

ARBITRON INC  
Form 10-Q  
August 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2002**

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-1969

**ARBITRON INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**52-0278528**

(I.R.S. Employer Identification No.)

**142 West 57<sup>th</sup> Street**

**New York, New York 10019**

(Address of principal executive offices) (Zip Code)

**(212) 887-1300**

(Registrant's telephone number, including area code)

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

The registrant had 29,497,462 shares of common stock, par value \$0.50 per share, outstanding as of July 31, 2002.

ARBITRON INC.

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**PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**ARBITRON INC.**  
Consolidated Balance Sheets  
(In thousands)

	<b>June 30, 2002</b>	<b>December 31, 2001</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 24,203	\$ 21,043
Trade accounts receivable, net of allowance for doubtful accounts of \$1,129 in 2002 and \$995 in 2001	16,193	19,393
Deferred tax assets	15,525	24,644
Prepaid expenses and other current assets	3,073	2,578
	<u>58,994</u>	<u>67,658</u>
Total current assets	58,994	67,658
Investments in affiliates	9,438	9,722
Property and equipment, net	12,201	8,850
Goodwill, net	32,937	28,937
Other intangibles, net	2,382	2,961
Deferred tax assets	2,391	3,698
Other noncurrent assets	5,292	5,015
	<u>123,635</u>	<u>126,841</u>
Total assets	\$ 123,635	\$ 126,841
<b>Liabilities and Stockholders Equity (Deficit)</b>		
Current liabilities		
Accounts payable	\$ 4,083	\$ 5,245
Accrued expenses and other current liabilities	14,198	15,597
Due to owners of acquired business		10,621
Deferred revenue	46,177	52,993
	<u>64,458</u>	<u>84,456</u>
Total current liabilities	64,458	84,456
Noncurrent liabilities		
Long-term debt	195,000	205,000
Other noncurrent liabilities	6,470	6,494
	<u>201,470</u>	<u>211,494</u>
Total liabilities	265,928	295,950
Stockholders equity (deficit)		
Common stock, \$0.50 par value, authorized 500,000 shares, issued 32,336 shares and 32,332 shares, respectively	16,168	16,166
Additional paid-in capital	64,980	59,349
Accumulated earnings (net distributions to Ceridian in excess of accumulated earnings) prior to spin-off	(260,146)	(260,146)
Retained earnings subsequent to spin-off	41,027	20,167
Common stock held in treasury, 2,898 shares and 3,130 shares, respectively	(1,449)	(1,565)
Accumulated other comprehensive loss	(2,873)	(3,080)
	<u>(142,293)</u>	<u>(169,109)</u>
Total stockholders equity (deficit)	(142,293)	(169,109)

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Total liabilities and stockholders' equity (deficit)	\$ 123,635	\$ 126,841
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See notes to consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
Revenue	\$56,509	\$50,264
Costs and expenses		
Cost of revenue	26,046	22,811
Selling, general and administrative	12,986	11,951
Research and development	5,803	5,638
Total costs and expenses	44,835	40,400
Operating income	11,674	9,864
Equity in net income of affiliate	3,312	2,942
Income before interest and income tax expense	14,986	12,806
Interest income	124	354
Interest expense	4,348	5,352
Income before income tax expense	10,762	7,808
Income tax expense	4,144	3,094
Net income	\$ 6,618	\$ 4,714
Net income per weighted average common share		
Basic	0.23	0.16
Diluted	0.22	0.16
Weighted average common shares used in calculations		
Basic	29,368	29,155
Potentially dilutive securities	712	184
Diluted	30,080	29,339

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2002	2001
Revenue	\$ 122,411	\$ 110,454
Costs and expenses		
Cost of revenue	44,909	38,684
Selling, general and administrative	25,663	23,165
Research and development	11,315	10,334
Total costs and expenses	81,887	72,183
Operating income	40,524	38,271
Equity in net income of affiliate	2,067	1,819
Income before interest and income tax expense	42,591	40,090
Interest income	262	373
Interest expense	8,934	5,738
Income before income tax expense	33,919	34,725
Income tax expense	13,059	13,716
Net income	\$ 20,860	\$ 21,009
Net income and pro forma net income per weighted average common share		
Basic	0.71	0.72
Diluted	0.70	0.72
Weighted average and pro forma weighted average common shares used in calculations		
Basic	29,292	29,155
Potentially dilutive securities	673	169
Diluted	29,965	29,324

See notes to consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 20,860	\$ 21,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	1,482	1,018
Other amortization	579	1,197
Loss on disposals of property and equipment		(4)
Deferred income taxes	10,374	13,528
Equity in net income of affiliate	(2,067)	(1,819)
Distributions from affiliate	2,350	1,950
Bad debt expense	198	136
Tax benefit from stock option exercises	1,352	
Changes in operating assets and liabilities		
Trade accounts receivable	3,086	(855)
Prepaid expenses and other assets	(754)	126
Accounts payable	(1,224)	(4,511)
Accrued expenses and other current liabilities	(1,044)	568
Deferred revenue	(6,829)	(4,994)
Other noncurrent liabilities	114	(507)
Net cash provided by operating activities	28,477	26,842
<b>Cash flows from investing activities</b>		
Additions to property and equipment	(4,824)	(3,264)
Payments for business acquisitions	(15,000)	(3,000)
Proceeds from disposals of property and equipment		45
Net cash used in investing activities	(19,824)	(6,219)
<b>Cash flows from financing activities</b>		
Proceeds from stock option exercises and stock purchase plan	4,397	73
Proceeds from issuance of long-term debt		250,000
Repayment of long-term debt	(10,000)	(10,000)
Payment of deferred financing costs		(3,002)
Net cash distributions to Ceridian Corporation		(235,958)
Net cash provided by (used in) financing activities	(5,603)	1,113
Effect of exchange rate changes on cash	110	(3)
Net increase in cash and cash equivalents	3,160	21,733
Cash and cash equivalents at beginning of period	21,043	3,540
Cash and cash equivalents at end of period	\$ 24,203	\$ 25,273



See notes to consolidated financial statements.

**ARBITRON INC.**  
Notes to Consolidated Financial Statements  
June 30, 2002  
(unaudited)

**1. Basis of Presentation and Consolidation**

***Presentation***

Arbitron Inc. ( Arbitron or the Company ) was formerly known as Ceridian Corporation. Prior to March 31, 2001, Ceridian, a publicly traded company, had as its principal lines of business the human resource service businesses, the Comdata business, which provided transaction processing and regulatory compliance services for the transportation industry, and the radio audience measurement business.

On March 30, 2001, Ceridian effected a reverse spin-off, which we refer to as the spin-off. In connection with the spin-off, the assets and liabilities associated with the human resource service businesses and Comdata subsidiaries were transferred to New Ceridian. The radio audience measurement business stayed with Ceridian. Ceridian then distributed the stock of New Ceridian to its existing stockholders. As a result, New Ceridian is now a separate publicly traded corporation. In connection with the spin-off, Ceridian changed its name to Arbitron Inc. and effected a one-for-five reverse stock split, and New Ceridian changed its name to Ceridian Corporation. Because of the relative significance of the businesses transferred to New Ceridian, New Ceridian was considered the accounting successor to Ceridian for financial reporting purposes.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (the U.S. ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered for fair presentation have been included. The consolidated balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Arbitron Inc. annual report on Form 10-K for the year ended December 31, 2001.

***Consolidation***

The consolidated financial statements of Arbitron reflect the consolidated financial position, results of operations and cash flows of Arbitron Inc. and its subsidiaries: Arbitron Holdings Inc., Ceridian Infotech (India) Private Limited, CSW Research Limited and Euro Fieldwork Limited. In periods ended prior to March 31, 2001, the Company's financial statements reflected the combined financial position and results of operations of Arbitron (The Arbitron Company which was a division of Ceridian and CSW Research Limited, Euro Fieldwork Limited and Ceridian Infotech (India) Private Limited, each of which was a wholly owned subsidiary of Ceridian).

**2. Goodwill and Other Intangible Assets**

Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, was adopted on January 1, 2002, with the exception of a provision for acquisitions occurring after June 30, 2001, which was adopted on July 1, 2001. Under SFAS No. 142, the Company is no longer amortizing goodwill, rather goodwill is measured for impairment on an annual basis under the guidance set forth in the standard. Additionally, SFAS No. 142 requires disclosure of pro forma net income and earnings per share for prior periods as if the standard was in effect for all periods presented.

**ARBITRON INC.**

Notes to Consolidated Financial Statements Continued  
 June 30, 2002  
 (unaudited)

Intangible assets with finite lives are being amortized to expense over their estimated useful lives. As of June 30, 2002, the Company has no other intangible assets with indefinite useful lives.

The following unaudited information presents the results of operations of the Company as if SFAS No. 142 had been adopted on January 1, 2001 (Dollars in thousands, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income, as reported	\$6,618	\$4,714	\$20,860	\$21,009
Goodwill amortization, net of tax		426		852
Net income, as adjusted	\$6,618	\$5,140	\$20,860	\$21,861
Net income and pro forma net income per weighted average common share				
Basic	\$ 0.23	\$ 0.18	\$ 0.71	\$ 0.75
Diluted	\$ 0.22	\$ 0.18	\$ 0.70	\$ 0.75

The Company has completed its assessment of the carrying value of goodwill as of January 1, 2002 and has determined no impairment existed as of that date.

**3. Purchase Acquisition**

On July 2, 2001, the Company acquired all of the assets and assumed certain liabilities of the radio network audience measurement service business of Statistical Research, Inc. ( SRI ), known as Radio s All Dimension Audience Research ( RADAR ). The RADAR service measures national radio audiences and the audience size of network radio programs and commercials. The primary reason for the acquisition was to gain entry into the network radio measurement business. Arbitron plans to provide larger sample sizes to customers by combining Arbitron s existing diary sampling process with the RADAR network commercial clearance system.

On June 28, 2002, the Company paid the final installment of \$11.0 million, bringing the aggregate consideration paid to \$25.3 million. In connection with the acquisition, the Company entered into several operational agreements with SRI, including a software development agreement pursuant to which SRI adapted RADAR to the Company s diary based ratings measurement method.

**ARBITRON INC.**

Notes to Consolidated Financial Statements Continued  
 June 30, 2002  
 (unaudited)

The following unaudited pro forma information presents the results of operations of the Company as if the RADAR acquisition had occurred as of January 1, 2001 (Dollars in thousands, except per share data).

	<b>Three Months Ended June 30, 2001</b>	<b>Six Months Ended June 30, 2001</b>
	<hr/>	<hr/>
Pro forma revenue	\$ 52,691	\$ 115,323
Pro forma net income	\$ 4,975	\$ 21,532
Pro forma diluted net income per weighted average common share	\$ 0.17	\$ 0.73

**4. Long-term Debt**

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

**June 30,      December 31,**