ARBITRON INC
Form 10-Q
August 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2008
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: 1-1969
ARBITRON INC.
(Exact name of registrant as specified in its charter)

Delaware	**52-0278528**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

142 West 57th Street
New York, New York 10019-3000
(Address of principal executive offices) (Zip Code)
(212) 887-1300
(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 þ No o

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

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

The registrant had 26,530,980 shares of common stock, par value $0.50 per share, outstanding as of August 1, 2008.

ARBITRON INC.
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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℠, RetailDirect®*, *RADAR®*, *Tapscan™*, *Tapscan WorldWide™*, *LocalMotion®, Maximi$er®, Maximi$er® Plus*, *Arbitron PD Advantage®*, *SmartPlus®*, *Arbitron Portable People Meter™*, *Marketing Resources Plus®, MRP℠, PrintPlus®, MapMAKER Direct℠*, *Media Professional℠, Media Professional Plus℠*, *Qualitap℠*, *MediaMaster℠*, *Prospector℠*, and *Schedule-It℠*.

The trademarks *Windows®* and Media Rating Council® are the registered trademarks of others.

PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2008 (unaudited)	December 31, 2007 (audited)
Assets		
Current assets		
Cash and cash equivalents	$ 21,711	$ 21,141
Trade accounts receivable, net of allowance for doubtful accounts of $1,856 in 2008 and $1,688 in 2007	31,690	34,171
Prepaid expenses and other current assets	4,697	4,505
Current assets of discontinued operation held for sale		5,677
Deferred tax assets	2,737	3,124
Total current assets	60,835	68,618
Investment in affiliate(s)	12,794	15,262
Property and equipment, net	53,715	50,183
Goodwill, net	38,500	38,500
Other intangibles, net	1,047	1,252
Noncurrent assets of discontinued operation held for sale		1,869
Noncurrent deferred tax assets	3,527	4,089
Other noncurrent assets	1,074	770
Total assets	$ 171,492	$ 180,543
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 7,209	$ 10,338
Accrued expenses and other current liabilities	21,193	27,702
Current liabilities of discontinued operation held for sale		4,651
Current portion of long-term debt		5,000
Deferred revenue	70,323	66,768
Total current liabilities	98,725	114,459
Long-term debt	50,000	7,000
Other noncurrent liabilities	11,023	10,884
Total liabilities	159,748	132,343
Commitments and contingencies		
Stockholders equity		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
	16,169	16,169

Common stock, $0.50 par value, authorized 500,000 shares, issued 32,338 shares as of June 30, 2008, and December 31, 2007		
Net distributions to parent prior to the March 30, 2001, spin-off	(239,042)	(239,042)
Retained earnings subsequent to spin-off	244,200	279,996
Common stock held in treasury, 5,174 shares in 2008 and 4,028 shares in 2007	(2,587)	(2,014)
Accumulated other comprehensive loss	(6,996)	(6,909)
Total stockholders equity	11,744	48,200
Total liabilities and stockholders equity	$ 171,492	$ 180,543

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2008	**2007**
Revenue	$ 78,655	$ 75,867
Costs and expenses		
Cost of revenue	52,585	43,643
Selling, general and administrative	19,977	20,233
Research and development	9,864	11,762
Total costs and expenses	82,426	75,638
Operating (loss) income	(3,771)	229
Equity in net income of affiliates	5,166	5,089
Income from continuing operations before interest and income tax expense	1,395	5,318
Interest income	271	637
Interest expense	682	96
Income from continuing operations before income tax expense	984	5,859
Income tax expense	359	2,137
Income from continuing operations	625	3,722
Discontinued operations:		
Income from discontinued operations, net of taxes		66
Loss on sale of discontinued operations, net of taxes	(25)	
Total (loss) income from discontinued operations, net of taxes	(25)	66
Net income	$ 600	$ 3,788
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.02	$ 0.12
Discontinued operations		
Net income	$ 0.02	$ 0.13
Diluted		
Continuing operations	$ 0.02	$ 0.12
Discontinued operations		

Net income	$ 0.02	$ 0.13
Weighted-average common shares used in calculations		
Basic	27,183	29,955
Potentially dilutive securities	251	309
Diluted	27,434	30,264
Dividends declared per common share outstanding	$ 0.10	$ 0.10

Note: Certain per share data amounts may not total due to rounding.
See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	**2007**
Revenue	$ 172,720	$ 165,015
Costs and expenses		
Cost of revenue	87,695	73,467
Selling, general and administrative	38,529	40,378
Research and development	19,528	22,436
Total costs and expenses	145,752	136,281
Operating income	26,968	28,734
Equity in net income of affiliates	1,221	1,333
Income from continuing operations before interest and income tax expense	28,189	30,067
Interest income	455	1,189
Interest expense	880	191
Income from continuing operations before income tax expense	27,764	31,065
Income tax expense	10,827	11,817
Income from continuing operations	16,937	19,248
Discontinued operations:		
(Loss) income from discontinued operations, net of taxes	(495)	35
Gain on sale of discontinued operations, net of taxes	425	
Total (loss) income from discontinued operations, net of taxes	(70)	35
Net income	$ 16,867	$ 19,283
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.61	$ 0.64
Discontinued operations		
Net income	$ 0.61	$ 0.65
Diluted		
Continuing operations	$ 0.61	$ 0.64
Discontinued operations		

Net income	$ 0.61	$ 0.64
Weighted-average common shares used in calculations		
Basic	27,687	29,852
Potentially dilutive securities	186	271
Diluted	27,873	30,123
Dividends declared per common share outstanding	$ 0.20	$ 0.20

Note: Certain per share data amounts may not total due to rounding.
See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2008	2007
Cash flows from operating activities		
Net income	$ 16,867	$ 19,283
(Loss) income from discontinued operations, net of taxes	(70)	35
Income from continuing operations	16,937	19,248
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	7,896	4,928
Amortization of intangible assets	205	459
Loss on asset disposals	692	191
Deferred income taxes	1,003	20
Equity in net income of affiliates	(1,221)	(1,333)
Distributions from affiliate	4,750	4,500
Bad debt expense	460	505
Non-cash share-based compensation	4,347	3,473
Changes in operating assets and liabilities		
Trade accounts receivable	2,021	(204)
Prepaid expenses and other assets	(411)	769
Accounts payable	(1,845)	258
Accrued expenses and other current liabilities	(6,390)	(14,783)
Deferred revenue	3,555	480
Other noncurrent liabilities	612	976
Net cash (used) provided by operating activities of discontinued operations	(1,225)	260
Net cash provided by operating activities	**31,386**	**19,747**
Cash flows from investing activities		
Additions to property and equipment	(13,403)	(10,297)
Investment in affiliate	(1,061)	(954)
Purchases of short-term investments		(140,195)
Proceeds from sales of short-term investments		128,970
Net cash provided (used) by investing activities from discontinued operations	2,123	(17)
Net cash used in investing activities	**(12,341)**	**(22,493)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	7,138	11,118
Stock repurchases	(59,731)	(5,175)
Tax benefits realized from share-based awards	787	1,483
Dividends paid to stockholders	(5,650)	(5,994)
Borrowings of long-term debt	95,000	
Payments of long-term debt	(57,000)	
Net cash (used) provided by financing activities	**(19,456)**	**1,432**

Effect of exchange rate changes on cash and cash equivalents	(6)	83
Net change in cash and cash equivalents	(417)	(1,231)
Cash and cash equivalents at beginning of period	22,128	33,640
Cash and cash equivalents at end of period	**$ 21,711**	**$ 32,409**
Cash and cash equivalents from continuing operations at end of period	$ 21,711	$ 29,673
Cash and cash equivalents from discontinued operations at end of period		2,736
Cash and cash equivalents at end of period	**$ 21,711**	**$ 32,409**

See accompanying notes to consolidated financial statements.

ARBITRON INC.
Notes to Consolidated Financial Statements
June 30, 2008
(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 footnotes 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. Certain amounts in the financial statements for prior periods have been reclassified to conform to the current period s presentation. The consolidated balance sheet as of December 31, 2007, was audited at that date, but all of the information and footnotes as of December 31, 2007, 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 footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Consolidation

The consolidated financial statements of the Company for the six months ended June 30, 2008, reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries: Arbitron Holdings Inc., Audience Research Bureau S.A. de C.V., Ceridian Infotech (India) Private Limited, CSW Research Limited, Euro Fieldwork Limited, Arbitron International, LLC, and Arbitron Technology Services India Private Limited. All significant intercompany balances have been eliminated in consolidation. The Company consummated the sale of CSW Research Limited and Euro Fieldwork Limited, a subsidiary of CSW Research Limited, on January 31, 2008. The financial information of CSW Research Limited and Euro Fieldwork Limited has been separately reclassified within the consolidated financial statements as a discontinued operation. See Note 3 for further information.

2. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The Company adopted SFAS No. 157 for all financial assets and liabilities and the impact to the consolidated financial statements was immaterial. In accordance with FASB Staff Position 157-2, the provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2008, for all nonfinancial assets and nonfinancial liabilities. The management of the Company is evaluating the impact of adopting the nonfinancial asset and nonfinancial liability provisions of SFAS No. 157, but does not currently expect such adoption, effective January 1, 2009, to have a material impact on the Company s consolidated financial statements.

Effective December 31, 2006, the Company adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). The Company currently measures plan assets and benefit obligations as of September 30 of each year. In accordance with the provisions of SFAS No. 158, the measurement date will be required to be as of the date of the Company s fiscal year-end statement of financial position effective for fiscal years ending after December 15, 2008. The management of the Company is evaluating the potential impact of adopting the measurement date provisions of SFAS No. 158 on the Company s consolidated financial statements and expects that such impact will not be material to the financial position, results of operations, or cash flows of the Company.

3. Discontinued Operation

During the fourth quarter of 2007, the Company approved a plan to sell CSW Research Limited (Continental), which represented a component of the Company s international operations. As a result, the assets and liabilities, results of operations, and cash flow activity of Continental were reclassified separately as a discontinued operation held for sale within the consolidated financial statements for all periods presented. On January 31, 2008, the sale of Continental was completed at a gain of $0.4 million. The following tables present key information associated with the net assets and operating results of the discontinued operations for the reporting periods included in the consolidated financial statements filed in this quarterly report on Form 10-Q for the period ended June 30, 2008 (in thousands):

	June 30, 2008	December 31, 2007
Assets and Liabilities of Discontinued Operations		
Cash	$	$ 987
Receivables		4,112
Deferred taxes-current		49
Prepaids and other current assets		529
Current assets		5,677
Property, plant and equipment		46
Goodwill		2,058
Deferred taxes-noncurrent		(235)
Noncurrent assets		1,869
Total assets	$	$ 7,546
Accounts payable	$	$ 1,499
Accrued expenses and other current liabilities		2,526
Deferred revenue		626
Total liabilities	$	$ 4,651
Accumulated other comprehensive income	$	$ 376

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Results of Discontinued Operations				
Revenue	$	$3,180	$1,011	$5,809
Operating expenses		3,121	1,802	5,822
Operating income (loss)		59	(791)	(13)

Net interest income		33	7	62
Income (loss) before income tax (expense) benefit		92	(784)	49
Income tax (expense) benefit		(26)	289	14
Income (loss) from discontinued operations, net of taxes		66	(495)	35
(Loss) gain on sale, net of taxes	(25)		425	
Total (loss) income from discontinued operations, net of taxes	$(25)	$ 66	$ (70)	$ 35

4. 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). The agreement contains an expansion feature for the Company to increase the total financing available under the Credit Facility up to $200.0 million. As of June 30, 2008, and December 31, 2007, the outstanding net borrowings under the Credit Facility were $50.0 million and $12.0 million, respectively. There was no short-term portion of long-term debt recorded as of June 30, 2008. The $12.0 million of debt recorded as of December 31, 2007, included $5.0 million in short-term obligations under the provisions of the Credit Facility.

Under the terms of the Credit Facility, the Company is required to maintain certain leverage and coverage ratios and meet other financial conditions. The agreement contains certain financial covenants, and limits among other things, the Company s ability to sell certain assets, incur additional indebtedness, and grant or incur liens on its assets. Under the terms of the Credit Facility, all of the Company s material domestic subsidiaries, if any, guarantee the commitment. As of June 30, 2008, and December 31, 2007, the Company had no material domestic subsidiaries as defined by the terms of the Credit Facility. As of June 30, 2008, and December 31, 2007, the Company was in compliance with the terms of the Credit Facility.

If a default occurs on outstanding borrowings, either because the Company is unable to generate sufficient cash flow to service the debt or because the Company fails to comply with one or more of the restrictive covenants, the lenders could elect to declare all of the then outstanding borrowings, as well as accrued interest and fees, to be immediately due and payable. In addition, a default may result in the application of higher rates of interest on the amounts due.

The Credit Facility has two borrowing options, a Eurodollar rate option or an alternate base rate option, as defined in the agreement. Under the Eurodollar option, the Company may elect interest periods of one, two, three or six months at the inception date and each renewal date. Borrowings under the Eurodollar option bear interest at the London Interbank Offered Rate (LIBOR) plus a margin of 0.575% to 1.25%. Borrowings under the base rate option bear interest at the higher of the lead lender s prime rate or the Federal Funds rate plus 50 basis points, plus a margin of 0.00% to 0.25%. The specific margins, under both options, are determined based on the Company s ratio of indebtedness to earnings before interest, income taxes, depreciation, amortization and non-cash share-based compensation (the leverage ratio), and is adjusted every 90 days. The agreement contains a facility fee provision whereby the Company is charged a fee, ranging from 0.175% to 0.25%, applied to the total amount of the commitment. The interest rate on outstanding borrowings as of June 30, 2008, and December 31, 2007, was 3.0% and 5.8%, respectively.

Interest paid during the six-month periods ended June 30, 2008, and 2007, was $0.9 million and $0.1 million, respectively. Interest capitalized during the six-month period ended June 30, 2008, was less than $0.1 million. No interest was capitalized during the six-month period ended June 30, 2007, due to the prepayment of all outstanding debt during the fourth quarter of 2006 and no new borrowings as of June 30, 2007. Non-cash amortization of deferred financing costs classified as interest expense during each of the three-month and six-month periods ended June 30, 2008, and 2007, was less than $0.1 million, respectively.

5. Stockholders Equity

Changes in stockholders equity for the six months ended June 30, 2008, were as follows (in thousands):

	Net Distributions to Parent	Retained	Accumulated
&nbs			