ARBITRON INC
Form 10-Q
November 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

Or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Commission file number: 1-1969

ARBITRON INC.

(Exact name of registrant as specified in its charter)

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

9705 Patuxent Woods Drive

Columbia, Maryland 21046

(Address of principal executive offices) (Zip Code)

(410) 312-8000

(Registrant s telephone number, including area code)

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

The registrant had 27,253,784 shares of common stock, par value $0.50 per share, outstanding as of October 31, 2011.

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Arbitron owns or has the rights to various trademarks, trade names or service marks used in its radio audience ratings business and subsidiaries, including the following: the Arbitron name and logo, *Arbitrends*℠*, RetailDirect*®, *RADAR*®, *TAPSCAN*, *TAPSCAN WORLDWIDE*, *LocalMotion*®*, Maximi$er*®*, Maximi$er*® *Plus*, *Arbitron PD Advantage*®, *SmartPlus*®, *Arbitron Mobile*, *Arbitron Portable People Meter*, *PPM, Arbitron PPM, Arbitron PPM*®*, PPM 360, Marketing Resources Plus*®*, MRP*℠*, PrintPlus*®*, MapMAKER Direct*℠, *Media Professional*℠, *Media Professional Plus*℠, *QUALITAP*℠, Get a Grip, *Schedule-It*℠ and *Zokem*.

The trademarks *Windows*®, Mscore and Media Rating Council® referred to in this Quarterly Report on Form 10-Q are the registered trademarks of others.

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

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ARBITRON INC.

Consolidated Balance Sheets

(In thousands, except par value data)

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 15,985	$ 18,925
Trade accounts receivable, net of allowance for doubtful accounts of $5,094 as of September 30, 2011, and $4,708 as of December 31, 2010	49,252	59,808
Prepaid expenses and other current assets	8,670	11,332
Deferred tax assets	4,678	4,758
Total current assets	78,585	94,823
Equity and other investments	12,816	18,385
Property and equipment, net	70,098	70,332
Goodwill, net	44,518	38,895
Other intangibles, net	12,223	6,272
Other noncurrent assets	443	534
Total assets	$ 218,683	$ 229,241
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 10,053	$ 10,007
Accrued expenses and other current liabilities	20,703	27,670
Current portion of debt		53,000
Deferred revenue	44,646	36,479
Total current liabilities	75,402	127,156
Noncurrent deferred tax liabilities	2,809	2,695
Other noncurrent liabilities	22,362	21,739
Total liabilities	100,573	151,590
Stockholders equity		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
Common stock, $0.50 par value, 500,000 shares authorized, 32,338 shares issued as of September 30, 2011, and December 31, 2010	16,169	16,169
Retained earnings	114,098	74,184
Common stock held in treasury, 5,098 shares as of September 30, 2011, and 5,285 shares as of December 31, 2010	(2,549)	(2,642)
Accumulated other comprehensive loss	(9,608)	(10,060)
Total stockholders equity	118,110	77,651
Total liabilities and stockholders equity	$ 218,683	$ 229,241

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Income

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Revenue	$ 105,563	$ 99,470
Costs and expenses		
Cost of revenue	49,388	50,384
Selling, general and administrative	18,401	18,137
Research and development	9,444	10,088
Total costs and expenses	77,233	78,609
Operating income	28,330	20,861
Equity in net loss of affiliate	(2,290)	(2,639)
Income before interest and income tax expense	26,040	18,222
Interest income	6	4
Interest expense	109	226
Income before income tax expense	25,937	18,000
Income tax expense	10,586	6,672
Net income	$ 15,351	$ 11,328
Income per weighted-average common share		
Basic	$ 0.56	$ 0.42
Diluted	$ 0.55	$ 0.42
Weighted-average common shares used in calculations		
Basic	27,222	26,834
Potentially dilutive securities	461	263
Diluted	27,683	27,097
Dividends declared per common share outstanding	$ 0.10	$ 0.10

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Income

(In thousands, except per share data)

(unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue	$ 302,169	$ 283,705
Costs and expenses		
Cost of revenue	156,092	153,041
Selling, general and administrative	54,166	54,927
Research and development	27,456	29,069
Total costs and expenses	237,714	237,037
Operating income	64,455	46,668
Equity in net income of affiliate	631	472
Income before interest and income tax expense	65,086	47,140
Interest income	20	10
Interest expense	377	745
Income before income tax expense	64,729	46,405
Income tax expense	25,547	17,530
Net income	$ 39,182	$ 28,875
Income per weighted-average common share		
Basic	$ 1.44	$ 1.08
Diluted	$ 1.42	$ 1.07
Weighted-average common shares used in calculations		
Basic	27,154	26,693
Potentially dilutive securities	475	339
Diluted	27,629	27,032
Dividends declared per common share outstanding	$ 0.30	$ 0.30

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Cash Flows

(In thousands and unaudited)

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net income	$ 39,182	$ 28,875
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	20,973	19,787
Amortization of intangible assets	1,104	537
Loss on asset disposals and impairments	1,534	2,074
Loss due to retirement plan settlements		1,222
Reduced tax benefits on share-based awards		(178)
Deferred income taxes	(260)	1,784
Equity in net income of affiliate	(631)	(472)
Distributions from affiliate	6,200	6,700
Bad debt expense	1,555	405
Non-cash share-based compensation	5,860	4,710
Changes in operating assets and liabilities		
Trade accounts receivable	9,335	(7,798)
Prepaid expenses and other assets	2,823	21
Accounts payable	730	(767)
Accrued expenses and other current liabilities	(8,657)	(11,434)
Deferred revenue	8,167	156
Other noncurrent liabilities	1,717	1,492
Net cash provided by operating activities	**89,632**	**47,114**
Cash flows from investing activities		
Additions to property and equipment	(23,035)	(23,174)
License of other intangible assets		(4,500)
Purchases of equity and other investments		(1,780)
Payments for business acquisitions, net of cash acquired	(10,553)	(2,500)
Net cash used in investing activities	**(33,588)**	**(31,954)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	2,783	4,733
Dividends paid to stockholders	(8,126)	(7,981)
Payments for deferred financing costs	(231)	
Tax benefits realized from share-based awards	715	
Decrease in bank overdraft payables		(3,833)
Debt borrowings	15,000	10,000
Debt repayments	(69,103)	(20,000)
Net cash used in financing activities	**(58,962)**	**(17,081)**
Effect of exchange rate changes on cash and cash equivalents	(22)	9
Net change in cash and cash equivalents	(2,940)	(1,912)

Cash and cash equivalents at beginning of period	18,925	8,217
Cash and cash equivalents at end of period	**$ 15,985**	**$ 6,305**

See accompanying notes to consolidated financial statements.

ARBITRON INC.

Notes to Consolidated Financial Statements

September 30, 2011

(unaudited)

1. Basis of Presentation and Consolidation

Presentation

The accompanying unaudited consolidated financial statements of Arbitron Inc. (the Company or Arbitron) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and are of a normal recurring nature. The consolidated balance sheet as of December 31, 2010 was audited as of that date, but all of the information and notes as of December 31, 2010 required by U.S. generally accepted accounting principles have not been included in this Form 10-Q. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Consolidation

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

2. New Accounting Pronouncements

Testing Goodwill for Impairment. In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for the Company for interim and annual periods ended during 2012, with earlier application permitted. The Company does not expect its pending adoption of this guidance to have a material impact to the Company s consolidated financial statements.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements. In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 is effective for the Company for interim and annual periods ended during 2012 and should be applied prospectively. The Company is currently evaluating the impact of its pending adoption of ASU 2011-04 on its consolidated financial statements.

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

3. Debt

The Company has an agreement with a consortium of lenders to provide up to $150.0 million of financing to the Company through an unsecured revolving credit facility (the Credit Facility), expiring on December 20, 2011. The agreement contains an expansion feature for the Company to increase the total financing available under the Credit Facility by up to $50.0 million for an aggregate of up to $200.0 million in financing. Such increased financing would be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lenders, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent.

The Company expects to renew or replace the Credit Facility prior to its expiration. As of September 30, 2011, there were no outstanding borrowings under the Credit Facility. As of December 31, 2010, the outstanding borrowings balance under the Credit Facility was $53.0 million.

Interest paid during each of the nine-month periods ended September 30, 2011, and 2010, was $0.3 million and $0.7 million, respectively.

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4. Stockholders Equity

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

	Shares Outstanding	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance as of December 31, 2010	27,055	$ 16,169	$ (2,642)	$ 74,184	$ (10,060)	$ 77,651
Net income				39,182		39,182
Common stock issued from treasury stock	185		93	2,308		2,401
Tax benefits from share-based awards				715		715
Non-cash share-based compensation				5,860		5,860
Dividends declared				(8,152)		(8,152)
Other comprehensive income					452	452
Balance as of September 30, 2011	27,240	$ 16,169	$ (2,549)	$ 114,097	$ (9,608)	$ 118,109

A quarterly cash dividend of $0.10 per common share was paid to stockholders on October 3, 2011.

5. Net Income per Weighted-Average Common Share

The computations of basic and diluted net income per weighted-average common share for the three and nine-month periods ended September 30, 2011, and 2010, are based on the Company s weighted-average shares of common stock and potentially dilutive securities outstanding.

Potentially dilutive securities are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all stock options are used to repurchase the Company s common stock at the average market price for the period. As of September 30, 2011, and 2010, there were stock options to purchase 2,094,214 and 2,248,119 shares, respectively, of the Company s common stock outstanding, of which stock options to purchase 1,102,228 and 1,530,410 shares of the Company s common stock, respectively, were excluded from the computation of diluted net income per weighted-average common share for the quarters ended September 30, 2011, and 2010, respectively, either because the stock options exercise prices were greater than the average market price of the Company s common shares or assumed repurchases from proceeds from the stock options exercise were antidilutive.

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6. Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ 15,351	$ 11,328	$ 39,182	$ 28,875
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	(248)	75	(257)	(152)
Change in retirement liabilities, net of tax expense of $151, and $121 for the three-month periods ended September 30, 2011, and 2010, respectively; and a tax expense of $454, and $680 for the nine-month periods ended September 30, 2011, and 2010, respectively	237	189	709	1,058
Other comprehensive income (loss)	(11)	264	452	906
Comprehensive income	$ 15,340	$ 11,592	$ 39,634	$ 29,781

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

	September 30, 2011	December 31, 2010
Foreign currency translation adjustment	$ (717)	$ (460)
Retirement plan liabilities, net of tax	(8,891)	(9,600)
Accumulated other comprehensive loss	$ (9,608)	$ (10,060)

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7. Prepaid Expenses and Other Current Assets

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

	September 30, 2011	December 31, 2010
Survey participant incentives and prepaid postage	$ 2,432	$ 2,441
Insurance recovery receivable	845	601
Prepaid Scarborough royalties	642	
Prepaid income taxes	1,787	5,518
Other	2,964	2,772
Prepaid expenses and other current assets	$ 8,670	$ 11,332

During 2008, the Company became involved in two securities-law civil actions and a governmental interaction primarily related to the commercialization of our PPM service. The management of the Company believes a portion of these legal fees and costs are covered by the Company s Directors and Officers insurance policy and therefore has recognized an insurance recovery receivable. From 2008 until September 30, 2011, the Company had incurred approximately $11.0 million in legal fees and costs in defense of its positions related thereto, and as of September 30, 2011, the Company had received $7.1 million in insurance reimbursements related to these legal actions. From 2008 until December 31, 2010, the Company had incurred approximately $9.7 million in legal fees and costs in defense of its positions related thereto, and as of December 30, 2010, the Company had received $5.9 million in insurance reimbursements.

For the nine-month periods ended September 30, 2011, and 2010, the Company incurred approximately $1.3 million, and $0.3 million, respectively, in related legal fees, which were recognized as increases to selling, general, and administrative expense. These legal fees were offset by $1.4 million and $0.4 million in anticipated insurance recoveries, which were recognized as reductions to selling, general and administrative expense during the nine-month periods ended September 30, 2011, and 2010, respectively.

8. Equity and Other Investments

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

	September 30, 2011	December 31, 2010
Scarborough	$ 7,636	$ 13,205
TRA preferred stock	5,180	5,180
Equity and other investments	$ 12,816	$ 18,385

The Company s 49.5% investment in Scarborough Research (Scarborough), a Delaware general partnership, is accounted for using the equity method of accounting. The Company s investment in TRA Global, Inc. (TRA) is accounted for using the cost method of accounting. See Note 15 Financial Instruments for further information regarding the Company s investment in TRA as of September 30, 2011.

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The following table shows the investment activity and balances for each of the Company s investments and in total for the three-and nine-month periods ended September 30, 2011, and 2010 (in thousands):

	Three Months Ended September 30, 2011			Three Months Ended September 30, 2010		
	Scarborough	TRA	Total	Scarborough	TRA	Total
Beginning balance	$ 12,076	$ 5,180	$ 17,256	$ 11,999	$ 5,180	$ 17,179
Investment income	(2,290)		(2,290)	(2,639)		(2,639)
Distributions from investee	(2,150)		(2,150)	(2,050)		(2,050)
Ending balance at September 30	$ 7,636	$ 5,180	$ 12,816	$ 7,310	$ 5,180	$ 12,490

	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Scarborough	TRA	Total	Scarborough	TRA	Total
Beginning balance	$ 13,205	$ 5,180	$ 18,385	$ 13,538	$ 3,400	$ 16,938
Investment income	631		631	472		472
Distributions from investee	(6,200)		(6,200)	(6,700)		(6,700)
Cash investments					1,780	1,780
Ending balance at September 30	$ 7,636	$ 5,180	$ 12,816	$ 7,310	$ 5,180	$ 12,490

9. Acquisitions

Zokem Oy. On July 28, 2011, a wholly-owned subsidiary of the Company acquired Zokem Oy, a Finland-based mobile audience measurement and analytics firm now known as Arbitron Mobile. The purchase price was $10.6 million in cash plus a contingent consideration arrangement with an estimated fair value of approximately $0.9 million. The agreement provides for possible additional cash payments to be made through 2015 of up to $12.0 million, which are contingent upon Zokem reaching certain financial performance targets in the future. The $0.9 million fair value estimate was determined by applying the income approach methodology. The key assumptions used in the fair value valuation include a probability-weighted range of performance targets for the 4 year measurement period of 2012 through 2015 and an adjusted discount rate. The Company will periodically reassess the fair value of the contingent consideration.