ARBITRON INC
Form 10-Q
November 07, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2003

Or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ___________ to _________

Commission file number: 1-1969

ARBITRON INC.

(Exact name of registrant as specified in its charter)

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

142 West 57th Street
New York, New York 10019
(Address of principal executive offices) (Zip Code)
(212) 887-1300
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

The registrant had 30,351,893 shares of common stock, par value $0.50 per share, outstanding as of October 31, 2003.

ARBITRON INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ARBITRON INC.
Consolidated Balance Sheets
(In thousands, except per share data)

	September 30, 2003	December 31, 2002
	(unaudited)	(audited)
Assets		
Current assets		
Cash and cash equivalents	$ 66,214	$ 43,095
Trade accounts receivable, net of allowance for doubtful accounts of $1,095 in 2003 and $1,043 in 2002	14,305	20,509
Deferred income taxes	21,819	20,488
Prepaid expenses and other current assets	3,509	2,330
Total current assets	105,847	86,422
Investments in affiliate	6,733	10,249
Property and equipment, net	12,613	12,370
Goodwill, net	32,937	32,937
Other intangibles, net	1,649	2,371
Deferred income taxes	4,594	8,869
Other noncurrent assets	2,945	2,820
Total assets	$ 167,318	$ 156,038
Liabilities and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 4,270	$ 4,475
Accrued expenses and other current liabilities	36,271	24,708
Deferred revenue	49,447	54,746
Total current liabilities	89,988	83,929
Noncurrent liabilities		
Long-term debt	115,000	165,000
Other noncurrent liabilities	4,305	7,688
Total liabilities	209,293	256,617
Stockholders equity (deficit)		
Common stock, $0.50 par value, authorized 500,000 shares, issued 32,336 shares	16,168	16,168
Additional paid-in capital	84,739	69,187
Accumulated earnings (net distributions to Ceridian in excess of accumulated earnings) prior to spin-off	(242,870)	(242,870)
Retained earnings subsequent to spin-off	104,057	62,922
Common stock held in treasury, 2,141 shares and 2,725 shares, respectively	(1,070)	(1,363)
Accumulated other comprehensive loss	(2,999)	(4,623)
Total stockholders equity (deficit)	(41,975)	(100,579)
Total liabilities and stockholders equity (deficit)	$ 167,318	$ 156,038

See notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2003	**2002**
Revenue	$75,319	$69,560
Costs and expenses		
Cost of revenue	23,694	20,195
Selling, general and administrative	14,070	13,494
Research and development	6,294	6,168
Total costs and expenses	44,058	39,857
Operating income	31,261	29,703
Proportionate share of net loss of affiliate	(637)	(669)
Income before interest and income tax expense	30,624	29,034
Interest income	174	162
Interest expense	2,911	4,119
Income before income tax expense	27,887	25,077
Income tax expense	10,876	9,655
Net income	$17,011	$15,422
Net income per weighted average common share		
Basic	$ 0.56	$ 0.52
Diluted	$ 0.55	$ 0.51
Weighted average common shares used in calculations		
Basic	30,127	29,492
Potentially dilutive securities	635	589
Diluted	30,762	30,081

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2003	**2002**
Revenue	$208,121	$191,971
Costs and expenses		
Cost of revenue	71,933	64,148
Selling, general and administrative	42,160	39,157
Research and development	18,989	18,439
Total costs and expenses	133,082	121,744
Operating income	75,039	70,227
Equity in net income of affiliate	1,584	1,398
Income before interest and income tax expense	76,623	71,625
Interest income	547	424
Interest expense	9,736	13,053
Income before income tax expense	67,434	58,996
Income tax expense	26,299	22,714
Net income	$ 41,135	$ 36,282
Net income per weighted average common share		
Basic	$ 1.38	$ 1.24
Diluted	$ 1.35	$ 1.21
Weighted average common shares used in calculations		
Basic	29,859	29,359
Potentially dilutive securities	579	645
Diluted	30,438	30,004

See notes to consolidated financial statements.

ARBITRON INC.
Consolidated Statements of Cash Flows
(Dollars in thousands)
(unaudited)

	Nine Months Ended September 30, 2003	2002
Cash flows from operating activities		
Net income	$ 41,135	$ 36,282
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,856	2,296
Other amortization	722	869
Loss on disposals of property and equipment	102	
Asset impairment charges	178	
Deferred income taxes	2,011	18,571
Equity in net income of affiliate	(1,584)	(1,398)
Distributions from affiliate	5,100	3,750
Bad debt expense	225	298
Tax benefit from stock option exercises	2,791	1,795
Changes in operating assets and liabilities		
Trade accounts receivable	6,027	1,062
Prepaid expenses and other assets	(882)	(1,088)
Accounts payable	(228)	(1,431)
Accrued expenses and other current liabilities	11,532	(110)
Deferred revenue	(5,308)	(7,661)
Other noncurrent liabilities	(915)	89
Net cash provided by operating activities	63,762	53,324
Cash flows from investing activities		
Additions to property and equipment	(3,369)	(5,730)
Payment for business acquisition		(15,000)
Net cash used in investing activities	(3,369)	(20,730)
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	12,647	6,140
Repayment of long-term debt	(50,000)	(30,000)
Net cash used in financing activities	(37,353)	(23,860)
Effect of exchange rate changes on cash and cash equivalents	79	159
Net increase in cash and cash equivalents	23,119	8,893
Cash and cash equivalents at beginning of period	43,095	21,043
Cash and cash equivalents at end of period	$ 66,214	$ 29,936

See notes to consolidated financial statements.

ARBITRON INC.
Notes to Consolidated Financial Statements
September 30, 2003
(unaudited)

1. Basis of Presentation and Consolidation

Presentation

The accompanying unaudited financial statements of Arbitron Inc. (the Company or Arbitron) have been prepared in accordance with accounting principles generally accepted in the United States of America (the U.S.) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered for fair presentation have been included. Certain amounts in the financial statements for prior periods have been reclassified to conform to the current period s presentation. The consolidated balance sheet as of December 31, 2002 was derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2002.

Consolidation

The consolidated financial statements of Arbitron reflect the consolidated financial position, results of operations and cash flows of Arbitron Inc. and its subsidiaries: Arbitron Holdings Inc., Ceridian Infotech (India) Private Limited, CSW Research Limited and Euro Fieldwork Limited.

2. Pro Forma Disclosures of Stock Based Compensation

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25,* to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transitions and Disclosures*) established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123.

ARBITRON INC.
Notes to Consolidated Financial Statements Continued
September 30, 2003
(unaudited)

2. Pro Forma Disclosures of Stock Based Compensation - Continued

The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share data):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Net income, as reported	$17,011	$15,422	$41,135	$36,282
Less: Stock-based compensation expense determined under fair value method, net of tax	843	1,251	2,391	3,033
Pro forma net income	$16,168	$14,171	$38,744	$33,249
Diluted net income per weighted average common share, as reported	$ 0.55	$ 0.51	$ 1.35	$ 1.21
Pro forma diluted net income per weighted average common share	$ 0.53	$ 0.46	$ 1.28	$ 1.09
Options granted to employees	11	9	577	540
Weighted-average exercise price	$ 35.30	$ 30.23	$ 34.71	$ 34.67
Weighted-average fair value	$ 7.93	$ 4.94	$ 7.54	$ 8.03
Weighted-average assumptions:				
Expected lives in years	4	4	4	4
Expected volatility	23.4%	24.8%	23.5%	24.8%
Expected dividend rate				
Risk-free interest rate	2.36%	2.75%	2.42%	2.75%

3. Long-term Debt

Long-term debt consists of the following (in thousands):

	September 30, 2003	December 31, 2002
Senior fixed rate notes	$ 50,000	$ 50,000
Long-term revolving credit facility	65,000	115,000
	$115,000	$165,000

On January 31, 2001, the Company entered into a $225.0 million five-year revolving credit agreement with a consortium of banks (Credit Facility). On March 29, 2001, in connection with the Company s spin-off of Ceridian Corporation (Ceridian) in March 2001, $200.0 million was drawn on the Credit Facility and distributed to Ceridian.

The Credit Facility has two borrowing options, a Eurodollar rate option or a 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 2.00% to 2.75%. 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

ARBITRON INC.
Notes to Consolidated Financial Statements Continued
September 30, 2003
(unaudited)

3. Long-term Debt - Continued

margin of .50% to 1.25%. The specific margins, under both options, are determined based on the Company s ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (leverage ratio), and are adjusted every 90 days. The agreement contains a commitment fee provision whereby the Company is charged a fee, ranging from .375% to .550%, applied to the unused portion of the facility. Under the terms of the Credit Facility, the Company is required to maintain certain other financial ratios, in addition to the leverage ratio, and meet other financial conditions. The agreement limits, among other things, the Company s ability to buy or sell assets, incur additional indebtedness, grant or incur liens on its assets, repay indebtedness other than the Credit Facility, make investments or acquisitions, repurchase or redeem capital stock and engage in certain mergers or consolidations. The effective interest rate on the Credit Facility borrowings outstanding as of September 30, 2003 was 7.02%.

Arbitron s commitment under its revolving Credit Facility, which was $225.0 million at inception, was reduced to $185.2 million and $127.6 million on April 1, 2002 and March 31, 2003, respectively, in accordance with the mandatory commitment reduction and excess cash flow provisions. Available borrowings under the Credit Facility were $62.5 million as of September 30, 2003.

Upon consummation of the spin-off, the Company issued $50.0 million of senior secured notes due January 31, 2008, and distributed the proceeds to Ceridian. The notes bear interest at a fixed rate of 9.96%. The senior secured notes agreement contains covenants similar to the Credit Facility. The agreement also contains a make-whole provision that applies in the event of early prepayment of principal.

4. Interest Rate Swap

The Company entered into an interest rate swap agreement effective March 29, 2001 to hedge its exposure to fluctuations in interest rates relating to its outstanding variable rate debt. The contract s notional amount was $200.0 million at inception and declines each quarter over the life of the contract in proportion to the Company s estimated outstanding balance on its revolving Credit Facility. Under the terms of the contract, the Company pays a fixed rate of 5.02% and receives LIBOR, which resets every 90 days. The contract matures on December 31, 2004. The interest rate swap agreement was designated as a cash flow hedge, and was designed to be entirely effective by matching the terms of the swap agreement with the debt. The base rate for both the variable rate debt and the swap is LIBOR and the instruments have the same renewal dates over the lives of the instruments. The fair value of the cash flow hedge was recorded as a non-current liability and the offsetting unrealized loss was recorded in accumulated other comprehensive loss as of September 30, 2003 and December 31, 2002.

The Company s risk-management objective for entering into the interest rate swap was to mitigate its exposure to interest rate risk. The Company s initial strategy was to lock into a fixed rate of interest with a pay-fixed, receive-variable interest rate swap, thereby hedging exposure to the variability in future cash flows.

ARBITRON INC.
Notes to Consolidated Financial Statements Continued
September 30, 2003
(unaudited)

5. Stockholders Equity (Deficit)

Changes in stockholders equity (deficit) for the nine month period ended September 30, 2003 were as follows (in thousands):

	Balance as of December 31, 2002	Net Income	Common Stock Issued	Tax Benefit from Stock Option Exercises	Other Compre- hensive Income	Balance as of Sept. 30, 2003
Common stock	$ 16,168	$	$	$	$	$ 16,168
Additional paid-in capital	69,187		12,761	2,791		84,739
Accumulated earnings (net distributions to Ceridian in excess of earnings)	(242,870)					(242,870)
Retained earnings subsequent to spin-off	62,922	41,135				104,057
Common stock held in treasury	(1,363)		293			(1,070)
Accumulated other comprehensive income (loss)	(4,623)				1,624	(2,999)
Total stockholders equity (deficit)	$(100,579)	$41,135	$13,054	$ 2,791	$1,624	$ (41,975)
Number of shares outstanding	29,611		584			30,195

6. Net Income Per Weighted Average Common Share

The computations of basic and diluted net income per weighted average common share for the three month and six month periods ended September 30, 2003 and 2002, are based on Arbitron s weighted average shares of common stock and potentially dilutive securities outstanding, respectively.

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.

ARBITRON INC.
Notes to Consolidated Financial Statements Continued
September 30, 2003
(unaudited)

7. Comprehensive Income

The Company s comprehensive income is comprised of net income, foreign currency translation adjustments, changes in additional minimum pension liabilities and changes in unrealized gains and losses on interest rate swap agreements.

The components of comprehensive income are as follows (in thousands):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Net income	$17,011	$15,422	$41,135	$36,282
Items of other comprehensive income				
Foreign currency translation adjustments	18	73	91	194
Change in unrealized gain (loss) on interest rate swap	840	(760)	2,467	(622)
Income tax expense (benefit)	(317)	287	(934)	235
Comprehensive income	$17,552	$15,022	$42,759	$36,089

The components of accumulated other comprehensive loss as of September 30, 2003 and December 31, 2002 are as follows (in thousands):

	September 30, 2003	December 31, 2002
Foreign currency translation adjustment	$ 21	$ (70)
Unrealized loss on interest rate swap	(1,829)	(4,296)
Additional minimum pension liability	(3,026)	(3,026)
Income tax benefit	1,835	2,769
Accumulated other comprehensive loss	$(2,999)	$(4,623)

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Arbitron s consolidated financial statements and the notes related to those consolidated financial statements contained elsewhere in this Form 10-Q.

Forward-Looking Statements

This quarterly report on Form 10-Q 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 state 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 all or part of contracts with large customers as they expire;
- successfully execute our business strategies, including timely implementation of our Portable People Meter services, 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;
- successfully manage the impact on our business of any economic downturn generally and in the advertising market in particular; and
- successfully manage the impact on costs of data collection due to privacy concerns and/or government regulations.

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 Arbitron s Annual Report on Form 10-K for the year ended December 31, 2002.

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.

Overview

Arbitron is an international media and marketing research firm primarily serving radio, cable, advertising agencies, advertisers, outdoor and out of home media and, through its Scarborough joint venture, broadcast television and print media. Arbitron currently has four main businesses:

- measuring radio audiences in local markets in the United States and Mexico;
- measuring the national audience size and demographics of network radio programs and commercials;
- providing application software used for accessing and analyzing media audience and marketing information data; and

providing consumer, shopping and media usage information services to the radio, cable, advertising agencies, advertisers, broadcast television, outdoor and out of home media, magazine, newspaper and online industries.

Arbitron provides radio audience measurement and related services in the United States to radio stations, advertising agencies and advertisers. Arbitron estimates the size, demographics and socio-economics of audiences of radio stations in local markets in the United States and reports these estimates and related data to its customers. This information is used for advertising transactions in the radio industry. Radio stations use Arbitron s data to assist them in determining programming content for their radio stations and to price and sell advertising time, and advertising agencies and advertisers use Arbitron s data in purchasing advertising time. Arbitron also measures three markets in Mexico: Mexico City, Guadalajara and Monterrey.

Arbitron also provides software applications that give its customers access to Arbitron s estimates resident in its proprietary database and enable them to more effectively analyze and understand that information for sales, management and programming purposes.

Arbitron s Radio All Dimension Audience Research (RADAR) service provides a measurement of national radio audiences and the audience size of network radio programs and commercials.

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 behavior and media usage in local markets throughout the United States. Arbitron Cable provides qualitative audience information to the local cable advertising sales organizations of cable companies. Arbitron Outdoor provides these qualitative measurements to outdoor and out of home media sales organizations.

Arbitron Internet Broadcast Services measures the audiences of audio, as well as the audio portion of video content on the Internet.

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 software sales have historically accounted for a majority of its revenue. The radio audience measurement service and related software sales represented approximately 89 percent of Arbitron s revenue for the nine months ended September 30, 2003. Arbitron s revenue from domestic sources and international sources was 95 percent and five percent, respectively, for the nine months ended September 30, 2003.

The consolidated financial statements of Arbitron reflect the consolidated financial position, results of operations and cash flows of Arbitron Inc. and its subsidiaries: Arbitron Holdings Inc., Ceridian Infotech (India) Private Limited, CSW Research Limited and Euro Fieldwork Limited. The terms Arbitron or the Company as used in this document include Arbitron Inc. and its subsidiaries.

Consolidation of radio station ownership has tended to intensify competition within the radio industry and between radio and other forms of media for advertising dollars. At the same time, audiences have become more fragmented as a result of the greatly increased programming choices and entertainment and media options. Consequently, the increased competition together with the desire for more complex information have driven demand by radio broadcasters, advertising agencies and advertisers for Arbitron s audience measurement information. In addition, although radio industry consolidation has led to the increased concentration of Arbitron s customer base, it has also contributed to an increase in the number of stations subscribing for the ratings service as well as increases in sales of Arbitron s analytical software applications and other services.

Governmental Regulation of Telemarketing

Federal and State governmental regulations restrict telemarketing to individuals who request to be included on a do-not-call list. Currently these regulations do not apply to survey research. If the laws are extended to include survey research, Arbitron s ability to recruit participants for its surveys could be adversely affected. Arbitron would need to investigate alternatives to our current methodology, including using panels for its surveys and recontacting previous consenters. In addition, federal regulations ban calls made by autodialers to wireless lines where the party is charged for the call and where there is no consent from the party. Effective November 24, 2003, consumers will be able to take their wireless number to their wireline carrier, and likewise, a wireline number may be taken to a wireless carrier. This will make it more difficult for Arbitron to identify wireless numbers in advance of placing an autodialed call. Arbitron is working with industry associations to reconcile the wireless phone prohibition with the new local phone number portability rules. We will also investigate using the services of companies that track wireless numbers.

Customer Contract Renewals

Infinity Broadcasting (Infinity) is Arbitron s second largest customer and represented approximately 11 percent of Arbitron s revenue in 2002. Of the 11 percent of revenue Infinity represents, approximately nine percent was up for renewal in April 2003. In July 2003, Arbitron entered into an extension of the radio ratings license agreement with Infinity which gives its stations access to our quarterly radio ratings up to but not including the release of the Spring 2004 radio survey as well as continued access to additional services currently provided. In addition, Arbitron entered into an extension of its qualitative services license agreements with Infinity, which gives its stations access to our qualitative services up to but not including the second 2004 release of qualitative data.

Arbitron cannot give any assurances that it will retain current customers or that it could replace the revenue that could be lost if a key customer failed to renew all or part of its agreement with Arbitron.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are both important to the presentation of our financial condition and results of operations and require management s most difficult, complex or subjective judgments. The Company s most critical accounting policy relates to the capitalization and recovery of software development costs.

The Company capitalizes software development costs with respect to major product initiatives or enhancements, which are incurred during the period from the time of technological feasibility until the time that the software is ready for use. To the extent that software is being developed for use by customers or to support data collection activities, the Company also considers the recovery of such costs through future revenue streams in its decision to capitalize software development costs. Once the software is placed in service, the capitalized costs are generally amortized over periods of three to five years. If events or changes in circumstances indicate that the carrying value of software may not be recovered, a recoverability analysis is performed based on estimated undiscounted cash flows to be generated from the software in the future. If the analysis indicates that the carrying value is not recoverable from future cash flows, the software cost is written down to estimated fair value and an impairment loss is recognized. The Company s estimates are subject to revision as market conditions and management s assessments change. As of September 30, 2003, the Company s internally developed capitalized Portable People Meter (PPM or the Portable People Meter) software had a carrying amount of $2.8 million.

Results of Operations

Comparison of the Three Months Ended September 30, 2003 to the Three Months Ended September 30, 2002

The following table sets forth information with respect to the consolidated statements of income of Arbitron:

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Increase (Decrease) Dollars	Increase (Decrease) Percent	Percentage of Revenue 2003	Percentage of Revenue 2002
Revenue	$75,319	$69,560	$ 5,759	8.3%	100.0%	100.0%
Costs and expenses						
Cost of revenue	23,694	20,195	3,499	17.3%	31.5%	29.0%
Selling, general and administrative	14,070	13,494	576	4.3%	18.7%	19.4%
Research and development	6,294	6,168	126	2.0%	8.3%	8.9%
Total costs and expenses	44,058	39,857	4,201	10.5%	58.5%	57.3%
Operating income	31,261	29,703	1,558	5.2%	41.5%	42.7%
Proportionate share of net loss of affiliate	(637)	(669)	(32)	(4.8%)	(0.8%)	(1.0%)
Income before interest and income tax expense	30,624	29,034	1,590	5.5%	40.7%	41.8%
Interest income	174	162	12	7.4%	0.2%	0.2%
Interest expense	2,911	4,119	(1,208)	(29.3%)	3.9%	5.9%
Income before income tax expense	27,887	25,077	2,810	11.2%	37.0%	36.1%
Income tax expense	10,876	9,655	1,221	12.6%	14.4%	13.9%
Net income	$17,011	$15,422	$ 1,589	10.3%	22.6%	22.2%
Net income per weighted average common share						
Basic	$ 0.56	$ 0.52	$ 0.04	7.7%		
Diluted	$ 0.55	$ 0.51	$ 0.04	7.8%		
Other data						
EBIT	$30,624	$29,034	$ 1,590	5.5%		
EBITDA	$31,819	$30,138	$ 1,681	5.6%		
EBIT and EBITDA Reconciliation						
Net income	$17,011	$15,422	$ 1,589			
Income tax expense	10,876	9,655	1,221			
Interest income	174	162	12			
Interest expense	2,911	4,119	(1,208)			
EBIT	30,624	29,034	1,590			
Depreciation and amortization	1,195	1,104	91			
EBITDA	$31,819	$30,138	$ 1,681			

Revenue. Revenue increased 8.3% to $75.3 million for the three months ended September 30, 2003 from $69.6 million for the same period in 2002. Approximately $5.4 million of the increase is due to increases in the ratings and qualitative subscriber base, analytical software applications and escalations in multi-year customer contracts and contract renewals. International PPM equipment sales and licensing revenue accounted for $0.3 million of the increase. There were no PPM equipment sales in 2002.

Cost of Revenue. Cost of revenue increased 17.3% to $23.7 million for the three months ended September 30, 2003 from $20.2 million for the same period in 2002, and increased as a percentage of revenue to 31.5% in 2003 from 29.0% in 2002. The overall increase of $3.5 million was primarily related to increases in U.S. Media (Arbitron s core quantitative, qualitative and software application services) data collection costs ($2.0 million), royalties ($0.6 million), U.S. Media survey methods research ($0.3 million) and the cost of Portable People Meter equipment sold ($0.2 million).

Selling, General and Administrative. Selling, general and administrative expenses increased 4.3% to $14.1 million for the three months ended September 30, 2003 from $13.5 million for the same period in 2002 but declined as a percentage of revenue to 18.7% in 2003 from 19.4% in 2002. The increase of $0.6 million is primarily attributed to an increase in U.S. Media selling expenses ($0.4 million) and commissions ($0.3 million).

Research and Development. Research and development increased 2.0% to $6.3 million during the three months ended September 30, 2003 from $6.2 million for the same period in 2002 but decreased as a percentage of revenue to 8.3% in 2003 from 8.9% in 2002. The $0.1 million increase is attributed to an increase in software development and enhancement costs in U.S. Media services ($1.7 million) offset by lower PPM research and development ($1.4 million).

Operating Income. Operating income increased 5.2% to $31.3 million for the three months ended September 30, 2003 from $29.7 million for the same period in 2002. Operating margin declined to 41.5% in 2003 from 42.7% in 2002.

Proportionate share of Net Loss of Affiliate. Proportionate share of net loss of affiliate (relating to the Company s Scarborough joint venture) did not vary significantly. Scarborough experiences losses during the first and third quarters of each year because most of its services are delivered and revenue is recognized in the second and fourth quarters.

Interest Expense. Interest expense decreased 29.3% to $2.9 million for the three months ended September 30, 2003 from $4.1 million for the same period in 2002. The decrease is primarily attributed to a $60.0 million decline in the average outstanding debt under the Company s revolving Credit Facility in 2003 compared to 2002. The commitment level and effective interest rates were also lower than in 2002.

Income Tax Expense. Arbitron s effective tax rate was 39.0% and 38.5% for the three months ended September 30, 2003 and 2002, respectively. The 0.5% increase in the Company s effective income tax rate resulted from changes in state tax laws and changes in certain state tax apportionment factors.

Net Income. Net income increased 10.3% to $17.0 million for the three months ended September 30, 2003 from $15.4 million for the same period in 2002.

EBIT and EBITDA. Earnings before interest and income taxes (EBIT) increased 5.5% to $30.6 million and earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 5.6% to $31.8 million for the three months ended September 30, 2003 from $29.0 million and $30.1 million, respectively, for the same period in 2002. Arbitron has presented EBIT and EBITDA as supplemental information that management of Arbitron believes may be useful to investors to evaluate the Company s results because they exclude certain items that are not directly related to the Company s core operating performance. EBIT and EBITDA should not be considered substitutes either for net income, as an indicator of Arbitron s operating performance, or for cash flow, as a measure of Arbitron s liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

Comparison of the Nine Months Ended September 30, 2003 to the Nine Months Ended September 30, 2002

The following table sets forth information with respect to the consolidated statements of income of Arbitron:

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

	Nine Months Ended September 30,		Increase (Decrease)		Percentage of Revenue	
	2003	2002	Dollars	Percent	2003	2002
Revenue	$208,121	$191,971	$16,150	8.4%	100.0%	100.0%
Costs and expenses						
Cost of revenue	71,933	64,148	7,785	12.1%	34.6%	33.4%
Selling, general and administrative	42,160	39,157	3,003	7.7%	20.3%	20.4%
Research and development	18,989	18,439	550	3.0%	9.1%	9.6%
Total costs and expenses	133,082	121,744	11,338	9.3%	64.0%	63.4%
Operating income	75,039	70,227	4,812	6.9%	36.0%	36.6%
Equity in net income of affiliate	1,584	1,398	186	13.3%	0.8%	0.7%
Income before interest and income tax expense	76,623	71,625	4,998	7.0%	36.8%	37.3%
Interest income	547	424	123	29.0%	0.3%	0.2%
Interest expense	9,736	13,053	(3,317)	(25.4%)	4.7%	6.8%
Income before income tax expense	67,434	58,996	8,438	14.3%	32.4%	30.7%
Income tax expense	26,299	22,714	3,585	15.8%	12.6%	11.8%
Net income	$ 41,135	$ 36,282	$ 4,853	13.4%	19.8%	18.9%
Net income per weighted average common share						
Basic	$ 1.38	$ 1.24	$ 0.14	11.3%		
Diluted	$ 1.35	$ 1.21	$ 0.14	11.6%		
Other data						
EBIT	$ 76,623	$ 71,625	$ 4,998	7.0%		
EBITDA	$ 80,201	$ 74,791	$ 5,410	7.2%		
EBIT and EBITDA Reconciliation						
Net income	$ 41,135	$ 36,282	$ 4,853			
Income tax expense	26,299	22,714	3,585			
Interest income	547	424	123			
Interest expense	9,736	13,053	(3,317)			
EBIT	76,623	71,625	4,998			
Depreciation and amortization	3,578	3,166	412			
EBITDA	$ 80,201	$ 74,791	$ 5,410			

Revenue. Revenue increased 8.4% to $208.1 million for the nine months ended September 30, 2003 from $192.0 million for the same period in 2002. Approximately $15.4 million of the increase is due to increases in the ratings and qualitative subscriber base, analytical software applications and escalations in multi-year customer contracts and contract renewals. International PPM equipment sales and licensing revenue accounted for $0.8 million of the increase.

Cost of Revenue. Cost of revenue increased 12.1% to $71.9 million for the nine months ended September 30, 2003 from $64.1 million for the same period in 2002, and increased as a percentage of revenue to 34.6% in 2003 from 33.4% in 2002. The overall increase of $7.8 million was primarily due to increases in data collection costs ($4.5 million), royalties ($1.4 million), Portable People Meter ($0.5 million), cost of PPM equipment sold ($0.5 million), U.S. Media computer center costs ($0.4 million) and U.S. Media survey methods research ($0.3 million), which were partially offset by lower internet broadcast services costs ($0.5 million).

Selling, General and Administrative. Selling, general and administrative expenses increased 7.7% to $42.2 million for the nine months ended September 30, 2003 from $39.2 million for the same period in 2002 and decreased as a percentage of revenue to 20.3% in 2003 from 20.4% in 2002. The increase of $3.0 million is primarily attributed to an increase in U.S. Media selling expenses ($1.3 million), facilities costs ($0.8 million), commissions ($0.8 million) and U.S. Media finance and legal expenses ($0.7 million), which were partially offset by lower internet broadcast services ($0.6 million).

Research and Development. Research and development increased 3.0% to $19.0 million during the nine months ended September 30, 2003 from $18.4 million for the same period in 2002 but decreased as a percentage of revenue to 9.1% in 2003 from 9.6% in 2002. The $0.6 million increase is attributed to an increase in software development and enhancement costs in U.S. Media services ($1.7 million) partially offset by lower PPM ($1.4 million) and internet broadcast services ($0.5 million).

Operating Income. Operating income increased 6.9% to $75.0 million for the nine months ended September 30, 2003 from $70.2 million for the same period in 2002. Operating margin decreased to 36.0% in 2003 from 36.6% in 2002.

Equity in Net Income of Affiliate. Equity in net income of affiliate (relating to the Company s Scarborough joint venture) increased 13.3% to $1.6 million for the nine months ended September 30, 2003 from $1.4 million for the same period in 2002.

Interest Expense. Interest expense decreased 25.4% to $9.7 million for the nine months ended September 30, 2003 from $13.1 million for the same period in 2002. The decrease is primarily attributed to having a $46.7 million lower average debt principal balance outstanding under the Company s revolving Credit Facility in 2003 compared to 2002. The commitment level and effective interest rates are also lower than in 2002.

Income Tax Expense. Arbitron s effective tax rate was 39.0% and 38.5% for the nine months ended September 30, 2003 and 2002, respectively. The 0.5% increase in the Company s effective income tax rate resulted from changes in state tax laws and changes in certain state tax apportionment factors.

Net Income. Net income increased 13.4% to $41.1 million for the nine months ended September 30, 2003 from $36.3 million for the same period in 2002.

EBIT and EBITDA. EBIT increased 7.0% to $76.6 million and EBITDA increased 7.2% to $80.2 million for the nine months ended September 30, 2003 from $71.6 million and $74.8 million, respectively, for the same period in 2002. Arbitron has presented EBIT and EBITDA as supplemental information that management of Arbitron believes may be useful to investors to evaluate the Company s results because they exclude certain items that are not directly related to the Company s core operating performance. EBIT and EBITDA should not be considered substitutes either for net income, as an indicator of Arbitron s operating performance, or for cash flow, as a measure of Arbitron s liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

Liquidity and Capital Resources

As of September 30, 2003, the Company had $66.2 million in available cash and cash equivalents. In addition, the Company had $62.5 million in available borrowings under its Credit Facility. Management expects that cash flow generated from operations, as well as available borrowings from its Credit Facility, if necessary, will be sufficient to support the Company s operations for the foreseeable future.

Net cash provided by operating activities was $63.8 million and $53.3 million for the nine month periods ended September 30, 2003 and 2002, respectively, an increase of $10.4 million. An increase in accrued income taxes of $11.9 million, which is included in the caption Accrued expenses and other current liabilities in the Statements of Cash Flows, is the result of the Company using the last of its Federal net operating loss carryforwards in 2002. Other increases in cash provided by operating activities include: decreased trade accounts receivable ($5.0 million), higher net income in 2003 ($4.9 million), a smaller decline in deferred revenue ($2.4 million), higher distributions from affiliate ($1.4 million) and higher tax benefit from stock option exercises ($1.0 million). These increases were mitigated by a higher utilization of deferred tax assets by $16.6 million in 2002 than in 2003.

Net cash used in investing activities was $3.4 million and $20.7 million for the nine month periods ended September 30, 2003 and 2002, respectively. The decrease is primarily attributed to $15.0 million of payments to the former owners of RADAR during the nine months ended September 30, 2002. There were no business acquisition payments during the same period in 2003. The remaining $2.3 million decrease resulted from a decrease in property and equipment additions. The decrease in property and equipment additions is primarily attributed to lower spending in 2003 for hardware and internally developed software related to PPM.

Net cash used in financing activities was $37.4 million and $23.9 million for the nine month periods ended September 30, 2003 and 2002, respectively, an increase of $13.5 million. The increase is mainly attributed to higher debt payments in 2003 compared to 2002, $50.0 million and $30.0 million, respectively. This increase in cash used in financing activities was partly offset by $6.5 million of additional cash proceeds from stock option exercises and the Company s stock purchase plan.

Arbitron s commitment under its revolving Credit Facility, which was $225.0 million at inception, was $127.6 million on September 30, 2003. The commitment is reduced annually in accordance with mandatory commitment reduction and excess cash flow provisions.

Arbitron s Credit Facility and senior secured notes (borrowings) contain non-investment grade financial terms, covenants and operating restrictions that increase the cost of financing and restrict financial flexibility. Under the terms of the borrowings, Arbitron is required to maintain certain leverage and coverage ratios and meet other financial conditions. The agreements limit, among other things, Arbitron s ability to buy and sell assets, incur additional indebtedness, grant or incur liens on its assets, repay senior indebtedness, pay cash dividends, make certain investments or acquisitions, repurchase or redeem capital stock and engage in certain mergers or consolidations. Although Arbitron does not believe that the terms of its borrowings limit the operation of its business in any material respect, the terms may restrict or prohibit Arbitron s ability to raise additional capital when needed or could prevent Arbitron from making acquisitions or investing in other growth initiatives. Arbitron holds a derivative instrument as a hedge of its variable interest rate debt as indicated below under Item 3, Quantitative and Qualitative Disclosures About Market Risk.

In 2002, Clear Channel Communications, Inc. and Infinity Broadcasting Corp. (Infinity) represented approximately 21 percent and 11 percent, respectively, of Arbitron s revenue. Arbitron s agreements with these customers are not exclusive and contain no renewal obligations.

In July 2003, Arbitron entered into an extension of the radio ratings license agreement with Infinity for those contracts which came up for renewal in April 2003, which gives its stations access to our quarterly radio ratings up to but not including the release of the Spring 2004 radio survey as well as access to additional services currently provided. In addition, Arbitron entered into an extension of its qualitative services license agreements with Infinity, which gives its stations access to our qualitative services up to but not including the second 2004 release of qualitative data. The Infinity contracts that were extended collectively accounted for approximately nine percent of Arbitron s revenue in 2002.

Arbitron cannot give any assurances that it will retain current customers or that it could replace the revenue that could be lost if a key customer failed to renew all or part of its agreement with Arbitron.

In response to the requests of both our customers and Nielsen Media Research, Arbitron has slowed the commercialization timetable for PPM, as well as the timing for the possible formation of a joint venture with Nielsen Media Research for the commercial deployment of the Portable People Meter in the United States. The Company continues to discuss the possible formation of a PPM joint venture with Nielsen Media Research. In the first quarter of 2003, Arbitron and Nielsen Media Research entered into an agreement to expand their relationship to include a number of research initiatives that are supported in part by increased financial involvement and commitment of resources from Nielsen Media Research. During 2003, Arbitron and Nielsen Media Research are performing major response rate tests and continue research on the Portable People Meter. In October 2003, Arbitron and Nielsen Media Research announced that the initial results from tests of two separate recruitment methods have been positive. These methods increased the rate at which consumers agreed to participate in PPM surveys to a level that is in the range that both Arbitron and Nielsen Media Research wanted to achieve. The response rate test will now focus on confirming that acceptable rates can be sustained over time.

The introduction of the PPM could be delayed if Arbitron does not form a joint venture. In that event, Arbitron would revise its business and financial plans and assumptions relating to the timing of the PPM commercialization which could include developing a PPM plan without syndicated television ratings. Additionally, agreements with some customers may be of a shorter than normal term until more detailed analysis of PPM data is completed and a commercialization plan is established. It is expected that with this additional analysis these customers will have a fuller understanding of the value of the PPM service, which will then serve as the basis for longer-term renewal contract negotiations.

In addition to the proposed joint venture with Nielsen Media Research, Arbitron began testing additional marketing research applications of the Portable People Meter technology in 2003. One application being tested is to use the Portable People Meter as the media collection tool for a national marketing oriented panel designed to correlate advertising with shopping behavior and sales. The objective is to provide multi-media exposure data combined with single source sales data to produce a measure of advertising effectiveness for advertisers, agencies and broadcasters. This would be a new type of service for which market acceptance is not yet known.

The continuing development and commercialization of the PPM service will require significant capital resources and will increase our operating costs over the next several years. In the event Arbitron decides to commercialize either a PPM ratings service or a PPM marketing application service there could be significant start-up expenses that could adversely affect Arbitron s financial results.

Seasonality

Arbitron recognizes revenue for products and services over the terms of license agreements as products and services are delivered, and expenses are recognized as incurred. Arbitron gathers radio-listening data in approximately 286 United States local markets. All markets are measured at least twice per year (April, May, June, Spring Survey, and October, November, December, Fall Survey). In addition, all major markets are measured two additional times per year (January, February, March, Winter Survey, and July, August, September Summer Survey). Arbitron s revenue is generally higher in the first and third quarters as the result of the delivery of the Fall Survey and Spring Survey, respectively, to all markets compared to revenue in the second and fourth quarters when delivery of the Winter Survey and Summer Survey, respectively, is only delivered to major markets. Arbitron s expenses are generally higher in the second and fourth quarters as the Spring Survey and Fall Survey are being conducted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Interest Risk

The Company currently has no exposure to market risk with respect to changes in interest rates because the variable portion of the Company s long-term obligations is fully hedged with a derivative instrument. The Company does not use derivatives for speculative or trading purposes.

The Company has two long-term obligations: senior notes that bear interest at a fixed rate of 9.96%, and a revolving Credit Facility which bears interest at LIBOR plus a margin of 2.00% to 2.75%. The variable portion of the interest rate, LIBOR, is hedged with an interest rate swap which has a fixed rate of 5.02%.

Due to the variable rate debt being fully hedged, a hypothetical market interest rate change of 1% would have no effect on the Company s results of operations. However, changes in market interest rates would impact the fair values of the Company s long-term obligations.

Foreign Currency Risk

Arbitron s foreign operations are not significant at this time, and, therefore, Arbitron s exposure to foreign currency risk is minimal.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-14, promulgated under the Securities Exchange Act of 1934, as of the end of the most recently completed quarter. Based upon that evaluation, the Company s President and Chief Executive Officer and the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic Securities and Exchange Commission filings. There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit No.	Description
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARBITRON INC.

By: /s/ WILLIAM J. WALSH

William J. Walsh
Executive Vice President of Finance and Planning and Chief Financial Officer (on behalf of the registrant and as the registrant s principal accounting officer)

Date: November 7, 2003