

ARBITRON INC  
Form 10-K405  
March 22, 2002

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**Form 10-K**

x	Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2001
	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**  
(State or other jurisdiction of  
incorporation or organization)

**52-0278528**  
(I.R.S. Employer Identification No.)

**142 West 57th Street**

**New York, New York 10019**

(Address of principal executive offices) (Zip Code)

**(212) 887-1300**

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of Each Class Registered	Name of Each Exchange on Which Registered
<b>Common Stock, par value \$.50 per share</b>	<b>The New York Stock Exchange</b>

Securities registered under Section 12(g) of the act:

**None**

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, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

## Edgar Filing: ARBITRON INC - Form 10-K405

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the registrant's voting stock as of March 12, 2002 (based upon the closing sale price of Arbitron's common stock as reported by the New York Stock Exchange), excluding outstanding shares beneficially owned by executive officers and directors of Arbitron, was approximately \$947,700,000.

Common stock, par value \$0.50 per share, outstanding as of March 12, 2002 29,208,740 shares.

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Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2002 annual meeting of shareholders, which proxy statement will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2001.

**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Arbitron in this document that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, estimates, believes or plans, or comparable terminology, are forward-looking statements of current expectations about future events, which Arbitron has derived from information currently available to it. These forward-looking statements involve known and unknown risks and uncertainties that may cause our results to be materially different from results implied in such forward-looking statements. These risks and uncertainties include whether we will be able to:

renew contracts with large customers as they expire;

successfully execute our business strategies, including timely implementation of our Portable People Meter service, as well as expansion of international operations;

effectively manage the impact of further consolidation in the radio industry;

keep up with rapidly changing technological needs of our customer base, including creating new products and services that meet these needs; and

realize the benefits we expect to achieve resulting from Ceridian's completion of the reverse spin-off.

Additional important factors known to Arbitron that could cause forward-looking statements to turn out to be incorrect are identified and discussed from time to time in Arbitron's filings with the Securities and Exchange Commission, including in particular the risk factors discussed under the caption ITEM 1. BUSINESS - Business Risks in this Annual Report on Form 10-K.

The forward-looking statements contained in this document speak only as of the date hereof, and Arbitron undertakes no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.



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**PART I**

**ITEM 1. BUSINESS**

Arbitron Inc. is incorporated in Delaware, and was formerly known as Ceridian Corporation. Ceridian Corporation was formed in 1957; however, its predecessors began operating in 1912. Arbitron's audience research business commenced in 1949. Arbitron's principal executive offices are located at 142 West 57th Street, New York, New York 10019, and the telephone number is (212) 887-1300.

Prior to March 30, 2001, Ceridian Corporation (Ceridian) was a publicly traded company whose principal lines of business were the human resource service businesses, the Comdata business, which provided transaction processing and regulatory compliance services for the transportation industry, and the radio audience measurement business.

On March 30, 2001, Ceridian completed a reverse spin-off, which we refer to as the spin-off. In connection with the spin-off, the assets and liabilities associated with the human resource service businesses and Comdata subsidiaries were transferred to a newly formed company named New Ceridian. The radio audience measurement business stayed with Ceridian. Ceridian then distributed the stock of New Ceridian to all of Ceridian's existing stockholders. As a result, New Ceridian is now a separate publicly traded corporation. In connection with the spin-off, Ceridian changed its name to Arbitron Inc. and effected a one-for-five reverse stock split, and New Ceridian changed its name to Ceridian Corporation. Because of the relative significance of the businesses transferred to New Ceridian, New Ceridian was considered the accounting successor to Ceridian for financial reporting purposes.

The terms Arbitron or the Company as used in this document shall include Arbitron Inc. and its subsidiaries.

**Overview**

Arbitron is an international media and marketing research firm primarily serving radio, broadcast television, cable companies, advertising agencies and advertisers in the United States, Mexico and Europe. Arbitron currently has four core businesses:

measuring radio audiences in local markets in the United States and Mexico;

providing application software used for accessing and analyzing media audience and marketing information data;

measuring national radio audiences and the audience size of network radio programs and commercials; and

providing qualitative survey research services to the radio, cable, broadcast television, outdoor media, magazine, newspaper and online industries.

Arbitron provides radio audience measurement and related services in the United States to approximately 3,900 radio stations and 2,300 advertising agencies and advertisers. In approximately 285 local markets in the United States, Arbitron estimates the size and demographics of audiences of local radio stations and reports these estimates and related data to its customers. This information is used as a form of currency for media transactions in the radio industry. Radio stations use Arbitron's data to price and sell advertising time, and advertising agencies and advertisers use Arbitron's data in purchasing advertising time. Arbitron also provides software applications that give its customers access to Arbitron's estimates resident in its proprietary database, and enables them to more effectively analyze and understand that information for sales, management and programming purposes.

In addition to its core radio ratings service which provides primarily quantitative data, such as how many people are listening, Arbitron also provides qualitative data on listeners, viewers and readers that contains detailed socioeconomic information and information on what the respondents buy, where they shop and what forms of media they use. Arbitron provides these qualitative measurements of consumer demographics, retail

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behavior and media usage in approximately 264 local markets throughout the United States. Arbitron Cable provides qualitative audience descriptors to the local cable advertising sales organizations of cable companies. Arbitron Outdoor provides these qualitative measurements to outdoor media sales organizations. Arbitron's prototype webcast service measures the audiences of audio and video content on the Internet, commonly known as webcasts or streaming media.

In addition, Arbitron began measuring the Mexico City market in September 2001 and began providing radio audience measurement information and qualitative information for that market in February 2002.

On July 2, 2001, Arbitron acquired all of the assets and assumed certain liabilities of the radio network audience measurement service business of Statistical Research, Inc. (SRI), known as Radio's All Dimension Audience Research (RADAR®), a registered trademark of Arbitron. The RADAR service measures national radio audiences and the audience size of network radio programs and commercials.

Through its Continental Research subsidiary, Arbitron provides media, advertising, financial, telecommunications and Internet research services in the United Kingdom and elsewhere in Europe.

Arbitron's quantitative radio audience measurement business and related software sales have historically accounted for a majority of its revenue. The radio audience measurement service and related software sales represented approximately 87 percent of Arbitron's total 2001 revenue.

## **Industry Background and Markets**

Since 1965, Arbitron has delivered reliable and timely radio audience information collected from a representative sample of radio listeners to the radio industry. The presence of reliable, credible audience estimates in the radio industry has permitted radio stations to price and sell advertising time, and advertising agencies and advertisers to purchase advertising time. The Arbitron ratings have also become a valuable tool for use in radio programming, distribution and scheduling decisions.

In recent years, significant consolidation of radio station ownership has occurred in the United States. Consolidation has tended to intensify competition for advertising dollars both within the radio industry and between radio and other forms of media. At the same time, audiences have become more fragmented as a result of greatly increased programming choices and entertainment and media options. As a result, advertisers have increasingly sought to tailor their advertising strategies to target specific demographic groups through specific media. The audience information needs of radio broadcasters, advertising agencies and advertisers have correspondingly become more complex. Increased competition and more complex information requirements have heightened the need of radio broadcasters for improved information management systems and more sophisticated means to analyze this information. In addition, there is a demand for quality radio audience information internationally from global advertisers, United States broadcasters who have acquired broadcasting interests in other countries and an increasing number of private commercial broadcasters in other countries.

These trends also affect other media. As the importance of reaching niche audiences with targeted marketing strategies increases, broadcasters, publishers, advertising agencies and advertisers increasingly require that information regarding exposure to advertising be provided on a more individualized basis and that this information be coupled with more detailed information regarding lifestyles and purchasing behavior. The need for purchase data information may create opportunities for innovative approaches to satisfy these information needs, particularly as technological advances, including the possibilities available with interactive communication and the Internet, increase the alternatives available to advertisers for reaching potential customers.

In addition to radio stations, Arbitron also markets its products and services to cable companies. Feedback from Arbitron's cable customers suggests that the cable industry is in need of improved local measurement systems because current quantitative measurement methods, such as diaries and television meter-based measurement systems, have not provided sufficient sample sizes to adequately reflect the demographic audiences of the cable networks in a local market. Without solid measures of demographic audiences at the local market level, cable may not have been achieving its full potential of local and national

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advertising revenues. In response to this need, Arbitron provides cable companies with qualitative audience information and software programs that help cable companies show their advertisers that cable is a highly targeted and effective way to reach the people who purchase their products and services.

In recent years, the Internet has presented radio stations and other broadcasters with a new media outlet and advertisers with an opportunity to target prospective consumers. The popularity and use of the Internet has increased dramatically within the last couple of years.

Since 1998, Arbitron has conducted large scale national analyses of consumer interest and utilization of webcasting. Over a two-year period, these studies, which are conducted every six months, have demonstrated a significant growth in the usage of webcasting by the American consumer. Since 1998, the four-year trend for the percentage of Americans that have listened to radio stations over the Internet has surged from six percent to 25 percent. Arbitron believes these studies validate the rapid adoption of webcasting, thereby reinforcing the need for audience measurement of this new media. Arbitron is developing a webcast service to meet the industry need for credible audience measurement.

## **Radio Audience Measurement Services**

Arbitron provides radio audience measurement information in the United States to approximately 3,900 radio station customers. Arbitron estimates audience size and demographics in the United States for local radio stations, and reports these estimates and related data to its customers. This information is used as a form of currency for media transactions in the radio industry. Radio stations use Arbitron's data to price and sell advertising time, and advertising agencies and advertisers use Arbitron's data in purchasing advertising time.

**Collection of Listener Data.** Arbitron uses listener diaries to gather radio listening data from sample households in approximately 285 United States local markets for which it currently provides radio ratings. Participants in Arbitron surveys are selected at random by telephone number. When participants (known as diarykeepers) agree to take part in a survey, they are mailed a small pocket-sized diary and asked to record their listening in it over the course of a seven-day period. Participants are asked to report in their diary what station(s) they are listening to, when they are listening and where they are listening, such as home, car, work or other place. Although survey periods are 12 weeks long, no one keeps his or her diary for more than seven days. Each diarykeeper receives his or her diary, instructions for filling it out and a small cash incentive. The incentive varies according to markets, and the range is \$1.00 to \$6.00 for each diarykeeper in the household. Diarykeepers mail their diaries to Arbitron's operations center in Columbia, Maryland where Arbitron conducts a series of quality control checks, enters the information into its database and produces periodic audience measurement estimates. Arbitron processes more than 1.4 million diaries every year to produce its audience listening estimates. All markets are measured at least twice each year, and major markets are measured four times per year. Arbitron's proprietary data regarding radio audience size and demographics is then provided to customers through multi-year license agreements.

One of the challenges in measuring radio listening is to ensure that the composition of survey respondents is representative of the market being measured. Arbitron strives to achieve representative samples. For example, if 20 percent of a given market is composed of women aged 18 to 34, Arbitron works to ensure that 20 percent of the diarykeepers in the sample are women aged 18 to 34. Therefore, each diarykeeper's listening will effectively represent not only the diarykeeper's personal listening, but the listening of his or her demographic segment in the market overall. In striving to achieve representative samples, Arbitron provides enhanced incentives to certain demographic segments to encourage participation. In markets with high concentrations of Hispanic households, Arbitron also uses Spanish-language materials and interviewers to reach Spanish-speaking households.

Arbitron has invested heavily in quality improvements for its radio audience measurement service. Since 1995, Arbitron has implemented programs designed to:

encourage high survey response rates;

increase samples by up to 70 percent in a majority of surveyed markets;

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improve the sample representation of young men;

maintain proportional representation of African Americans and Hispanics;

increase survey frequency so that all markets are measured at least twice each year (spring and fall) and major markets are measured four times per year; and

add consumer and retail questions to its standard radio diary in 165 small markets.

**Portable People Meter.** In response to a growing demand to develop a more efficient and less time-consuming method of recording listening and other data, Arbitron has developed a Portable People Meter system capable of measuring radio, television, cable, Internet streaming and satellite radio and television audiences. The Portable People Meter is a pager-sized device that is worn or carried by a survey participant throughout the day. It automatically detects inaudible codes that radio, broadcast television, cable, Internet and satellite radio and television providers embed in the audio portion of their programming using encoders provided by Arbitron. These proprietary codes identify the media that a participant is exposed to throughout the day without the person having to engage in manual recording activities. At the end of each day, the meter is placed into a base station that recharges the device and sends the collected codes to Arbitron for tabulation.

There are several advantages of the Portable People Meter system. It is simple and easy for respondents to use. It requires no button pushing, which disrupts media use, no recall and no effort to identify and write down channels or radio stations tuned to. The Portable People Meter is able to passively detect exposure to encoded media by identifying each source through unique identification codes.

During 1999, Arbitron tested the Portable People Meter in Manchester, England. The testing indicated that the Portable People Meter technology operated as intended and that survey participants carried the Portable People Meter with them to a degree that was satisfactory for the test. The test also indicated that television audience estimates made using the Portable People Meter were comparable to existing United Kingdom television audience measurements and comparisons of radio audience estimates were inconclusive.

In October 2000, Arbitron began a United States market trial of the Portable People Meter. The initial deployment used 200-300 survey participants in the Wilmington, Delaware radio market, which is part of the Philadelphia television market. The Wilmington test measured media usage for radio, broadcast television and cable at the aggregate level. The audience measurement data results were reasonable for each media. The Portable People Meter technology operated within expectations and the survey participants were able to install equipment themselves and carried the Portable People Meter with them to a satisfactory degree. In the fourth quarter of 2001, Arbitron began the second phase of its United States trial in the Philadelphia television market. A panel of approximately 1,500 people was deployed in the first quarter of 2002. Arbitron expects to begin releasing prototype audience estimates at the radio and television station and cable network levels in the second quarter of 2002.

On May 31, 2000, Arbitron entered into an agreement with Nielsen Media Research, Inc., a provider of United States television audience measurement services, under which Arbitron granted Nielsen Media Research an option to join Arbitron in the potential commercial deployment of the Portable People Meter on a nationwide basis in the United States. In the event Nielsen Media Research exercises the option, the parties would form a joint venture to commercially deploy and operate the business of utilizing the Portable People Meter for the collection of respondent listening and viewing information used to produce radio and television audience ratings. Recognizing that the successful commercial deployment of the Portable People Meter is uncertain and risky, at the present time, Arbitron believes that a joint venture with Nielsen Media Research creates a significantly greater likelihood of successful commercial deployment than other alternatives.

The parties would each use the data generated by the jointly-deployed Portable People Meter in creating their own media measurement services. Generally, each company would be licensed to use the Portable People Meter data to create measurement services for particular media. The division of revenues from Internet data remains to be negotiated by the parties. The costs, expenses and capital expenditures for operating a joint venture would be shared by Arbitron and Nielsen Media Research based on the degree to which use of the

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Portable People Meter displaces costs at each company. Arbitron would receive a royalty from Nielsen Media Research.

Arbitron retains the right under the option agreement at any time to license, test and/or implement a commercial deployment of the Portable People Meter and the technology contained in the Portable People Meter outside of the United States. In the event Nielsen Media Research exercises its option to form the joint venture in the United States, Nielsen Media Research also has the option to purchase from Arbitron, at fair value, a portion of Arbitron's interest in all audience measurement business activities arising out of the commercial deployment of the Portable People Meter and the technology contained in the Portable People Meter outside of the United States.

**Radio Market Report and Other Reports.** Arbitron's listening estimates are provided in a number of different reports that are published and licensed to its customers. The cornerstone of Arbitron's radio audience measurement services is the Radio Market Report, which is currently available in approximately 285 United States local markets. The Radio Market Report provides audience estimates covering a wide variety of demographics and dayparts, which are time periods for which audience estimates may be reported, for the stations in a market which meet Arbitron's minimum reporting standards. Each Radio Market Report contains more than 100,000 estimates to help radio stations, advertising agencies and advertisers understand who is listening to the radio, which stations they are listening to and the time and location of the listening.

In addition to the Radio Market Report, Arbitron provides additional services, such as its Radio County Coverage Reports, Hispanic Radio Market Reports and Black Radio Market Reports. Radio County Coverage is an annual study that is published each spring and provides radio audience estimates for every county in the continental United States, plus metropolitan counties in Alaska and Hawaii. Radio County Coverage Reports are available by the county, by the state or for the whole country. Hispanic Radio Market Reports are available exclusively by tape access and are issued twice a year. Information is collected from bilingual diaries placed in Hispanic homes. Black Radio Market Reports provide radio listening estimates for African American audiences. Data is available by tape access either once or twice a year, depending on the market.

**RADAR.** On July 2, 2001, Arbitron acquired all of the assets and assumed certain liabilities of RADAR, the radio network audience measurement service business of SRI. The RADAR service provides a measurement of national radio audiences and the audience size of network radio programs and commercials. The audience measurements are provided for a wide variety of demographics and dayparts for total radio listening and for 31 separate radio networks.

Network audience estimates are created by merging the radio listening of selected survey respondents with the actual times that network programs and commercials are aired on each affiliated station. RADAR estimates are delivered via Arbitron's PC 2010 software application, which includes a suite of products for sophisticated analysis of network audiences.

This service is provided to radio networks and advertising agencies and network radio advertisers.

At present, RADAR estimates are based on telephone interviewing using a 12-month 12,000-person telephone survey together with the industry-standard commercial clearance system. Arbitron will convert RADAR to a diary based methodology that would provide larger sample sizes to customers by combining Arbitron's existing diary sampling process with the RADAR network commercial clearance system.

## **Software Applications**

In addition to its reports, Arbitron also licenses software applications that provide its customers access to Arbitron's estimates resident in Arbitron's proprietary database, and enables them to more effectively analyze and understand that information for sales, management and programming purposes. Arbitron plans to develop applications which will enable customers to link the estimates in Arbitron's database with information from other databases (such as product purchasing behavior). These services would enable customers to further refine sales strategies and compete more effectively for advertising dollars.

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Arbitron's Tapscan family of software solutions, which Arbitron acquired in 1998 from Tapscan, Incorporated, are used by many radio stations, advertising agencies and advertisers. The Tapscan software is one of the advertising industry's leading radio analysis applications. It can help to create colorful charts and graphs that make complicated information more usable to potential advertisers. Other features include prebuy research including frequency-based tables, cost-per-point analysis, hour-by-hour and trending, use of respondent-level radio data, automatic scheduling and goal tracking, instant access to station format and contact information. Another Tapscan service, QualiTAP<sup>SM</sup>, a service mark of Arbitron, is also made available under a licensing arrangement with Tapscan, Incorporated to television and cable outlets in the United States.

Other key software applications Arbitron offers its radio clients are the MaximiSer®, a registered mark of Arbitron, service for radio stations and the Media Professional<sup>SM</sup>, a service mark of Arbitron, service for advertising agencies and advertisers. Both of these software applications offer respondent-level database access, which allows radio stations, advertising agencies and advertisers to customize survey areas, dayparts, demographics and time periods to support targeted marketing strategies. The MaximiSer service includes a Windows-based application that accesses a market's entire radio diary database on a client's personal computer. Radio stations use the MaximiSer service to produce information about their station and programming not available in Arbitron's published Radio Market Reports. The Media Professional service is designed to help advertising agencies and advertisers plan and buy radio advertising time quickly, accurately and easily. The easy-to-use software integrates radio planning and buying into one comprehensive research and media buying tool. It allows advertising agencies and advertisers to uncover key areas critical to the buying process, including determining the most effective media target, understanding market trends, and identifying potential new business. The MapMAKER<sup>SM</sup>, a service mark of Arbitron, service analyzes where the radio audience lives and works to provide detailed maps and reports. Program directors can use this service to better understand their listeners and better target their promotional efforts. Arbitron's PD Advantage®, a registered mark of Arbitron, service offers radio station program directors the ability to create a variety of reports that help analyze the market, the audience and the competition.

## **Local Market Consumer Information Services**

In its core radio ratings service Arbitron provides primarily quantitative data, such as how many people are listening. Arbitron also provides qualitative data to radio stations, cable companies, television stations, outdoor media, magazine and newspaper publishers, advertising agencies and advertisers. The qualitative data on listeners, viewers and readers provides more detailed socioeconomic information and information on what respondent's buy, where they shop and what forms of media they use. Arbitron provides these measurements of consumer demographics, retail behavior and media usage in approximately 264 local markets throughout the United States.

Arbitron provides four qualitative services tailored to fit a customer's specific market size and marketing requirements:

Scarborough Report, which is offered in larger markets;

RetailDirect®, a registered mark of Arbitron, which is available in medium markets; and

Qualitative Diary Service and LocalMotion®, a registered mark of Arbitron, which are offered in smaller markets.

Each service profiles a market, the consumers and the media choices in terms of key characteristics. These four services cover the major retail and media usage categories. Arbitron provides training and support services that help its customers understand and use the local market consumer information Arbitron provides them.

**Scarborough Report.** The Scarborough service is provided through a joint venture between Arbitron and VNU Marketing Information, Inc., in which Arbitron has a 50.5 percent interest. The Scarborough service provides detailed information about media usage, retail and shopping habits, demographics and lifestyles in 75 large United States markets, utilizing a sample of consumers in the relevant markets. Scarborough data features more than 500 retail and lifestyle characteristics, which can help radio stations,

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television stations, cable companies, advertising agencies and advertisers, newspaper and magazine publishers and outdoor media provide an in-depth profile of their consumers. Examples of Scarborough categories include retail shopping (e.g., major stores shopped or purchases during the past 30 days), auto purchases (e.g., plan to buy new auto or truck), leisure activities (e.g., attended sporting event) and personal activities (e.g., golfing). Media information includes broadcast and cable television viewing, radio listenership, newspaper readership by section, magazine readership and yellow pages usage. This information is provided twice each year to newspapers, radio and television broadcasters, cable companies, outdoor media, advertising agencies and advertisers in the form of the Scarborough Report. Arbitron is the exclusive marketer of the Scarborough Report to radio broadcasters, cable companies and outdoor media. Arbitron also markets the Scarborough Report to advertising agencies and advertisers on a shared basis with VNU Marketing Information, Inc. VNU Marketing Information, Inc. markets the Scarborough Report to television broadcasters, newspapers and magazines.

**RetailDirect.** Arbitron's RetailDirect service is a locally oriented, purchase data and media usage research service provided in approximately 24 mid-sized United States markets. This service, which utilizes diaries and telephone surveys, provides a profile of the audience in terms of local media, retail and consumer preferences so that local radio and television broadcasters, outdoor media, and cable companies have information to help them develop targeted sales and programming strategies. Retail categories include automotive, audio-video, furniture and appliances, soft drinks and beer, fast food, department stores, grocery stores, banks and hospitals. Media usage categories include local radio, broadcast television, local network cable, outdoor media, newspapers, yellow pages and advertising circulars.

**Qualitative Diary Service.** Arbitron's Qualitative Diary Service collects consumer and media usage information from Arbitron radio diarykeepers in approximately 165 smaller United States markets. The same people who report their radio listenership in the market also answer over 20 product and service questions. Consumer behavior information is collected for key local market retail categories, such as automotive sales, grocery, fast food, furniture and bedding stores, beer, soft drinks and banking. The Qualitative Diary Service also collects information about other media, such as television news viewership, cable television viewing, outdoor media exposure and newspaper readership.

**LocalMotion.** LocalMotion, formerly known as RetailDirect Lite, provides detailed information about demographics, retail and shopping habits and lifestyles of cable subscribers. This qualitative service for cable companies is available in 165 markets. Offering personal viewing information on 15 different cable networks, LocalMotion provides information, such as what percentages of a retailer's customers and prospects have cable television, what cable networks its customers are watching and other socioeconomic data.

## **Arbitron Cable Services**

Arbitron has expanded its local market consumer information services to media other than radio, including cable television. Feedback from Arbitron's cable customers suggests that the cable industry is in need of improved local measurement systems because current quantitative measurement methods, such as diaries and television meter-based measurement systems, have not provided sufficient sample sizes to adequately reflect the demographic audiences of the cable networks in a local market. Without solid measures of demographic audiences at the local market level, cable may not have been achieving its full potential of local and national advertising revenues. In response to this need, Arbitron Cable provides cable companies with qualitative audience information and software programs that help cable companies show advertisers that cable is a highly targeted and effective way to reach the people who purchase their products and services. Arbitron has also developed its Portable People Meter, which is designed to measure the multitude of channels available over cable.

Arbitron believes that its Portable People Meter technology is well suited for the cable industry. Arbitron expects that its Portable People Meter will provide a reliable, accepted local audience measurement service for the cable industry. Arbitron also envisions that the Portable People Meter data could be linked to consumer/ client databases to optimize cable campaigns to enhance local/ national spot sales efforts; validate audiences of national cable networks, regional sports and entertainment channels and local origination channels; provide

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valuable insights into local audience size and demographics of cable networks; deliver targeted schedule recommendations for cross-channel promotional campaigns; maximize the promotional and advertising sales power of local cable channels; and provide in-depth information on the electronic media usage of cable subscribers for media planning. If a joint venture with Nielsen Media Research is formed, it is anticipated that Nielsen Media Research would be licensed to use the Portable People Meter data to provide audience measurement services to cable companies in the United States.

### **Arbitron Webcast Ratings**

Arbitron's prototype Webcast Ratings<sup>SM</sup>, a service mark of Arbitron, service would measure the audiences of audio and video content on the Internet, commonly known as webcasts or streaming media. Arbitron's Webcast Ratings service has been in operation as a pilot service since October 1999. According to an Arbitron study, as of January 2002, 80 million Americans have experienced Internet audio and video, and 40 million Americans or 17 percent of all consumers are listening and watching streaming media over the Internet in a typical month. Arbitron's Webcast Ratings service would help webcasters monetize their Internet business models by enabling them to demonstrate the size and value of their online audience, to advertising agencies and advertisers who require independent and credible audience measurement information to justify their advertising expenditures and to make informed media planning and buying decisions.

### **International Operations**

Arbitron's international operations consist primarily of its Continental Research subsidiary, which operates in the United Kingdom and elsewhere in Europe. In addition, Arbitron provides radio audience measurement and qualitative services in Mexico City. Arbitron has also entered into agreements with international media information services companies to license Arbitron's Portable People Meter technology.

#### **Continental Research**

Through its Continental Research subsidiary, Arbitron provides media, advertising, financial, telecommunications and Internet research services in the United Kingdom and elsewhere in Europe.

**Media.** Continental Research's media clients cover the full spectrum of traditional and new media, with particular strength in the television and radio markets. Its media services include measuring audiences, evaluating existing services and building forecasting models.

**Advertising.** Continental Research evaluates every stage of the advertising process: from strategy development, creative development, pre-campaign testing, pre and post advertising and tracking, and on-air coincidental studies, to analysis of those responding to the campaign, and those converting to purchase.

**Financial.** Continental Research's experience in business to business financial research ranges from new product development to market measurement to advertising tracking. When conducting financial research and other business and consumer studies, Continental Research uses The Million Plus Panel, which comprises a pool of approximately 3.7 million United Kingdom residents and holds up to 3,000 demographic, lifestyle and purchasing details for each resident.

**Telecommunications and Internet.** Continental Research's telecommunications and Internet projects have ranged from local area markets to multi-national markets and have examined pricing, promotion, billing, product differentiation, advertising effectiveness, distribution systems, customer satisfaction, market estimation and new product development research.

#### **Mexico**

Arbitron began measuring the Mexico City, Mexico market in September 2001 and began providing radio and measurement information and qualitative information for that market in February 2002.



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The Arbitron Mexico City radio audience measurement service provides audience estimates covering a wide variety of demographics and dayparts. The Mexico City service also provides qualitative information concerning consumer and media usage.

In addition to Mexico City, Arbitron has proposed to Mexican broadcasters, advertising agencies and advertisers, a syndicated radio ratings service for other markets.

### **Other International Operations**

Arbitron has entered into agreements with international media information services companies, such as Taylor Nelson Sofres, a United Kingdom company, and BBM Bureau of Measurement, a Canadian audience measurement service, to license Arbitron's Portable People Meter technology.

### **Strategy**

Arbitron's objectives are to grow its radio audience measurement business and to expand its audience measurement services to a broader range of media types, including broadcast television, cable, outdoor media, satellite radio and television and webcasting. Key elements of Arbitron's strategy to pursue these objectives include:

Continue to invest in quality improvements in its radio audience measurement service and seek opportunities to further expand the business. Arbitron intends to continue to invest in quality improvements in its radio audience measurement services and in new software-based information applications. Additionally, Arbitron believes that a growth opportunity exists in the advertiser market and intends to seek to expand its customer base of advertisers by developing and marketing new information services designed to assist corporate advertisers in implementing targeted marketing strategies.

Build on Arbitron's experience in the radio audience measurement industry and its new Portable People Meter technology to expand into measurement services for other types of media, such as broadcast television, cable, the Internet and satellite delivered radio and television. Arbitron is prototyping a webcast ratings service that measures the audiences of audio and video webcasts. Arbitron intends to enter into agreements with third parties to assist with the marketing, technical and financial aspects of expanding into measurement services for other types of media.

Develop and commercialize the next generation data collection and processing technique. Arbitron's businesses require sophisticated data collection and processing systems, software and other technology. The collection of Arbitron's survey respondent information is dependent on individuals keeping track of their listening, viewing and reading activities in diaries. The technology underlying the media measurement industry is undergoing rapid change, and Arbitron will need to continue to develop and refine its techniques for data collection and processing to accommodate these changes. The development of Arbitron's Portable People Meter is in response to a growing demand for more efficient methods for measuring audiences. Eventually, Arbitron hopes to develop an integrated measurement service that will measure all media from a single source, enabling media buyers to make multi-media decisions in an integrated fashion.

Expand international licensing of Portable People Meter technology. Arbitron continues to explore opportunities that would facilitate the licensing of its Portable People Meter technology internationally into selected international regions, such as Western Europe, Latin America and the Asia/Pacific regions. Arbitron believes there is a demand for quality audience information internationally from global advertisers, from United States broadcasters who have acquired broadcasting interests in other countries and from an increasing number of private commercial broadcasters in other countries. International advertising markets operate similarly to the United States advertising market. Multi-national advertising agencies and advertisers tend to set the standards for measurement around the world, and often the lead has come from the United States.

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### **Customers, Sales and Marketing**

Arbitron's customers are primarily radio stations, cable companies, advertising agencies and corporate advertisers. As of December 31, 2001, Arbitron provided its radio audience measurement and related services to approximately 3,900 radio stations and 2,300 advertising agencies and advertisers nationwide under contracts that generally vary in length from one to seven years. In recent years, a small number of enterprises have greatly expanded their holdings of United States radio broadcasters, and this consolidation of ownership is continuing. As a result of consolidation of United States radio broadcasters, Clear Channel Communications, Inc. and Infinity Broadcasting Corp. represented approximately 23 percent and 11 percent, respectively, of Arbitron's revenue in 2001. Although the industry consolidation that has led to the increased concentration of Arbitron's customer base could put pressure on the pricing of Arbitron's radio ratings service, it has also contributed to an increase in the number of stations subscribing to the ratings service, as stations have become Arbitron customers upon their acquisition by larger broadcasting groups. It has also been Arbitron's experience that stations which are part of larger broadcasting groups are somewhat more likely to purchase Arbitron's analytical software applications and other services in addition to its core ratings service. Furthermore, Arbitron believes that it is well positioned to provide new products and services to meet the emerging needs of large broadcasting groups.

Through Arbitron's Portable People Meter technology and its webcast service, Arbitron is seeking to expand its constituency beyond traditional broadcasters, such as radio stations, to new media, such as cable television, satellite radio and television, and Internet audio and video webcasters. As of December 31, 2001, Arbitron provided its qualitative measurement and related services to approximately 172 local cable systems.

Arbitron markets its products and services in the United States through a direct sales force of approximately 76 sales account representatives and 27 trainers operating through offices in seven cities around the United States.

Arbitron has entered into a number of agreements with third parties to assist in marketing and selling its products and services in the United States. For example, Tapscan, Incorporated, which is an entity that is not affiliated with Arbitron, distributes, on an exclusive basis, Arbitron's QualiTAP software to the television and cable industries in the United States.

Arbitron supports its sales and marketing efforts through the following promotional efforts:

Gathering and publishing studies on emerging trends in the radio, streaming media and other media industries as well as the media habits of radio listeners and television, cable and Internet viewers, which studies are available for no charge on Arbitron's web site (<http://www.arbitron.com>);

Advertising in a number of key industry publications, including Inside Radio, Radio and Records, MediaWeek, Broadcasting and Cable, and Multichannel News;

Providing direct marketing programs directed toward radio stations, cable companies, advertising agencies and corporate advertisers;

Promoting Arbitron and the industries Arbitron serves through a public relations program aimed at the broadcasting, outdoor media, Internet, advertising and marketing trade press as well as select local and national consumer and business press;

Participating in key industry forums and interest groups, such as the Advertising Research Foundation, The American Association of Advertising Agencies, National Association of Broadcasters, The Television Bureau of Advertising, Cable Advertising Bureau, Women in Cable Television, Cable & Telecommunications Association for Marketing, and Outdoor Advertising Association as well as Internet roundtables and many state and local advertising and broadcaster associations;

Maintaining a significant presence at major industry conventions, such as those sponsored by the National Association of Broadcasters and Radio Advertising Bureau; and

Being a founding member of Radio Advertising Effectiveness Lab, an industry association providing information about the effectiveness of radio advertising.

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Internationally, Arbitron markets its services through approximately 14 research executives operating through Continental Research's office in the United Kingdom. Arbitron has recently expanded its international sales and marketing efforts to other countries, such as Western Europe, Latin America and the Asia/ Pacific regions. Additionally, Arbitron has entered into agreements with international media information services companies, such as Taylor Nelson Sofres, to license Arbitron's technology.

## **Competition**

Arbitron competes in some small markets in the radio audience measurement business with Eastlan Resources. Arbitron competes in Mexico in the radio audience measurement business with IBOPE Mexico and INRA International Research Mexico.

Arbitron competes with a large number of other providers of applications software, qualitative data and proprietary qualitative studies used by broadcasters, cable companies, advertising agencies and advertisers. These competitors include Strata Marketing Inc., Marketing Resources Plus (a division of VNU), AirWare RSS and Telmar Information Services Corp. in the area of applications software, and The Media Audit (a division of International Demographics, Inc.), Simmons Research Bureau, and Mediamark Research Inc. (MRI) in the area of qualitative data. Arbitron competes with these companies primarily on the basis of ease of use, reliability, end user experience and price. Arbitron is also aware of at least two companies, Telecontrol AG and The Pretesting Company, that are in the process of developing technologies that may compete with Arbitron's Portable People Meter.

Arbitron also competes with a number of companies in the webcast and Internet audience measurement industry, namely MeasureCast, Inc., Jupiter Media Metrix, Inc. and NetRatings, Inc. The market for webcast ratings and Internet audience measurement is new and rapidly evolving and is competitive. As the demand for webcasting and Internet measurement information increases, Arbitron expects competition in this area to intensify, especially given the pressure to create a uniform standard upon which companies will make meaningful decisions regarding online advertising. Arbitron believes that the principal competitive factors in this market are reliability, timeliness, the breadth and depth of measurement services offered, the ability to provide quality analytical services derived from the audience measurement information, end user experience and price.

Some of Arbitron's competitors may have greater financial, marketing, distribution and technical resources than Arbitron. Arbitron believes that its future growth and success will be dependent on its ability to compete with these and any other competitors and to design, develop and commercialize new products and services that address the industry needs for more efficient methods of data collection and processing and broader media measurement techniques. Arbitron cannot assure success in that competition.

## **Intellectual Property**

Arbitron relies on a combination of patents, copyrights, trademarks, service marks and trade secret laws, license agreements and other contractual restrictions to establish and protect its proprietary rights in its products and services. In the United States, Arbitron has been granted 23 patents and has six patent applications pending. Internationally, Arbitron has been granted 117 patents and has 74 patent applications pending. Arbitron's patents primarily relate to its data collection and processing systems and software and its Portable People Meter.

Arbitron's audience listening estimates are original works of authorship and are copyrightable under the federal copyright laws in the United States. Arbitron registers two core reports that contain the estimates, the Radio Market Report and the Radio County Coverage Report. The Radio Market Report is published either quarterly or semi-annually, depending on the Arbitron market surveyed, while the Radio County Coverage Report is released annually. Arbitron seeks copyrights for every Radio Market Report, for every survey and for each of the markets measured by Arbitron and each Radio County Coverage Report for every state in the United States. Arbitron also seeks copyright protection for its proprietary software and for databases comprising the Radio Market Report and other services containing its audience estimates and respondent level data. Prior to the publication of the printed Arbitron reports and release of the software containing the

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respondent level data, Arbitron registers its databases under the United States federal copyright laws. Arbitron's proprietary data regarding audience size and demographics is provided to customers through multi-year license agreements.

A number of Arbitron's services are marketed under United States federally registered trademarks that are helpful in creating recognition in the marketplace. Some of Arbitron's registered trademarks and service marks include: the Arbitron name and logo, MaximiSer, RetailDirect and RADAR. Arbitron has a pending trademark application for Arbitron PPM. Arbitron also has a number of common law trademarks, including Media Professional, QualiTAP, MediaMaster, Prospector and Schedule It. Arbitron has registered its name as a trademark in the United Kingdom, Mexico, the European Community and Japan and is exploring the registration of its marks in other foreign countries.

The laws of some countries might not protect Arbitron's intellectual property rights to the same extent as the laws of the United States. Effective patent, copyright, trademark and trade secret protection may not be available in every country in which Arbitron markets or licenses its products and services.

Arbitron believes its success depends primarily on the innovative skills, technical competence and marketing abilities of its personnel. Arbitron enters into confidentiality and assignment of inventions agreements with substantially all of its employees and enters into non-disclosure agreements with its suppliers and customers to limit access to and disclosure of its proprietary information.

Arbitron must guard against the unauthorized use or misappropriation of its audience estimates, databases and technology by third parties. There can be no assurance that the copyright laws and other statutory and contractual arrangements Arbitron currently depends upon will provide it sufficient protection to prevent the use or misappropriation of its audience estimates, databases and technology or deter independent third party development of competing information and technologies. The failure to protect Arbitron's proprietary information and intellectual property rights, and in particular, its audience estimates and databases, could severely harm Arbitron's business.

In addition, claims by third parties that Arbitron's current or future products or services infringe upon their intellectual property rights may harm Arbitron's business. Intellectual property litigation is complex and expensive, and the outcome of this litigation is difficult to predict. Arbitron has in the past been involved in litigation relating to the enforcement of its copyrights covering its radio listening estimates. Although Arbitron has generally been successful in these cases, there can be no assurance that the copyright laws and other statutory and contractual arrangements Arbitron currently depends upon will provide it sufficient protection to prevent the use or misappropriation of its audience estimates, databases and technology in the future. Arbitron was also involved in the successful defense of a patent infringement claim relating to its Portable People Meter. In 1993, The Pretesting Company sued Arbitron alleging infringement of one of The Pretesting Company's patents. Arbitron denied the claims. The court found that The Pretesting Company patent was invalid and the infringement case was dismissed. An appeal to the Federal Court of Appeals upheld the lower Court's judgment in Arbitron's favor. Any future litigation, regardless of outcome, may result in substantial expense to Arbitron and significant diversion of its management and technical personnel. Any adverse determination in any litigation may subject Arbitron to significant liabilities to third parties, require Arbitron to license disputed rights from other parties, if licenses to these rights could be obtained, or require Arbitron to cease using the technology.

## **Research and Development**

Arbitron's research and development activities have related primarily to the design and development of its data collection and processing systems and software applications, Arbitron's Portable People Meter and its proposed webcast service. Arbitron expects that it will continue to spend money on research and development activities over the next several years, particularly in light of the rapid technological changes affecting its business. The majority of the investment effort and spending will be dedicated to improving the quality and efficiency of Arbitron's data collection and processing systems, developing new software applications that will assist Arbitron's customers in realizing the full potential of Arbitron's audience measurement services, developing Arbitron's Portable People Meter technology and its webcast technology, and developing a single

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source service that will be able to measure audience and other information from a number of different forms of media. As of December 31, 2001, Arbitron employed approximately 187 employees dedicated to research and development.

### **Governmental Regulation**

Arbitron's Portable People Meter has been certified to meet Federal Communications Commission requirements relating to emissions standards and standards for modem connectivity. Additionally, all Portable People Meter equipment has been certified to meet the safety standards of Underwriter's Laboratories (commonly referred to as UL) as well as Canadian and European safety standards, except for the digital encoder which is currently in the UL approval process.

Arbitron's media research activities are regulated by the United States Federal Trade Commission in accordance with a Decision and Order issued in 1962 to CEIR, Inc., a predecessor company. This order originally arose in connection with the television ratings business and Arbitron believes that today it applies to all of Arbitron's media measurement services. The order requires full disclosure of the methodologies used by Arbitron and prohibits Arbitron from making representations in selling or offering to sell an audience measurement service without proper qualifications and limitations regarding probability sample, sampling error and accuracy or reliability of data. It prohibits Arbitron from making statements that any steps or precautions are taken to assure the proper maintenance of diaries unless such steps or precautions are in fact taken. It also prohibits Arbitron from making overly broad statements regarding the viewing a diary reflects. The order further prohibits Arbitron from representing the data as anything other than estimates and making a statement that the data is accurate to any precise mathematical value. The order requires that Arbitron make affirmative representations in its reports regarding non-response by survey participants and the effect of this non-response on the data, the hearsay nature of a survey participant's response, the fact that projections have been made, and the limitations and deficiencies of the techniques or procedures used. Arbitron believes that it has conducted and continues to conduct its radio audience measurement services in compliance with the order.

Arbitron's radio audience measurement service is accredited by and subject to the review of the Media Rating Council ( Council ). The Council is an industry organization created to assure high ethical and operational standards in audience measurement research. Arbitron's radio ratings service has been accredited by the Council since 1968. To merit continued accreditation of its ratings services, Arbitron must: (1) adhere to the Council's Minimum Standards for Media Rating Research; (2) supply full information to the Council regarding details of its operations; (3) conduct its media measurement services substantially in accordance with representations to its subscribers and the Council; and (4) submit to, and pay the cost of, thorough annual audits of accredited Arbitron services by certified public accounting firms engaged by the Council.

### **Employees**

As of December 31, 2001, Arbitron employed approximately 763 people on a full-time basis and 319 people on a part-time basis in the United States and approximately 33 people on a full-time basis and 405 people on a part-time basis internationally. None of Arbitron's employees are covered by a collective bargaining agreement. Arbitron believes its employee relations are good.

### **Business Risks**

#### **Risk Factors Relating to Arbitron's Businesses and the Industry in Which Arbitron Operates**

*Arbitron's business, financial condition and operating results are dependent on the performance of its radio audience measurement business.*

Arbitron's quantitative radio audience measurement service and related software sales represented approximately 87 percent of Arbitron's total revenue for 2001. Even if Arbitron is successful in launching its proposed Portable People Meter services and its webcast service, Arbitron expects that sales of its radio audience measurement service and related software will continue to represent a substantial portion of

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Arbitron's revenue for the foreseeable future. Any factors adversely affecting the pricing of, demand for or market acceptance of Arbitron's radio audience measurement service and related software, such as competition, technological change or consolidation in the radio industry, could significantly harm Arbitron's business, financial condition and operating results.

***Technological change may render Arbitron's products and services obsolete.***

Arbitron expects that the market for its products and services will be characterized by rapidly changing technology, evolving industry standards, frequent new product and service announcements and enhancements and changing customer demands. The introduction of new products and services embodying new technologies and the emergence of new industry standards could render existing products and services obsolete. Arbitron's continued success will depend on its ability to adapt to rapidly changing technologies and to improve the performance, features and reliability of its products and services in response to changing customer and industry demands. Arbitron may experience difficulties that could delay or prevent the successful design, development, testing, introduction or marketing of its products and services. Arbitron's new products and services, or enhancements to its existing products and services, such as its proposed Portable People Meter service and its webcast services, may not adequately meet the requirements of its current and prospective customers or achieve any degree of significant market acceptance.

***Consolidation in the radio broadcasting industry has led to Arbitron's increasing dependence on key customers. The loss of a key customer would significantly reduce Arbitron's revenue.***

The continuing consolidation in the radio broadcasting industry has led to Arbitron's increasing dependence on a limited number of key customers. The loss of a key customer would significantly reduce Arbitron's revenue. In 2001, Clear Channel Communications, Inc. and Infinity Broadcasting Corp., represented approximately 23 percent and 11 percent, respectively, of Arbitron's revenue. Arbitron's agreements with these customers are not exclusive and contain no renewal obligations.

In August 2001, Arbitron entered into four year License Agreements with Clear Channel, effective January 1, 2001, to provide audience estimates, software and other ancillary services to Clear Channel radio stations in 185 markets. Contracts with Infinity Broadcasting, which collectively accounted for nine percent of Arbitron's revenue in 2001, expired at the end of 2001 and renewal negotiations with Infinity Broadcasting commenced during the fourth quarter of 2001. Arbitron cannot give any assurances that it will renew Infinity Broadcasting or attract new customers that could replace the revenue that would be lost if a key customer failed to renew its agreement with Arbitron. The loss of a key customer would materially harm Arbitron's business and operating results.

***Consolidation in the radio broadcasting industry may put pressure on the pricing of Arbitron's radio audience measurement service and related software sales, thereby leading to decreased earnings.***

The continuing consolidation in the radio broadcasting industry could put pressure on the pricing of Arbitron's radio audience measurement service and related software sales, from which Arbitron derives a substantial majority of its total revenue. Arbitron prices its radio audience measurement service and related software applications on a per radio station, per service or product basis, negotiating licenses and pricing with the owner of each radio station or group of radio stations. Consolidation in the radio broadcasting industry could have the effect that the greater the number of radio stations owned and the greater the number of services and applications purchased by a radio station owner, the more likely the owner is to seek discounts from Arbitron. While Arbitron has experienced some success in offsetting the revenue impact of any pricing pressure through effective negotiations and by providing radio audience measurement services and additional software applications and other services to additional stations within a radio group, there can be no assurance as to the degree to which Arbitron will be able to continue to do so, which could have a material adverse effect on its financial condition and operating results.

***Arbitron's agreements with its customers are not exclusive and contain no renewal obligations.***

Arbitron's customers are not prohibited from entering into agreements with any other competing service provider, and once the term of the agreement (usually one to seven years) expires, there is no automatic

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renewal feature in the contract. Because the Arbitron Radio Market Report is delivered on a quarterly basis, it is common for Arbitron's customer contracts to expire before renewal negotiations are concluded. Therefore, there may be significant uncertainty as to whether a particular customer will renew its contract, and if so, on what terms. If a customer(s) owning stations in a significant number of markets does not renew its contracts, this could have a material adverse effect on Arbitron's business and operating results.

***Arbitron expects to invest in the development and commercialization of its Portable People Meter technology and a webcast service, neither of which may be successfully developed nor commercialized. The diversion of Arbitron's resources to these technologies could adversely affect Arbitron's operating results.***

Arbitron expects to continue to invest in the development of its Portable People Meter, which is a technology that measures radio, television, cable, Internet streaming and satellite radio and television audiences. In the fourth quarter of 2001, Arbitron began the second phase of its United States trial in the Philadelphia television market. Arbitron also expects to invest in the development of the webcast ratings service that measures the audiences of audio and video webcasts. Media webcast advertising may not develop to be significant enough for the market to sustain a ratings service. The Portable People Meter technology and the webcast service may never be successfully developed or commercialized. The diversion of Arbitron's resources to the development and commercialization of the Portable People Meter service and the webcast service may adversely affect Arbitron's operating results.

In addition, clients may not support Arbitron's conversion to a Portable People Meter based audience measurement service, which may include refusing to encode their broadcasts and not agreeing to any increases in license fees.

***The approval by the Librarian of Congress of the Copyright Arbitration Royalty Panel's report recommending implementation of royalties and license fees connected with the performance of certain entertainment by means of webcasting may affect the market for webcast services.***

On February 20, 2002, the Copyright Arbitration Royalty Panel ( CARP ) issued its report proposing among other things, that commercial and noncommercial broadcasters who stream their over-the-air signals and Internet-only webcasters pay performance royalties and license fees. The CARP report will be reviewed by the United States Copyright Office, which will recommend to the Librarian of Congress whether to accept, reject or modify the rates and terms set forth in the report. The Librarian must accept or reject the report no later than May 21, 2002. If the CARP report is accepted by the Librarian as is, the new royalties and licensing fees imposed may make webcasting of certain entertainment prohibitively expensive and impractical for commercialization, thereby reducing the market for webcast services.

***Nielsen Media Research, Inc. may decide not to exercise its option to join Arbitron and share in the potential deployment of the Portable People Meter on a nationwide basis, which could adversely affect the commercial success of the Portable People Meter and could adversely affect the future growth of Arbitron's business.***

On May 31, 2000, Arbitron entered into an agreement with Nielsen Media Research, Inc., a provider of United States television audience measurement services, under which Arbitron granted Nielsen Media Research an option to join Arbitron in the potential commercial deployment of the Portable People Meter in a large number of local markets. A decision by Nielsen Media Research not to exercise this option could adversely affect the commercial success of the Portable People Meter and could harm Arbitron's business.

***Arbitron's success will depend on its ability to protect its intellectual property rights.***

Arbitron believes that the success of its business will depend, in part, on:

obtaining patent protection for its technology, products and services, in particular its Portable People Meter;

defending its patents once obtained;

preserving its trade secrets;

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defending its copyrights for its data services and audience estimates; and

operating without infringing upon patents and proprietary rights held by third parties.

Arbitron relies on a combination of contractual provisions, confidentiality procedures and patent, copyright, trademark, service mark and trade secret laws to protect the proprietary aspects of its technology, data and estimates. These legal measures afford only limited protection and competitors may gain access to Arbitron's intellectual property and proprietary information. Litigation may be necessary to enforce Arbitron's intellectual property rights, to protect its trade secrets and to determine the validity and scope of Arbitron's proprietary rights. Arbitron has in the past been involved in litigation relating to the enforcement of its copyrights covering its radio listening estimates. Although Arbitron has generally been successful in these cases, there can be no assurance that the copyright laws and other statutory and contractual arrangements Arbitron currently depends upon will provide it sufficient protection in the future to prevent the use or misappropriation of its audience estimates, databases and technology. Arbitron was also involved in the successful defense of a patent infringement claim relating to its Portable People Meter. In 1993, The Pretesting Company sued Arbitron alleging infringement of one of The Pretesting Company's patents. Arbitron denied the claims, the court found that The Pretesting Company patent was invalid and the infringement case was dismissed. An appeal to the Federal Court of Appeals upheld the lower Court's judgment in Arbitron's favor. Any future litigation, regardless of outcome, could result in substantial expense and diversion of resources with no assurance of success and could seriously harm Arbitron's business and operating results.

*One of Arbitron's strategies is to expand its international operations, which involve unique risks and, if unsuccessful, may impede the growth of Arbitron's business.*

Arbitron continues to explore opportunities that would facilitate licensing its Portable People Meter technology into selected international markets, such as Western Europe, Latin America and the Asia/Pacific regions. Arbitron believes that there is a market for use of the Portable People Meter technology internationally because international advertising markets operate similarly to the United States advertising markets. Multi-national advertising agencies and advertisers tend to set the standards for measurement around the world, and historically the lead has come from the United States.

International operations are subject to various additional risks which could adversely affect Arbitron's business, including:

costs of customizing services for foreign customers;

difficulties in managing and staffing international operations;

reduced protection for intellectual property rights in some countries;

longer sales and payment cycles;

the burdens of complying with a wide variety of foreign laws;

exposure to local economic conditions;

exposure to local political conditions, including the risk of seizure of assets by a foreign government; and

exposure to foreign currency exchange rate fluctuation.

Audience estimates become currency when they achieve credibility and trust in the eyes of the media marketplace. In some countries, there is little trust in existing measurement services due to the perception of tampering and fraud in the current ratings system. In expanding its international scope, potential tampering and fraud by broadcasters or other third parties with Arbitron's methodology is also a potential risk.



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*The success of Arbitron's radio audience measurement business depends on diarykeepers who record their listening habits in diaries and send these diaries to Arbitron. The failure of Arbitron to recruit participants and to collect these diaries would severely harm Arbitron's business.*

Arbitron uses listener diaries to gather radio listening data from sample households in the United States local markets for which it currently provides radio ratings. A representative sample of the population in each local market is randomly selected for each survey. This sample is recruited via telephone to keep a diary of their radio usage for one week. Participants are asked to designate in their diary what station(s) they are listening to, when they are listening and where they are listening, such as home, car, work or other place. To encourage their participation in the survey, Arbitron gives these diarykeepers a modest cash incentive. Arbitron processes more than 1.4 million diaries every year to produce audience listening estimates. The failure of Arbitron to successfully recruit participants and to convince diarykeepers to record their listening habits and mail in their diaries could severely harm Arbitron's radio audience measurement business.

In addition