Morningstar, Inc.
Form 10-Q
October 27, 2017

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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 September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-51280

MORNINGSTAR, INC.
(Exact Name of Registrant as Specified in its Charter)

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

22 West Washington Street	
Chicago, Illinois	60602
(Address of Principal Executive Offices)	(Zip Code)

(312) 696-6000
(Registrant’s Telephone Number, Including Area 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 x No o

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of October 20, 2017, there were 42,529,709 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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and Subsidiaries
Unaudited Condensed Consolidated Statements of Income

(in millions except per share amounts)	Three months ended September 30 2017	2016	Nine months ended September 30 2017	2016
Revenue	$229.9	$196.1	$668.6	$586.4
Operating expense:				
Cost of revenue	90.9	84.9	283.2	256.3
Sales and marketing	31.1	23.1	100.2	71.1
General and administrative	33.3	25.8	93.2	76.1
Depreciation and amortization	21.8	18.1	64.8	52.0
Total operating expense	177.1	151.9	541.4	455.5
Operating income	52.8	44.2	127.2	130.9
Non-operating income (expense):				
Interest income (expense), net	(0.9)	—	(2.6)	0.3
Gain on sale of investments, reclassified from other comprehensive income	0.3	0.3	1.1	0.5
Gain on sale of business	—	—	17.5	—
Other income (expense), net	(1.4)	1.8	(4.0)	4.8
Non-operating income (expense), net	(2.0)	2.1	12.0	5.6
Income before income taxes and equity in net income (loss) of unconsolidated entities	50.8	46.3	139.2	136.5
Equity in net income (loss) of unconsolidated entities	—	0.4	(1.0)	0.7
Income tax expense	16.9	16.5	40.2	46.5
Consolidated net income	$33.9	$30.2	$98.0	$90.7
Net income per share:				
Basic	$0.80	$0.70	$2.29	$2.11
Diluted	$0.79	$0.70	$2.28	$2.09
Dividends per common share:				
Dividends declared per common share	$—	$0.22	$0.46	$0.66
Dividends paid per common share	$0.23	$0.22	$0.69	$0.66
Weighted average shares outstanding:				
Basic	42.5	43.1	42.8	43.0
Diluted	42.8	43.3	43.1	43.3

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three months ended September 30		Nine months ended September 30	
(in millions)	2017	2016	2017	2016
Consolidated net income	$33.9	$30.2	$98.0	$90.7
Other comprehensive income (loss):				
Foreign currency translation adjustment	10.0	(1.7)	29.9	(9.8)
Unrealized gains (losses) on securities, net of tax:				
Unrealized holding gains arising during period	0.9	0.6	3.5	1.1
Reclassification gains (losses) included in net income	(0.3)	0.2	(0.8)	—
Other comprehensive income (loss)	10.6	(0.9)	32.6	(8.7)
Comprehensive income	$44.5	$29.3	$130.6	$82.0

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets

(in millions except share amounts)	As of September 30 2017	As of December 31 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 270.3	$ 259.1
Investments	53.7	44.9
Accounts receivable, less allowance of $2.6 and $2.1, respectively	148.2	145.8
Other current assets	25.7	22.2
Total current assets	497.9	472.0
Property, equipment, and capitalized software, less accumulated depreciation and amortization of $263.4 and $214.8, respectively	151.2	152.1
Investments in unconsolidated entities	61.5	40.3
Goodwill	565.4	556.8
Intangible assets, net	100.9	120.9
Other assets	6.8	8.8
Total assets	$ 1,383.7	$ 1,350.9
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 32.6	$ 44.6
Accrued compensation	72.4	71.7
Deferred revenue	174.1	165.4
Other current liabilities	15.5	13.2
Total current liabilities	294.6	294.9
Accrued compensation	11.0	10.3
Deferred tax liability, net	39.9	38.2
Long-term debt	205.0	250.0
Deferred rent	23.9	24.8
Other long-term liabilities	30.1	35.9
Total liabilities	604.5	654.1
Equity:		
Morningstar, Inc. shareholders’ equity:		
Common stock, no par value, 200,000,000 shares authorized, of which 42,529,709 and 42,932,994 shares were outstanding as of September 30, 2017 and December 31, 2016, respectively	—	—
Treasury stock at cost, 10,627,537 and 10,106,249 shares as of September 30, 2017 and December 31, 2016, respectively	(707.5)	(667.9)
Additional paid-in capital	595.4	584.0
Retained earnings	940.2	861.9
Accumulated other comprehensive loss:		
Currency translation adjustment	(51.4)	(81.3)
Unrealized gain (loss) on available-for-sale investments	2.5	(0.2)
Total accumulated other comprehensive loss	(48.9)	(81.5)

Total Morningstar, Inc. shareholders’ equity	779.2	696.5
Noncontrolling interest	—	0.3
Total equity	779.2	696.8
Total liabilities and equity	$ 1,383.7	$ 1,350.9

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, 2017

(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 Interest	Total Equity
Balance as of December 31, 2016	42,932,994	$ —	$ (667.9)	$ 584.0	$ 861.9	$ (81.5)	$ 0.3	$ 696.8
Net income		—	—	—	98.0	—	—	98.0
Other comprehensive income (loss):								
Unrealized gain on available-for-sale investments, net of income tax of $1.1		—	—	—	—	3.5	—	3.5
Reclassification of adjustments for gain included in net income, net of income tax of $0.3		—	—	—	—	(0.8)	—	(0.8)
Foreign currency translation adjustment, net		—	—	—	—	29.9	—	29.9
Other comprehensive income, net		—	—	—	—	32.6	—	32.6
Issuance of common stock related to option exercises and vesting of restricted stock units, net of shares withheld for taxes on settlements of restricted stock units	130,086	—	1.0	(4.2)	—	—	—	(3.2)
Stock-based compensation		—	—	16.5	—	—	—	16.5
Common shares repurchased	(533,371)	—	(40.6)	—	—	—	—	(40.6)
Dividends declared		—	—	—	(19.7)	—	—	(19.7)
Purchase of additional interest in majority-owned investment		—	—	(0.9)	—	—	(0.3)	(1.2)
Balance as of September 30, 2017	42,529,709	$ —	$ (707.5)	$ 595.4	$ 940.2	$ (48.9)	$ —	$ 779.2

See notes to unaudited condensed consolidated financial statements.

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Morningstar, Inc. and Subsidiaries
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30	
(in millions)	2017	2016
Operating activities		
Consolidated net income	$98.0	$90.7
Adjustments to reconcile consolidated net income to net cash flows from operating activities:		
Depreciation and amortization	64.8	52.0
Deferred income taxes	1.0	(2.9)
Stock-based compensation expense	16.5	10.6
Provision for bad debt	1.3	0.7
Equity in net income (loss) of unconsolidated entities	1.0	(0.7)
Gain on sale of business	(17.5)	—
Other, net	2.9	(5.2)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(0.3)	13.1
Other assets	(3.0)	(1.4)
Accounts payable and accrued liabilities	(4.3)	(3.9)
Accrued compensation	0.2	(20.8)
Income taxes—current	1.6	6.3
Deferred revenue	6.2	4.1
Deferred rent	(1.1)	(2.7)
Other liabilities	(2.6)	3.3
Cash provided by operating activities	164.7	143.2
Investing activities		
Purchases of investments	(22.7)	(24.4)
Proceeds from maturities and sales of investments	20.6	21.6
Capital expenditures	(46.4)	(47.5)
Acquisitions, net of cash acquired	(1.0)	(15.8)
Proceeds from sale of a business	23.7	—
Purchases of equity- and cost-method investments	(24.3)	(16.4)
Other, net	0.6	—
Cash used for investing activities	(49.5)	(82.5)
Financing activities		
Common shares repurchased	(41.3)	(38.8)
Dividends paid	(29.6)	(28.5)
Proceeds from short-term debt	—	40.0
Repayment of short-term debt	—	(15.0)
Repayment of long-term debt	(45.0)	—
Proceeds from stock-option exercises	0.2	0.4
Employee taxes paid from withholding of restricted stock units	(3.4)	(4.4)
Other, net	(0.4)	—
Cash used for financing activities	(119.5)	(46.3)

Effect of exchange rate changes on cash and cash equivalents	15.5	(2.1)
Net increase in cash and cash equivalents	11.2	12.3
Cash and cash equivalents—beginning of period	259.1	207.1
Cash and cash equivalents—end of period	$270.3	$219.4
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$37.5	$43.3
Cash paid for interest	$3.8	$0.8
Supplemental information of non-cash investing and financing activities:		
Unrealized gain on available-for-sale investments	$3.5	$1.5
Software and equipment obtained under long-term financing arrangement	$3.1	$9.0

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 unaudited 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, 2016, filed with the SEC on February 28, 2017 (our Annual Report).

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 2 of our Audited Consolidated Financial Statements included in our Annual Report.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The original effective date for ASU 2014-09 would have required us to adopt it beginning on January 1, 2017. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers—Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. We elected the deferral, and the new standard is effective for us on January 1, 2018.

The company has obtained an understanding of ASU No. 2014-09 and is in the process of analyzing the impact of the new standard on its financial results. We have completed a high-level assessment of the attributes within the company's contracts for its major products and services, and we have started assessing potential impacts to our internal processes, control environment, and disclosures. While the company does not currently anticipate that the adoption of ASU No. 2014-09 will result in a material change to the timing of when revenue is recognized and believes that it will retain similar accounting treatment used to recognize revenue under current standards. We have identified that there will be certain changes in accounting treatment related to delivery of third-party content (principal vs. agent) and costs to obtain contracts (e.g., sales commissions). We are finalizing our assessment and quantifying the impacts related to these matters but do not expect them to be material. We are continuing to assess the impact of the new standard on our financial results and other possible impacts. The standard allows for both retrospective and modified retrospective methods of adoption. We plan to adopt using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018. Upon adoption, we will recognize the cumulative effect of adopting this guidance as an adjustment to our opening balance of retained earnings. Prior periods will not be retrospectively adjusted. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We will continue to provide enhanced disclosures as we continue our assessment.

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On March 17, 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which provides guidance on assessing whether an entity is a principal or an agent in a revenue transaction and whether an entity reports revenue on a gross or net basis. On April 14, 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which provides guidance on identifying performance obligations and accounting for licenses of intellectual property. On May 6, 2016, the FASB issued ASU No. 2016-11, Revenue Recognition and Derivatives and Hedging: Rescission of SEC guidance because of ASU No. 2014-09 and ASU No. 2014-16 pursuant to staff announcements at the March 3, 2016 EITF Meeting, which rescinds the following SEC Staff Observer comments from ASC 605, Revenue Recognition, upon an entity's early adoption of ASC 606, Revenue from Contracts with Customers: Revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer (including a reseller of the vendor's products). On May 9, 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which makes narrow-scope amendments to ASU No. 2014-09 and provides practical expedients to simplify the transition to the new standard and clarify certain aspects of the standard. On December 21, 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which makes narrow-scope amendments to ASU No. 2014-09.

The effective date and transition requirements for ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-11, ASU No. 2016-12, and ASU No. 2016-20 are the same as the effective date and transition requirements of ASU No. 2014-09. We are evaluating the effect that ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-11, ASU No. 2016-12, and ASU No. 2016-20 will have on our consolidated financial statements and related disclosures.

On February 25, 2016, the FASB issued ASU No. 2016-02, Leases, which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. The new standard is effective for us on January 1, 2019. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures.

On August 26, 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which reduces diversity in practice of how certain transactions are classified in the statement of cash flows. The new guidance clarifies the classification of cash activities related to debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate and bank-owned life insurance policies, distributions received from equity-method investments, and beneficial interests in securitization transactions. The guidance also describes a predominance principle in which cash flows with aspects of more than one class that cannot be separated should be classified based on the activity that is likely to be the predominant source or use of cash flow.

The new standard is effective for us on January 1, 2018. Early adoption is permitted, including adoption in an interim period, but requires all elements of the amendments to be adopted at once rather than individually. The new standard must be adopted using a retrospective transition method. We are evaluating the effect that ASU No. 2016-15 will have on our consolidated financial statements and related disclosures.

On January 5, 2017, the FASB issued ASU No. 2017-01, Business Combinations: Clarifying the Definition of a Business, which revises the definition of a business. When substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and substantive process are present (including for early-stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organized workforce. The new guidance also narrows the definition of the term outputs to be consistent with how it is described in Topic 606, Revenue from Contracts with Customers. The new standard is effective for us on January 1, 2018. Early adoption is permitted. We are evaluating the effect that ASU No. 2017-01 will have on our consolidated financial statements and related disclosures.

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On January 26, 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other, which simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts. The new standard is effective for us on January 1, 2020. The new standard should be applied prospectively. Early adoption is permitted for any impairment tests performed after January 1, 2017. We are evaluating the effect that ASU No. 2017-04 will have on our consolidated financial statements and related disclosures.

On May 10, 2017, the FASB issued ASU No. 2017-09, Compensation—Stock Compensation: Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The new standard is effective for us on January 1, 2018. The new standard should be applied prospectively. Early adoption is permitted. We are evaluating the effect that ASU No. 2017-09 will have on our consolidated financial statements and related disclosures.

3. Credit Arrangements

In November 2016, we amended our credit agreement to provide us with a three-year credit facility with a borrowing capacity of up to $300.0 million. The credit agreement also provides for issuance of up to $25.0 million of letters of credit under the revolving credit facility.

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

The credit agreement also contains financial covenants under which we: (i) may not exceed a maximum consolidated leverage ratio of 3.00 to 1.00 and (ii) are required to maintain a minimum consolidated interest coverage ratio of not less than 3.00 to 1.00. We were in compliance with the financial covenants as of September 30, 2017.

We had an outstanding principal balance of $205.0 million at a one-month LIBOR interest rate plus 100 basis points as of September 30, 2017, leaving borrowing availability of $95.0 million.

4. Acquisitions, Goodwill, and Other Intangible Assets

2017 Acquisitions

We did not complete any significant acquisitions in the first nine months of 2017.

2016 Acquisitions

In the third quarter of 2017, we did not make any significant changes to the preliminary purchase price allocation related to our acquisition of PitchBook Data, Inc. compared with the preliminary estimates at December 31, 2016. The values assigned to various assets and liabilities in the preliminary purchase price allocation are subject to change as a result of information that may become available in the future.

As of September 30, 2017, the primary areas of the preliminary purchase price allocation that are not yet finalized include the fair values of acquired intangible assets and related deferred tax liabilities, assumed deferred revenue, and assumed tax assets and liabilities.

Additional information concerning this acquisition can be found in the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report.

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Goodwill

The following table shows the changes in our goodwill balances from December 31, 2016 to September 30, 2017:

	(in millions)
Balance as of December 31, 2016	$ 556.8
Divestiture of HelloWallet (See Note 5)	(2.4)
Foreign currency translation and adjustments to purchase price allocation	11.0
Balance as of September 30, 2017	$ 565.4

We did not record any impairment losses in the first nine months of 2017 and 2016. We perform our annual impairment reviews in the fourth quarter.

Intangible Assets

The following table summarizes our intangible assets:

	As of September 30, 2017				As of December 31, 2016			
(in millions)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)	Gross	Accumulated Amortization	Net	Weighted Average Useful Life (years)
Intellectual property	$31.5	$ (28.7)	$2.8	9	$30.9	$ (27.4)	$3.5	9
Customer-related assets	156.5	(106.2)	50.3	12	152.0	(97.7)	54.3	12
Supplier relationships	0.2	(0.1)	0.1	20	0.2	(0.1)	0.1	20
Technology-based assets	127.8	(80.7)	47.1	7	133.2	(72.1)	61.1	7
Non-competition agreements	2.5	(1.9)	0.6	5	5.0	(3.1)	1.9	5
Total intangible assets	$318.5	$ (217.6)	$100.9	10	$321.3	$ (200.4)	$120.9	10

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

	Three months ended September 30		Nine months ended September 30	
(in millions)	2017	2016	2017	2016
Amortization expense	$5.5	$4.5	$18.1	$14.3

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

We expect intangible amortization expense for the remainder of 2017 and subsequent years as follows:

	(in millions)
Remainder of 2017 (from October 1 through December 31)	$ 5.6
2018	20.7
2019	19.2
2020	16.3

2021	13.0
Thereafter	26.1

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

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5. Divestiture

In June 2014, we acquired the remaining 81.3% interest in HelloWallet Holdings, Inc. (HelloWallet), increasing our ownership to 100%. This valued HelloWallet at $54.0 million, an amount that included $39.2 million of goodwill and $9.5 million of intangible assets.

On June 30, 2017, we sold HelloWallet to KeyBank National Association, a bank-based financial services company. We recorded a noncash gain on the sale of $17.5 million. This gain mainly represents the sale proceeds of $23.7 million less $2.4 million of goodwill and the write-off of the remaining net book value on the acquired intangible assets. As some aspects of HelloWallet had been integrated into Morningstar's single reporting unit, the goodwill attributable to this transaction was calculated using a relative fair value allocation method.

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

The following table summarizes the amounts included in the gain on sale of business for the nine months ended September 30, 2017:

(in millions)	Nine months ended September 30 2017
Proceeds received	$ 23.7
Intangibles and internally developed software	(4.6)
Goodwill	(2.4)
Other assets and liabilities	0.8
Total gain on sale of business	$ 17.5

6. 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:

	Three months ended September 30		Nine months ended September 30	
(in millions, except per share amounts)	2017	2016	2017	2016
Basic net income per share:				
Consolidated net income	$33.9	$30.2	$98.0	$90.7
Weighted average common shares outstanding	42.5	43.1	42.8	43.0
Basic net income per share	$0.80	$0.70	$2.29	$2.11

Diluted net income per share:				
Consolidated net income	$33.9	$30.2	$98.0	$90.7
Weighted average common shares outstanding	42.5	43.1	42.8	43.0
Net effect of dilutive stock options, restricted stock units, and performance share awards	0.3	0.2	0.3	0.3
Weighted average common shares outstanding for computing diluted income per share	42.8	43.3	43.1	43.3
Diluted net income per share	$0.79	$0.70	$2.28	$2.09

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

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7. 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 2. Summary of Significant Accounting Policies” included in the Audited Consolidated Financial Statements and Notes thereto included in our Annual Report. 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

	Three months ended September 30		Nine months ended September 30	
(in millions)	2017	2016	2017	2016
United States	$171.8	$143.5	$503.4	$430.6
United Kingdom	17.0	15.2	47.5	45.8