ARBITRON INC
Form 10-Q
May 07, 2009

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 March 31, 2009

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.)

9705 Patuxent Woods Drive
Columbia, Maryland 21046
(Address of principal executive offices) (Zip Code)
(410) 312-8000
(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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 26,480,190 shares of common stock, par value $0.50 per share, outstanding as of May 1, 2009.

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™*, *PPM™*, Arbitron *PPM®*, *Marketing Resources Plus®, MRP℠, PrintPlus®, MapMAKER Direct℠*, *Media Professional℠, Media Professional Plus℠*, *Qualitap℠* and *Schedule-It℠*.

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

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

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Current assets		
Cash and cash equivalents	$ 4,268	$ 8,658
Trade accounts receivable, net of allowance for doubtful accounts of $2,797 in 2009 and $2,598 in 2008	46,306	50,037
Inventory	1,579	2,507
Prepaid expenses and other current assets	14,542	10,167
Deferred tax assets	2,354	2,476
Total current assets	69,049	73,845
Investment in affiliate	8,400	14,901
Property and equipment, net	64,242	62,930
Goodwill, net	38,500	38,500
Other intangibles, net	915	950
Noncurrent deferred tax assets	7,983	7,576
Other noncurrent assets	557	895
Total assets	$ 189,646	$ 199,597
Liabilities and Stockholders Deficit		
Current liabilities		
Accounts payable	$ 10,249	$ 15,401
Accrued expenses and other current liabilities	31,457	29,732
Short-term borrowings	3,000	
Deferred revenue	46,347	57,304
Total current liabilities	91,053	102,437
Long-term debt	75,000	85,000
Other noncurrent liabilities	26,625	26,655
Total liabilities	192,678	214,092
Commitments and contingencies		
Stockholders deficit		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
Common stock, $0.50 par value, authorized 500,000 shares, issued 32,338 shares as of December 31, 2009, and 2008	16,169	16,169
Net distributions to parent prior to March 30, 2001, spin-off	(239,042)	(239,042)
Retained earnings subsequent to spin-off	237,613	226,345
Common stock held in treasury, 5,858 shares in 2009 and 5,928 shares in 2008	(2,929)	(2,964)

Accumulated other comprehensive loss	(14,843)	(15,003)
Total stockholders deficit	(3,032)	(14,495)
Total liabilities and stockholders deficit	$ 189,646	$ 199,597

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2009	**2008**
Revenue	$ 98,489	$ 94,065
Costs and expenses		
Cost of revenue	39,529	35,110
Selling, general and administrative	18,424	18,552
Research and development	9,306	9,664
Restructuring and reorganization	8,171	
Total costs and expenses	75,430	63,326
Operating income	23,059	30,739
Equity in net loss of affiliate(s)	(3,000)	(3,945)
Income from continuing operations before interest and income tax expense	20,059	26,794
Interest income	19	184
Interest expense	333	198
Income from continuing operations before income tax expense	19,745	26,780
Income tax expense	7,404	10,468
Income from continuing operations	12,341	16,312
Discontinued operations		
Loss from discontinued operations, net of taxes		(495)
Gain on sale of discontinued operations, net of taxes		450
Total loss from discontinued operations, net of taxes		(45)
Net income	$ 12,341	$ 16,267
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.47	$ 0.58
Discontinued operations		
Net income	$ 0.47	$ 0.58
Diluted		
Continuing operations	$ 0.46	$ 0.58

Discontinued operations		
Net income	$ 0.46	$ 0.57
Weighted-average common shares used in calculations		
Basic	26,431	28,191
Potentially dilutive securities	114	121
Diluted	26,545	28,312
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 Cash Flows
(In thousands and unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities		
Net income	$ 12,341	$ 16,267
Loss from discontinued operations, net of taxes		45
Income from continuing operations	12,341	16,312
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	5,188	3,782
Amortization of intangible assets	35	140
Loss on asset disposals	543	362
Deferred income taxes	(392)	799
Equity in net loss of affiliate(s)	3,000	3,945
Distributions from affiliate	3,501	3,500
Bad debt expense	363	280
Non-cash share-based compensation	1,883	1,618
Changes in operating assets and liabilities		
Trade accounts receivable	3,368	1,686
Prepaid expenses and other assets	(4,185)	(3,590)
Inventory	837	(45)
Accounts payable	(4,327)	(1,517)
Accrued expenses and other current liabilities	1,673	(2,652)
Deferred revenue	(10,957)	(8,585)
Other noncurrent liabilities	368	52
Net cash used in operating activities of discontinued operations		(871)
Net cash provided by operating activities	**13,239**	**15,216**
Cash flows from investing activities		
Additions to property and equipment	(7,808)	(7,023)
Investment in affiliate		(388)
Net cash provided by investing activities from discontinued operations		1,027
Net cash used in investing activities	**(7,808)**	**(6,384)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	476	1,054
Stock repurchases		(36,911)
Tax (loss) benefits realized from share-based awards	(613)	27
Dividends paid to stockholders	(2,640)	(2,830)
Borrowings under Credit Facility	3,000	45,000

Payments of outstanding debt	(10,000)	(12,000)
Net cash used in financing activities	**(9,777)**	**(5,660)**
Effect of exchange rate changes on cash and cash equivalents	(44)	5
Net change in cash and cash equivalents	(4,390)	3,177
Cash and cash equivalents at beginning of period	8,658	22,128
Cash and cash equivalents at end of period	**$ 4,268**	**$ 25,305**

See accompanying notes to consolidated financial statements.

ARBITRON INC.
Notes to Consolidated Financial Statements
March 31, 2009
(unaudited)

1. Basis of Presentation and Consolidation

Presentation

The accompanying unaudited consolidated financial statements of Arbitron Inc. (the Company or Arbitron) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and are of a normal recurring nature. The consolidated balance sheet as of December 31, 2008, was audited at that date, but all of the information and notes as of December 31, 2008, required by U.S. generally accepted accounting principles have not been included in this Form 10-Q. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Consolidation

The consolidated financial statements of the Company for the three months ended March 31, 2009, 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, 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 (Continental) 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 2 for further information.

2. Discontinued Operation

During the fourth quarter of 2007, the Company approved a plan to sell 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 the Company s annual consolidated financial statements filed on Form 10-K for the years ended December 31, 2008, and 2007. On January 31, 2008, the sale of Continental was completed at a gain of $0.5 million. The following table presents key information associated with the operating results of the discontinued operations for the 2008 reporting period presented in the consolidated financial statements filed in this quarterly report on Form 10-Q for the period ended March 31, 2009 (in thousands):

Results of Discontinued Operations		**Three Months Ended March 31, 2008**
Revenue	$	1,011
Operating expenses		1,802
Operating loss		(791)
Net interest income		7
Loss before income tax benefit		(784)
Income tax benefit		289
Loss from discontinued operations, net of taxes		(495)
Gain on sale, net of taxes		450
Total loss from discontinued operations, net of taxes	$	(45)

3. 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 with such increased financing to be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent. As of March 31, 2009, and December 31, 2008, the outstanding borrowings under the Credit Facility were $78.0 million and $85.0 million, respectively. The $78.0 million of debt recorded as of March 31, 2008, included $3.0 million in short-term borrowings under the provisions of the Credit Facility. There was no short-term debt recorded as of December 31, 2008.

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 March 31, 2009, and December 31, 2008, the Company had no material domestic subsidiaries as defined by the terms of the Credit Facility. As of March 31, 2009, and December 31, 2008, 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 March 31, 2009, and December 31, 2008, was 1.40% and 1.31%, respectively.

Interest paid during the three-month periods ended March 31, 2009, and 2008, was $0.3 million and $0.2 million, respectively. Interest capitalized during each of the three-month periods ended March 31, 2009, and 2008 was less than $0.1 million. Non-cash amortization of deferred financing costs classified as interest expense during each of the three-month periods ended March 31, 2009, and 2008, was less than $0.1 million.

4. Stockholders Deficit

Changes in stockholders deficit for the three months ended March 31, 2009, were as follows (in thousands):

	Shares Outstanding	Common Stock	Treasury Stock	Net Distributions to Parent Prior to March 30, 2001 Spin-off	Retained Earnings Subsequent to Spin-off	Accumulated Other Comprehensive Loss	Total Stockholders Deficit
Balance as of December 31, 2008	26,410	$16,169	$(2,964)	$ (239,042)	$226,345	$ (15,003)	$(14,495)
Net income					12,341		12,341
Common stock issued from treasury stock	70		35		301		336
Tax loss from share-based awards					(613)		(613)
Non-cash share-based compensation					1,883		1,883
Dividends declared					(2,644)		(2,644)
Other comprehensive income						160	160
Balance as of March 31, 2009	26,480	$16,169	$(2,929)	$ (239,042)	$237,613	$ (14,843)	$ (3,032)

A quarterly cash dividend of $0.10 per common share was paid to stockholders on April 1, 2009.

5. Net Income per Weighted-Average Common Share

The computations of basic and diluted net income per weighted-average common share for the three-month periods ended March 31, 2009, and 2008, are based on the Company s weighted-average shares of common stock and potentially dilutive securities outstanding.

Potentially dilutive securities are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all stock options are used to repurchase the Company s common stock at the average market price for the period. As of March 31, 2009, and 2008, there were options to purchase 2,048,400 and 1,915,916 shares of the Company s common stock outstanding, of which options to purchase 2,047,270 and 453,930 shares of the Company s common stock, respectively, were excluded from the computation of diluted net income per weighted-average common share for the quarter ended March 31, 2009, and 2008, respectively, either because the options exercise prices were greater than the average market price of the Company s common shares or assumed repurchases from proceeds from the options exercise were potentially antidilutive. The Company elected to use the alternative method prescribed by the Financial Accounting Standards Board (FASB) Staff Position Statement of Financial Accounting Standards (SFAS) No. 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards,* for determining its initial hypothetical tax benefit pool. In addition, in accordance with provisions under SFAS No. 123R, *Share-Based Payment,* (SFAS No. 123R) the assumed proceeds associated with the entire amount of tax benefits for share-based awards granted prior to SFAS No. 123R adoption, if any, were used in the diluted shares computation. For share-based awards granted subsequent to the January 1, 2006, SFAS No. 123R adoption date, the assumed proceeds for the related excess tax benefits, if any, were used in the diluted shares computation.

6. Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Three Months Ended March 31,	
	2009	**2008**
Net income	$ 12,341	$ 16,267
Other comprehensive income (loss):		
Change in foreign currency translation adjustment, net of tax benefit of $52, and $240 for the three months ended March 31, 2009, and 2008, respectively	(79)	(371)
Change in retirement liabilities, net of tax expense of $159, and $93 for the three months ended March 31, 2009, and 2008, respectively	239	144
Other comprehensive income (loss)	160	(227)
Comprehensive income	$ 12,501	$ 16,040

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

	March 31, 2009	**December 31, 2008**
Foreign currency translation adjustment, net of taxes	$ (363)	$ (284)
Retirement plan liabilities, net of taxes	(14,480)	(14,719)
Accumulated other comprehensive loss	$ (14,843)	$ (15,003)

7. Investment in Affiliate

Investment in affiliate(s) consists of the Company s 49.5% interest in Scarborough, a syndicated, qualitative local market research partnership, and until its termination on June 30, 2008, the Company s 50.0% interest in Project Apollo LLC, a pilot national marketing research service. Both investments are accounted for using the equity method of accounting. The following table shows the investment activity for each of the Company s affiliates and in total for the three months ended March 31, 2009, and 2008:

Summary of Investment Activity in Affiliates (in thousands)

	Three Months Ended March 31, 2009			**Three Months Ended March 31, 2008**		
	Scarborough	Project Apollo LLC	Total	Scarborough	Project Apollo LLC	Total
Beginning balance	$14,901	$	$14,901	$14,420	$ 842	$15,262
Equity in net loss of affiliate(s)	(3,000)		(3,000)	(2,914)	(1,031)	(3,945)
Distributions from affiliate	(3,501)		(3,501)	(3,500)		(3,500)
Cash investments in affiliate					388	388
Ending balance at March 31	$ 8,400	$	$ 8,400	$ 8,006	$ 199	$ 8,205

8. Prepaids and Other Current Assets

Prepaids and other current assets as of March 31, 2009 and December 31, 2008, consists of the following (in thousands):