

CTI INDUSTRIES CORP
Form DEF 14A
April 30, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CTI Industries Corporation

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

CTI INDUSTRIES CORPORATION
22160 North Pepper Road
Barrington, Illinois 60010

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO
BE HELD ON JUNE 22, 2007**

To: Shareholders of CTI Industries Corporation

The annual meeting of the shareholders of CTI Industries Corporation will be held at The Holiday Inn Crystal Lake, 800 South Route 31, Crystal Lake, Illinois, 60014, on June 22, 2007, at 10:00 a.m., Central Standard Time, for the following purposes:

1. To elect 7 directors to hold office during the year following the annual meeting or until their successors are elected (Item No. 1 on proxy card);
2. To approve the adoption of the CTI Industries Corporation 2007 Stock Incentive Plan;
3. To ratify the appointment of Weiser, L.L.P. as auditors of the Corporation for 2007 (Item No. 3 on proxy card); and
4. To transact such other business as may properly come before the meeting.

The close of business on April 27, 2007, has been fixed as the record date for determining the shareholders entitled to receive notice of and to vote at the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS

April 30, 2007

/s/ Stephen M. Merrick

Stephen M. Merrick, Secretary

YOUR VOTE IS IMPORTANT

It is important that as many shares as possible be represented at the annual meeting. Please date, sign, and promptly return the proxy in the enclosed envelope. Your proxy may be revoked by you at any time before it has been voted.

CTI INDUSTRIES CORPORATION
22160 North Pepper Road
Barrington, Illinois 60010

PROXY STATEMENT

Information Concerning the Solicitation

This statement is furnished in connection with the solicitation of proxies to be used at the Annual Shareholders Meeting (the "Annual Meeting") of CTI Industries Corporation (the "Company"), an Illinois corporation, to be held at 10:00 a.m. Central Daylight Savings Time on June 22, 2007, at The Holiday Inn Crystal Lake, 800 South Route 31, Crystal Lake, Illinois 60014. The proxy materials are being mailed to shareholders of record at the close of business on April 27, 2007.

The solicitation of proxies in the enclosed form is made on behalf of the Board of Directors of the Company.

The cost of preparing, assembling and mailing the proxy material and of reimbursing brokers, nominees and fiduciaries for the out-of-pocket and clerical expenses of transmitting copies of the proxy material to the beneficial owners of shares held of record by such persons will be borne by the Company. The Company does not intend to solicit proxies otherwise than by use of the mail, but certain officers and regular employees of the Company or its subsidiaries, without additional compensation, may use their personal efforts, by telephone or otherwise, to obtain proxies.

Quorum and Voting

Only shareholders of record at the close of business on April 27, 2007, are entitled to vote at the Annual Meeting. On that day, there were 2,266,184 shares of Common Stock outstanding. Each share has one vote. A simple majority of the outstanding shares of Common Stock is required to be present in person or by proxy at the meeting for there to be a quorum for purposes of proceeding with the Annual Meeting. Seven directors will be elected by the Company's Common Stockholders at this meeting. The Common Stock does not possess cumulative voting rights, and the election of directors will be by the vote of a majority of shares of Common Stock present in person or by proxy at the Annual Meeting. The approval of the 2007 Stock Incentive Plan and the ratification of auditors will require the vote of a simple majority of the shares of Common Stock present at the Annual Meeting by person or proxy. Abstentions and withheld votes have the effect of votes against these matters. Broker non-votes (shares of record held by a broker for which a proxy is not given) will be counted for purposes of determining shares outstanding for purposes of a quorum, but will not be counted as present for purposes of determining the vote on any matter considered at the meeting.

A shareholder signing and returning a proxy on the enclosed form has the power to revoke it at any time before the shares subject to it are voted by notifying the Secretary of the Company in writing. If a shareholder specifies how the proxy is to be voted with respect to any of the proposals for which a choice is provided, the proxy will be voted in accordance with such specifications. If a shareholder fails to so specify with respect to such proposals, the proxy will be voted "FOR" the nominees for directors contained in these proxy materials, "FOR" proposal 2, and "FOR" proposal 3.

Stock Ownership by Management and Others

The following table provides information concerning the beneficial ownership of the Company's Common Stock by each director and nominee for director, certain executive officers, and by all directors and officers of the Company as a group as of April 27, 2007. In addition, the table provides information concerning the beneficial owners, if any, known to the Company to hold more than 5 percent of the outstanding Common Stock of the Company as of April 27, 2007.

The amounts and percentage of stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission ("SEC") governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days after April 27, 2007. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Percentage of class is based on 2,266,184 shares of Common Stock outstanding as of April 27, 2007.

Name and Address	Shares of Common Stock	Percent of Common Stock
Directors and Officers⁽¹⁾	Beneficially Owned⁽²⁾	
Stephen M. Merrick	682,246 ⁽³⁾	27.50% ⁽⁴⁾
John H. Schwan	678,355 ⁽⁵⁾	27.36% ⁽⁴⁾
Howard W. Schwan	226,676 ⁽⁶⁾	9.56% ⁽⁴⁾
Brent Anderson	65,385 ⁽⁷⁾	2.83% ⁽⁴⁾
Tim Patterson	16,448 ⁽⁸⁾	*
Steve Frank	15,600 ⁽⁹⁾	*
Samuel Komar	12,500 ⁽¹⁰⁾	*
Bret Tayne 6834 N. Kostner Avenue Lincolnwood, IL 60712	10,925 ⁽¹¹⁾	*
Stanley M. Brown 4227 United Parkway Schiller Park, IL 60176	10,266 ⁽¹²⁾	*
Michael Avramovich 70 W. Madison Street, Ste 1400 Chicago, IL 60602	1,000 ⁽¹³⁾	*
John Collins 262 Pine Street Deerfield, IL 60015	1,000 ⁽¹⁴⁾	*
All Current Directors and Executive Officers as a group (11 persons)	1,720,401	70.23 ⁽⁴⁾

* Less than one percent

- (1) Except as otherwise indicated, the address of each stockholder listed above is c/o CTI Industries Corporation, 22160 North Pepper Road, Barrington, Illinois 60010.
- (2) A person is deemed to be the beneficial owner of securities that can be acquired within 60 days from the date set forth above through the exercise of any option, warrant or right. Shares of Common Stock subject to options, warrants or rights that are currently exercisable or exercisable within 60 days are deemed outstanding for purposes of computing the percentage ownership of the person holding such options, warrants or rights, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.
- (3) Includes warrants to purchase up to 151,515 shares of Common Stock at \$3.30 per share, warrants to purchase up to 70,000 shares of Common Stock at \$4.87 per share, and options to purchase up to 5,953 shares of Common Stock at \$2.55 per share granted under the Company's 2002 Stock Option Plan. Also includes 106,000 shares each owned by Mr. Merrick's two adult children as to which Mr. Merrick disclaims beneficial ownership and 212,000 shares held by a trust for the benefit of Mr. Merrick's minor children.
- (4) Assumes the exercise of all warrants and options owned by the named person into shares of Common Stock.
- (5) Includes warrants to purchase up to 101,515 shares of Common Stock at \$3.30 per share, warrants to purchase up to 93,000 shares of Common Stock at \$4.87 per share, and options to purchase up to 5,953 shares of Common Stock at \$2.55 per share granted under the Company's 2002 Stock Option Plan and 477,887 shares of Common Stock.
- (6) Includes warrants to purchase up to 50,000 shares of Common Stock at \$3.30 per share, options to purchase up to 15,873 shares of Common Stock at \$6.30 per share granted under the Company's 1997 Stock Option Plan, options to purchase up to 23,810 shares of Common Stock at \$1.89 per share granted under the Company's 1999 Stock Option Plan and options to purchase up to 14,286 shares of Common Stock at \$2.31 per share granted under the Company's 2002 Stock Option Plan and 122,707 shares of Common Stock.
- (7) Includes options to purchase up to 4,762 shares of Common Stock at \$6.30 per share granted under the Company's 1997 Stock Option Plan, options to purchase up to 17,858 shares of Common Stock at \$1.47 per share, granted under the Company's 2001 Stock Option Plan, options to purchase up to 8,929 shares of Common Stock at \$2.31 per share, options to purchase up to 10,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 23,836 shares of Common Stock.

- (8) Includes options to purchase up to 5,000 shares of Common Stock at \$2.26 per share, options to purchase up to 10,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 1,448 shares of Common Stock.
- (9) Includes options to purchase up to 10,000 of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 5,600 shares of Common Stock.
- (10) Includes options to purchase up to 4,762 shares of Common Stock at \$6.30 per share granted under the Company's 1997 Stock Option Plan, options to purchase 7,500 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 238 shares of Common Stock held by immediate family members.
- (11) Includes options to purchase up to 1,984 shares of Common Stock at \$6.30 per share granted under the Company's 1997 Stock Option Plan, and options to purchase up to 2,976 shares of Common Stock at \$2.31 per share and options to purchase up to 1,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 4,965 shares of Common Stock.
- (12) Includes options to purchase up to 1,984 shares of Common Stock at \$6.30 per share granted under the Company's 1997 Stock Option Plan and options to purchase up to 2,976 shares of Common Stock at \$2.31 per share and options to purchase 1,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan and 4,306 shares of Common Stock
- (13) Includes options to purchase up to 1,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 stock Option Plan.
- (14) Includes options to purchase up to 1,000 shares of Common Stock at \$2.88 per share granted under the Company's 2002 Stock Option Plan.

PROPOSAL ONE - ELECTION OF DIRECTORS

Seven directors will be elected at the Annual Meeting to serve for one-year terms expiring on the date of the Annual Meeting in 2008. All directors will be elected by holders of the Company's Common Stock. Each director elected will continue in office until a successor has been elected. If a nominee is unable to serve, which the Board of Directors has no reason to expect, the persons named in the accompanying proxy intend to vote for the balance of those named and, if they deem it advisable, for a substitute nominee.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE "FOR" THE SEVEN NOMINEES FOR DIRECTOR NAMED IN PROPOSAL ONE.

Information Concerning Nominees

The following is information concerning nominees for election as directors of the Company as of April 27, 2007. Messrs. John Schwan, Howard Schwan, Merrick, Brown, Collins, Tayne and Avramovich are presently directors of the Company.

JOHN H. SCHWAN, age 63, Chairman. Mr. Schwan has been an officer and director of the Company since January, 1996. Until March 2006, Mr. Schwan was an executive officer of Rapak, L.L.C. or affiliated companies for over 15 years. Mr. Schwan has over 30 years of general management experience, including manufacturing, marketing and sales. Mr. Schwan served in the U.S. Army, 1st Air Cavalry Division in Vietnam from 1966 to 1969. Mr. Schwan has a BA from North Park University.

HOWARD W. SCHWAN, age 52, President. Mr. Schwan has been associated with the Company for 26 years, principally in the management of the production and engineering operations of the Company. Mr. Schwan was appointed as Vice President of Manufacturing in November, 1990, was appointed as a director in January, 1996, and was appointed as President in June, 1997.

John Schwan and Howard Schwan are brothers.

STEPHEN M. MERRICK, age 65, Executive Vice President, Chief Financial Officer, and Secretary. Mr. Merrick was President of the Company from January, 1996 to June, 1997 when he became Chief Executive Officer of the Company. In October, 1999, Mr. Merrick became Executive Vice President. Mr. Merrick is of Counsel to the law firm of Vanasco Genelly & Miller of Chicago, Illinois and has been engaged in the practice of law for more than 40 years. Mr. Merrick is also Senior Vice President, Director and a member of the Management Committee of Reliv International, Inc. (Nasdaq), a manufacturer and direct marketer of nutritional supplements and food products.

STANLEY M. BROWN, age 61, Director. Mr. Brown was appointed as a director of the Company in January, 1996. Since March, 1996, Mr. Brown has been President of IRSI, Inc., a manufacturer and lessor of in-room vending systems for hotels and of inventory control equipment for manufacturers. From 1968 to 1989, Mr. Brown was with the United States Navy as a naval aviator, achieving the rank of Captain.

BRET TAYNE, age 48, Director. Mr. Tayne was appointed as a director of the Company in December, 1997. Mr. Tayne has been the Managing Director of Intrepid Tool Industries, LLC, which is a successor to Everede Tool Company, a manufacturer of industrial cutting tools, since January, 1992. Prior to that, Mr. Tayne was Executive Vice President of Unifin, a commercial finance company, since 1986. Mr. Tayne received a Bachelor of Science degree from Tufts University and an MBA from Northwestern University.

MICHAEL AVRAMOVICH, age, 54, Director. Mr. Avramovich is President of the law firm of Avramovich & Associates, P.C. of Chicago, Illinois, and is Professor of Business at North Park University in Chicago and is an Adjunct Professor at The John Marshall Law School. Prior to the practice of law, Mr. Avramovich was an Associate Professor of Accounting and Finance at National-Louis University in Chicago, Illinois. Mr. Avramovich has also worked in various financial accounting positions at Molex International, Inc. of Lisle, Illinois, and at Touche Ross in Chicago. Mr. Avramovich is a licensed CPA, and earned a Bachelor of Arts degree in History and International Relations from North Park University, a Master of Management in Accounting and Information Systems, and Finance from Kellogg Graduate School of Business at Northwestern University, a Juris Doctorate from the John Marshall Law School and an LL.M. in International and Comparative Law from Georgetown University Law Center.

JOHN I. COLLINS, age 47, Director. Mr. Collins is the Chief Administrative Officer and the former Chief Financial Officer of Members United Corporate Federal Credit Union (“MUCFCU”), a \$13 billion wholesale financial institution located in Warrenville, Illinois. Prior to his affiliation with MUCFCU in 2001, Mr. Collins was employed as both a Controller and Chief Financial Officer by Great Lakes Credit Union (“GLCU”), a \$350 million financial institution located in North Chicago, Illinois. Mr. Collins is currently the President of the Illinois Credit Union Executives Society, and is a former member of the Chicago Federal Reserve Bank Advisory Group. Mr. Collins received a Bachelor of Arts degree in Economics, History and English from Ripon College, and a Masters in Business Administration from Emory University. Mr. Collins has also participated in the Kellogg Management Institute and the Consumer Marketing Strategy programs at Northwestern University on a post-graduate basis.

Executive Officers Other Than Nominees

BRENT ANDERSON, age 40, Vice President-General Manager, Bag Division. Mr. Anderson has been employed by the Company since January, 1989, and was named Vice President of Manufacturing in 2006. Mr. Anderson has held several managerial positions within the company including Vice President, Manufacturing, Plant Engineer and Plant Manager. In such capacities Mr. Anderson was responsible for designing and/or installing much of the Company’s manufacturing equipment. Mr. Anderson earned a Bachelor of Science Degree in Manufacturing Engineering from Bradley University.

SAMUEL KOMAR, age 50, Vice President of Marketing. Mr. Komar has been employed by the Company since March of 1998, and was named Vice-President of Sales in September of 2001. Mr. Komar has worked in sales for more than 20 years, and prior to his employment with the Company, Mr. Komar was with Bob Gable & Associates, a manufacturer of sporting goods. Mr. Komar received a Bachelor of Science Degree in Sales and Marketing from Indiana University.

TIMOTHY PATTERSON, age 46, Vice President of Finance and Administration. Mr. Patterson has been employed by the Company as Vice President of Finance and Administration since September, 2003. Prior to his employment with the Company, Mr. Patterson was Manager of Controllers for the Thermoforming Group at Solo Cup Company for two years. Prior to that, Mr. Patterson was Manager of Corporate Accounting for Transilwrap Company for three years. Mr. Patterson received a Bachelor of Science degree in finance from Northern Illinois University and an MBA from the University of Illinois at Chicago.

STEVEN FRANK, age 46, Vice President of Sales. Mr. Frank has been employed by the Company in a sales capacity since July, 1996. Mr. Frank was hired as Sales Manager Wholesale Division and in March 1998 was promoted to National Sales Manager and most recently to Vice President of Sales in May 2005. Mr. Frank is responsible for all sales functions of the Novelty Division.

Committees of the Board of Directors

The Company's Board of Directors has standing Audit, Compensation and Nominating Committees. The Board of Directors met five times during 2006. No director attended less than 75% of the combined Board of Directors and Committee meetings. The Board has determined that each of Stanley M. Brown, Bret Tayne, Michael Avramovich and John I. Collins are independent based on the application of the rules and standards of The Nasdaq Stock Market.

The Compensation Committee is composed of Stanley M. Brown, John I. Collins and Bret Tayne. The Compensation Committee reviews and makes recommendations to the Board of Directors concerning the compensation of officers and key employees of the Company. The Compensation Committee met three times during 2006.

The Nominating Committee is composed of Stanley M. Brown and John I. Collins. The Nominating Committee identifies and reviews potential candidates for the Board of Directors and makes recommendations concerning potential candidates for the Board of Directors of the Company. The Nominating Committee did not meet separately during 2006.

Audit Committee

Since 2000, the Company has had a standing Audit Committee, which is presently composed of Mr. Tayne, Mr. Brown, Mr. Collins and Mr. Avramovich. Each of the members of the Audit Committee is independent based on the application of the rules and standards of The Nasdaq Stock Market and Rule 10a-3(b) under the Securities Exchange Act of 1934. Mr. Avramovich has been designated as, and is, the Company's "Audit Committee Financial Expert" in accordance with Item 407(d) of Regulation S-K and meets the requirements for an audit committee expert as set forth in that item. The Audit Committee held four meetings during fiscal year 2006, including quarterly meetings with management and independent auditors to discuss the Company's financial statements. The Company's Board of Directors has adopted a written charter, as amended, for the Company's Audit Committee, a copy of which is appended to these Proxy Materials and has been posted and can be viewed on the Company's Internet website at <http://www.ctiindustries.com> under the section entitled "Investor Relations." In addition, the Audit Committee has adopted a complaint monitoring procedure to enable confidential and anonymous reporting to the Audit Committee of concerns regarding, among other things, questionable accounting or auditing matters.

Report of the Audit Committee

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including but not limited to those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU §380). In addition, the Committee has discussed with the independent auditors the auditor's independence from management and the Company including the matters in the written disclosures required by the Independence Standards Board.

The Committee discussed with the Company's independent auditors the overall scope and plans for their respective audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to future shareholder approval at the Company's 2007 annual meeting of shareholders, the selection of Weiser, L.L.P. as the Company's independent auditors.

Michael Avramovich, Audit Committee Chair
Bret Tayne, Audit Committee Member
Stanley M. Brown, III, Audit Committee Member
John I. Collins, Audit Committee Member

Nominating and Governance Committee

In 2005, the Company established a Nominating and Governance Committee. The Nominating and Governance Committee consists of two directors, Stanley M. Brown and John I. Collins. The Nominating and Governance Committee does not have a charter. The Board of Directors has determined that each of the members of the Nominating and Governance Committee is independent as defined in the listing standards for the Nasdaq Stock Market.

The Nominating and Governance Committee has not adopted a formal policy with regard to consideration of director candidates recommended by security holders. The Company believes that continuing service of qualified incumbent members of the Board of Directors promotes stability and continuity at the Board level contributes to the Board's ability to work as a collective body and provides the benefit of familiarity and insight into the Company's affairs. Accordingly, the process of the Nominating and Governance Committee for identifying nominees reflects the Company's practice of re-nominating incumbent directors who continue to satisfy the criteria for membership on the Board. For vacancies which are anticipated on the Board of Directors, the Nominating and Governance Committee intends to seek out and evaluate potential candidates from a variety of sources that may include recommendations by security holders, members of management and the Board of Directors, consultants and others. The minimum qualifications for potential candidates for the Board of Directors include demonstrated business experience, decision-making abilities, personal integrity and a good reputation. In light of the foregoing, and the fact that one new independent director was elected to the Board in 2004, it is believed that a formal policy and procedure with regard to consideration of director candidates recommended by security holders is not necessary in order for the Nominating and Governance Committee to perform its duties.

The Nominating and Governance Committee did not meet separately during 2006. All of the independent directors of the Board of Directors of the Company participated in the nominating process and voted in favor of the nomination of the of the persons nominated for election as directors at the Annual Meeting of Stockholders to be held on June 22, 2007.

Compensation Committee

The Compensation Committee consists of three directors: Stanley M. Brown (Chairman), John I. Collins and Bret Tayne. The Board has determined that each of the members of the Compensation Committee is independent as defined in the listing standards for the Nasdaq Stock Market. The Compensation Committee reviews and acts on the Company's executive compensation and employee benefit plans, including their establishment, modification and administration. It also recommends to the Board of Directors the compensation of the Chief Executive Officer and certain other executive officers. The Compensation Committee has a charter which has been posted and can be viewed on the Company's Internet website at <http://www.ctiindustries.com> under the section entitled "Investor Relations. The Compensation Committee met three times in 2006.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of our Compensation Philosophy

Our general compensation philosophy is to provide compensation and reward programs that will attract, retain and motivate quality executive talent.

We believe that applying and implementing this basic philosophy is fundamental to our goal of achieving excellent business performance and increased shareholder value.

Principles and Objectives

The basic principles and objectives of our executive compensation program are:

- To provide a total compensation package that is competitive with prevailing practices for the industries in which we operate, allowing for above average total compensation when justified by business results and individual performance.
 - To provide a reasonable and competitive level of base compensation to our executives.
- To provide incentive compensation based, principally, on the profitability of the Company to motivate our executives in a manner consistent with the interests of the shareholders.
- To create a mutuality of interests among executive officers and shareholders by providing long-term equity compensation programs including stock options and restricted stock grants, and otherwise encouraging equity ownership by executives, so that executive officers will share the risks and rewards of strategic decision making and its effect on shareholder value.

Components of Compensation

The components of our executive compensation program are:

- **Base Salary**
- **Annual Cash Incentive Compensation.** We have adopted and maintain an incentive compensation program in which executives and a number of managerial employees participate. Incentive payments are made on a quarterly basis and are based on our operating profits if they exceed a threshold amount.
 - **Long Term Equity Incentive Compensation**
 - o We provide performance-based incentive stock option awards, under our current 2002 Incentive Stock Option Plan. Recipients realize a profit based on stock price appreciation.
 - o We are proposing approval by the shareholders of a 2007 Stock Incentive Plan under which we will provide stock options and restricted stock grants to executives under which recipients will also realize a profit based on stock price appreciation.

- **Retirement Benefits.** We maintain a 401(k) retirement plan providing for employee contributions and matching employer contributions. Employees may contribute up to 15% of their eligible gross income to the Plan and we match a percentage of the employee's contribution up to the rate of 4% of the employee's gross income.
- **Welfare Plans and Other Benefits.** We provide medical and life plan benefits to all employees. We provide additional life insurance, car allowance and fringe benefits to certain executives, as well as limited perquisites.

Compensation Committee Process

The role of our Compensation Committee is (i) to establish and maintain our executive compensation policies, (ii) to review, evaluate and recommend to the Board of Directors salary, incentive compensation and other compensation items for the Chief Executive Officer, the Chief Financial Officer, other senior members of management, members of the Board of Directors and senior management of our subsidiaries, (iii) review, evaluate and make recommendations concerning our compensation and benefit plans, (iv) approve grants of stock options and other equity based incentives.

The Chief Executive Officer's overall compensation is set by the Board of Directors in consultation with, and on the recommendation of, the Compensation Committee. The Compensation Committee recommendation is based on its assessment of the Chief Executive Officer's individual performance and the financial and operating performance of the Company. Compensation of the other Named Executive Officers and of other senior executive officers is established on the basis of recommendation of the Compensation Committee in consultation with the Chief Executive Officer, the Chairman of the Board and the Executive Vice President. The Compensation Committee considers the recommendations of the Chief Executive Officer, the Chairman of the Board and the Executive Vice President and considers each executive's responsibility, experience and overall performance. Generally, the Compensation Committee reviews and adjusts recommended compensation levels annually at its first meeting of the year. The Compensation Committee will have met periodically during the preceding year to consider compensation programs and to gain relevant information and context for determining compensation for executives.

To assist the Compensation Committee in discharging their responsibilities, the Compensation Committee has reviewed and considered (i) compensation information and detail of executives of the Company provided by the Human Resources department of the Company and (ii) compensation survey data including the 2007 Executive Compensation Report, Comprehensive Industry Sector Analysis published by Wolters Kluwer, for companies of comparable size in related industries.

In general, the policy of the Company and the Compensation Committee is to optimize the tax deductibility of executive compensation so long as deductibility is consistent with more important objectives of retaining executives and maintaining competitive, motivational performance-based compensation that is aligned with shareholder interests.

Base Salary. Base salaries are an important element of compensation and provide executives with a base level of income. In determining base pay, the Compensation Committee considers the executive's responsibilities, individual performance, base salary competitiveness as compared to the external market and the Company's operating performance. The Compensation Committee has also considered the size of the Company, results of operation and financial resources of the Company in relation to base salaries and believes that base salary rates for the Named Executives have been at or below competitive rates in the external market. Salaries of the Named Executive officers were increased during mid-2006 reflecting the improved performance of the Company.

Annual Cash Incentive Compensation. The Board of Directors has authorized profit-based incentive compensation in 2006 and also intends to award such incentive compensation for 2007. Under the incentive compensation program, designated Named Executive Officers and several other executive and managerial officers participate in incentive compensation payments, determined on a quarterly and annual basis, which are based upon the profits of the Company for the period if the profits exceed a designated threshold profit amount. Pool I of the Plan covers senior executive officers and Pool II covers other executives and managers who are selected to participate. The Compensation Committee believes such incentive compensation motivates participants to achieve strong profitability, which is viewed as the most significant element of corporate performance, provides rewards for strong corporate performance and aligns the incentive with the interests of the shareholders.

With respect to Pool I participants (other than the Chief Executive Officer whose participation is determined solely by the Compensation Committee and the Board of Directors), the Compensation Committee in consultation with the Chief Executive Officer, the Chairman of the Board and the Executive Vice President, determines the participants and their relative level of participation during the first quarter of the year. In determining participation and the level of participation each year, the Compensation Committee considers the executive's responsibilities and individual performance during the prior year.

Long-Term Equity Incentives. Long-term incentive awards have been granted to executives under the 2002 Stock Option Plan. Stock option grants are determined from time to time by the Compensation Committee. The actual grant for each executive is determined taking into consideration (i) individual performance, (ii) corporate performance and (iii) prior grants to, or stock ownership of the Company by, the executive. Generally, stock options are granted with an exercise price equal to or greater than the closing price of the Company's Common Stock on The Nasdaq Stock Market on the date of the grant. Stock options generally are exercisable within 10 years from the date of grant.

During 2006, no stock options were granted.

The Board of Directors has approved and has recommended approval by the shareholders at the 2007 Annual Meeting of shareholders a Stock Incentive Plan which will authorize the Company to issue stock options and incentive stock awards of up to 150,000 shares of the Company's Common Stock over time. If this plan is approved by the shareholders, the Compensation Committee would expect to make stock option and incentive stock awards to the Named Executive Officers and other managerial employees of the Company to provide for long-term incentive awards.

The Compensation Committee believes that long-term incentive stock awards should be a significant part of the compensation of its senior executives who have the ability to affect the results of operation of the Company in order that these executives will share the risks and rewards of Company performance as it affects shareholder value and will, therefore, have a mutuality of interest with the shareholders of the Company.

The policy of the Compensation Committee with respect to the timing of stock option awards is as follows: (i) all awards shall be dated and issued as of the date they are approved by the Compensation Committee and (ii) generally, the Compensation Committee will expect to make awards annually during May of each year after the release of financial information for the first quarter.

Retirement Benefits. The Company maintains a 401(k) employee savings plan in which all salaried employees are eligible to participate. Under the 401(k) Plan, employees may contribute up to 15% of their eligible compensation to the Plan and the Company will contribute a matching amount to the Plan each year. The federal statutory limit for eligible compensation in 2006 was \$220,000. During 2006, the Company made matching contributions up to 4% of the employees gross income. The Company's contributions to the 401(k) plan totaled \$283,000 in 2006. These contributions and matching percentages are intended to reflect competitive market conditions for plans of this type. With respect to the 401(k) Plan, participating employees may direct the investment of individual and company contributions into one or more of the investment options offered by the Plan.

Other Benefits. The Company believes that its employee benefit plans, health insurance plans and perquisites are of the type commonly offered by other employers. These benefits form part of our compensation philosophy because the Company believes they are necessary in order to attract, motivate and retain talented executives.

Employment and Change of Control Agreements

The Company has an employment agreement with Howard W. Schwan, the President. We do not maintain any change of control agreements with any executives.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section appearing above with the Company's management. Based on this review and these discussions, the Compensation Committee recommended to the Company's Board of Directors that the Compensation Committee Analysis be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and in this Proxy Statement.

Stanley M. Brown, Chairman
John I. Collins
Bret Tayne

Summary Compensation Table

The following table sets forth summary compensation information in accordance with respect to the Chief Executive Officer, Chief Financial Officer and each of the other four most highly compensated executive officers who were officers at December 31, 2006. These individuals, including the Chief Executive Officer and Chief Financial Officer are collectively referred to in this proxy statement as the Named Executive Officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Howard W. Schwan President	2006	\$ 175,300	\$ 14,922	\$ 31,034	\$ 221,256
Stephen M. Merrick Executive, Vice President Secretary, Chief Financial Officer	2006	84,000	13,057	0	97,057
Steven Frank Vice President-Sales	2006	111,600	11,192	11,589	134,381
Brent Anderson Vice President-General Manager, Bag Division	2006	119,800	11,192	11,331	142,323
Samuel Komar Vice President-Marketing	2006	124,600	11,192	12,842	148,634
Timothy Patterson Vice President-Finance	2006	106,600	11,192	10,642	128,434
Total		\$ 721,900	\$ 72,747	\$ 77,438	\$ 872,085

Items included in All Other Compensation in the Summary Compensation Table and items identified as Perquisites and Other Personal Benefits in the All Other Compensation Table are set forth in the following tables of All Other Compensation and Perquisites:

ALL OTHER COMPENSATION AND PERQUISITIES TABLE

Name and Principal Position	Year	Perquisites and Other Personal Benefits	Insurance Premiums	401(k)	Total
Howard W. Schwan President	2006	\$ 19,594	\$ 5,000	\$ 6,440	\$ 31,034
Stephen M. Merrick Executive, Vice President Secretary, Chief Financial Officer	2006	0	0	0	0
Steven Frank Vice President-Sales	2006	10,577	1,012	0	11,589
Brent Anderson Vice President-General Manager, Bag Division	2006	6,301	588	4,442	11,331
Samuel Komar Vice President-Marketing	2006	8,858	1,669	2,315	12,842
Timothy Patterson Vice President-Finance	2006	4,300	2,322	4,020	10,642
Total		\$ 49,630	\$ 10,591	\$ 17,217	\$ 77,438

PERQUISITES TABLE

Name and Principal Position	Year	Car Allowance	Country Club Dues	Total
Howard W. Schwan President	2006	\$ 13,179	\$ 6,415	\$ 19,594
Stephen M. Merrick Executive, Vice President Secretary, Chief Financial Officer	2006	0	0	0

Director Nominations

In accordance with procedures and requirements set forth in Article II, Section 13 of our bylaws, stockholders may propose nominees for election to the Board of Directors only after providing timely written notice to the Corporate Secretary, as set forth in the immediately preceding paragraph above. The notice must set forth:

The nominee's name, age, business address and residence address;

The nominee's principal occupation or employment;

Number of shares of Arbitron common stock beneficially owned by the nominee;

Any other information concerning the nominee that would be required, under rules of the Securities and Exchange Commission, in a proxy statement soliciting proxies for the election of directors; and

Name and record address of, and number of shares of Arbitron common stock beneficially owned by, the stockholder making the nomination.

Proxy Solicitation

We have retained Georgeson Shareholder Communications Inc. to assist with the solicitation of proxies for a fee not to exceed \$7,500, plus reimbursement of out-of-pocket expenses. We will pay all expenses of soliciting proxies for the 2004 annual meeting. In addition to solicitations by mail, we have made arrangements for brokers, custodians, nominees and other fiduciaries to send proxy materials to their principals and we will reimburse them for their reasonable expenses in doing so. Certain of our employees, who will receive no additional compensation for their services, may also solicit proxies by telephone, telecopy, personal interview or other means.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership and reports of changes in ownership of common stock and other equity securities of Arbitron with the Securities and Exchange Commission and the New York Stock Exchange. Such reporting persons are required by the Securities and Exchange Commission to furnish us with copies of all Section 16(a) reports they file. All the executive officers and incumbent directors of Arbitron were reporting persons in 2003. To our knowledge, based solely upon a review of Section 16(a) reports furnished to us for 2003, and/or on written representations from certain reporting persons that no reports were required, we believe that, other than as described below, our directors, executive officers and greater than 10% stockholders complied with all Section 16(a) filing requirements applicable to them with respect to transactions during 2003.

Mr. Pierre Bouvard, one of our executive officers, inadvertently failed to timely file a Form 4 disposing of 475 shares of Arbitron common stock in July 2003. A report was filed promptly upon the discovery of this oversight. Ms. Kathleen Ross, one of our executive officers, filed an amended Form 3 to include an additional 200 shares of Arbitron common stock that were not previously reported that were received in connection with a stock split by the predecessor company in 1999.

Annual Report

Copies of our Annual Report for the year ended December 31, 2003, are being distributed to our stockholders simultaneously with the delivery of this proxy statement.

Appendix A

ARBITRON INC.

Charter of the

Audit Committee

I. Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to (A) assist the Board in the oversight of (i) the integrity of the financial statements of the Company, (ii) the compliance by the Company with legal and regulatory requirements, (iii) the qualification and independence of the Company's independent auditors, and (iv) the performance of the Company's internal audit function and independent auditors, and (B) prepare an audit committee report as required by the Commission to be included in the Company's annual proxy statement.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the Company, independent auditors and investment advisers as well as anyone in the Company. The Audit Committee has the authority to retain, at the Company's expense, special legal, accounting, or other consultants or experts that it deems necessary in the performance of its duties, on the same terms as if the retention were authorized by the Board of Directors.

II. Committee Composition and Meetings

Audit Committee members shall meet the independence, experience and financial expertise requirements of the New York Stock Exchange as in effect from time to time. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgment.

Audit Committee members and the Audit Committee Chair shall be appointed by the Board on recommendation of the Nominating and Board Governance Committee. If an Audit Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

Members of the Audit Committee shall only receive compensation in the form of directors' fees from the Company for serving on the Audit Committee. No fees shall be paid to an Audit Committee member or to the company or firm that the Audit Committee member is employed by, for services as a consultant or legal or financial adviser. Directors' fees may be in the form of cash, stock and/or company stock options or other in-kind consideration ordinarily available to directors.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee should periodically meet separately and privately in executive

session with management, the independent auditors, the internal auditors and as a committee to discuss any matters that the Committee or any of these groups believe should be discussed. In addition, the Committee shall communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditors' limited review procedures.

III. Committee Responsibilities and Duties

A. Review Procedures

1. Review and reassess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval and have the document published at least every three years in accordance with Securities and Exchange Commission (SEC) regulations.

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2. Review the Company's annual audited financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.

3. In consultation with management, the independent auditors and the persons performing the internal auditing function, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the independent auditors and the persons performing the internal auditing function together with management's responses, including the status of previous recommendations.

4. Review with management and the independent auditors the Company's quarterly financial results prior to the release of earnings, the Company's quarterly financial statements (including the Company's disclosure under Management's Discussion and Analysis of Financial Condition and Results of Operations and the Certifications of the Chief Executive Officer and the Chief Financial Officer required to be filed under Sarbanes-Oxley), the earnings press releases and financial information and earnings guidance provided to analysts and rating agencies prior to filing or distribution. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 61 (see Item III.B.5. below).

5. Prepare annually a report to shareholders as required by the SEC. The report should be included in the Company's annual proxy statement.

6. The Committee should review with management guidelines and policies to govern the process by which risk assessment and risk management is undertaken.

7. The Committee shall set clear hiring policies for employees or former employees of the independent auditors.

8. Nothing contained in this Charter is intended to create, or shall be construed as creating, any responsibility or liability for the members of the Committee except to the extent otherwise provided under Delaware Law, which shall continue to set the legal standard for the conduct of the members of the Committee.

B. Independent Auditors

1. The independent auditors are ultimately accountable to the Committee. The Committee shall review the independence and performance of the independent auditors, which review shall include a review and evaluation of the lead partner of the independent auditor. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of any accounting firm employed by the Company (including the resolution of disputes between management and the accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and such firm shall report directly to the Committee.

2. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence.

3. Review the independent auditors' audit plan and engagement letter, discuss scope, staffing, locations, reliance upon management, and internal audit and general audit approach.

4. The Committee shall regularly review with the independent auditors any audit problems or difficulties the auditors encountered in the course of the audit work, including any restrictions on the scope of the independent auditors' activities or on access to requested information, and any significant disagreements with management and management's response.

5. Prior to releasing the year-end earnings, discuss the results of the audit with the independent auditors, including certain matters required to be communicated to audit committees in accordance with AICPA SAS 61.

6. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

7. At least annually, the Committee should obtain and review a report by the independent auditors describing: the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditor, and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the independent auditor and the Company.

C. Internal Audit Function and Legal Compliance

1. Review all internal audit functions including review of the audit budget, audit plan, changes in the audit plan, activities, organizational structure and qualifications of the internal audit function whether performed by internal or external resources, as needed.

2. Review the appointment, performance and replacement of the senior internal audit executive or third party performing the internal audit functions.

3. Review significant reports prepared by the internal audit function together with management's response and follow-up to these reports.

4. On at least an annual basis, review with the Company's counsel any legal matters that could have a material impact on the Company's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies. In addition, review with Company's Legal Counsel and management the Company's insurance coverage, pension funding and conflict-of-interest employee statements.

5. Establish and periodically review procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.

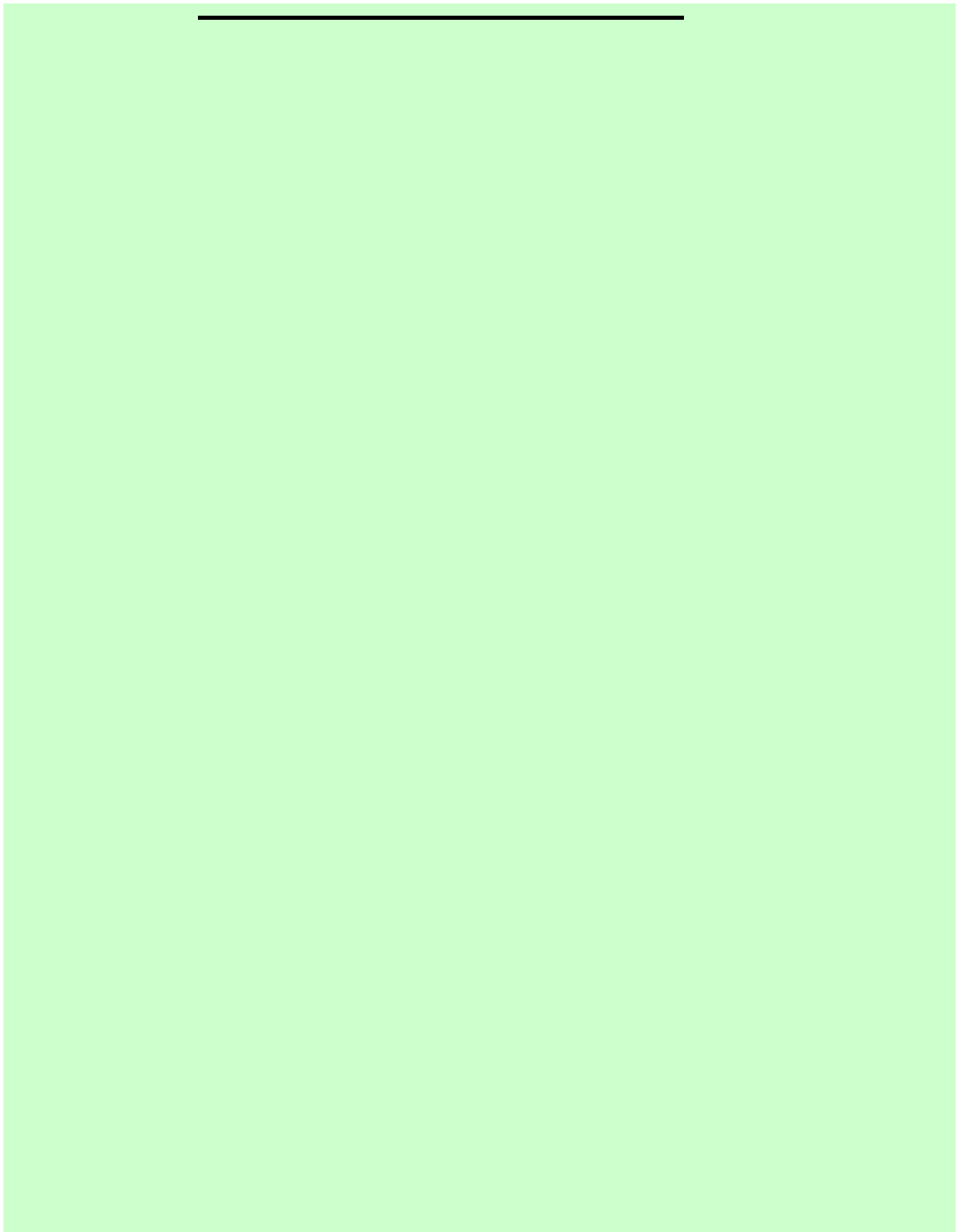
6. Establish and periodically review procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

D. Other Committee Responsibilities

1. Conduct an annual performance and self-evaluation of the Committee.

2. Maintain minutes of meetings and regularly report to the Board of Directors on significant results of the foregoing activities.

Effective Date: February 24, 2004



Appendix B

ARBITRON INC.

1999 STOCK INCENTIVE PLAN

(Amended and Restated as of _____, 2004 [Stockholder Approval Date])

1. Purpose of Plan.

The purpose of the Arbitron Inc. 1999 Stock Incentive Plan (the Plan) is to advance the interests of Arbitron Inc. (the Company) and its stockholders by enabling the Company and its Subsidiaries to attract and retain persons of ability to perform services for the Company and its Subsidiaries by providing an incentive to such individuals through equity participation in the Company and by rewarding such individuals who contribute to the achievement by the Company of its economic objectives.

2. Definitions.

The following terms will have the meanings set forth below, unless the context clearly otherwise requires:

2.1 Board means the Board of Directors of the Company.

2.2 Broker Exercise Notice means a written notice pursuant to which a Participant, upon exercise of an Option, irrevocably instructs a broker or dealer to sell a sufficient number of shares or loan a sufficient amount of money to pay all or a portion of the exercise price of the Option and/or any related withholding tax obligations and remit such sums to the Company and directs the Company to deliver stock certificates to be issued upon such exercise directly to such broker or dealer.

2.3 Change of Control means an event described in Section 13.1 of the Plan or such other definition as may be adopted by the Committee from time to time in its sole discretion.

2.4 Code means the Internal Revenue Code of 1986, as amended.

2.5 Committee means the group of individuals administering the Plan, as provided in Section 3 of the Plan.

2.6 Common Stock means the common stock of the Company, par value \$0.50 per share, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.4 of the Plan.

2.7 Disability means the disability of the Participant such as would entitle the Participant to receive disability income benefits pursuant to the long-term disability plan of the Company or Subsidiary then covering the Participant or, if no such plan exists or is applicable to the Participant, the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.

2.8 Dividend Equivalents shall have the meaning set forth in Section 14.3.

2.9 Eligible Recipients means all employees (including, without limitation, officers and directors who are also employees) of the Company or any Subsidiary and any non-employee directors, consultants and independent contractors of the Company or any Subsidiary.

2.10 Exchange Act means the Securities Exchange Act of 1934, as amended.

2.11 Fair Market Value means, with respect to the Common Stock as of any date, the closing market price per share of the Common Stock at the end of the regular way trading session, which as of the effective date of this Plan is 4:00 p.m., New York City time, as reported on the New York Stock Exchange Composite Tape on that date (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote).

2.12 Freestanding Stock Appreciation Right shall have the meaning set forth in Section 7.1.

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2.13 Incentive Award means an Option, Stock Appreciation Right, Restricted Stock Award, Performance Unit or Dividend Equivalent granted to an Eligible Recipient pursuant to the Plan.

2.14 Incentive Stock Option means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that qualifies as an incentive stock option within the meaning of Section 422 of the Code.

2.15 Non-Statutory Stock Option means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that does not qualify as an Incentive Stock Option.

2.16 Option means an Incentive Stock Option or a Non-Statutory Stock Option.

2.17 Participant means an Eligible Recipient who receives one or more Incentive Awards under the Plan.

2.18 Performance Goal means one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary or business unit basis: cash flow, earnings (including one or more of gross profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings), earnings per share, individually, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on assets, equity, investment, capital and revenue and total stockholder return), stock price, economic value added, working capital, market share, cost reductions and strategic plan development and implementation. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. The Committee may appropriately adjust any evaluation of performance under such goals to exclude any of the following events: asset write-downs, litigation or claim judgments or settlements, the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, accruals for reorganization and restructuring programs, uninsured catastrophic losses, and any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 or in management's discussion and analysis of financial performance appearing in the Company's annual report to stockholders for the applicable year.

2.19 Performance Unit means a right granted to an Eligible Recipient pursuant to Section 9 of the Plan to receive a payment from the Company, in the form of Common Stock, cash, Stock Units or a combination of the foregoing, upon the achievement of established performance criteria.

2.20 Previously Acquired Shares means shares of Common Stock that are already owned by the Participant or, with respect to any Incentive Award, that are to be issued upon the grant, exercise or vesting of such Incentive Award.

2.21 Prior Plans mean the Ceridian Corporation 1993 Long-Term Incentive Plan and the Ceridian Corporation 1990 Long-Term Incentive

Plan.

2.22 Restricted Stock Award means an award of Common Stock or Stock Units granted to an Eligible Recipient pursuant to Section 8 of the Plan that is subject to the restrictions on transferability and the risk of forfeiture imposed by the provisions of such Section 8.

2.23 Retirement means the termination (other than for Cause or by reason of death or Disability) of a Participant's employment or other service on or after the date on which the Participant has attained the age of 55 and has completed 10 years of continuous service to the Company or any Subsidiary (such period of service to be determined in accordance with the retirement/pension plan or practice of the Company or Subsidiary then covering the Participant, provided that if the Participant is not covered by any such plan or practice, the Participant will be deemed to be covered by the Company's plan or practice for purposes of this determination).

2.24 Section 162(m) means Section 162(m) of the Code and the applicable Treasury Regulations promulgated thereunder.

2.25 Securities Act means the Securities Act of 1933, as amended.

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2.26 Stock Appreciation Right shall mean the right granted to a Participant pursuant to Section 7.

2.27 Stock Unit means a bookkeeping entry representing the equivalent of one share of Common Stock that is payable in the form of Common Stock, cash or any combination of the foregoing.

2.28 Subsidiary means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

2.29 Substitute Awards shall mean Incentive Awards granted or shares of Common Stock issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

2.30 Tandem Stock Appreciation Right shall have the meaning set forth in Section 7.1.

2.31 Tax Date means the date any withholding tax obligation arises under the Code for a Participant with respect to an Incentive Award.

3. Plan Administration.

3.1 The Committee. So long as the Company has a class of its equity securities registered under Section 12 of the Exchange Act, the Plan will be administered by a committee (the Committee) consisting solely of not less than two members of the Board who are Non-Employee Directors within the meaning of Rule 16b-3 under the Exchange Act, who are independent directors for purposes of the rules and regulations of the New York Stock Exchange, and, if the Board so determines in its sole discretion, who are outside directors within the meaning of Section 162(m). To the extent consistent with corporate law, the Committee may delegate to any directors or officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act and Section 162(m). Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons, and no member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentive Award granted under the Plan.

3.2 Authority of the Committee.

(a) In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) the Eligible Recipients to be selected as Participants; (ii) the nature and extent of the Incentive Awards to be made to each Participant (including the number of shares of Common

Stock to be subject to each Incentive Award, any exercise price, the manner in which Incentive Awards will vest or become exercisable and whether Incentive Awards will be granted in tandem with other Incentive Awards) and the form of written agreement, if any, evidencing such Incentive Award; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject. In addition, the Committee will have the authority under the Plan in its sole discretion to pay the economic value of any Incentive Award in the form of cash, Common Stock, Stock Units or any combination of the foregoing.

(b) Except as otherwise provided in the remainder of this Section 3.2(b), the Committee will have the authority under the Plan to amend or modify the terms of any outstanding Incentive Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and conditions of an Incentive Award, extend the term of an Incentive Award or accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Incentive Award; provided, however that the amended or modified terms are permitted by the Plan as then in effect and

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that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification. Without prior approval of the Company's stockholders, the Committee shall not have the authority under the Plan to (i) amend or modify the terms of any pre-existing Option awards to lower the Option exercise price or (ii) authorize the grant of replacement Option awards in substitution for pre-existing Option awards that have been or are to be surrendered and canceled at any time when the Fair Market Value of the Common Stock is less than the exercise price applicable to such surrendered and canceled Option awards.

(c) In the event of (i) any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off) or any other similar change in corporate structure or shares, (ii) any purchase, acquisition, sale or disposition of a significant amount of assets or a significant business, (iii) any change in accounting principles or practices, or (iv) any other similar change, in each case with respect to the Company (or any Subsidiary or division thereof) or any other entity whose performance is relevant to the grant or vesting of an Incentive Award, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) may, without the consent of any affected Participant, amend or modify the grant or vesting criteria of any outstanding Incentive Award that is based in whole or in part on the financial performance of the Company (or any Subsidiary or division thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of the Company or such other entity will be substantially the same (in the sole discretion of the Committee or the board of directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the Plan as then in effect.

(d) The Committee may permit or require the deferral of any payment, issuance or other settlement of an Incentive Award subject to such rules and procedures as the Committee may establish, including the conversion of such payment, issuance or other settlement into Options or Stock Units and the payment or crediting of interest, dividends or dividend equivalents.

4. Shares Available for Issuance.

4.1 Maximum Number of Shares Available. Subject to adjustment as provided in Section 4.4 of the Plan, the maximum number of shares of Common Stock that will be available for issuance under the Plan will be 4,204,009 shares. The Committee may use shares available for issuance under the Plan as the form of payment for compensation, awards or rights earned or due under deferred or any other compensation plans or arrangements of the Company or any Subsidiary. The shares available for issuance under the Plan may, at the election of the Committee, be either treasury shares or shares authorized but unissued, and, if treasury shares are used, all references in the Plan to the issuance of shares will, for corporate law purposes, be deemed to mean the transfer of shares from treasury.

4.2 Calculation of Shares Available. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Incentive Awards will be applied to reduce the maximum number of shares of

Common Stock remaining available for issuance under the Plan. To the extent that any shares of Common Stock that are subject to an Incentive Award under the Plan or the Prior Plan (a) are not issued to a Participant due to the fact that such Incentive Award lapses, expires, is forfeited or for any reason is terminated unexercised or unvested, or is settled or paid in cash or (b) are used to satisfy any exercise price or withholding obligations, such shares will automatically again become available for issuance under the Plan. In addition, to the extent that a Participant tenders (either by actual delivery or by attestation) shares of Common Stock already owned by the Participant to the Company in satisfaction of any exercise price or withholding tax obligations, such shares will automatically again become available for issuance under the Plan.

4.3 Additional Limitations. Notwithstanding any other provisions of the Plan to the contrary and subject, in each case, to adjustment as provided in Section 4.4 of the Plan, (a) no more than 2,000,000

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shares of Common Stock may be issued under the Plan with respect to Incentive Stock Options, (b) no more than 700,000 shares of Common Stock may be issued under the Plan with respect to Restricted Stock Awards that are not granted in lieu of cash compensation that would otherwise be payable to Participants, and (c) no Participant in the Plan may be granted Incentive Awards relating to more than 300,000 shares of Common Stock in the aggregate during any period of three consecutive fiscal years of the Company.

4.4 Adjustments to Shares and Incentive Awards. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustments (which determination will be conclusive) as to the number and kind of securities or other property (including cash) available for issuance or payment under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, (a) the number and kind of securities or other property (including cash) subject to outstanding Options and Stock Appreciation Rights, and (b) the exercise price of outstanding Options and Stock Appreciation Rights.

5. Participation.

Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its Subsidiaries. Eligible Recipients may be granted from time to time one or more Incentive Awards, singly or in combination or in tandem with other Incentive Awards, as may be determined by the Committee in its sole discretion. Incentive Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee, which date will be the date of any related agreement with the Participant.

6. Options.

6.1 Grant. An Eligible Recipient may be granted one or more Options under the Plan, and such Options will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion and reflected in the award agreement evidencing such Option. The Committee may designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Stock Option. To the extent that any Incentive Stock Option granted under the Plan ceases for any reason to qualify as an incentive stock option for purposes of Section 422 of the Code, such Incentive Stock Option will continue to be outstanding for purposes of the Plan but will thereafter be deemed to be a Non-Statutory Stock Option.

6.2 Exercise Price. The per share price to be paid by a Participant upon exercise of an Option will be determined by the Committee in its discretion at the time of the Option grant; provided, however, that such price will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant or, with respect to an Incentive Stock Option (110% of the Fair Market Value if, at the time the Incentive Stock

Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.3 Exercisability and Duration. An Option will become exercisable at such times and in such installments as may be determined by the Committee in its sole discretion at the time of grant; provided, however, that no Option may be exercisable after 10 years from its date of grant (five years from its date of grant if the Option is an Incentive Stock Option and if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.4 Payment of Exercise Price. The total purchase price of the shares to be purchased upon exercise of an Option will be paid entirely in cash (including check, bank draft or money order); provided,

however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by tender of a Broker Exercise Notice, Previously Acquired Shares (including through delivery of a written attestation of ownership of such Previously Acquired Shares if permitted, and on terms acceptable, to the Committee in its sole discretion) or by a combination of such methods.

6.5 Manner of Exercise. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by delivery in person, by facsimile or electronic transmission or through the mail of written notice of exercise to the Company, Attention: Corporate Treasury, at its principal executive office in Minneapolis, Minnesota and by paying in full the total exercise price for the shares of Common Stock to be purchased in accordance with Section 6.4 of the Plan.

6.6 Aggregate Limitation of Stock Subject to Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the shares of Common Stock with respect to which incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by a Participant during any calendar year (under the Plan and any other incentive stock option plans of the Company or any subsidiary or parent corporation of the Company (within the meaning of the Code)) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options will be treated as Non-Statutory Stock Options. The determination will be made by taking incentive stock options into account in the order in which they were granted. If such excess only applies to a portion of an Incentive Stock Option, the Committee, in its discretion, will designate which shares will be treated as shares to be acquired upon exercise of an Incentive Stock Option.

7. Stock Appreciation Rights.

7.1 Grant and Exercise. The Committee may provide Stock Appreciation Rights (a) in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (Tandem Stock Appreciation Right), (b) in conjunction with all or part of any Incentive Award (other than an Option) granted under the Plan or at any subsequent time during the term of such Incentive Award, or (c) without regard to any Option or other Incentive Award (a Freestanding Stock Appreciation Right), in each case upon such terms and conditions as the Committee may establish in its sole discretion.

7.2 Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

- (a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one share of Common Stock on the date of exercise or such other amount as the Committee shall so determine at any time during a specified period before the date of exercise over (ii) the grant price of the right on the date of grant, or in the case of a Tandem Stock Appreciation Right granted on the date of grant of the related Option,

as specified by the Committee in its sole discretion, which except in the case of Substitute Awards or in connection with an adjustment provided in Section 4.4, shall not be less than the Fair Market Value of one share of Common Stock on such date of grant of the right or the related Option, as the case may be.

(b) Upon the exercise of a Stock Appreciation Right, the Committee shall determine in its sole discretion whether payment shall be made in cash, in whole shares of Common Stock or other property, or any combination thereof.

(c) Any Tandem Stock Appreciation Right may be granted at the same time as the related Option is granted or at any time thereafter before exercise or expiration of such Option.

(d) Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the shares of Common Stock

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subject to the related Option exceeds the option price at which shares of Common Stock can be acquired pursuant to the Option. In addition, (i) if a Tandem Stock Appreciation Right exists with respect to less than the full number of shares of Common Stock covered by a related Option, then an exercise or termination of such Option shall not reduce the number of shares to which the Tandem Stock Appreciation Right applies until the number of shares then exercisable under such Option equals the number of shares of Common Stock to which the Tandem Stock Appreciation Right applies, and (ii) no Tandem Stock Appreciation Right granted under the Plan to a person then subject to Section 16 of the Exchange Act shall be exercised during the first six months of its term for cash.

(e) Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised.

(f) The provisions of Stock Appreciation Rights need not be the same with respect to each recipient.

(g) The Committee may impose such other conditions or restrictions on the terms of exercise and the exercise price of any Stock Appreciation Right, as it shall deem appropriate, including providing that the exercise price of a Tandem Stock Appreciation Right may be less than the Fair Market Value on the date of grant if the Tandem Stock Appreciation Right is added to an Option following the date of the grant of the Option. In connection with the foregoing, the Committee shall consider the applicability and effect of Section 162(m) of the Code. Notwithstanding the foregoing provisions of this Section 7.2(g), but subject to Section 4.4, a Freestanding Stock Appreciation Right shall not have (i) an exercise price less than Fair Market Value on the date of grant, or (ii) a term of greater than ten years. In addition to the foregoing, but subject to Section 4.4, the base amount of any Stock Appreciation Right shall not be reduced after the date of grant.

(h) The Committee may impose such terms and conditions on Stock Appreciation Rights granted in connection with any Award (other than an Option) as the Committee shall determine in its sole discretion.

8. Restricted Stock Awards.

8.1 Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the provisions of the Plan, as may be determined by the Committee in its sole discretion and reflected in the award agreement evidencing such Restricted Stock Award. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period or that the Participant or the Company (or any Subsidiary or division thereof) satisfy certain performance criteria. Notwithstanding the foregoing and except as result of a Participant's death or Disability or in connection with a Change of Control of the Company, Restricted Stock Awards that provide for (a) vesting upon the satisfaction of certain performance criteria shall vest over a period of not less than one year from its date of grant and (b) time

based vesting shall vest over a period of not less than three years from its date of grant; provided, however, that Restricted Stock Awards granted in lieu of some other form of compensation to an Eligible Recipient would be permitted without such vesting restrictions.

8.2 Rights as a Stockholder; Transferability. Except as provided in Sections 8.1, 8.3 and 14.3 of the Plan, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 8 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.

8.3 Dividends and Distributions. Unless the Committee determines otherwise in its sole discretion (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after

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the grant of the Restricted Stock Award), any dividends or distributions (including regular quarterly cash dividends) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will not be subject to the same restrictions as the shares to which such dividends or distributions relate and will be paid currently to the Participant. In the event the Committee determines not to pay such dividends or distributions currently, the Committee will determine in its sole discretion whether any interest will be paid on such dividends or distributions. In addition, the Committee, in its sole discretion, may require such dividends and distributions to be reinvested (and in such case the Participants consent to such reinvestment) in shares of Common Stock that will be subject to the same restrictions as the shares to which such dividends or distributions relate.

8.4 Enforcement of Restrictions. To enforce the restrictions referred to in this Section 8, the Committee may (a) place a legend on the stock certificates referring to such restrictions and may require Participants, until the restrictions have lapsed, to keep the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent, or (b) maintain evidence of stock ownership, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent for its Common Stock.

9. Performance Units.

An Eligible Recipient may be granted one or more Performance Units under the Plan, and such Performance Units will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Performance Units as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or any Subsidiary for a certain period or that the Participant or the Company (or any Subsidiary or division thereof) satisfy certain performance goals or criteria. The Committee will have the sole discretion to determine the form in which payment of the economic value of Performance Units will be made to a Participant (i.e., cash, Common Stock, Stock Units or any combination of the foregoing) or to consent to or disapprove the election by a Participant of the form of such payment. Notwithstanding the foregoing, Performance Units that provide for vesting upon the satisfaction of certain performance criteria shall vest over a period of not less than three years from its date of grant; provided, however, that Performance Units granted in lieu of some other form of compensation to an Eligible Recipient would be permitted without such vesting restrictions.

10. Performance-Based Compensation Provisions.

The Committee, when it is comprised solely of two or more outside directors meeting the requirements of Section 162(m), in its sole discretion, may designate whether any Incentive Awards are intended to be performance-based compensation within the meaning of Section 162(m). Any Incentive Awards so designated will, to the extent required by Section 162(m), be conditioned on the achievement of one or more Performance Goals, and such Performance Goals will be established by the Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m) giving

due regard to the disparate treatment under Section 162(m) of the stock options and stock appreciation rights where compensation is determined based solely on an increase in the value of the underlying stock after the date of grant or award, as compared to other forms of compensation, including restricted stock awards. The maximum dollar value payable to any Participant with respect to Incentive Awards that are designated as such performance-based compensation and that are valued with reference to property other than shares of Common Stock may not exceed \$5,000,000 in the aggregate during any period of three consecutive fiscal years of the Company. Such Committee shall also certify in writing that such performance goals have been met prior to payment of compensation to the extent required by Section 162(m).

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11. Effect of Termination of Employment or Other Service.

11.1 Rights Upon Termination. The Committee will have the authority, in its sole discretion, to determine the effect that termination of a Participant's employment or other service with the Company and all Subsidiaries, whether due to death, Disability, Retirement or any other reason, will have on outstanding Incentive Awards then held by such Participant.

11.2 Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 11, upon a Participant's termination of employment or other service with the Company and all Subsidiaries, the Committee may, in its sole discretion (which may be exercised at any time on or after the date of grant, including following such termination), cause Options (or any part thereof) or Stock Appreciation Rights then held by such Participant to become or continue to become exercisable and/or remain exercisable following such termination of employment or service and Restricted Stock Awards and Performance Units then held by such Participant to vest and/or continue to vest or become free of restrictions following such termination of employment or service, in each case in the manner determined by the Committee; provided, however, that no Option, Stock Appreciation Right or Restricted Stock Award may continue to vest beyond its expiration date.

11.3 Date of Termination of Employment or Other Service. Unless the Committee otherwise determines in its sole discretion, a Participant's employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Subsidiary for which the Participant provides employment or other service, as determined by the Committee in its sole discretion based upon such records.

12. Payment of Withholding Taxes.

12.1 General Rules. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts which may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state and local withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Award or a disqualifying disposition of stock received upon exercise of an Incentive Stock Option, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action with respect to an Incentive Award.

12.2 Special Rules. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require a Participant to satisfy, in whole or in part, any withholding or employment-related tax obligation described in Section 12.1 of the Plan (up to the minimum statutory rate) by electing to tender Previously Acquired Shares, a Broker Exercise Notice or a promissory note (on terms acceptable to the Committee in its sole discretion), or by a combination of such methods.

13. Change of Control.

13.1 Definitions. For purposes of this Section 13, the following definitions will apply:

(a) **Benefit Plan** means any formal or informal plan, program or other arrangement heretofore or hereafter adopted by the Company or any Subsidiary for the direct or indirect provision of compensation to the Participant (including groups or classes of participants or beneficiaries of which the Participant is a member), whether or not such compensation is deferred, is in the form of cash or other property or rights, or is in the form of a benefit to or for the Participant.

(b) **Change of Control** means any of the following events:

(1) a merger or consolidation to which the Company is a party if the individuals and entities who were stockholders of the Company immediately prior to the effective date of such merger or consolidation have beneficial ownership (as defined in Rule 13d-3 under the Exchange

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Act) of less than 50% of the total combined voting power for election of directors of the surviving corporation immediately following the effective date of such merger or consolidation;

(2) the direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) in the aggregate of securities of the Company representing 25% or more of the total combined voting power of the Company's then issued and outstanding securities by any person or entity, or group of associated persons or entities acting in concert;

(3) the sale of the properties and assets of the Company, substantially as an entirety, to any person or entity which is not a wholly-owned subsidiary of the Company;

(4) the stockholders of the Company approve any plan or proposal for the liquidation of the Company; or

(5) a change in the composition of the Board at any time during any consecutive 24 month period such that the Continuity Directors cease for any reason to constitute at least a 70% majority of the Board. For purposes of this clause, Continuity Directors means those members of the Board who either (1) were directors at the beginning of such consecutive 24 month period, or (2) were elected by, or on the nomination or recommendation of, at least a two-thirds majority of the then-existing Board of Directors.

13.2 Effect of a Change of Control. The Committee will have the authority, in its sole discretion, to determine the effect that a Change of Control of the Company will have on outstanding Incentive Awards then held by such Participant.

13.3 Authority to Modify Change of Control Provisions. Prior to a Change of Control of the Company, unless otherwise provided in the agreement evidencing the Incentive Award, the Participant will have no rights under this Section 13, and the Committee will have the authority, in its sole discretion, to rescind, modify or amend the provisions of this Section 13 without the consent of any Participant.

14. Rights of Eligible Recipients and Participants; Transferability.

14.1 Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

14.2 Rights as a Stockholder. As a holder of Incentive Awards (other than Restricted Stock Awards), a Participant will have no rights as a stockholder unless and until such Incentive Awards are exercised for, or paid in the form of, shares of Common Stock and the Participant becomes the holder of record of such shares. Except as provided in Section 14.3 or as otherwise provided in the Plan, no adjustment will be made for dividends or distributions with respect to such Incentive Awards as to which there is a record date preceding the date the Participant becomes the holder of record of such shares.

14.3 Dividend Equivalents. Subject to the provisions of the Plan and any Incentive Award, the recipient of an Incentive Award (including any Incentive Award deferred in accordance with procedures established pursuant to Section 3(d)) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends, or cash payments in amounts equivalent to cash, stock or other property dividends on shares of Common Stock (Dividend Equivalents) with respect to the number of shares of Common Stock covered by the Incentive Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares or otherwise reinvested.

14.4 Restrictions on Transfer.

(a) Except pursuant to testamentary will or the laws of descent and distribution and except as expressly permitted by Section 14.4(b) of the Plan, no right or interest of any Participant in an Incentive Award prior to the exercise or vesting of such Incentive Award will be assignable or

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transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. A Participant will, however, be entitled to designate a beneficiary to receive an Incentive Award upon such Participant's death. In the event of a Participant's death, payment of any amounts due under the Plan will be made to, and exercise of any Options or Stock Appreciation Rights (to the extent permitted pursuant to Section 11 of the Plan) will be made by, the Participant's designated beneficiary. For purposes of the Plan, a designated beneficiary will be the beneficiary or beneficiaries designated by the Participant in a writing filed with the Committee in such form and at such time as the Committee will require in its sole discretion. If a Participant fails to designate a beneficiary, or if the designated beneficiary does not survive the Participant or dies before the designated beneficiary's exercise of all rights under the Plan, payment of any amounts due under the Plan will be made to, and exercise of any Options or Stock Appreciation Rights (to the extent permitted pursuant to Section 11 of the Plan) may be made by, the Participant's personal representative.

(b) The Committee may, in its discretion, authorize all or a portion of the Options to be granted to a Participant to be on terms which permit transfer by such Participant to (i) the spouse, ex-spouse, children, step-children or grandchildren of the Participant (the Family Members), (ii) a trust or trusts for the exclusive benefit of such Family Members, (iii) a partnership in which such Family Members are the only partners, or (iv) such other persons or entities as the Committee, in its discretion, may permit, provided that (1) there may be no consideration for such a transfer (other than the possible receipt of an ownership interest in an entity to which such a transfer is made), (2) the award agreement pursuant to which such Options are granted must be approved by the Committee and must expressly provide for transferability in a manner consistent with this Section 14.4(b), (3) timely written notice of the transfer must be provided to the Company by the Participant, and (4) subsequent transfers of the transferred Options shall be prohibited except for those in accordance with Section 14.4(a). Following transfer, any such Option and the rights of any transferee with respect thereto will continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer, including that the events of termination of employment or other service as provided in the Plan and in any applicable award agreement will continue to be applied with respect to the original Participant, with the transferee bound by the consequences of any such termination of employment or service as specified in the Plan and the applicable award agreement. The Company will be under no obligation to provide notice of termination of a Participant's employment or other service to any transferee of such Participant's Options. Notwithstanding any Option transfer pursuant to this Section 14.4(b), the Participant will remain subject to and liable for any employment-related taxes in connection with the exercise of such Option.

14.5 Non-Exclusivity of the Plan. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

15. Securities Law and Other Restrictions.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to

issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Incentive Awards granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

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16. Plan Amendment, Modification and Termination.

The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Incentive Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no Material Amendment of the Plan shall be made without approval of the stockholders of the Company. For the purposes hereof, a Material Amendment of the Plan shall mean any amendment that (a) requires stockholder approval pursuant to Section 422 of the Code or the rules of the New York Stock Exchange or (b) increases the authorized shares, the benefits to Participants, or the class of Participants under the Plan. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive Award without the consent of the affected Participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action it deems appropriate under Section 4.4 and Section 13 of the Plan.

17. Effective Date and Duration of the Plan.

The Plan is effective as of February 3, 1999, the date it was adopted by the Board. The Plan will terminate at midnight on February 2, 2009, and may be terminated prior thereto by Board action, and no Incentive Award will be granted after such termination. Incentive Awards outstanding upon termination of the Plan may continue to vest, or become free of restrictions, in accordance with their terms.

18. Miscellaneous.

18.1 Governing Law. The validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Delaware.

18.2 Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the Participants.

As Amended: , 2004

**Your vote is important.
Vote by Internet/Telephone
24 hours a day, 7 days a week
Save your company money it's fast and
convenient**

INTERNET	TELEPHONE	MAIL
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https://www.proxyvotenow.com	1-866-564-2325	
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Go to the Web Site address listed above.	OR	Use any touch-tone telephone.	OR	Mark, sign and date your proxy card.
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Have your proxy card ready.		Have your proxy card ready.		Detach your proxy card.
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Follow the simple instructions that appear on your computer screen.		Follow the simple recorded instructions.		Return your proxy card in the postage-paid envelope provided.
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Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned the proxy card. If you have submitted your proxy by telephone or the Internet there is no need for you to mail back your proxy card.

**THE INTERNET AND
TELEPHONE VOTING
FACILITIES WILL CLOSE AT
5:00 P.M. E.T. ON MAY 14,
2004.**

1-866-564-2325
CALL TOLL-FREE TO
VOTE.
THERE IS NO CHARGE
FOR THIS CALL!!

**ê DETACH PROXY CARD HERE IF YOU ARE NOT VOTING BY
TELEPHONE OR INTERNET ê**

- o (Please sign, [X]
 date and
 return
 this proxy Votes MUST be
 card in the indicated
 enclosed (x) in Black or
 envelope.) Blue Ink.

The undersigned hereby instructs said proxies or their
 substitutes to:

**The Board of Directors recommends a vote FOR each of
 the nominees for director.**

- | | |
|---|--|
| <p>1. Election of nine
 (9) directors
 FOR all o WITHHOLD o *EXCEPTIONS o
 nominees AUTHORITY
 listed to vote for all
 below nominees
 listed below</p> | <p>If you wish
 to have your
 votes on all
 matters kept
 confidential
 in
 accordance
 with
 Arbitron
 Inc. policy,
 check this
 box. o</p> |
|---|--|

- | | |
|---|--|
| <p>Nominees: 01 Alan Aldworth, 02
 Erica Farber,
 03 Kenneth F. Gorman,
 04 Philip Guarascio,
 05 Larry E. Kittelberger,
 06 Stephen B. Morris,
 07 Luis G. Nogales, 08
 Lawrence Perlman,
 09 Richard A. Post.</p> | <p>To change your
 address, please mark
 this box. o</p> |
|---|--|

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the Exceptions box and write that nominee's name in the space provided below.) To include any comments, please mark this box. o

*Exceptions _____

The Board of Directors recommends a vote FOR the following proposal.

2. Amendment and Restatement of the Arbitron Inc. 1999 Stock Incentive Plan

FOR AGAINST ABSTAIN

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting. If this proxy is properly executed and returned, the proxy will be voted in the manner directed hereby by the undersigned stockholder(s). **If no direction is made, this proxy will be voted for the election of the nine (9) nominees named herein and for proposal 2.** All former proxies are hereby revoked.

Please sign exactly as your name is printed to the left. Joint owners, co-executors or co-trustees should both sign. Persons signing as attorney, executor, administrator, trustee or guardian should give their full title as such.

Date	Share Owner sign here	Co-Owner sign here
_____	_____	_____
_____	_____	_____

**ARBITRON INC.
PROXY CARD**

**This proxy is solicited on behalf of the Board of
Directors
of Arbitron Inc. for the annual meeting of stockholders
on May 17, 2004.**

The undersigned hereby appoints William J. Walsh and Dolores L. Cody and either of them, as the proxies of the undersigned, with full power of substitution in each, to vote at the annual meeting of stockholders to be held on May 17, 2004, and at any adjournment or postponement thereof all of the undersigned's shares of stock of Arbitron Inc. held of record on April 2, 2004, in the manner indicated on the reverse side hereof.

You are encouraged to specify your choices by marking the appropriate boxes on the reverse side.

(Continued, and to be signed and dated on the reverse side.)

**ARBITRON INC.
P.O. BOX 11367
NEW YORK, NY 10203-0367**