

ARBITRON INC
Form 10-Q
August 05, 2011

Table of Contents

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

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011**

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

(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 No

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 No

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.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting
Company

(Do not check if a smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The registrant had 27,218,829 shares of common stock, par value \$0.50 per share, outstanding as of July 29, 2011.

ARBITRON INC.
INDEX

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets June 30, 2011, and December 31, 2010</u>	4
<u>Consolidated Statements of Income Three Months Ended June 30, 2011, and 2010</u>	5
<u>Consolidated Statements of Income Six Months Ended June 30, 2011, and 2010</u>	6
<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2011, and 2010</u>	7
<u>Notes to Consolidated Financial Statements June 30, 2011</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	36
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 4. (Removed and Reserved)</u>	
<u>Item 6. Exhibits</u>	37
<u>Signature</u>	39
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

Table of Contents

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The trademarks *Windows*[®], *Mscore*tm and *Media Rating Council*[®] referred to in this Quarterly Report on Form 10-Q 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.

Table of Contents**ARBITRON INC.**Consolidated Balance Sheets
(In thousands, except par value data)

	June 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 8,215	\$ 18,925
Trade accounts receivable, net of allowance for doubtful accounts of \$4,568 as of June 30, 2011, and \$4,708 as of December 31, 2010	58,551	59,808
Prepaid expenses and other current assets	8,739	11,332
Deferred tax assets	4,707	4,758
Total current assets	80,212	94,823
Equity and other investments	17,256	18,385
Property and equipment, net	68,854	70,332
Goodwill, net	38,895	38,895
Other intangibles, net	5,701	6,272
Other noncurrent assets	267	534
Total assets	\$ 211,185	\$ 229,241
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 9,808	\$ 10,007
Accrued expenses and other current liabilities	20,873	27,670
Current portion of debt	5,000	53,000
Deferred revenue	47,746	36,479
Total current liabilities	83,427	127,156
Noncurrent deferred tax liabilities	2,241	2,695
Other noncurrent liabilities	22,974	21,739
Total liabilities	108,642	151,590
Stockholders equity		
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 June 30, 2011, and December 31, 2010	16,169	16,169
Retained earnings	98,541	74,184
Common stock held in treasury, 5,139 shares as of June 30, 2011, and 5,285 shares as of December 31, 2010	(2,570)	(2,642)
Accumulated other comprehensive loss	(9,597)	(10,060)

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Total stockholders' equity	102,543	77,651
Total liabilities and stockholders' equity	\$ 211,185	\$ 229,241

See accompanying notes to consolidated financial statements.

4

Table of Contents**ARBITRON INC.**

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

	Three Months Ended June 30,	
	2011	2010
Revenue	\$ 95,737	\$ 88,339
Costs and expenses		
Cost of revenue	61,025	59,504
Selling, general and administrative	18,656	19,149
Research and development	9,017	9,072
Total costs and expenses	88,698	87,725
Operating income	7,039	614
Equity in net income of affiliate	5,453	5,642
Income before interest and income tax expense	12,492	6,256
Interest income	8	4
Interest expense	104	254
Income before income tax expense	12,396	6,006
Income tax expense	4,812	2,207
Net income	\$ 7,584	\$ 3,799
Income per weighted-average common share		
Basic	\$ 0.28	\$ 0.14
Diluted	\$ 0.27	\$ 0.14
Weighted-average common shares used in calculations		
Basic	27,159	26,650
Potentially dilutive securities	449	424
Diluted	27,608	27,074
Dividends declared per common share outstanding	\$ 0.10	\$ 0.10

See accompanying notes to consolidated financial statements.

Table of Contents**ARBITRON INC.**

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

	Six Months Ended June 30,	
	2011	2010
Revenue	\$ 196,606	\$ 184,235
Costs and expenses		
Cost of revenue	106,704	102,657
Selling, general and administrative	35,765	36,790
Research and development	18,012	18,981
Total costs and expenses	160,481	158,428
Operating income	36,125	25,807
Equity in net income of affiliate	2,921	3,111
Income before interest and income tax expense	39,046	28,918
Interest income	14	6
Interest expense	268	519
Income before income tax expense	38,792	28,405
Income tax expense	14,961	10,858
Net income	\$ 23,831	\$ 17,547
Income per weighted-average common share		
Basic	\$ 0.88	\$ 0.66
Diluted	\$ 0.86	\$ 0.65
Weighted-average common shares used in calculations		
Basic	27,119	26,622
Potentially dilutive securities	483	377
Diluted	27,602	26,999
Dividends declared per common share outstanding	\$ 0.20	\$ 0.20

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities		
Net income	\$ 23,831	\$ 17,547
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	13,983	12,931
Amortization of intangible assets	571	264
Loss on asset disposals and impairments	1,221	1,319
Loss due to retirement plan settlements		1,212
Reduced tax benefits on share-based awards		(25)
Deferred income taxes	(706)	(539)
Equity in net income of affiliate	(2,921)	(3,111)
Distributions from affiliate	4,050	4,650
Bad debt expense	930	60
Non-cash share-based compensation	3,831	3,102
Changes in operating assets and liabilities		
Trade accounts receivable	327	(4,141)
Prepaid expenses and other assets	2,705	142
Accounts payable	250	(398)
Accrued expenses and other current liabilities	(6,998)	(6,457)
Deferred revenue	11,267	6,582
Other noncurrent liabilities	2,010	1,600
Net cash provided by operating activities	54,351	34,738
Cash flows from investing activities		
Additions to property and equipment	(14,182)	(12,859)
License of other intangible assets		(4,500)
Purchases of equity and other investments		(1,780)
Payments for business acquisitions		(2,500)
Net cash used in investing activities	(14,182)	(21,639)
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	2,046	1,156
Dividends paid to stockholders	(5,408)	(5,312)
Tax benefits realized from share-based awards	484	
Decrease in bank overdraft payables		(3,833)
Borrowings under Credit Facility	5,000	10,000
Payments under Credit Facility	(53,000)	(10,000)
Net cash used in financing activities	(50,878)	(7,989)

Effect of exchange rate changes on cash and cash equivalents	(1)	(1)
Net change in cash and cash equivalents	(10,710)	5,109
Cash and cash equivalents at beginning of period	18,925	8,217
Cash and cash equivalents at end of period	\$ 8,215	\$ 13,326

See accompanying notes to consolidated financial statements.

7

Table of Contents

ARBITRON INC.

Notes to Consolidated Financial Statements

June 30, 2011

(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, 2010 was audited as of that date, but all of the information and notes as of December 31, 2010 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, 2010.

Consolidation

The consolidated financial statements of the Company for the six-month period ended June 30, 2011, reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries: Arbitron Holdings Inc., Astro West LLC, Ceridian Infotech (India) Private Limited, Arbitron International, LLC, and Arbitron Technology Services India Private Limited. All significant intercompany balances have been eliminated in consolidation. Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period s presentation.

2. New Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (i.e. FASB) issued Accounting Standards Update No. 2009-13 *Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (i.e. ASU 2009-13). This requires companies to allocate revenue in multiple-element arrangements based on an element s estimated selling price if vendor-specific or other third party evidence of value is not available. The new guidance is to be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. There was no impact to the Company s consolidated financial statements of adopting this guidance.

Table of Contents**3. Current Portion of Debt**

The Company has 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), expiring on December 20, 2011. 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 lenders, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility's administrative agent.

The Company expects to renew or replace the Credit Facility prior to its expiration. As of June 30, 2011, and December 31, 2010, the outstanding borrowings under the Credit Facility were \$5.0 million and \$53.0 million, respectively.

Interest paid during each of the six-month periods ended June 30, 2011, and 2010, was \$0.3 million and \$0.5 million, respectively.

4. Stockholders' Equity

Changes in stockholders' equity for the six-month period ended June 30, 2011, were as follows (in thousands):

	Shares Outstanding	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance as of December 31, 2010	27,055	\$ 16,169	\$ (2,642)	\$ 74,184	\$ (10,060)	\$ 77,651
Net income				23,831		23,831
Common stock issued from treasury stock	144		72	1,640		1,712
Tax benefits from share-based awards				484		484
Non-cash share-based compensation				3,831		3,831
Dividends declared				(5,429)		(5,429)
Other comprehensive income					463	463
Balance as of June 30, 2011	27,199	\$ 16,169	\$ (2,570)	\$ 98,541	\$ (9,597)	\$ 102,543

A quarterly cash dividend of \$0.10 per common share was paid to stockholders on July 1, 2011.

Table of Contents**5. Net Income per Weighted-Average Common Share**

The computations of basic and diluted net income per weighted-average common share for the three and six-month periods ended June 30, 2011, and 2010, 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 June 30, 2011, and 2010, there were stock options to purchase 2,038,787 and 2,486,862 shares, respectively, of the Company's common stock outstanding, of which stock options to purchase 869,397 and 1,356,889 shares of the Company's common stock, respectively, were excluded from the computation of diluted net income per weighted-average common share for the quarters ended June 30, 2011, and 2010, respectively, either because the stock options' exercise prices were greater than the average market price of the Company's common shares or assumed repurchases from proceeds from the stock options' exercise were antidilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 7,584	\$ 3,799	\$ 23,831	\$ 17,547
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(23)	(253)	(9)	(227)
Change in retirement liabilities, net of tax expense of \$151, and \$117 for the three-month periods ended June 30, 2011, and 2010, respectively; and a tax expense of \$303, and \$559 for the six-month periods ended June 30, 2011, and 2010, respectively;	236	184	472	869
Other comprehensive income (loss)	213	(69)	463	642
Comprehensive income	\$ 7,797	\$ 3,730	\$ 24,294	\$ 18,189

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

	June 30, 2011	December 31, 2010
Foreign currency translation adjustment	\$ (469)	\$ (460)
Retirement plan liabilities, net of tax	(9,128)	(9,600)
Accumulated other comprehensive loss	\$ (9,597)	\$ (10,060)

Table of Contents**7. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets as of June 30, 2011, and December 31, 2010, consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Survey participant incentives and prepaid postage	\$ 1,324	\$ 2,441
Insurance recovery receivable	573	601
Prepaid income taxes	4,165	5,518
Other	2,677	2,772
Prepaid expenses and other current assets	\$ 8,739	\$ 11,332

During 2008, the Company became involved in two securities-law civil actions and a governmental interaction primarily related to the commercialization of our PPM service, which the management of the Company believes are covered by the Company's Directors and Officers insurance policy. As of June 30, 2011 and December 31, 2010, the Company incurred-to-date \$10.3 million, and \$9.7 million, respectively, in legal fees and costs in defense of its positions related thereto, and as of June 30, 2011, the Company had received \$6.7 million in insurance reimbursements related to these legal actions. The Company reported approximately \$0.6 million, and \$0.3 million in related legal fees recorded during the six-month periods ended June 30, 2011, and 2010, respectively. These legal fees were offset by \$0.8 million and \$0.3 million in insurance recoveries as reductions to selling, general and administrative expense during the six-month periods ended June 30, 2011, and 2010, respectively.

8. Equity and Other Investments

The Company's equity and other investments as of June 30, 2011, and December 31, 2010, consist of the following (in thousands):

	June 30, 2011	December 31, 2010
Scarborough	\$ 12,076	\$ 13,205
	&nb	