

Morningstar, Inc.
Form 10-Q
October 29, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2015

OR

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

For the transition period from _____ to _____
Commission File Number: 000-51280

MORNINGSTAR, INC.

(Exact Name of Registrant as Specified in its Charter)

Illinois

(State or Other Jurisdiction of
Incorporation or Organization)

36-3297908

(I.R.S. Employer
Identification Number)

22 West Washington Street

Chicago, Illinois

(Address of Principal Executive Offices)

(312) 696-6000

(Registrant's Telephone Number, Including Area Code)

60602

(Zip Code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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As of October 23, 2015, there were 44,216,841 shares of the Company's common stock, no par value, outstanding.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

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Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Income

(in millions except per share amounts)	Three months ended September		Nine months ended September	
	30 2015	2014	30 2015	2014
Revenue	\$195.3	\$193.1	\$587.2	\$563.7
Operating expense:				
Cost of revenue	83.4	80.0	245.2	237.4
Sales and marketing	23.3	26.8	73.8	83.1
General and administrative	26.0	26.4	79.9	82.9
Depreciation and amortization	16.4	14.6	47.8	40.3
Litigation settlement	—	—	—	61.0
Total operating expense	149.1	147.8	446.7	504.7
Operating income	46.2	45.3	140.5	59.0
Non-operating income (expense):				
Interest income, net	0.2	0.5	0.5	1.7
Gain on sale of investments, reclassified from other comprehensive income	—	0.2	0.4	0.5
Holding gain upon acquisition of additional ownership of equity and cost method investments	—	—	—	5.2
Other income (expense), net	1.2	(1.0)	0.8	(0.9)
Non-operating income (expense), net	1.4	(0.3)	1.7	6.5
Income before income taxes and equity in net income of unconsolidated entities	47.6	45.0	142.2	65.5
Equity in net income of unconsolidated entities	0.5	0.3	1.5	1.4
Income tax expense	14.6	15.1	48.2	20.2
Consolidated net income	33.5	30.2	95.5	46.7
Net (income) loss attributable to the noncontrolling interest	—	—	(0.2)	0.1
Net income attributable to Morningstar, Inc.	\$33.5	\$30.2	\$95.3	\$46.8
Net income per share attributable to Morningstar, Inc.:				
Basic	\$0.76	\$0.67	\$2.15	\$1.04
Diluted	\$0.76	\$0.67	\$2.15	\$1.04
Dividends per common share:				
Dividends declared per common share	\$0.19	\$0.17	\$0.57	\$0.51

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Dividends paid per common share	\$0.19	\$0.17	\$0.57	\$0.51
Weighted average shares outstanding:				
Basic	44.2	44.7	44.3	44.8
Diluted	44.3	44.9	44.4	45.0

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Comprehensive Income

(in millions)	Three months ended September		Nine months ended September	
	30 2015	2014	30 2015	2014
Consolidated net income	\$33.5	\$30.2	\$95.5	\$46.7
Other comprehensive income (loss):				
Foreign currency translation adjustment	(12.8	) (18.8	) (23.8	) (13.5
Unrealized gains (losses) on securities, net of tax:				
Unrealized holding gains (losses) arising during period	(0.8	) (0.3	) (1.3	) 0.2
Reclassification gains included in net income	(0.5	) (0.1	) (0.2	) (0.3
Other comprehensive loss	(14.1	) (19.2	) (25.3	) (13.6
Comprehensive income	19.4	11.0	70.2	33.1
Comprehensive (income) loss attributable to noncontrolling interest	(0.2	) 0.1	(0.4	) 0.1
Comprehensive income attributable to Morningstar, Inc.	\$19.2	\$11.1	\$69.8	\$33.2

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

	As of September 30 2015	As of December 31 2014
(in millions except share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	\$223.7	\$ 185.2
Investments	39.3	39.4
Accounts receivable, less allowance of \$2.1 and \$1.5, respectively	124.1	136.7
Deferred tax asset, net	10.5	9.0
Income tax receivable	—	6.9
Other current assets	22.5	22.6
Total current assets	420.1	399.8
Property, equipment, and capitalized software, less accumulated depreciation and amortization of \$160.1 and \$132.9, respectively	124.3	117.6
Investments in unconsolidated entities	35.4	28.8
Goodwill	359.9	370.1
Intangible assets, net	77.1	95.9
Other assets	6.8	7.1
Total assets	\$1,023.6	\$ 1,019.3
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$34.4	\$ 34.3
Accrued compensation	68.0	80.5
Income tax payable	12.0	—
Deferred revenue	155.1	146.0
Short-term debt	—	30.0
Other current liabilities	3.5	3.0
Total current liabilities	273.0	293.8
Accrued compensation	8.5	7.9
Deferred tax liability, net	24.8	26.0
Deferred rent	26.2	26.4
Other long-term liabilities	11.0	10.8
Total liabilities	343.5	364.9
Equity:		
Morningstar, Inc. shareholders' equity:		
Common stock, no par value, 200,000,000 shares authorized, of which 44,225,177 and 44,345,763 shares were outstanding as of September 30, 2015 and December 31, 2014, respectively	—	—
Treasury stock at cost, 8,635,779 and 8,257,214 shares as of September 30, 2015 and December 31, 2014, respectively	(553.0)	) (524.3)
Additional paid-in capital	571.7	561.1
Retained earnings	711.4	641.5
Accumulated other comprehensive loss:		
Currency translation adjustment	(49.1)) (25.1)

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Unrealized gain on available-for-sale investments	(1.2) 0.3	
Total accumulated other comprehensive loss	(50.3) (24.8)
Total Morningstar, Inc. shareholders' equity	679.8	653.5	
Noncontrolling interests	0.3	0.9	
Total equity	680.1	654.4	
Total liabilities and equity	\$1,023.6	\$1,019.3	

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries
 Unaudited Condensed Consolidated Statement of Equity
 For the nine months ended September 30, 2015

(in millions, 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 Interests	Total Equity
Balance as of December 31, 2014	44,345,763	\$—	\$(524.3)	\$561.1	\$641.5	\$ (24.8)	\$0.9	\$654.4
Net income		—	—	—	95.3	—	0.2	95.5
Other comprehensive loss:								
Unrealized gain on available-for-sale investments, net of income tax of \$0.5		—	—	—	—	(1.3)	—	(1.3)
Reclassification of adjustments for gains included in net income, net of income tax of \$0.1		—	—	—	—	(0.2)	—	(0.2)
Foreign currency translation adjustment, net		—	—	—	—	(24.0)	0.2	(23.8)
Other comprehensive loss, net		—	—	—	—	(25.5)	0.2	(25.3)
Issuance of common stock related to stock-option exercises and vesting of restricted stock units, net	275,845	—	1.4	(2.6)	—	—	—	(1.2)
Stock-based compensation		—	—	13.5	—	—	—	13.5
Excess tax benefit derived from stock-option exercises and vesting of restricted stock units		—	—	2.1	—	—	—	2.1
Common shares repurchased	(396,431)	—	(30.1)	—	—	—	—	(30.1)
Dividends declared — common shares outstanding		—	—	—	(25.3)	—	—	(25.3)
Dividends declared — restricted stock units		—	—	—	(0.1)	—	—	(0.1)
Purchase of remaining interest in majority-owned investment		—	—	(2.4)	—	—	(1.0)	(3.4)
Balance as of September 30, 2015	44,225,177	\$—	\$(553.0)	\$571.7	\$711.4	\$ (50.3)	\$0.3	\$680.1

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Cash Flows

(in millions)	Nine months ended September	
	2015	2014
Operating activities		
Consolidated net income	\$95.5	\$46.7
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	47.8	40.3
Deferred income taxes	(2.7)	(5.4)
Stock-based compensation expense	13.5	13.3
Provision for bad debts	0.6	0.3
Equity in net income of unconsolidated entities	(1.5)	(1.4)
Excess tax benefits from stock-option exercises and vesting of restricted stock units	(2.1)	(2.9)
Holding gain upon acquisition of additional ownership of equity and cost method investments	—	(5.2)
Other, net	(0.5)	0.2
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	9.0	(12.6)
Other assets	(1.1)	(3.3)
Accounts payable and accrued liabilities	1.3	(1.2)
Accrued compensation	(7.3)	3.4
Income taxes—current	20.5	3.5
Deferred revenue	13.1	0.5
Other liabilities	0.4	(0.9)
Cash provided by operating activities	186.5	75.3
Investing activities		
Purchases of investments	(28.3)	(10.6)
Proceeds from maturities and sales of investments	24.8	103.1
Capital expenditures	(39.9)	(42.8)
Acquisitions, net of cash acquired	(3.4)	(64.4)
Other, net	(6.5)	0.2
Cash used for investing activities	(53.3)	(14.5)
Financing activities		
Common shares repurchased	(30.1)	(42.1)
Dividends paid	(25.3)	(22.9)
Proceeds from short-term debt	15.0	30.0
Repayment of short-term debt	(45.0)	—
Proceeds from stock-option exercises	3.7	3.8
Employee taxes withheld for restricted stock units	(4.9)	(5.1)
Excess tax benefits from stock-option exercises and vesting of restricted stock units	2.1	2.9
Other, net	0.1	—
Cash used for financing activities	(84.4)	(33.4)

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Effect of exchange rate changes on cash and cash equivalents	(10.3) (6.3)
Net increase in cash and cash equivalents	38.5	21.1	
Cash and cash equivalents—beginning of period	185.2	168.2	
Cash and cash equivalents—end of period	\$223.7	\$189.3	
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$27.3	\$22.0	
Supplemental information of non-cash investing and financing activities:			
Unrealized gain (loss) on available-for-sale investments	\$(2.2	) \$(0.3)
Equipment obtained under long-term financing arrangement	\$1.3	\$—	

See notes to unaudited condensed consolidated financial statements.

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MORNINGSTAR, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation of Interim Financial Information

The accompanying condensed consolidated financial statements of Morningstar, Inc. and subsidiaries (Morningstar, we, our, the company) have been prepared to conform to the rules and regulations of the Securities and Exchange Commission (SEC). The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenue, and expenses. Actual results could differ from those estimates. In the opinion of management, the statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly our financial position, results of operations, equity, and cash flows. These financial statements and notes are unaudited and should be read in conjunction with our Audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 27, 2015.

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

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

FASB: Financial Accounting Standards Board

2. Summary of Significant Accounting Policies

We discuss our significant accounting policies in Note 3 of our Audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 27, 2015.

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

3. Credit Arrangements

In July 2015, we renewed our \$75.0 million, single-bank revolving credit facility. On July 20, 2015, we repaid the outstanding principal balance of \$35.0 million, leaving full availability of the facility as of September 30, 2015.

4. Goodwill and Other Intangible Assets

Goodwill

The following table shows the changes in our goodwill balances from December 31, 2014 to September 30, 2015:

(in millions)

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Balance as of December 31, 2014	\$370.1	
Foreign currency translation	(10.2)
Balance as of September 30, 2015	\$359.9	

We did not record any impairment losses in the first nine months of 2015 or 2014. We perform our annual impairment reviews in the fourth quarter.

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Intangible Assets

The following table summarizes our intangible assets:

(in millions)	As of September 30, 2015			Weighted Average Useful Life (years)	As of December 31, 2014			Weighted Average Useful Life (years)
	Gross	Accumulated Amortization	Net		Gross	Accumulated Amortization	Net	
Intellectual property	\$28.1	\$ (26.0)	\$2.1	9	\$29.0	\$ (25.0)	\$4.0	9
Customer-related assets	137.7	(90.0)	47.7	12	141.5	(83.6)	57.9	12
Supplier relationships	0.2	(0.1)	0.1	20	0.2	(0.1)	0.1	20
Technology-based assets	87.6	(62.4)	25.2	8	88.8	(57.4)	31.4	8
Non-competition agreement	4.2	(2.2)	2.0	5	4.4	(1.9)	2.5	5
Total intangible assets	\$257.8	\$ (180.7)	\$77.1	10	\$263.9	\$ (168.0)	\$95.9	10

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

(in millions)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Amortization expense	\$5.5	\$6.0	\$16.4	\$16.6

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

We expect intangible amortization expense for the remainder of 2015 and subsequent years as follows:

	(in millions)
Remainder of 2015 (from October 1 through December 31)	\$5.4
2016	17.3
2017	12.3
2018	10.2
2019	7.8
Thereafter	24.1

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

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5. Income Per Share

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

(in millions, except per share amounts)	Three months ended September		Nine months ended September	
	30 2015	2014	30 2015	2014
Basic net income per share attributable to Morningstar, Inc.:				
Net income attributable to Morningstar, Inc.:	\$33.5	\$30.2	\$95.3	\$46.8
Less: Distributed earnings available to participating securities	—	—	—	—
Less: Undistributed earnings available to participating securities	—	—	—	—
Numerator for basic net income per share — undistributed and distributed earnings available to common shareholders	\$33.5	\$30.2	\$95.3	\$46.8
Weighted average common shares outstanding	44.2	44.7	44.3	44.8
Basic net income per share attributable to Morningstar, Inc.	\$0.76	\$0.67	\$2.15	\$1.04
Diluted net income per share attributable to Morningstar, Inc.:				
Numerator for basic net income per share — undistributed and distributed earnings available to common shareholders	\$33.5	\$30.2	\$95.3	\$46.8
Add: Undistributed earnings allocated to participating securities	—	—	—	—
Less: Undistributed earnings reallocated to participating securities	—	—	—	—
Numerator for diluted net income per share — undistributed and distributed earnings available to common shareholders	\$33.5	\$30.2	\$95.3	\$46.8
Weighted average common shares outstanding	44.2	44.7	44.3	44.8
Net effect of dilutive stock options, restricted stock units, and performance share awards	0.1	0.2	0.1	0.2
Weighted average common shares outstanding for computing diluted income per share	44.3	44.9	44.4	45.0
Diluted net income per share attributable to Morningstar, Inc.	\$0.76	\$0.67	\$2.15	\$1.04

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

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Weighted average restricted stock units	45	83	41	34
Weighted average performance share awards	5	9	7	7
Total	50	92	48	41

Stock options and restricted stock could be included in the calculation in the future.

6. Segment and Geographical Area Information

Segment Information

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

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

The accounting policies for our single reportable segment are the same as those described in “Note 3. Summary of Significant Accounting Policies” included in our Annual Report on Form 10-K for the year ended December 31, 2014. We evaluate the performance of our reporting segment based on revenue and operating income.

Geographical Area Information

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

External revenue by geographical area

(in millions)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
United States	\$145.2	\$141.3	\$437.3	\$407.7
United Kingdom	15.6	15.1	46.4	46.1
Continental Europe	14.7	15.6	43.4	47.1
Australia	7.5	8.9	23.2	26.3
Canada	6.6	7.4	20.6	22.6
Asia	4.6	3.9	13.4	11.5
Other	1.1	0.9	2.9	2.4
Total International	50.1	51.8	149.9	156.0
Consolidated revenue	\$195.3	\$193.1	\$587.2	\$563.7

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Long-lived assets by geographical area

	As of September 30	As of December 31
(in millions)	2015	2014
United States	\$106.5	\$98.1
United Kingdom	8.6	8.1
Continental Europe	2.1	2.1
Australia	0.9	0.8
Canada	0.7	0.9
Asia	5.4	7.5
Other	0.1	0.1
Total International	17.8	19.5
Consolidated property, equipment, and capitalized software, net	\$124.3	\$117.6

7. Investments and Fair Value Measurements

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

	As of September 30	As of December 31
(in millions)	2015	2014
Available-for-sale	\$16.8	\$13.2
Held-to-maturity	13.9	17.9
Trading securities	8.6	8.3
Total	\$39.3	\$39.4

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

(in millions)	As of September 30, 2015				As of December 31, 2014			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost	Unrealized Gain	Unrealized Loss	Fair Value
Available-for-sale:								
Equity securities and exchange-traded funds	\$17.2	\$0.1	\$(1.7)	) \$15.6	\$11.4	\$0.8	\$(0.3)	) \$11.9
Mutual funds	1.2	0.1	(0.1)	) 1.2	1.2	0.2	(0.1)	) 1.3
Total	\$18.4	\$0.2	\$(1.8)) \$16.8	\$12.6	\$1.0	\$(0.4)) \$13.2
Held-to-maturity:								
	\$13.9	\$—	\$—	\$13.9	\$17.9	\$—	\$—	\$17.9

Certificates of
deposit

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As of September 30, 2015 and December 31, 2014, investments with unrealized losses for greater than a 12-month period were not material to the Condensed Consolidated Balance Sheets and were not deemed to have other than temporary declines in value.

The table below shows the cost and fair value of investments classified as available-for-sale and held-to-maturity based on their contractual maturities as of September 30, 2015 and December 31, 2014. The expected maturities of certain fixed-income securities may differ from their contractual maturities because some of these holdings have call features that allow the issuers the right to prepay obligations without penalties.

(in millions)	As of September 30, 2015		As of December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Available-for-sale:				
Equity securities, exchange-traded funds, and mutual funds	\$18.4	\$16.8	\$12.6	\$13.2
Total	\$18.4	\$16.8	\$12.6	\$13.2
Held-to-maturity:				
Due in one year or less	\$13.9	\$13.9	\$17.9	\$17.9
Total	\$13.9	\$13.9	\$17.9	\$17.9

As of September 30, 2015 and December 31, 2014, held-to-maturity investments included a \$1.5 million certificate of deposit held primarily as collateral against bank guarantees for our office leases, primarily in Australia.

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

(in millions)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Realized gains	\$0.1	\$0.2	\$1.0	\$0.7
Realized losses	(0.1	) —	(0.6	) (0.2
Realized gains, net	\$—	\$0.2	\$0.4	\$0.5

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

The following table shows the net unrealized losses on trading securities as recorded in our Condensed Consolidated Statements of Operations:

(in millions)	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Unrealized losses, net	\$(0.7) \$(0.3) \$(1.0) \$(0.1

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

(in millions)	Fair Value as of September 30, 2015	Fair Value Measurements as of September 30, 2015 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Available-for-sale investments:				
Equity securities and exchange-traded funds	\$15.6	\$15.6	\$—	\$—
Mutual funds	1.2	1.2	—	—
Trading securities	8.6	8.6	—	—
Cash equivalents	0.4	0.4	—	—
Total	\$25.8	\$25.8	\$—	\$—

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

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

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

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

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

We measure the fair value of money market funds, mutual funds, equity securities, and exchange-traded funds based on quoted prices in active markets for identical assets or liabilities. We did not hold any securities categorized as Level 2 or Level 3 as of September 30, 2015 and December 31, 2014.

8. Stock-Based Compensation

Stock-Based Compensation Plans

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

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

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

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

Accounting for Stock-Based Compensation Awards

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

	Three months ended September 30		Nine months ended September 30	
(in millions)	2015	2014	2015	2014