ARBITRON INC
Form 10-Q
November 04, 2009

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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 September 30, 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 26,535,128 shares of common stock, par value $0.50 per share, outstanding as of October 30, 2009.

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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.

We routinely post important information on our website at www.arbitron.com. Information contained on our website is not part of this quarterly report.

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ARBITRON INC.

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

	September 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Current assets		
Cash and cash equivalents	$ 12,307	$ 8,658
Trade accounts receivable, net of allowance for doubtful accounts of $2,956 in 2009 and $2,598 in 2008	50,038	50,037
Inventory	651	2,507
Prepaid expenses and other current assets	11,781	10,167
Deferred tax assets	2,486	2,476
Total current assets	77,263	73,845
Equity and other investments	10,534	14,901
Property and equipment, net	68,459	62,930
Goodwill, net	38,500	38,500
Other intangibles, net	844	950
Noncurrent deferred tax assets	3,414	7,576
Other noncurrent assets	485	895
Total assets	$ 199,499	$ 199,597
Liabilities and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 7,153	$ 15,401
Accrued expenses and other current liabilities	19,650	29,732
Deferred revenue	48,519	57,304
Total current liabilities	75,322	102,437
Long-term debt	85,000	85,000
Other noncurrent liabilities	21,027	26,655
Total liabilities	181,349	214,092
Commitments and contingencies		
Stockholders equity (deficit)		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
Common stock, $0.50 par value, 500,000 shares authorized, 32,338 shares issued as of September 30, 2009, and December 31, 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	254,660	226,345
	(2,903)	(2,964)

Common stock held in treasury, 5,806 shares in 2009 and 5,928 shares in 2008				
Accumulated other comprehensive loss		(10,734)		(15,003)
Total stockholders equity (deficit)		18,150		(14,495)
Total liabilities and stockholders equity (deficit)	$	199,499	$	199,597

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Revenue	$ 98,123	$ 102,526
Costs and expenses		
Cost of revenue	44,454	41,795
Selling, general and administrative	16,908	20,058
Research and development	10,385	10,274
Restructuring and reorganization	1,718	
Total costs and expenses	73,465	72,127
Operating income	24,658	30,399
Equity in net loss of affiliate	(1,948)	(2,194)
Income from continuing operations before interest and income tax expense	22,710	28,205
Interest income	11	127
Interest expense	365	644
Income from continuing operations before income tax expense	22,356	27,688
Income tax expense	8,637	10,788
Income from continuing operations	13,719	16,900
Discontinued operations		
Gain from discontinued operations, net of taxes		57
Loss on sale of discontinued operations, net of taxes		(2)
Total gain from discontinued operations, net of taxes		55
Net income	$ 13,719	$ 16,955
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.52	$ 0.63
Discontinued operations		
Net income	$ 0.52	$ 0.64

Diluted		
Continuing operations	$ 0.51	$ 0.63
Discontinued operations		
Net income	$ 0.51	$ 0.63
Weighted-average common shares used in calculations		
Basic	26,515	26,652
Potentially dilutive securities	173	248
Diluted	26,688	26,900
Dividends declared per common share outstanding	$ 0.10	$ 0.10

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenue	$ 283,411	$ 275,246
Costs and expenses		
Cost of revenue	139,745	129,490
Selling, general and administrative	54,683	58,587
Research and development	30,275	29,802
Restructuring and reorganization	10,074	
Total costs and expenses	234,777	217,879
Operating income	48,634	57,367
Equity in net income (loss) of affiliate(s)	633	(973)
Income from continuing operations before interest and income tax expense	49,267	56,394
Interest income	44	582
Interest expense	1,063	1,524
Income from continuing operations before income tax expense	48,248	55,452
Income tax expense	18,692	21,615
Income from continuing operations	29,556	33,837
Discontinued operations		
Loss from discontinued operations, net of taxes		(438)
Gain on sale of discontinued operations, net of taxes		423
Total loss from discontinued operations, net of taxes		(15)
Net income	$ 29,556	$ 33,822
Income per weighted-average common share		
Basic		
Continuing operations	$ 1.12	$ 1.24
Discontinued operations		
Net income	$ 1.12	$ 1.24

Diluted				
Continuing operations	$	1.11	$	1.23
Discontinued operations				
Net income	$	1.11	$	1.23
Weighted-average common shares used in calculations				
Basic		26,478		27,339
Potentially dilutive securities		151		207
Diluted		26,629		27,546
Dividends declared per common share outstanding	$	0.30	$	0.30

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Cash Flows
(In thousands and unaudited)

	Nine Months Ended September 30,	
	2009	**2008**
Cash flows from operating activities		
Net income	$ 29,556	$ 33,822
Loss from discontinued operations, net of taxes		15
Income from continuing operations	29,556	33,837
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	16,759	12,392
Amortization of intangible assets	106	267
Loss on asset disposals	1,618	1,052
Loss on benefit plan lump sum settlements	1,781	
Deferred income taxes	1,362	2,303
Equity in net (income) loss of affiliate(s)	(633)	973
Distributions from affiliate	8,400	6,850
Bad debt expense	999	840
Non-cash share-based compensation	7,500	6,399
Changes in operating assets and liabilities		
Trade accounts receivable	(1,000)	(1,327)
Prepaid expenses and other assets	(1,342)	(1,115)
Inventory	1,737	(1,118)
Accounts payable	(6,495)	(525)
Accrued expenses and other current liabilities	(10,249)	(4,004)
Deferred revenue	(8,785)	(10,890)
Other noncurrent liabilities	(288)	(326)
Net cash used in operating activities of discontinued operations		(1,170)
Net cash provided by operating activities	**41,026**	**44,438**
Cash flows from investing activities		
Additions to property and equipment	(25,475)	(22,734)
Purchases of equity and other investments	(3,400)	(1,061)
Payments related to business acquisitions		(522)
Net cash provided by investing activities from discontinued operations		2,123
Net cash used in investing activities	**(28,875)**	**(22,194)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	1,045	9,815
Stock repurchases		(96,266)

Tax (loss) benefits realized from share-based awards	(1,639)	955
Dividends paid to stockholders	(7,933)	(8,367)
Borrowings under Credit Facility	33,000	125,000
Payments under Credit Facility	(33,000)	(67,000)
Net cash used in financing activities	**(8,527)**	**(35,863)**
Effect of exchange rate changes on cash and cash equivalents	25	(18)
Net change in cash and cash equivalents	3,649	(13,637)
Cash and cash equivalents at beginning of period	8,658	22,128
Cash and cash equivalents at end of period	**$ 12,307**	**$ 8,491**

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Notes to Consolidated Financial Statements
September 30, 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- and nine-months ended September 30, 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 Continental, on January 31, 2008. The financial information of Continental and Euro Fieldwork Limited has been separately reclassified within the consolidated financial statements as a discontinued operation. See Note 2 for further information.

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2. Discontinued Operation

During the fourth quarter of 2007, the Company approved a plan to sell Continental. Therefore, 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 September 30, 2009 (in thousands):

Results of Discontinued Operations	**Three Months Ended September 30, 2008**	**Nine Months Ended September 30, 2008**
Revenue	$	$ 1,011
Operating expenses		1,802
Operating loss		(791)
Net interest income		7
Loss before income tax benefit		(784)
Income tax benefit	57	346
Gain (loss) from discontinued operations, net of taxes	57	(438)
(Loss) gain on sale, net of taxes	(2)	423
Total gain (loss) from discontinued operations, net of taxes	$ 55	$ (15)

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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 by up to $50.0 million to an aggregate of $200.0 million. Such increased financing would be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent. During the third quarter, the Company repaid $20.0 million of its outstanding borrowings under the Credit Facility. As of September 30, 2009, and December 31, 2008, the outstanding borrowings under the Credit Facility were $85.0 million and $85.0 million, respectively.

Under the terms of the Credit Facility, the Company is required to maintain certain leverage and coverage ratios and meet other financial conditions. The Credit Facility 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 September 30, 2009, and December 31, 2008, the Company had no material domestic subsidiaries as defined by the terms of the Credit Facility. As of September 30, 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 Credit Facility 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 Credit Facility 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 September 30, 2009, and December 31, 2008, was 1.05% and 1.31%, respectively.

Interest paid during the nine-month periods ended September 30, 2009, and 2008, was $1.1 million and $1.6 million, respectively. Interest capitalized during the nine-month periods ended September 30, 2009, and 2008, was less than $0.1 million and $0.1 million, respectively. Non-cash amortization of deferred financing costs classified as interest expense during each of the nine-month periods ended September 30, 2009, and 2008, was $0.1 million.

Interest capitalized during each of the three-month periods ended September 30, 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 September 30, 2009, and 2008, was less than $0.1 million.

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4. Stockholders Equity (Deficit)

Changes in stockholders equity (deficit) for the nine months ended September 30, 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 Equity (Deficit)
Balance as of December 31, 2008	26,410	$16,169	$(2,964)	$(239,042)	$226,345	$(15,003)	$(14,495)
Net income					29,556		29,556
Common stock issued from treasury stock	122		61		842		903
Tax loss from share-based awards					(1,639)		(1,639)
Non-cash share-based compensation					7,500		7,500
Dividends declared					(7,944)		(7,944)