$ 32.4</td>
<td>14.3%</td>
</tr>
<tr>
<td>Advisor Workstation</td>
<td>29.3</td>
<td>12.9%</td>
</tr>
<tr>
<td>Principia</td>
<td>28.8</td>
<td>12.7%</td>
</tr>
<tr>
<td>Morningstar.com</td>
<td>25.5</td>
<td>11.2%</td>
</tr>
<tr>
<td>Investment Consulting</td>
<td>21.9</td>
<td>9.6%</td>
</tr>
<tr>
<td>Total</td>
<td>$137.9</td>
<td>60.7%</td>
</tr>
</tbody>
</table>

- Diversified across multiple segments, products, and increasingly regions.
- Largest client relationship represented less than 5% of revenue in 2005.
- Not dependent on any one segment, product, or client for a majority of our revenue.

Totals to more than 100% because of intersegment revenue.
Significant Operating Leverage

Revenue and Operating Expense
Year Ended December 31 ($000)

-16%
-10%
10%
20%
30%

22% 20% 27% 29% 20% 17%

2001 2002 2003 2004 2005

$91,230 $109,619 $135,496 $179,656 $227,114

Revenue growth

Operating expense
Operating expense growth before stock-based compensation
Stock-based compensation expense
*Operating expense before stock-based compensation

$107,621 $117,959 $150,250 $161,923 $190,634

5,667 7,292 29,029 16,723 10,895

101,954 110,667 121,221 145,200 169,739

-16% 9% 10% 20% 17%

*$Operating expense and income before stock-based compensation are measures that are not calculated in accordance with U.S. GAAP.

Substantial expansion in operating income has grown faster

Operating income growth reflects leverage (the relatively low income margin that results from adding new customers)

Expect operating leverage to pull operations over the long term
Stock-Based Compensation Expense

Year Ended December 31 ($000)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability method</td>
<td>$(3,336)</td>
<td>$(3,283)</td>
<td>$17,796</td>
<td>$8,963</td>
<td>$2,810</td>
</tr>
<tr>
<td>Equity method</td>
<td>9,003</td>
<td>10,575</td>
<td>11,233</td>
<td>7,760</td>
<td>8,085</td>
</tr>
<tr>
<td>Total expense</td>
<td>$5,667</td>
<td>$7,292</td>
<td>$29,029</td>
<td>$16,723</td>
<td>$10,895</td>
</tr>
</tbody>
</table>

- Have consistently included stock compensation in reported financial statements.
- Two methods of recording stock-based compensation:
  - Liability method (no longer following IPO)
  - Equity method
- Stock-based compensation expenses have declined primarily because expenses was recorded under liability method in 2006
- Began granting restricted stock units (RSUs) with annual equity grants in May 2006
- Expect to record approximate $8.6 million in stock-based compensation expense in 2006 (including exercise of May 15 RSU grant)
### Free Cash Flow

**Year Ended December 31 ($000)**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income (Loss)</td>
<td>$ (5,183)</td>
<td>$ 16,542</td>
<td>$ 29,705</td>
<td>$ 32,862</td>
<td>$ 48,445</td>
</tr>
<tr>
<td>Cash Provided by (Used for) Operating Activities</td>
<td>(5,932)</td>
<td>(5,989)</td>
<td>(8,607)</td>
<td>(7,730)</td>
<td>(7,451)</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>$ (11,115)</td>
<td>$ 10,553</td>
<td>$ 21,098</td>
<td>$ 25,132</td>
<td>$ 40,994</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>$ 2,777</td>
<td>(6,068)</td>
<td>(29,634)</td>
<td>(22,750)</td>
<td>(16,913)</td>
</tr>
<tr>
<td>Cash Provided by (Used for) Investing Activities</td>
<td>(1,049)</td>
<td>(1,952)</td>
<td>(26)</td>
<td>(6,367)</td>
<td>25,256</td>
</tr>
<tr>
<td>Cash Provided by (Used for) Financing Activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

"Free cash flow" is defined as cash provided by (used for) operating activities less capital expenditures. We have presented free cash flow solely as a supplemental disclosure to help understand how much cash is available after we spend money to operate our business. This table includes a reconciliation from cash provided by (used for) operating activities to free cash flow. We use free cash flow to evaluate the performance of our business. Free cash flow should not be considered an alternative to any measure of performance as prescribed by accounting standards such as cash provided by (used for) operating, investing, and financing activities. Nor should this data be considered an indicator of our overall financial performance or liquidity. The free cash flow definition may not be comparable to similarly titled measures reported by other companies.

- Healthy free cash flow as revenues grow faster than expenses
- Business does not require significant ongoing capital investment
- Capital expenditures consist of computer equipment, capitalized development, and leasehold improvements
- Free cash flow increased to $48.4 million in Q1 2006, driven by increase in revenue
**Solid Balance Sheet**

<table>
<thead>
<tr>
<th>Consolidated Balance Sheet Data ($000)</th>
<th>as of December 31, 2005</th>
<th>as of March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, cash equivalents, and investments</td>
<td>$ 153,190</td>
<td>$ 82,906</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$ 206,215</td>
<td>$ 150,911</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 296,311</td>
<td>$ 323,849</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$ 115,841</td>
<td>$ 123,055</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$ 6,756</td>
<td>$ 4,762</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$ 122,597</td>
<td>$ 127,817</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>$ 173,714</td>
<td>$ 196,032</td>
</tr>
</tbody>
</table>

- $82.9 million in cash, cash equivalents, and investments
- Used $86.4 million in cash to acquire Ibbotson
- No external debt
- Advance cash collections from model generate deferred revenue ($67.5 million) and accrued compensation ($16.6...
Conclusion

- “Wide-moat” companies have enduring competitive advantages.
- Strive to create and maintain a wide moat for Morningstar.
- Emphasis on managing our business to maximize long-term results.
- Aim to communicate with candor and give the unvarnished truth about our business.

Link to searchable text of slide shown above
Update on Key Products and Growth Strategies

Joe Mansueto,
Chairman &
Chief Executive Officer
Morningstar Today

- Our mission: Create great products that help investors reach their financial goals
- Established, well-regarded name in independent investment research
- Serving more than 4.9 million individuals, 185,000 advisors, and 750 institutions
- Extensive research and data on more than 145,000 investment offerings
- Operations in 13 countries and minority ownership positions in another three
- 1,250 employees
2005 Highlights

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- Increased revenue 26%, operating income 162%, and free cash flow 63%
- Completed IPO in May 2005
- Announced agreement to acquire Ibbotson Associates
- Retained all five equity research contracts related to Global Analyst Research Settlement and signed agreement with sixth investment bank
- Launched Morningstar Direct 2.0
- Completed acquisition of VARDS
- Signed consulting agreements in France, Italy, and China
- Continued to expand development center in China
Business Model:
Leveraging Fixed Investments

[GRAPHIC]
• Completed acquisition on March 1, 2006 for $86.4 million

• Started in 1977 by Professor Roger Ibbotson

• Focused on providing clients with education and tools to reduce risk and improve returns for investors

• Serving more than 70,000 advisors and 700 institutions

• Key business lines:
  • Investment consulting and research
  • Planning and analysis software
  • Investment advice
  • Educational and marketing services
  • Presentation materials
Ibbotson will add capabilities that complement our current business

- Capital Markets Database
- Asset Allocation Expertise
- Print, Software, Internet and Services
- Advisors and Institutions
- Existing presence in Japan and opportunities to expand in other non-U.S. markets
Individual Segment

2005 Revenue

[GRAPHIC]

$63.4 million
27.9% total revenue

Revenue and Operating Income Growth:

[GRAPHIC]

35.0% revenue growth
134.8% operating income growth

2005 Reach

[GRAPHIC]

4.4 million Morningstar reach (U.S. market)
91 million investors (U.S. market)

Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
Morningstar.com

Growth of Morningstar.com Premium Memberships (U.S.) Year Ended December 31

[GRAPHIC]

• Analyst research on 2,000 funds and 1,700 stocks
• Launched Morningstar Stewardship Grade for Stocks
• Expanded analyst coverage on exchange-traded funds
• Created new home page to highlight most frequently used content
• Moderate increase in Premium pricing: now $14.95/month or $135/year

2006 priorities:
• Improve site’s speed
• Expand base of enthusiast users
• Increase Premium trials through sampling and other programs
Independent Equity Research

• Fundamental approach favors companies with discount to estimated intrinsic value and sustainable competitive advantage (economic moat)

• Expanded analyst staff from 73 to 87 in 2005 and increased coverage list from 1,500 to more than 1,700 stocks

• Signed contract with sixth investment bank to provide research under Global Analyst Research Settlement

• 2006 priorities:
  • Great service and ongoing training for Global Settlement clients
  • Increase coverage outside U.S. and expand non-U.S. client base
  • Expand reach with buy side
2005 Revenue

[GRAPHIC]

$72.7 million
32.0% total revenue

Revenue and Operating Income Growth

[GRAPHIC]

19.4% revenue growth
28.1% operating income growth

2005 Reach

[GRAPHIC]

185,000 Morningstar reach (global)
715,000 advisors (global)

Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
Morningstar Advisor Workstation

• Advisor Workstation has been a key growth driver and now ranks as largest product in Advisor segment

• 2005 enhancements:
  • Advisor Compliance Tools
  • Share Class Analyzer Report

• 2006 priorities:
  • Retirement income solutions
  • Suitability manager tool for mutual funds, 529s, variable annuities
  • New portfolio planning tool

• Prices range up to $5,000/user for Office Edition; $80-$2,500/user for Enterprise Edition
Institutional Segment

2005 Revenue
[GRAPHIC]
$95.9 million
42.2% total revenue

Revenue and Operating Income Growth
[GRAPHIC]
22.4% revenue growth
81.4% operating income growth

2005 Reach
[GRAPHIC]
750 Morningstar reach (global)
9,000 Institutions (global)

Revenue and operating income for our three segments total more than 100% because they exclude eliminations and corporate items.
• Added global databases and hedge fund data in 2005
• Expanded sales efforts outside the United States

2006 priorities:
• Transition clients to 3.0 version
• Add Ibbotson’s asset allocation capabilities to Morningstar Direct
• Add portfolio processing/accounting capabilities
• Add global ownership database, including portfolio data and 13-F filings

Simple pricing: $15,000 for first user, $10,000 for second user, and $7,500 for each additional user
Licensed Data

- Enhancements in 2005:
  - Added equity database, separate accounts, ownership and compliance data
  - Further penetration on large asset managers and broker-dealers

- Priorities for 2006:
  - Add Ibbotson time series data and other data feeds
  - Hedge fund database
  - Add real-time delivery option
Investment Consulting

Assets Under Advisement Year Ended December 31 ($bil)

[GRAPHIC]

- Consulting has been a key driver of growth in revenue and operating income
- Ibbotson Associates acquisition expanded range of services for asset allocation and expanded client base
- Fits new strategic initiative for funds-of-funds investment management
- 2006 priorities:
  - Deliver outstanding services to improve investors’ results
  - Add new funds-of-funds relationships
  - Expand international business (Europe and Asia)
Retirement Advice

Assets Under Management in Managed Retirement Accounts Year Ended December 31 ($mil)

[GRAPHIC]

- Includes Morningstar Retirement Manager and Advice by Ibbotson platforms
- Significant growth potential in managed retirement accounts—appeal to broader segment of 401(k) plan participants
- Ibbotson Associates significantly expanded assets under management in managed retirement accounts
- 2006 priority: help investors reach retirement goals by expanding awareness and usage of managed accounts
Growth Strategy: Build Leadership Position in Each Market Segment

[GRAPHIC]

• Meet need among individuals, advisors, and institutions for integrated investment information

• Focus on building a flagship, Web-based platform for each of our audiences

• Platforms use the same research methodologies, allowing users to combine multiple databases

• For all growth platforms, deepen relationships with existing audiences and extend to reach new audiences
Growth Strategy: Become a Global Leader in Funds-of-Funds Investment Management

Assets Under Management in Morningstar Managed Portfolios Year Ended December 31 ($mil)

[GRAPHIC]

- Morningstar Managed Portfolios
  - Broaden penetration in independent broker-dealer and registered investment advisor markets
  - Expand distribution through additional selling agreements
  - Expand ETF-based portfolios and tax-sensitive separate account portfolios to all of our markets

- Investment Consulting:
  $37 billion in assets under advisement

- Managed retirement accounts:
  $6 billion in assets under management
Growth Strategy: Expand Range of Products and Services

[GRAPHIC]

- Leverage investment in equity research

- Expand capabilities in hedge fund research
  - Roll out hedge fund research to qualified/accredited investors
  - Integrate research efforts with Ibbotson’s quantitative work
  - Continue expanding database

- Develop additional capabilities in managing retirement income
  - Launched Retirement Income Education Center for advisors
  - Currently developing a retirement income planning application
Growth Strategy: Expand Internationally

• International revenue increased by 15.9% in 2005 and made up about 13% of total revenue
• Focusing more resources on Advisor Workstation, Investment Consulting, and Morningstar Direct platforms to drive growth
• Also adding more analysts in international operations
• Broaden global databases and tools
• Expand usage of portfolio planning tool
Business Model and Financials

Martha Dustin Boudos
Chief Financial Officer
Financial Results in 2005

Consolidated Income Statement Year Ended December 31 ($000, except per share amounts)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$227,114</td>
<td>$179,658</td>
<td>26.4%</td>
</tr>
<tr>
<td>Operating Expense(1)</td>
<td>180,634</td>
<td>161,923</td>
<td>11.6%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>46,480</td>
<td>17,735</td>
<td>162.1%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>20.5%</td>
<td>9.9%</td>
<td>10.6pp</td>
</tr>
<tr>
<td>Net Income</td>
<td>$31,117</td>
<td>$8,809</td>
<td>253.2%</td>
</tr>
<tr>
<td>Diluted Income per share</td>
<td>$0.70</td>
<td>$0.21</td>
<td></td>
</tr>
<tr>
<td>Weighted Average Common Shares Outstanding (Diluted)</td>
<td>44,459</td>
<td>41,858</td>
<td></td>
</tr>
</tbody>
</table>

(1) Includes stock-based compensation expense

- Strong revenue growth from all three business segments
- Substantial growth in operating margin
- Continued margin expansion and organic growth in Q1 2006
Revenue: Consistent Growth Over 20 Years

Annual Growth Rates Over the Past Five Years

[GRAPHIC]

• Have continued to generate strong organic growth

• Ibbotson Associates contributed $4.4 million of revenue in Q1 2006

• Recent growth drivers:
  • Morningstar Advisor Workstation
  • Equity Research
  • Investment Consulting
  • Licensed Data
  • Morningstar.com
Recurring and Visible Revenue

Revenue Composition Year Ended December 31 ($mil)

• “Walk-in” and renewal revenue create high revenue visibility
• Many products sold through subscriptions or license agreements, leading to significant recurring revenue
• Remaining portion of revenue is from new sales generated during the year
• At the start of 2005, we had $124.9 million of “walk-in” revenue
• Cancellations and other routine adjustments reduced this amount by 2% during 2005
• Estimated “walk-in” revenue of $138.8 million as of January 1, 2006
New Metrics: Retention and Renewal Rates

Retention and Renewal Rates Year Ended December 31, 2005

[GRAPHIC]

- For subscription-based products, calculated retention based on number of subscriptions retained
- Estimate that retention rate for subscription products averaged between 60% and 65% in 2005
- For products sold through contracts and licenses, track dollar value of renewals vs. dollar value of contracts up for renewal
- Weighted average renewal rate for contract-based products and services ranged from 100% to 105%, including impact of price increases
Diversified Revenue

Revenue Composition by Segment Year Ended December 31, 2005

[GRAPHIC]

Revenue for Top Five Products Year Ended December 31, 2005

[GRAPHIC]

• Diversified across multiple segments, products, and increasingly regions
• Largest client relationship represented less than 5% of revenue in 2005
• Not dependent on any one segment, product, or client for a majority of our revenue
Significant Operating Leverage

Revenue and Operating Expense Year Ended December 31 ($000)

- Substantial expansion in operating margin as revenue has grown faster than expenses
- Operating income growth reflects operating leverage (the relatively low variable cost of adding new customers)
- Expect operating leverage to be evident in operations over the long term

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$91,230</td>
<td>$109,619</td>
<td>$139,496</td>
<td>$179,658</td>
<td>$227,114</td>
</tr>
<tr>
<td></td>
<td>22%</td>
<td>20%</td>
<td>27%</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>$107,621</td>
<td>$117,959</td>
<td>$150,250</td>
<td>$161,923</td>
<td>$180,634</td>
</tr>
<tr>
<td>Operating expense</td>
<td>5,667</td>
<td>7,292</td>
<td>29,029</td>
<td>16,723</td>
<td>10,895</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>101,954</td>
<td>110,667</td>
<td>121,221</td>
<td>145,200</td>
<td>169,739</td>
</tr>
<tr>
<td>Operating expense growth before stock-based compensation</td>
<td>-16%</td>
<td>9%</td>
<td>10%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Operating income before stock-based compensation expense</td>
<td>$ (10,724)</td>
<td>$(1,048)</td>
<td>$18,275</td>
<td>$34,458</td>
<td>$57,375</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>$ (16,391)</td>
<td>$(8,340)</td>
<td>$(10,754)</td>
<td>$17,735</td>
<td>$46,480</td>
</tr>
<tr>
<td>Operating margin (%)</td>
<td>NMF</td>
<td>NMF</td>
<td>NMF</td>
<td>9.9%</td>
<td>20.5%</td>
</tr>
</tbody>
</table>

* Operating expense and income before stock-based compensation are measures that are not calculated in accordance with U.S. GAAP.
Stock-Based Compensation Expense

Stock-Based Compensation Expense Year Ended December 31 ($000)

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability method</td>
<td>$(3,336)</td>
<td>$(3,283)</td>
<td>$17,796</td>
<td>$8,963</td>
<td>$2,810</td>
</tr>
<tr>
<td>Equity method</td>
<td>9,003</td>
<td>10,575</td>
<td>11,233</td>
<td>7,760</td>
<td>8,085</td>
</tr>
<tr>
<td>Total expense</td>
<td>$5,667</td>
<td>$7,292</td>
<td>$29,029</td>
<td>$16,723</td>
<td>$10,895</td>
</tr>
</tbody>
</table>

- Have consistently included stock-based compensation in reported financials
- Two methods of recording stock-based compensation:
  - Liability method (no longer used following IPO)
  - Equity method
- Stock-based compensation expense has declined primarily because no expenses was recorded under liability method in 2006
- Began granting restricted stock units (RSUs) with annual equity awards in May 2006
- Expect to record approximately $8.6 million in stock-based compensation expense in 2006 (including expense for May 15 RSU grant)
Free Cash Flow

Free Cash Flow Year Ended December 31 ($000)

- Healthy free cash flow as revenue grows faster than expense
- Business does not require significant ongoing capital investment
- Capital expenditures consist mainly of computer equipment, capitalized software development, and leasehold improvements
- Free cash flow increased to $9.1 million in Q1 2006, driven by increase in net income

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>(5,183)</td>
<td>$16,542</td>
<td>$29,705</td>
<td>$32,862</td>
<td>$48,445</td>
</tr>
<tr>
<td>provided by (used for operating activities)</td>
<td>(5,932)</td>
<td>(5,989)</td>
<td>(8,607)</td>
<td>(7,730)</td>
<td>(7,451)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>$11,115</td>
<td>$10,553</td>
<td>$21,098</td>
<td>$25,132</td>
<td>$40,994</td>
</tr>
<tr>
<td>Cash</td>
<td>2,777</td>
<td>(6,068)</td>
<td>(29,634)</td>
<td>(22,750)</td>
<td>(16,913)</td>
</tr>
<tr>
<td>provided by (used for investing activities)</td>
<td>(1,049)</td>
<td>(1,952)</td>
<td>(26)</td>
<td>(6,367)</td>
<td>25,256</td>
</tr>
<tr>
<td>Cash</td>
<td>(1,049)</td>
<td>(1,952)</td>
<td>(26)</td>
<td>(6,367)</td>
<td>25,256</td>
</tr>
<tr>
<td>provided by (used for financing activities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

“Free cash flow” is defined as cash provided by (used for) operating activities less capital expenditures. We have presented free cash flow solely as a supplemental disclosure to help our investors better understand how much cash is available after we spend money to operate our business. This table includes a reconciliation from cash provided by (used for) operating activities to free cash flow. We use free cash flow to evaluate the performance of our business. Free cash flow should not be considered an alternative to any measure of performance as promulgated under GAAP (such as cash provided by (used for) operating, investing, and financing activities), nor should this data be considered an indicator of our overall financial performance or liquidity. Also, our free cash flow definition may not be comparable to similarly titled measures reported by other companies.
**Solid Balance Sheet**

**Consolidated Balance Sheet Data ($000)**

<table>
<thead>
<tr>
<th></th>
<th>as of December 31, 2005</th>
<th>as of March 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, cash equivalents, and investments</td>
<td>$153,190</td>
<td>$82,906</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$206,215</td>
<td>$150,911</td>
</tr>
<tr>
<td>Total assets</td>
<td>$296,311</td>
<td>$323,849</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$115,841</td>
<td>$123,055</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td>$6,756</td>
<td>$4,762</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$122,597</td>
<td>$127,817</td>
</tr>
<tr>
<td>Total shareholders’ equity</td>
<td>$173,714</td>
<td>$196,032</td>
</tr>
</tbody>
</table>

- $82.9 million in cash, cash equivalents, and investments
- Used $86.4 million in cash to acquire Ibbotson
- No external debt
- Advance cash collections from subscription model generate deferred revenue
- Liabilities consist largely of deferred revenue ($87.5 million) and accrued compensation ($16.6 million)
Conclusion

[GRAPHIC]

• “Wide-moat” companies have enduring competitive advantages

• Strive to create and maintain a wide moat for Morningstar

• Emphasis on managing our business to maximize long-term results

• Aim to communicate with candor and give the unvarnished truth about our business