ARBITRON INC
Form 10-Q
May 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

Or

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

Commission file number: 1-1969

ARBITRON INC.
(Exact name of registrant as specified in its charter)

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

9705 Patuxent Woods Drive
Columbia, Maryland 21046
(Address of principal executive offices) (Zip Code)

(410) 312-8000
(Registrant s telephone number, including area code)

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

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

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

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

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

The registrant had 27,133,850 shares of common stock, par value $0.50 per share, outstanding as of April 29, 2011.

ARBITRON INC.
INDEX

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 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™ and *Schedule-It*℠.

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.

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

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 23,557	$ 18,925
Trade accounts receivable, net of allowance for doubtful accounts of $5,244 as of March 31, 2011, and $4,708 as of December 31, 2010	48,688	59,808
Prepaid expenses and other current assets	7,093	11,332
Deferred tax assets	4,754	4,758
Total current assets	84,092	94,823
Equity and other investments	13,203	18,385
Property and equipment, net	70,265	70,332
Goodwill, net	38,895	38,895
Other intangibles, net	5,986	6,272
Other noncurrent assets	387	534
Total assets	$ 212,828	$ 229,241
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 11,203	$ 10,007
Accrued expenses and other current liabilities	19,718	27,670
Current portion of debt	28,000	53,000
Deferred revenue	34,389	36,479
Total current liabilities	93,310	127,156
Noncurrent deferred tax liabilities	2,035	2,695
Other noncurrent liabilities	22,705	21,739
Total liabilities	118,050	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 March 31, 2011, and December 31, 2010	16,169	16,169
Retained earnings	91,025	74,184
Common stock held in treasury, 5,211 shares as of March 31, 2011, and 5,285 shares as of December 31, 2010	(2,606)	(2,642)
Accumulated other comprehensive loss	(9,810)	(10,060)

Total stockholders equity		94,778		77,651
Total liabilities and stockholders equity	$	212,828	$	229,241

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenue	$ 100,869	$ 95,896
Costs and expenses		
Cost of revenue	45,679	43,153
Selling, general and administrative	17,109	17,641
Research and development	8,995	9,909
Total costs and expenses	71,783	70,703
Operating income	29,086	25,193
Equity in net loss of affiliate	(2,532)	(2,531)
Income before interest and income tax expense	26,554	22,662
Interest income	6	2
Interest expense	164	265
Income before income tax expense	26,396	22,399
Income tax expense	10,149	8,651
Net income	$ 16,247	$ 13,748
Income per weighted-average common share		
Basic	$ 0.60	$ 0.52
Diluted	$ 0.59	$ 0.51
Weighted-average common shares used in calculations		
Basic	27,079	26,593
Potentially dilutive securities	516	331
Diluted	27,595	26,924
Dividends declared per common share outstanding	$ 0.10	$ 0.10

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities		
Net income	$ 16,247	$ 13,748
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	7,030	6,475
Amortization of intangible assets	285	41
Loss on asset disposals and impairments	725	635
Loss due to retirement plan settlements		1,212
Reduced tax benefits on share-based awards		(168)
Deferred income taxes	(806)	(508)
Equity in net loss of affiliate	2,532	2,531
Distributions from affiliate	2,650	2,950
Bad debt expense	505	345
Non-cash share-based compensation	2,005	1,065
Changes in operating assets and liabilities		
Trade accounts receivable	10,615	(4,653)
Prepaid expenses and other assets	4,234	2,329
Accounts payable	715	2,216
Accrued expenses and other current liabilities	(7,998)	(7,132)
Deferred revenue	(2,090)	(2,593)
Other noncurrent liabilities	1,354	617
Net cash provided by operating activities	**38,003**	**19,110**
Cash flows from investing activities		
Additions to property and equipment	(7,204)	(4,803)
License of other intangible assets		(4,500)
Net cash used in investing activities	**(7,204)**	**(9,303)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	1,261	452
Dividends paid to stockholders	(2,697)	(2,661)
Tax benefits realized from share-based awards	267	
Decrease in bank overdraft payables		(3,833)
Borrowings under Credit Facility	5,000	5,000
Payments under Credit Facility	(30,000)	(5,000)
Net cash used in financing activities	**(26,169)**	**(6,042)**

Effect of exchange rate changes on cash and cash equivalents	2	5
Net change in cash and cash equivalents	4,632	3,770
Cash and cash equivalents at beginning of period	18,925	8,217
Cash and cash equivalents at end of period	**$ 23,557**	**$ 11,987**

See accompanying notes to consolidated financial statements.

ARBITRON INC.
Notes to Consolidated Financial Statements
March 31, 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 at 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 three-month period ended March 31, 2011, reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries: Arbitron Holdings Inc., Astro West LLC, Ceridian Infotech (India) Private Limited, Arbitron International, LLC, and Arbitron Technology Services India Private Limited. All significant intercompany balances have been eliminated in consolidation. Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period s presentation.

2. New Accounting Pronouncements

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

3. Current Portion of Debt

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

The Company expects to renew or replace the Credit Facility prior to its expiration. As of March 31, 2011, and December 31, 2010, the outstanding borrowings under the Credit Facility were $28.0 million and $53.0 million, respectively.

Interest paid during each of the three-month periods ended March 31, 2011, and 2010, was $0.2 million.

4. Stockholders Equity

Changes in stockholders equity for the three-month period ended March 31, 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				16,247		16,247
Common stock issued from treasury stock	72		36	1,033		1,069
Tax benefits from share-based awards				267		267
Non-cash share-based compensation				2,005		2,005
Dividends declared				(2,711)		(2,711)
Other comprehensive income					250	250
Balance as of March 31, 2011	27,127	$ 16,169	$ (2,606)	$ 91,025	$ (9,810)	$ 94,778

A quarterly cash dividend of $0.10 per common share was paid to stockholders on April 1, 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-month periods ended March 31, 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 March 31, 2011, and 2010, there were stock options to purchase 2,057,790 and 2,785,099 shares, respectively, of the Company s common stock outstanding, of which stock options to purchase 686,876 and 1,380,122 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 March 31, 2011, and 2010, respectively, either because the stock options exercise prices were greater than the average market price of the Company s common shares or assumed repurchases from proceeds from the stock options exercise were antidilutive.

6. Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Three Months Ended March 31,	
	2011	**2010**
Net income	$ 16,247	$ 13,748
Other comprehensive income:		
Change in foreign currency translation adjustment	14	26
Change in retirement liabilities, net of tax expense of $152, and $442 for the three month periods ended March 31, 2011, and 2010, respectively	236	685
Other comprehensive income	250	711
Comprehensive income	$ 16,497	$ 14,459

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

	March 31, 2011	December 31, 2010
Foreign currency translation adjustment	$ (446)	$ (460)
Retirement plan liabilities, net of tax	(9,364)	(9,600)
Accumulated other comprehensive loss	$ (9,810)	$ (10,060)

7. Prepaid Expenses and Other Current Assets

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

	March 31, 2011	December 31, 2010
Prepaid Scarborough royalty	$ 2,112	$
Survey participant incentives and prepaid postage	1,702	2,441
Insurance recovery receivable	960	601
Prepaid income taxes		5,518
Other	2,319	2,772
Prepaid expenses and other current assets	$ 7,093	$ 11,332

During 2008, the Company became involved in two securities-law civil actions and a governmental interaction primarily related to the commercialization of our PPM service, which the management of the Company believes are covered by the Company s Directors and Officers insurance policy. As of March 31, 2011 and December 31, 2010, the Company incurred-to-date $10.1 million, and $9.7 million, respectively, in legal fees and costs in defense of its positions related thereto, and as of March 31, 2011, the Company had received $5.9 million in insurance reimbursements related to these legal actions. The Company reported approximately $0.4 million, and $0.3 million in related legal fees recorded during the three-month periods ended March 31, 2011, and 2010, respectively. These legal fees were partially offset by $0.4 million, and $0.3 million in estimated gross insurance recoveries as reductions to selling, general and administrative expense during the three-month periods ended March 31, 2011, and 2010, respectively.

8. Equity and Other Investments

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

	March 31, 2011	December 31, 2010
Scarborough	$ 8,023	$ 13,205
TRA preferred stock	5,180	5,180
Equity and other investments	$ 13,203	$ 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 March 31, 2011.

The following table shows the investment activity and balances for each of the Company s investments and in total for the three-month periods ended March 31, 2011, and 2010 (in thousands):

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	Scarborough	TRA	Total	Scarborough	TRA	Total
Beginning balance	$ 13,205	$ 5,180	$ 18,385	$ 13,538	$ 3,400	$ 16,938
Investment loss	(2,532)		(2,532)	(2,531)		(2,531)
Distributions from investee	(2,650)		(2,650)	(2,950)		(2,950)

Ending balance at March 31	$ 8,023	$ 5,180	$ 13,203	$ 8,057	$ 3,400	$ 11,457

9. Acquisitions

On March 23, 2010, the Company entered into a licensing arrangement with Digimarc Corporation (Digimarc) to receive a non-exclusive, worldwide and irrevocable license to a substantial portion of Digimarc s domestic and international patent portfolio. The Company paid $4.5 million for this other intangible asset, which is being amortized over 7.0 years.

On June 15, 2010, Astro West LLC, a wholly-owned subsidiary of the Company, purchased the technology portfolio, trade name, and equipment of Integrated Media Measurement, Inc. The Company paid $2.5 million for these assets, which included $1.8 million of intangible assets, $0.3 million of computer equipment, and $0.4 million of goodwill. The intangible assets are being amortized over 5.0 years.

10. Contingencies

The Company is involved in a number of governmental interactions primarily related to the commercialization of our PPM service. A contingent loss in the amount of $0.4 million and $0.5 million for these claims was recorded in accrued expenses and other current liabilities on the Company s consolidated balance sheet as of March 31, 2011, and December 31, 2010, respectively.

11. Retirement Plans

Certain of the Company s United States employees participate in a defined-benefit pension plan that closed to new participants effective January 1, 1995. The Company also subsidizes healthcare benefits for eligible retired employees who participate in the pension plan and were hired before January 1, 1992. The Company sponsored one nonqualified, unfunded supplemental retirement plan during the three-month period ended March 31, 2011. The Company sponsored two supplemental retirement plans during the three-month period ended March 31, 2010, prior to the termination of one of the supplemental plans in the third quarter of 2010.

The components of periodic benefit costs for the defined-benefit pension, postretirement healthcare and supplemental retirement plan(s) were as follows (in thousands):

	Defined-Benefit Pension Plan Three Months Ended March 31,		Postretirement Healthcare Plan Three Months Ended March 31,		Supplemental Retirement Plan(s) Three Months Ended March 31,	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Service cost	$ 194	$ 183	$ 10	$ 10	$ 5	$ 4
Interest cost	455	471	20	22	40	59
Expected return on plan assets	(513)	(534)				
Amortization of net loss	342	263	7	9	38	42
Net periodic benefit cost	$ 478	$ 383	$ 37	$ 41	$ 83	$ 105
Settlement and curtailment loss	$	$	$	$	$	$ 1,212

During the three-month period ended March 31, 2010, the Company recognized a $1.2 million settlement loss as a result of a lump sum distribution paid to a supplemental retirement plan participant which exceeded the service and interest components incurred for that plan. No settlement charge was incurred during the three-month period ended March 31, 2011.

The Company estimates that it will contribute $2.4 million to its defined benefit plans during 2011.

12. Taxes

The effective tax rate decreased to 38.5% for the three-month period ended March&nbs