

ARBITRON INC  
Form 10-Q  
November 03, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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, 2010**

**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: 1-1969**

**ARBITRON INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**52-0278528**

(I.R.S. Employer Identification No.)

**9705 Patuxent Woods Drive  
Columbia, Maryland 21046**

(Address of principal executive offices) (Zip Code)

**(410) 312-8000**

(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  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

The registrant had 26,939,833 shares of common stock, par value \$0.50 per share, outstanding as of October 29, 2010.



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Arbitron owns or has the rights to various trademarks, trade names or service marks used in its radio audience measurement business and subsidiaries, including the following: the Arbitron name and logo, *Arbitrends*<sup>SM</sup>, *RetailDirect*<sup>®</sup>, *RADAR*<sup>®</sup>, *Tapscan*<sup>™</sup>, *Tapscan WorldWide*<sup>™</sup>, *LocalMotion*<sup>®</sup>, *Maximi\$er*<sup>®</sup>, *Maximi\$er*<sup>®</sup> Plus, *Arbitron PD Advantage*<sup>®</sup>, *SmartPlus*<sup>®</sup>, *Arbitron Portable People Meter*<sup>™</sup>, *PPM*<sup>™</sup>, *Arbitron PPM*<sup>®</sup>, *PPM 360* , *Marketing Resources Plus*<sup>®</sup>, *MRP*<sup>SM</sup>, *PrintPlus*<sup>®</sup>, *MapMAKER Direct*<sup>SM</sup>, *Media Professional*<sup>SM</sup>, *Media Professional Plus*<sup>SM</sup>, *Qualitap*<sup>SM</sup> and *Schedule-It*<sup>SM</sup>.

The trademarks *Windows*<sup>®</sup> and *Media Rating Council*<sup>®</sup> are the registered trademarks of others.

We routinely post important information on our website at [www.arbitron.com](http://www.arbitron.com). Information contained on our website is not part of this quarterly report.

**ARBITRON INC.**  
 Consolidated Balance Sheets  
 (In thousands, except par value data)

	<b>September 30, 2010 (Unaudited)</b>	<b>December 31, 2009 (Audited)</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,305	\$ 8,217
Trade accounts receivable, net of allowance for doubtful accounts of \$4,471 as of September 30, 2010, and \$4,708 as of December 31, 2009	60,000	52,607
Prepaid expenses and other current assets	6,339	9,373
Deferred tax assets	5,446	4,982
<b>Total current assets</b>	<b>78,090</b>	<b>75,179</b>
Equity and other investments	12,490	16,938
Property and equipment, net	70,510	67,903
Goodwill, net	38,895	38,500
Other intangibles, net	6,557	809
Noncurrent deferred tax assets	990	4,130
Other noncurrent assets	671	370
<b>Total assets</b>	<b>\$ 208,203</b>	<b>\$ 203,829</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities		
Accounts payable	\$ 10,783	\$ 14,463
Accrued expenses and other current liabilities	15,801	28,305
Deferred revenue	43,304	43,148
<b>Total current liabilities</b>	<b>69,888</b>	<b>85,916</b>
Long-term debt	58,000	68,000
Other noncurrent liabilities	20,314	19,338
<b>Total liabilities</b>	<b>148,202</b>	<b>173,254</b>
Commitments and contingencies		
Stockholders equity		
Preferred stock, \$100.00 par value, 750 shares authorized, no shares issued		
Common stock, \$0.50 par value, 500,000 shares authorized, 32,338 shares issued as of September 30, 2010, and December 31, 2009	16,169	16,169
Net distributions to parent prior to March 30, 2001 spin-off	(239,042)	(239,042)
Retained earnings subsequent to spin-off	295,660	267,305
Common stock held in treasury, 5,420 shares as of September 30, 2010, and 5,750 shares as of December 31, 2009	(2,710)	(2,875)

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Accumulated other comprehensive loss	(10,076)	(10,982)
Total stockholders' equity	60,001	30,575
Total liabilities and stockholders' equity	\$ 208,203	\$ 203,829

See accompanying notes to consolidated financial statements.

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**ARBITRON INC.**  
Consolidated Statements of Income  
(In thousands, except per share data)  
(unaudited)

	<b>Three Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Revenue	\$ 99,470	\$ 98,123
Costs and expenses		
Cost of revenue	50,384	44,454
Selling, general and administrative	18,137	16,908
Research and development	10,088	10,385
Restructuring and reorganization		1,718
Total costs and expenses	78,609	73,465
Operating income	20,861	24,658
Equity in net loss of affiliate	(2,639)	(1,948)
Income before interest and income tax expense	18,222	22,710
Interest income	4	11
Interest expense	226	365
Income before income tax expense	18,000	22,356
Income tax expense	6,672	8,637
Net income	\$ 11,328	\$ 13,719
Income per weighted-average common share		
Basic	\$ 0.42	\$ 0.52
Diluted	\$ 0.42	\$ 0.51
Weighted-average common shares used in calculations		
Basic	26,834	26,515
Potentially dilutive securities	263	173
Diluted	27,097	26,688
Dividends declared per common share outstanding	\$ 0.10	\$ 0.10

See accompanying notes to consolidated financial statements.

**ARBITRON INC.**  
Consolidated Statements of Income  
(In thousands, except per share data)  
(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Revenue	\$ 283,705	\$ 283,411
Costs and expenses		
Cost of revenue	153,041	139,745
Selling, general and administrative	54,927	54,683
Research and development	29,069	30,275
Restructuring and reorganization		10,074
Total costs and expenses	237,037	234,777
Operating income	46,668	48,634
Equity in net income of affiliate	472	633
Income before interest and income tax expense	47,140	49,267
Interest income	10	44
Interest expense	745	1,063
Income before income tax expense	46,405	48,248
Income tax expense	17,530	18,692
Net income	\$ 28,875	\$ 29,556
Income per weighted-average common share		
Basic	\$ 1.08	\$ 1.12
Diluted	\$ 1.07	\$ 1.11
Weighted-average common shares used in calculations		
Basic	26,693	26,478
Potentially dilutive securities	339	151
Diluted	27,032	26,629
Dividends declared per common share outstanding	\$ 0.30	\$ 0.30

See accompanying notes to consolidated financial statements.



**ARBITRON INC.**  
Consolidated Statements of Cash Flows  
(In thousands and unaudited)

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities		
Net income	\$ 28,875	\$ 29,556
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	19,787	16,759
Amortization of intangible assets	537	106
Loss on asset disposals and impairments	2,074	1,618
Loss on retirement plan lump-sum settlements	1,222	1,781
Reduced tax benefits on share-based awards	(178)	(1,639)
Deferred income taxes	1,784	1,362
Equity in net income of affiliate	(472)	(633)
Distributions from affiliate	6,700	8,400
Bad debt expense	405	999
Non-cash share-based compensation	4,710	7,500
Changes in operating assets and liabilities		
Trade accounts receivable	(7,798)	(1,000)
Prepaid expenses and other assets	2,540	395
Accounts payable	(767)	(6,495)
Accrued expenses and other current liabilities	(13,953)	(10,249)
Deferred revenue	156	(8,785)
Other noncurrent liabilities	1,492	(288)
<b>Net cash provided by operating activities</b>	<b>47,114</b>	<b>39,387</b>
Cash flows from investing activities		
Additions to property and equipment	(23,174)	(25,475)
Payments for asset acquisitions	(2,500)	
Purchases of equity and other investments	(1,780)	(3,400)
License of other intangible assets	(4,500)	
<b>Net cash used in investing activities</b>	<b>(31,954)</b>	<b>(28,875)</b>
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	4,733	1,045
Dividends paid to stockholders	(7,981)	(7,933)
Decrease in bank overdraft payables	(3,833)	
Borrowings under Credit Facility	10,000	33,000
Payments under Credit Facility	(20,000)	(33,000)
<b>Net cash used in financing activities</b>	<b>(17,081)</b>	<b>(6,888)</b>

Effect of exchange rate changes on cash and cash equivalents	9	25
Net change in cash and cash equivalents	(1,912)	3,649
Cash and cash equivalents at beginning of period	8,217	8,658
<b>Cash and cash equivalents at end of period</b>	<b>\$ 6,305</b>	<b>\$ 12,307</b>

See accompanying notes to consolidated financial statements.

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**ARBITRON INC.**

Notes to Consolidated Financial Statements

September 30, 2010

(unaudited)

**1. Basis of Presentation and Consolidation**

***Presentation***

The accompanying unaudited consolidated financial statements of Arbitron Inc. (the Company or Arbitron ) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and are of a normal recurring nature. The consolidated balance sheet as of December 31, 2009 was audited at that date, but all of the information and notes as of December 31, 2009 required by U.S. generally accepted accounting principles have not been included in this Form 10-Q. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

***Consolidation***

The consolidated financial statements of the Company for the three- and nine-month periods ended September 30, 2010, reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries: Arbitron Holdings Inc., Astro West LLC, Ceridian Infotech (India) Private Limited, Arbitron International, LLC and Arbitron Technology Services India Private Limited. All significant intercompany balances have been eliminated in consolidation. Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period's presentation.

## 2. Long-Term Debt

On December 20, 2006, the Company entered into an agreement with a consortium of lenders to provide up to \$150.0 million of financing to the Company through a five-year, unsecured revolving credit facility (the Credit Facility), expiring on December 20, 2011. The agreement contains an expansion feature for the Company to increase the total financing available under the Credit Facility by up to \$50.0 million to an aggregate of \$200.0 million. Such increased financing would be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility's administrative agent. As of September 30, 2010, and December 31, 2009, the outstanding borrowings under the Credit Facility were \$58.0 million and \$68.0 million, respectively.

Interest paid during the nine-month periods ended September 30, 2010, and 2009, was \$0.7 million and \$1.1 million, respectively.

## 3. Stockholders' Equity

Changes in stockholders' equity for the nine-month period ended September 30, 2010, were as follows (in thousands):

	Shares	Common	Treasury	Net Distributions to Parent Prior to March 30, 2001	Retained Earnings	Accumulated Other	Total
	Outstanding	Stock	Stock	Spin-off	Subsequent to Spin-off	Comprehensive Loss	Stockholders Equity
Balance as of December 31, 2009	26,588	\$ 16,169	\$ (2,875)	\$ (239,042)	\$ 267,305	\$ (10,982)	\$ 30,575
Net income					28,875		28,875
Common stock issued from treasury stock	330		165		2,962		3,127
Reduced tax benefits from share-based awards					(178)		(178)
Non-cash share-based compensation					4,710		4,710
Dividends declared					(8,014)		(8,014)
Other comprehensive income						906	906
Balance as of September 30, 2010	26,918	\$ 16,169	\$ (2,710)	\$ (239,042)	\$ 295,660	\$ (10,076)	\$ 60,001

A quarterly cash dividend of \$0.10 per common share was paid to stockholders on October 1, 2010.

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#### **4. Net Income per Weighted-Average Common Share**

The computations of basic and diluted net income per weighted-average common share for the three and nine-month periods ended September 30, 2010, and 2009, are based on the Company's weighted-average shares of common stock and potentially dilutive securities outstanding.

Potentially dilutive securities are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all stock options are used to repurchase the Company's common stock at the average market price for the period. As of September 30, 2010, and 2009, there were options to purchase 2,248,119 and 3,018,742 shares, respectively, of the Company's common stock outstanding, of which options to purchase 1,530,410 and 2,660,352 shares of the Company's common stock, respectively, were excluded from the computation of diluted net income per weighted-average common share for the quarters ended September 30, 2010, and 2009, respectively, either because the options' exercise prices were greater than the average market price of the Company's common shares or assumed repurchases from proceeds from the options' exercise were potentially antidilutive.

**5. Comprehensive Income and Accumulated Other Comprehensive Loss**

The Company's comprehensive income is comprised of net income, changes in foreign currency translation adjustments, and changes in retirement liabilities, net of tax expense. The components of comprehensive income were as follows (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 11,328	\$ 13,719	\$ 28,875	\$ 29,556
Other comprehensive income:				
Change in foreign currency translation adjustment	75	6	(152)	(38)
Change in retirement liabilities, net of tax expense of \$121, and \$2,519 for the three months ended September 30, 2010, and 2009, respectively; and a tax expense of \$680, and \$2,814 for the nine months ended September 30, 2010, and 2009, respectively.	189	3,858	1,058	4,307
Other comprehensive income	264	3,864	906	4,269
Comprehensive income	\$ 11,592	\$ 17,583	\$ 29,781	\$ 33,825

The components of accumulated other comprehensive loss were as follows (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Foreign currency translation adjustment	\$ (462)	\$ (310)
Retirement plan liabilities, net of taxes	(9,614)	(10,672)
Accumulated other comprehensive loss	\$ (10,076)	\$ (10,982)

**6. Prepaids and Other Current Assets**

Prepaids and other current assets as of September 30, 2010, and December 31, 2009, consist of the following (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Survey participant incentives and prepaid postage	\$ 2,176	\$ 2,172
Other	2,757	2,810
Prepaid Scarborough royalty	1,015	
Insurance recovery receivables	391	4,391
Prepaids and other current assets	\$ 6,339	\$ 9,373

During 2008, the Company became involved in two securities law civil actions and a governmental interaction primarily related to the commercialization of our Portable People Meter (PPM) service, which the management of the Company believes are covered by the Company's Directors and Officers insurance policy. As of September 30, 2010, and December 31, 2009, the Company incurred to date \$9.1 million and \$8.8 million, respectively, in legal fees and costs in defense of its positions related thereto.

The Company reported \$0.4 million and \$2.1 million in estimated gross insurance recoveries as reductions to selling, general and administrative expense during the nine-month periods ended September 30, 2010, and 2009, respectively. These reductions offset the \$0.3 million and \$2.4 million in related legal fees recorded during the nine-month periods ended September 30, 2010, and 2009, respectively. As of September 30, 2010, the Company has received \$5.6 million in insurance reimbursements related to these legal actions and estimates that an additional \$0.4 million of the aggregate costs and expenses are probable for recovery under its Director and Officer insurance policy.

During 2009 and 2008, the Company incurred \$2.7 million in business interruption losses and damages as a result of Hurricane Ike. As of September 30, 2010, approximately \$1.6 million in insurance reimbursements were received. No subsequent insurance reimbursements are expected to be received.

**7. Equity and Other Investments**

The Company's equity and other investments consisted of the following (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Scarborough	\$ 7,310	\$ 13,538
TRA preferred stock	5,180	3,400