ARBITRON INC
Form 10-Q
August 01, 2013
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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 June 30, 2013

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	**(I.R.S. Employer**
incorporation or organization)	**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	x	Accelerated Filer	¨
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 26,939,794 shares of common stock, par value $0.50 per share, outstanding as of July 23, 2013.

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Arbitron owns or has the rights to various trademarks, trade names or service marks which we use in our businesses, including the following: the Arbitron name and logo, *Arbitrends*SM, *RetailDirect*®, *RADAR*®, *TAPSCAN*, *TAPSCAN WORLDWIDE*, *LocalMotion*®*, Maximi$er*®*, Maximi$er*® *Plus*, *PD Advantage*®, *SmartPlus*®, *Arbitron Mobile, Arbitron Mobile Index*, *Arbitron Mobile Trends Panels*, *Portable People Meter*, *PPM*®, *Arbitron PPM*®*, PPM 360, PrintPlus*®, *MapMAKER Direct*SM, *Media Professional*SM, *Media Professional Plus*SM, *QUALITAP*SM, *Schedule-It*SM, and *Zokem.*

The trademarks Windows®, Mscore, Audience Reaction, Media Monitors® 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)

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Current assets		
Cash and cash equivalents	$ 95,065	$ 66,469
Trade accounts receivable, net of allowance for doubtful accounts of $4,477 as of June 30, 2013, and $4,856 as of December 31, 2012	61,919	59,185
Prepaid expenses and other current assets	10,648	6,516
Deferred tax assets	4,911	5,513
Total current assets	172,543	137,683
Equity and other investments	13,934	12,501
Property and equipment, net	58,028	61,669
Goodwill, net	45,461	45,540
Other intangibles, net	6,893	8,177
Noncurrent deferred tax assets	2,473	2,384
Other noncurrent assets	757	1,138
Total assets	$ 300,089	$ 269,092
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 14,700	$ 11,407
Accrued expenses and other current liabilities	24,141	33,879
Deferred revenue	50,996	38,497
Total current liabilities	89,837	83,783
Noncurrent liabilities	29,352	31,900
Total liabilities	119,189	115,683
Stockholders equity		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
Common stock, $0.50 par value, 500,000 shares authorized, 32,338 shares issued as of June 30, 2013, and December 31, 2012	16,169	16,169
Retained earnings	183,417	156,530
Common stock held in treasury, 5,416 shares as of June 30, 2013, and 5,714 shares as of December 31, 2012	(2,708)	(2,857)
Accumulated other comprehensive loss	(15,978)	(16,433)
Total stockholders equity	180,900	153,409
Total liabilities and stockholders equity	$ 300,089	$ 269,092

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 June 30, 2013	Three Months Ended June 30, 2012
Revenue	$ 107,410	$ 104,407
Costs and expenses		
Cost of revenue	65,323	63,205
Selling, general and administrative	24,547	20,701
Research and development	10,117	9,896
Total costs and expenses	99,987	93,802
Operating income	7,423	10,605
Equity in net income of affiliate	5,495	5,391
Income before interest and income tax expense	12,918	15,996
Interest income	20	11
Interest expense	131	132
Income before income tax expense	12,807	15,875
Income tax expense	5,754	5,912
Net income	$ 7,053	$ 9,963
Income per weighted-average common share		
Basic	$ 0.26	$ 0.38
Diluted	$ 0.26	$ 0.37
Weighted-average common shares used in calculations		
Basic	26,878	26,318
Potentially dilutive securities	567	486
Diluted	27,445	26,804
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)

	Six Months Ended June 30,	
	2013	**2012**
Revenue	$ 219,194	$ 210,801
Costs and expenses		
Cost of revenue	114,924	110,653
Selling, general and administrative	47,045	38,704
Research and development	19,431	19,614
Total costs and expenses	181,400	168,971
Operating income	37,794	41,830
Equity in net income of affiliate	3,108	3,035
Income before interest and income tax expense	40,902	44,865
Interest income	42	31
Interest expense	296	261
Income before income tax expense	40,648	44,635
Income tax expense	17,305	16,865
Net income	$ 23,343	$ 27,770
Income per weighted-average common share		
Basic	$ 0.87	$ 1.04
Diluted	$ 0.85	$ 1.02
Weighted-average common shares used in calculations		
Basic	26,786	26,782
Potentially dilutive securities	580	491
Diluted	27,366	27,273
Dividends declared per common share outstanding	$ 0.20	$ 0.20

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 7,053	$ 9,963	$ 23,343	$ 27,770
Other comprehensive income (loss)				
Foreign currency translation adjustment	(367)	(664)	(297)	(271)
Retirement liabilities:				
Amortization of net actuarial loss included in net periodic cost	622	523	1,245	1,050
Retirement liabilities - before tax	622	523	1,245	1,050
Income tax expense	(246)	(205)	(493)	(410)
Retirement liabilities - after tax	376	318	752	640
Other comprehensive income (loss), net of tax	9	(346)	455	369
Comprehensive income	$ 7,062	$ 9,617	$ 23,798	$ 28,139

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Consolidated Statements of Cash Flows

(In thousands and unaudited)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities		
Net income	$ 23,343	$ 27,770
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	12,242	14,137
Amortization of other intangible assets	1,224	1,220
Loss on asset disposals and impairments of property and equipment	956	733
Deferred income taxes	513	(1,687)
Equity in net income of affiliate	(3,108)	(3,035)
Distributions from affiliate	1,675	4,300
Bad debt expense	557	860
Non-cash share-based compensation	3,903	4,377
Changes in operating assets and liabilities		
Trade accounts receivable	(3,308)	722
Prepaid expenses and other assets	(4,604)	(548)
Accounts payable	3,428	(1,319)
Accrued expenses and other current liabilities	(15,015)	(10,770)
Deferred revenue	12,499	15,227
Noncurrent liabilities	420	1,667
Net cash provided by operating activities	**34,725**	**53,654**
Cash flows from investing activities		
Additions to property and equipment	(9,790)	(10,627)
Net cash used in investing activities	**(9,790)**	**(10,627)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	5,187	3,311
Stock repurchases		(50,025)
Dividends paid to stockholders	(2,676)	(5,454)
Excess tax benefits realized from share-based awards	1,261	554
Net cash provided by (used in) financing activities	**3,772**	**(51,614)**
Effect of exchange rate changes on cash and cash equivalents	(111)	(55)
Net change in cash and cash equivalents	28,596	(8,642)
Cash and cash equivalents at beginning of period	66,469	19,715
Cash and cash equivalents at end of period	**$ 95,065**	**$ 11,073**

See accompanying notes to consolidated financial statements.

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ARBITRON INC.

Notes to Consolidated Financial Statements

June 30, 2013

(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 (GAAP) 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 GAAP 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, 2012 was audited as of that date, but all of the information and notes as of December 31, 2012 required by GAAP 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, 2012. Certain amounts in the consolidated financial statements for prior periods have been reclassified to conform to the current period s presentation.

Consolidation

The consolidated financial statements of Arbitron for the six-month period ended June 30, 2013, 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 and transactions have been eliminated in consolidation. The Company has one segment which meets the quantitative thresholds for being a reportable segment.

2. New Accounting Pronouncements

Testing Other Intangibles for Impairment. In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02), to allow entities to use a qualitative approach to test indefinite-lived assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to calculate the fair value of the intangible asset and perform the quantitative impairment test. Otherwise, the entity need not perform the quantitative impairment test. ASU 2012-02 is effective for the Company for interim and annual periods ended during 2013. The adoption of this guidance had no impact on the Company s consolidated financial statements.

Comprehensive Income Presentation. In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02), to require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 is effective for the Company beginning with interim and annual periods ended during 2013. The Company has adopted this guidance and disclosed the appropriate information within the consolidated financial statements and notes to the financial statements for the periods presented.

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3. Pending Merger with Nielsen Holdings N.V.

On December 17, 2012, the Company entered into an Agreement and Plan of Merger, as amended by Amendment No. 1 to the Agreement and Plan of Merger, dated as of January 25, 2013, with Nielsen Holdings N.V. (Nielsen) and TNC Sub I Corporation, a Delaware corporation and an indirect wholly-owned subsidiary of Nielsen (Merger Sub), pursuant to which, subject to satisfaction or waiver of the conditions therein, Merger Sub will merge with and into the Company (the Merger) with Arbitron surviving as an indirect wholly-owned subsidiary of Nielsen. The transaction has been approved by the boards of both companies. On April 16, 2013, the Company s shareholders approved the adoption of the Merger. The Merger remains subject to certain regulatory approvals, including expiration of the Hart-Scott-Rodino antitrust waiting period, and customary closing conditions. The Company recognized $9.4 million in selling, general, and administrative expense for consulting and legal services received in association with the Merger during the six-month period ended June 30, 2013. For additional information regarding the business risks associated with pursuing the Merger, see Item 1A. Risk Factors Risk Factors Relating to the Merger, in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC.

4. Stockholders Equity

Changes in stockholders equity for the six-month period ended June 30, 2013, 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, 2012	26,624	$ 16,169	$ (2,857)	$ 156,530	$ (16,433)	$ 153,409
Net income				23,343		23,343
Common stock issued from treasury stock	298		149	3,747		3,896
Excess tax benefits from share-based awards				1,261		1,261
Non-cash share-based compensation				3,903		3,903
Dividends declared				(5,367)		(5,367)
Other comprehensive income					455	455
Balance as of June 30, 2013	26,922	$ 16,169	$ (2,708)	$ 183,417	$ (15,978)	$ 180,900

A quarterly cash dividend of $0.10 per common share was paid to stockholders on July 1, 2013.

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5. Net Income per Weighted-Average Common Share

The computations of basic and diluted net income per weighted-average common share for the six-month periods ended June 30, 2013, and 2012, 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 the proceeds from the exercise of all dilutive stock options are used to repurchase the Company s common stock at the average market price for the period.

As of June 30, 2013, and 2012, there were stock options to purchase 1,469,890 shares, and 2,012,378 shares of the Company s common stock outstanding, respectively, of which stock options to purchase 148,426 shares, and 1,295,172 shares of the Company s common stock, respectively, were excluded from the computation of the diluted net income per weighted-average common share for the six-month periods ended June 30, 2013, and 2012, 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. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss for the three- and six-month periods ended June 30, 2013, and 2012, were as follows (in thousands):

	Three Months Ended June 30, 2013			Three Months Ended June 30, 2012		
	Foreign currency items	**Retirement plan items**	**Total**	**Foreign currency items**	**Retirement plan items**	**Total**
Beginning balance	$ (2,168)	$ (13,819)	$ (15,987)	$ (1,755)	$ (13,131)	$ (14,886)
Other comprehensive income before reclassification adjustments	(367)		(367)	(664)		(664)
Amounts reclassified from accumulated other comprehensive loss		376{a}	376		318{a}	318
Net current period other comprehensive income	(367)	376	9	(664)	318	(346)
Ending balance	$ (2,535)	$ (13,443)	$ (15,978)	$ (2,419)	$ (12,813)	$ (15,232)

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	Foreign currency items	**Retirement plan items**	**Total**	**Foreign currency items**	**Retirement plan items**	**Total**
Beginning balance	$ (2,238)	$ (14,195)	$ (16,433)	$ (2,148)	$ (13,453)	$ (15,601)
Other comprehensive income before reclassification adjustments	(297)		(297)	(271)		(271)
Amounts reclassified from accumulated other comprehensive loss		752{a}	752		640{a}	640
Net current period other comprehensive income	(297)	752	455	(271)	640	369
Ending balance	$ (2,535)	$ (13,443)	$ (15,978)	$ (2,419)	$ (12,813)	$ (15,232)

All amounts are net of tax. Amounts in parentheses indicate debits.

{a} These components were reclassified, gross of tax, as part of net periodic cost associated with the amortization of the actuarial loss related to the Company s benefit plan obligations. See Note 7 for additional details.

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7. 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 has a nonqualified, unfunded supplemental retirement plan, as well as a postretirement healthcare plan for eligible retired employees who participate in the pension plan and were hired before January 1, 1992. The components of periodic benefit costs for the defined-benefit pension, postretirement healthcare and supplemental retirement plans were as follows for the three- and six-month periods ended June 30, 2013, and 2012 (in thousands):

	Defined-Benefit Pension Plan Three Months Ended June 30,		Postretirement Healthcare Plan Three Months Ended June 30,		Supplemental Retirement Plan Three Months Ended June 30,	
	2013	2012	2013	2012	2013	2012
Service cost	$ 254	$ 216	$ 10	$ 10	$ 13	$ 8
Interest cost	471	477	14	18	40	40
Expected return on plan assets	(559)	(509)				
Amortization of net actuarial loss {a}	564	470	2	5	56	48
Net periodic benefit cost	$ 730	$ 654	$ 26	$ 33	$ 109	$ 96

	Defined-Benefit Pension Plan Six Months Ended June 30		Postretirement Healthcare Plan Six Months Ended June 30		Supplemental Retirement Plan Six Months Ended June 30	
	2013	2012	2013	2012	2013	2012
Service cost	$ 508	$ 431	$ 19	$ 18	$ 25	$ 15
Interest cost	941	953	29	36	79	80
Expected return on plan assets	(1,118)	(1,018)				
Amortization of net actuarial loss {a}	1,128	943	4	11	113	96
Net periodic benefit cost	$ 1,459	$ 1,309	$ 52	$ 65	$ 217	$ 191

{a} The total amount of amortization of net actuarial loss for all retirement plans was $622 and $523 for the three-month periods ended June 30, 2013, and 2012, respectively, and $1,245 and $1,050 for the six-month periods ended June 30, 2013, and 2012, respectively.

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8. Arbitron Mobile Contingent Consideration

On July 28, 2011, a wholly-owned subsidiary of the Company acquired Zokem Oy, which is now being consolidated as Arbitron Mobile. The purchase price was $10.6 million in cash plus a contingent consideration arrangement. The contingent consideration arrangement provides for possible additional cash payments to be made by the Company to the former Zokem Oy shareholders through 2015 of up to $12.0 million, which are contingent upon Arbitron Mobile reaching certain financial performance targets in the future. The Company periodically reassesses the fair value of the contingent consideration by applying the income approach method. The key assumptions used in the fair value valuation include a probability-weighted range of performance targets for the four-year measurement period of 2012 through 2015 and an adjusted discount rate. As of both June 30, 2013 and December 31, 2012, the Company s fair value estimate of the contingent consideration was $0.6 million, which is recorded as a portion of noncurrent liabilities on the Company s consolidated balance sheet.

9. Taxes

The effective tax rate increased to 42.6% for the six-month period ended June 30, 2013, from 37.8% for the six-month period ended June 30, 2012. This increase for the six-month period ended June 30, 2013, as compared to the same period of 2012, resulted primarily from certain nondeductible transaction costs anticipated during 2013 in relation to the pending Merger.

During the six-month period ended June 30, 2013, the Company s unrecognized tax benefits for certain tax contingencies decreased from $1.3 million as of December 31, 2012, to $1.2 million as of June 30, 2013. The decrease is primarily attributable to the settlement of various state income tax audits. If recognized, the $1.2 million in unrecognized tax benefits would reduce the Company s effective tax rate in future periods. Income taxes paid for the six-month periods ended June 30, 2013 and 2012, were $21.7 million and $19.0 million, respectively.

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10. Share-Based Compensation

The following table sets forth information with regard to the income statement recognition of share-based compensation for the three- and six-month periods ended June 30, 2013, and 2012 (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Cost of revenue	$ 194	$ 97	$ 249	$ 243
Selling, general and administrative	1,345	2,018	3,464	3,940
Research and development	115	94	190	194
Share-based compensation	$ 1,654	$ 2,209	$ 3,903	$ 4,377

No share-based compensation cost was capitalized during the six-month periods ended June 30, 2013, and 2012.

Stock Options

Stock options awarded to employees under the Company s 2008 Equity Compensation Plan (2008 Plan) generally vest annually over a three-year period, have a 10-year term and have an exercise price equal to the fair market value of the Company s common stock at the date of grant. Compensation expense for stock options is recognized on a straight-line basis over the vesting period using the fair value of each stock option estimated as of the grant date.

For the three-month period ended June 30, 2013, no stock options were granted. For the three-month period ended June 30, 2012, the number of stock options granted was 12,511, and the weighted-average exercise price for those stock options granted was $35.46.

For the six-month period ended June 30, 2013, no stock options were granted. For the six-month period ended June 30, 2012, the number of stock options granted was 106,466, and the weighted-average exercise price for those stock options granted was $34.06.

As of June 30, 2013, there was $2.1 million in total unrecognized compensation cost related to unvested stock options. This aggregate unrecognized cost is expected to be recognized over a weighted-average remaining period of 1.7 years. The weighted-average exercise price and weighted-average remaining contractual term for outstanding stock options as of June 30, 2013, were $33.49 and 5.6 years, respectively.

Service and Performance Award Units

Service award units. The Company granted service award units under the 2008 Plan to certain employees. These employee service award units (i) were issued at the fair market value of the Company s common stock on the date of grant, (ii) generally vest in equal annual installments over four years beginning on the first anniversary date of the grant, except for service award units granted to the Company s executives since December 30, 2012, which vest in 12 equal quarterly installments following the date of the grant for the CEO and 16 equal quarterly installments following the date of grant for the Company s other executives, and (iii) for any unvested units, expire without vesting if the employee is no longer employed by the Company.

For 2013 and 2012, the Board members had the right to elect to receive all or a portion of their annual compensation as Board service award units. These Board service award units (i) were issued at the fair market value of the Company s common stock on the date of grant, and (ii) vest completely on the first anniversary date of the grant.

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Compensation expense for service award units is recognized on a straight-line basis over the vesting period using the fair market value of the Company s common stock on the date of grant. As of June 30, 2013, there was $7.6 million of total unrecognized compensation cost related to unvested service award units granted to certain Board members and employees. This aggregate unrecognized cost for service award units is expected to be recognized over a weighted-average period of approximately 3.2 years.

Additional information for the three- and six-month periods ended June 30, 2013, and 2012, is noted in the following table (dollars in thousands, except per share amounts):

Total Service Award Units Granted to Board and Employees	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Number of service award units granted during the period	6,408	10,223	121,113	10,223
Weighted average grant-date fair value per share granted during the period	$ 46.82	$ 35.46	$ 46.80	$ 35.46
Fair value of service award shares vested during the period	$ 2,104	$ 1,292	$ 2,497	$ 1,740

Performance award units. During the six-month period ended June 30, 2013, the Company did not grant any performance award units. During the six-month period ended June 30, 2012, the Company granted performance award units under the 2008 Plan. These performance award units (i) were issued at the fair market value of the Company s common stock on the date of grant, (ii) will vest in four equal annual installments beginning with the first anniversary date of the grant, and (iii) for any unvested units, expire without vesting if the recipient is no longer employed by the Company. The performance goal for these performance award units was met.

Compensation expense for performance award units is recognized (i) using the fair market value of the Company s common stock on the date of grant, and (ii) on a graded basis, which is accelerated as compared to a straight-line expense attribution method. As of June 30, 2013, there was $0.8 million of total unrecognized compensation cost related to unvested performance award units. This aggregate unrecognized cost is expected to be recognized over a weighted-average period of 2.1 years.

Additional information for the three- and six-month periods ended June 30, 2013, and 2012, is noted in the following table (dollars in thousands, except per share amounts):

Total Performance Award Units Granted	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Number of performance award units granted during the period				34,229
Weighted average grant-date fair value per share granted during the period				$ 33.87
Fair value of performance award shares vested during the period	$ 422	$ 325	$ 1,508	$ 847

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Deferred Stock Units

Board DSUs. The Company issues deferred stock units to its Board of Directors (Board DSUs) under the 2008 Plan. These Board DSUs (i) were issued at the fair market value of the Company s common stock on the date of grant and (ii) if vested, will be convertible to shares of the Company s common stock subsequent to termination of service as a director. For 2013 and 2012, the Board members had the right to elect to receive all or a portion of their annual compensation as Board DSUs that vest completely on the first anniversary date of the grant. For 2011 and 2010, annual grants were issued to the Board as Board DSUs that vest annually in three equal installments over three-year periods.

During the six-month period ended June 30, 2012, the Board members had the right to elect to receive all or a portion of their retainer and meeting attendance fees as Board DSUs, which vest immediately. Board DSUs are only granted to nonemployee Directors. Board DSUs also include dividend equivalent DSUs, which vest immediately upon the date of grant.

Compensation expense for Board DSUs is recognized on a straight-line basis over the vesting period using the fair market value of the Company s common stock on the date of grant. As of June 30, 2013, there was $0.9 million of total unrecognized compensation cost related to Board DSUs granted to nonemployee directors. This aggregate unrecognized cost is expected to be recognized over the weighted-average period of less than 1.0 year.

Former CEO DSUs. Prior to 2013, the Company granted deferred stock unit awards under the 2008 Plan to its then current CEO (Former CEO DSUs), whose employment with the Company ended during the first quarter of 2013. These Former CEO DSUs (i) were granted at the fair market value of the Company s stock on the date of grant, (ii) generally vest annually over a four-year period on each anniversary date of the grant, (iii) provide for accelerated vesting upon termination without cause or the former CEO s retirement as defined in his employment agreement, and (iv) are convertible into shares of the Company s common stock, following the holder s termination of employment, in accordance with the former CEO s employment agreement. As of June 30, 2013, there was no unrecognized compensation cost related to these Former CEO DSUs.

Additional information related to both Board DSUs and Former CEO DSUs for the three- and six-month periods ended June 30, 2013, and 2012, is noted in the following table (dollars in thousands, except per share amounts):

Board DSUs and Former CEO DSUs	**Three Months Ended June 30, 2013**	**Three Months Ended June 30, 2012**	**Six Months Ended June 30, 2013**	**Six Months Ended June 30, 2012**
Number of shares granted during the period	15,410	21,179	16,181	82,798
Number of DSUs converted to common stock shares during the period			47,189	
Weighted-average grant date fair value per share granted during the period	$ 46.82	$ 35.41	$ 46.83	$ 34.31
Fair value of shares vested during the period	$ 1,221	$ 554	$ 1,328	$ 1,624

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11. Concentration Risk

Arbitron is a leading media and marketing information services firm primarily serving radio, advertisers, advertising agencies, cable and broadcast television, retailers, out-of-home media, online media, mobile media, telecommunications providers, and print media. The Company s quantitative radio audience ratings service and related software licensing revenue accounted for the following percentages, in the aggregate, of total Company revenue:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Quantitative radio audience ratings service and related software licensing revenue	81%	82%	88%	89%

The Company had one customer that individually represented approximately 19% of its revenue for the six-month period ended June 30, 2013. The Company had two customers that individually represented approximately 22%, and 20% of its total accounts receivable balance as of June 30, 2013, and one customer that individually represented approximately 26% of its total accounts receivable balance as of December 31, 2012. The Company has historically experienced a high level of contract renewals.

12. Stock Repurchases

On February 9, 2012, the Company s Board of Directors authorized a program to repurchase up to $100.0 million in shares of the Company s outstanding common stock through either periodic open-market or private transactions, in accordance with applicable insider trading and other securities laws and regulations, at then-prevailing market prices over a period of up to two years ending February 9, 2014. As of June 30, 2013, the Company had repurchased 1,372,853 shares of its outstanding common stock under this program for approximately $50.0 million, which were repurchased during the six-month period ended June 30, 2012. No shares of the Company s common stock were repurchased during the six-month period ended June 30, 2013.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto in this Quarterly Report on Form 10-Q.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Arbitron Inc. and its subsidiaries (we, our, Arbitron, or the Company) in this document that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, intends, anticipates, estimates, believe comparable terminology, are forward-looking statements based on current expectations about future events, which we have derived from information currently available to us. These forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results to differ materially from results implied by such forward-looking statements. These risks and uncertainties include, in no particular order, whether we will be able to:

- successfully operate our business without disruption due to the pending merger transaction with Nielsen Holdings N.V. (Nielsen);
- obtain required regulatory approval and satisfy other conditions to closing of the merger with Nielsen and successfully complete the merger;
- manage unexpected costs, liabilities, or delays in completing the merger with Nielsen;
- successfully obtain and/or maintain Media Rating Council, Inc. (MRC) accreditation for our audience ratings services;
- renew contracts with key customers;
- collect, manage, and process the consumer information we utilize in our media marketing and information services in compliance with applicable data protection and privacy statutes, regulations, and other requirements;
- successfully execute and maintain our cross platform and mobile measurement initiatives;
- support our current and future services by designing, recruiting, and maintaining research samples that appropriately balance quality, size, and operational cost;
- successfully develop, implement, and fund initiatives designed to enhance sample quality;
- successfully manage costs associated with cell phone household recruitment, targeted in-person recruitment, and address-based sampling;
- successfully maintain and promote industry usage of our media and marketing information services, a critical mass of broadcaster encoding, and the proper understanding of our services and methodologies in light of governmental actions, including investigation, regulation, legislation or litigation, customer or industry group activism, or adverse community or public relations efforts;

successfully manage the impact on our business of the current economic environment generally, and in the advertising market, including, without limitation, the insolvency of any of our customers or the impact of the economic environment on our customers ability to fulfill their payment obligations to us;

successfully integrate acquired operations, including differing levels of management and internal control effectiveness at the acquired entity;

effectively respond to rapidly changing technologies by creating proprietary systems to support our research initiatives and by developing new services that meet marketplace demands in a timely manner;

successfully execute our business strategies, including evaluating, and where appropriate, entering into potential acquisition, joint-venture or other material third-party agreements;

successfully develop and implement technology solutions to identify and report consumer use of new and existing forms of media content and delivery, and advertising in an increasingly competitive environment; and

compete with companies that may have financial, marketing, sales, technical or other advantages over us.

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There are a number of additional important factors that could cause actual events or our actual results to differ materially from those indicated by such forward-looking statements, including, without limitation, the factors set forth in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, and elsewhere, and any subsequent periodic or current reports filed by us with the Securities and Exchange Commission (the SEC).

In addition, any forward-looking statements represent our expectations only as of the day we filed this Quarterly Report with the SEC and should not be relied upon as representing our expectations as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our expectations change.

Overview

We are a leading media and marketing information services firm primarily serving radio, advertisers, advertising agencies, cable and broadcast television, retailers, out-of-home media, online media, mobile media, telecommunications providers, and print media. Our main service is:

- estimating the size and composition of radio audiences in local markets and of audiences to network radio programming and commercials in the United States.

We also provide services in the following areas:

- estimating the size and composition of audiences to media other than radio, including mobile media, television viewed out-of-home, and content distributed on multiple platforms; we also analyze the behavior of smartphone and tablet users;
- providing qualitative information about consumers, including their lifestyles, shopping patterns, and use of media; and
- providing software to access and analyze media audience and marketing information data.

We have commercialized our Arbitron Portable People Meter (PPM®) ratings service in 48 of the largest United States radio markets. We may choose to commercialize our PPM ratings service in additional markets in the future. We refer to each of the 48 United States radio markets in which we have commercialized our PPM service as a PPM Market and collectively, as the PPM Markets.

Historically, our quantitative radio ratings services and related software have accounted for a substantial majority of our revenue. For the six-month periods ended June 30, 2013, and 2012, our quantitative radio ratings services and related software accounted for approximately 88% and 89% of our revenue, respectively. Approximately 78% of our total revenue for the six-month period ended June 30, 2013, was derived from local radio ratings services, of which approximately 73% was from our PPM Markets and 27% was from our Diary markets.

We expect for the year ending December 31, 2013, our quantitative radio ratings services and related software licensing will account for approximately 88% of our revenue. We also expect approximately 78% of our total revenue for the year ending December 31, 2013, will be derived from local radio ratings services, of which we estimate approximately 74% will be from the PPM Markets and 26% will be from the Diary markets. Quarterly fluctuations in these percentages are reflective of the seasonal delivery schedule of our quantitative radio ratings service and our Scarborough reports. For further information regarding seasonality trends, see Seasonality.

While we expect our quantitative radio ratings services and related software licensing will account for the majority of our revenue for the foreseeable future, we continue to seek opportunities to diversify our revenue base by, among other things, leveraging the investment we have made in our PPM technology.

With the commercialization of our PPM ratings service complete in 48 of the largest U.S. radio markets, our current performance is impacted by our ability, and the costs required, to address a variety of challenges and opportunities in the markets and industries we serve. See Quality Improvement Initiatives below. Protecting and supporting our existing customer base, and ensuring our services are competitive from a price, quality, and service perspective are critical components to these overall goals, although there can be no guarantee we will be successful in our efforts.

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Pending Merger with Nielsen

On December 17, 2012, Nielsen, a leading global provider of information and insights into what consumers watch and buy, entered into an agreement to acquire Arbitron. For additional information regarding the pending merger with Nielsen, see Note 3 to the Notes to the Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Quality Improvement Initiatives

Challenges. In an effort to address the challenges of maintaining or improving response rates and sample proportionality, we established internal benchmarks we strive to achieve for both of these sample quality measures and have instituted a number of methodological enhancements, including cell phone household recruiting, targeted in-person recruiting, and address-based sampling. It is more expensive for us to recruit cell phone households and to conduct targeted in-person recruiting and address-based sampling. Because we intend to continue to increase the number of cell phone households in our samples and the level of address-based and targeted in-person recruiting, we expect the expenditures required to support these methods will be material. We currently anticipate the aggregate cost of cell phone household recruitment for the PPM and Diary services, and address-based and targeted in-person recruiting for the PPM service will be approximately $20.0 million in 2013, as compared to $18.0 million in 2012.

Portable People Meter Service. In operating our PPM ratings service, we have experienced and expect to continue to experience challenges, including those related to response rates and sample proportionality as described above. We expect to continue to implement additional measures to address these challenges. Since launching our PPM ratings service, we have implemented a number of initiatives and announced additional initiatives. We believe these steps reflect our commitment to ongoing improvement and our responsiveness to feedback from customers and governmental entities. We believe these commitments and enhancements are consistent with our efforts to continuously improve our radio ratings services and to obtain and maintain MRC accreditation. We expect these initiatives will likely continue to require expenditures that will be material in the aggregate.

Diary Service. We strive to achieve representative samples. We believe that additional expenditures will be required in the future as we continue to research and test new measures associated with improving response rates and sample proportionality.

Privacy and Data Security

We are subject to U.S. and international data protection and privacy statutes, rules, and regulations, and may in the future become subject to additional such statutes, rules, and regulations. Complying with these laws may require us to make certain investments, make modifications to existing services, or prohibit us from offering certain types of services, any of which may be material and adversely impact our financial results. Failure to comply could result in civil and criminal liability, negative publicity, data being blocked from use, and liability under contracts with our customers, vendors, and partners.

Concentration of Customers

We have a number of key customers who license our ratings services and related software. For example, during the six-month period ended June 30, 2013, Clear Channel represented approximately 19% of our total revenue. Additionally, the amount of revenue associated with customer contracts expiring over the next two years is larger, as compared to recent historical average annual renewal levels. If one or more key customers do not renew all or part of their contracts as they expire, we could experience a significant decrease in our operating results.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that are both important to the presentation of our financial position or results of operations, and require our most difficult, complex or subjective judgments.

Software development costs. We capitalize software development costs with respect to significant internal use software initiatives or enhancements from the time the preliminary project stage is completed and management considers it probable the software will be used to perform the function intended, until the time the software is placed in service for its intended use. Once the software is placed in service, the capitalized costs are amortized over periods of three to five years. We perform an assessment quarterly to determine if it is probable all capitalized software will be used to perform its intended function. If an impairment exists, the software cost is written down to estimated fair value. As of June 30, 2013, and December 31, 2012, our capitalized software developed for internal use had carrying amounts of $26.6 million and $27.2 million, respectively, including $9.7 million and $9.9 million, respectively, of software related to the PPM service.

Deferred income taxes. We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for deferred tax assets and liabilities for the future tax consequences of events that have been recognized in an entity s financial statements or tax returns. We must make assumptions, judgments and estimates to determine the current provision for income taxes and also deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Our assumptions, judgments, and estimates relative to the current provision for income taxes take into account current tax laws, interpretation of current tax laws and possible outcomes of current and future audits conducted by domestic and foreign tax authorities. Changes in tax law or interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in the consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account forecasts of the amount and nature of future taxable income. Actual operating results and the underlying amount and nature of income in future years could render current assumptions, judgments and estimates of recoverable net deferred tax assets inaccurate. We believe it is more likely than not that we will realize the benefits of these deferred tax assets. Any of the assumptions, judgments and estimates mentioned above could cause actual income tax obligations to differ from estimates, thus impacting our financial position and results of operations.

We include, in our tax calculation methodology, an assessment of the uncertainty in income taxes by establishing recognition thresholds for our tax positions. Inherent in our calculation are critical judgments by management related to the determination of the basis for our tax positions. For further information regarding our unrecognized tax benefits, see Note 9 in the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Contingent consideration. The agreement governing the 2011 acquisition of Zokem Oy, now Arbitron Mobile Oy (Arbitron Mobile), provides for possible additional cash payments to be made by us to the former Zokem Oy shareholders through 2015 of up to $12.0 million, contingent upon Arbitron Mobile reaching certain financial performance targets in the future. We periodically estimate the fair value of the contingent consideration and any change in fair value will be recognized in our consolidated financial results of operations. The estimate of the fair value of contingent consideration requires subjective assumptions to be made of future operating results. As of both June 30, 2013 and December 31, 2012, the Company s fair value estimate of the contingent consideration was $0.6 million. For further information regarding our contingent consideration, see Note 8 in the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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Results of Operations

Comparison of the Three Months Ended June 30, 2013 to the Three Months Ended June 30, 2012

The following table sets forth information with respect to our consolidated statements of income:

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Increase (Decrease)		Percentage of Revenue	
	2013	2012	Dollars	Percent	2013	2012
Revenue	$ 107,410	$ 104,407	$ 3,003	2.9%	100.0%	100.0%
Costs and expenses						
Cost of revenue	65,323	63,205	2,118	3.4%	60.8%	60.5%
Selling, general and administrative	24,547	20,701	3,846	18.6%	22.9%	19.8%
Research and development	10,117	9,896	221	2.2%	9.4%	9.5%
Total costs and expenses	99,987	93,802	6,185	6.6%	93.1%	89.8%
Operating income	7,423	10,605	(3,182)	(30.0%)	6.9%	10.2%
Equity in net income of affiliate	5,495	5,391	104	1.9%	5.1%	5.2%
Income before interest and tax expense	12,918	15,996	(3,078)	(19.2%)	12.0%	15.3%
Interest income	20	11	9	81.8%	0.0%	0.0%
Interest expense	131	132	(1)	(0.8%)	0.1%	0.1%
Income before income tax expense	12,807	15,875	(3,068)	(19.3%)	11.9%	15.2%
Income tax expense	5,754	5,912	(158)	(2.7%)	5.4%	5.7%
Net income	$ 7,053	$ 9,963	$ (2,910)	(29.2%)	6.6%	9.5%
Income per weighted average common share						
Basic	$ 0.26	$ 0.38	$ (0.12)	(31.6%)		
Diluted	$ 0.26	$ 0.37	$ (0.11)	(29.7%)		
Cash dividends declared per common share	$ 0.10	$ 0.10	$			
Other data:						
EBIT (1)	$ 12,918	$ 15,996	$ (3,078)	(19.2%)		
EBITDA (1)	$ 19,665	$ 23,610	$ (3,945)	(16.7%)		
EBIT Margin (1)	12.0%	15.3%				
EBITDA Margin (1)	18.3%	22.6%				
EBIT and EBITDA Reconciliation (1)						
Net income	$ 7,053	$ 9,963	$ (2,910)	(29.2%)		
Income tax expense	5,754	5,912	(158)	(2.7%)		

Interest income	(20)	(11)	9	81.8%
Interest expense	131	132	(1)	(0.8%)
EBIT (1)	12,918	15,996	(3,078)	(19.2%)
Depreciation and amortization	6,747	7,614	(867)	(11.4%)
EBITDA (1)	$ 19,665	$ 23,610	$ (3,945)	(16.7%)

Certain percentage amounts may not total due to rounding.

(1) EBIT (earnings before interest and income taxes), EBIT Margin (EBIT divided by revenue), EBITDA (earnings before interest, income taxes, depreciation and amortization), and EBITDA Margin (EBITDA divided by revenue) are non-GAAP financial measures we believe are useful to investors in evaluating our results. See EBIT and EBITDA below for further discussion of these non-GAAP financial measures.

Revenue. Revenue increased by 2.9% or $3.0 million for the three-month period ended June 30, 2013, as compared to the same period in 2012, due primarily to price escalators associated with our PPM ratings service.

Cost of Revenue. Cost of revenue increased by 3.4% or $2.1 million for the three-month period ended June 30, 2013, as compared to the same period in 2012. Cost of revenue increased primarily due to a $0.9 million increase related to our computer center operations, and a $0.6 million increase associated with the ongoing building and support of our Arbitron Mobile service panel for the three-month period ended June 30, 2013, as compared to the same period in 2012.

Selling, General, and Administrative. Selling, general, and administrative expense increased by 18.6% or $3.8 million for the three-month period ended June 30, 2013, as compared to the same period in 2012. Selling, general, and administrative costs increased primarily due to $6.1 million of consulting and legal expenses related to the pending merger with Nielsen incurred during the three-month period ended June 30, 2013, and a $0.6 million increase in short-term employee incentive compensation, partially offset by $0.8 million of executive separation costs incurred during the second quarter of 2012, a $0.8 million decrease in Arbitron Mobile-related expenses (including $0.4 million in favorable foreign currency translation adjustments) and a $0.7 million decrease in share-based compensation for the three-month period ended June 30, 2013, as compared to the same period in 2012.

EBIT and EBITDA. We believe presenting EBIT and EBITDA, both non-GAAP financial measures, as supplemental information helps investors, analysts and others, if they so choose, understand and evaluate our operating performance in some of the same ways we do because EBIT and EBITDA exclude certain items not directly related to our core operating performance. We reference these non-GAAP financial measures in assessing current performance and making decisions about internal budgets, resource allocation and financial goals. EBIT is calculated by deducting interest income from net income and adding back interest expense and income tax expense to net income. EBITDA is calculated by deducting interest income from net income and adding back interest expense, income tax expense, and depreciation and amortization to net income. EBIT and EBITDA margins are calculated as percentages of revenue. EBIT and EBITDA should not be considered substitutes either for net income, as indicators of our operating performance, or for cash flow, as measures of our liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

EBIT and EBITDA decreased by $3.1 million and $3.9 million, respectively, for the three-month period ended June 30, 2013, as compared to 2012, primarily due to consulting and legal expenses incurred in association with the pending merger with Nielsen.

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Comparison of the Six Months Ended June 30, 2013 to the Six Months Ended June 30, 2012

The following table sets forth information with respect to our consolidated statements of income:

Consolidated Statements of Income

(Dollars in thousands, except per share amounts)

(Unaudited)

	Six Months Ended June 30,		Increase (Decrease)		Percentage of Revenue	
	2013	**2012**	**Dollars**	**Percent**	**2013**	**2012**
Revenue	$ 219,194	$ 210,801	$ 8,393	4.0%	100.0%	100.0%
Costs and expenses						
Cost of revenue	114,924	110,653	4,271	3.9%	52.4%	52.5%
Selling, general and administrative	47,045	38,704	8,341	21.6%	21.5%	18.4%
Research and development	19,431	19,614	(183)	(0.9%)	8.9%	9.3%
Total costs and expenses	181,400	168,971	12,429	7.4%	82.8%	80.2%
Operating income	37,794	41,830	(4,036)	(9.6%)	17.2%	19.8%
Equity in net income of affiliate	3,108	3,035	73	2.4%	1.4%	1.4%
Income before interest and tax expense	40,902	44,865	(3,963)	(8.8%)	18.7%	21.3%
Interest income	42	31	11	35.5%	0.0%	0.0%
Interest expense	296	261	35	13.4%	0.1%	0.1%
Income before income tax expense	40,648	44,635	(3,987)	(8.9%)	18.5%	21.2%
Income tax expense	17,305	16,865	440	2.6%	7.9%	8.0%
Net income	$ 23,343	$ 27,770	$ (4,427)	(15.9%)	10.6%	13.2%
Income per weighted average common share						
Basic	$ 0.87	$ 1.04	$ (0.17)	(16.3%)		
Diluted	$ 0.85	$ 1.02	$ (0.17)	(16.7%)		
Cash dividends declared per common share	$ 0.20	$ 0.20	$			
Other data:						
EBIT (1)	$ 40,902	$ 44,865	$ (3,963)	(8.8%)		
EBITDA (1)	$ 54,368	$ 60,222	$ (5,854)	(9.7%)		
EBIT Margin (1)	18.7%	21.3%				
EBITDA Margin (1)	24.8%	28.6%				
EBIT and EBITDA Reconciliation (1)						
Net income	$ 23,343	$ 27,770	$ (4,427)	(15.9%)		
Income tax expense	17,305	16,865	440	2.6%		
Interest income	(42)	(31)	11	35.5%		
Interest expense	296	261	35	13.4%		

EBIT (1)	40,902	44,865	(3,963)	(8.8%)
Depreciation and amortization	13,466	15,357	(1,891)	(12.3%)
EBITDA (1)	$ 54,368	$ 60,222	$ (5,854)	(9.7%)

Certain percentage amounts may not total due to rounding.

(1) EBIT (earnings before interest and income taxes), EBIT Margin (EBIT divided by revenue), EBITDA (earnings before interest, income taxes, depreciation and amortization), and EBITDA Margin (EBITDA divided by revenue) are non-GAAP financial measures we believe are useful to investors in evaluating our results. See EBIT and EBITDA below for further discussion of these non-GAAP financial measures.

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Revenue. Revenue increased by 4.0% or $8.4 million for the six-month period ended June 30, 2013, as compared to the same period in 2012, due primarily to a $5.8 million increase associated with our PPM-based ratings service, a $0.8 million increase in our Scarborough qualitative service revenue, and a $0.8 million increase associated with our PPM International revenue.

Cost of Revenue. Cost of revenue increased by 3.9% or $4.3 million for the six-month period ended June 30, 2013, as compared to the same period in 2012. Cost of revenue increased primarily due to a $1.8 million increase associated with the ongoing building and support of our Arbitron Mobile service panel, a $1.1 million increase in aggregate costs associated with address-based sampling, in-person recruiting, and cell-phone household recruiting, and a $0.7 million increase related to our computer center operations for the six-month period ended June 30, 2013, as compared to the same period in 2012.

Selling, General, and Administrative. Selling, general, and administrative expense increased by 21.6% or $8.3 million for the six-month period ended June 30, 2013, as compared to the same period in 2012. Selling, general, and administrative costs increased primarily due to $9.4 million of consulting and legal expenses related to the pending merger with Nielsen incurred during the six-month period ended June 30, 2013, and a $1.2 million increase in short-term employee incentive compensation, partially offset by a $0.8 million of executive separation costs incurred during the second quarter of 2012, a $0.7 million decrease in Arbitron Mobile-related expenses for the six-month period ended June 30, 2013, as compared to the same period in 2012.

Income Tax Expense. The effective tax rate increased to 42.6% for the six-month period ended June 30, 2013, from 37.8% for the six-month period ended June 30, 2012. This increase for the six-month period ended June 30, 2013, as compared to the same period of 2012, resulted primarily from certain nondeductible transaction costs anticipated during 2013 in relation to the pending merger with Nielsen.

EBIT and EBITDA. We believe presenting EBIT and EBITDA, both non-GAAP financial measures, as supplemental information helps investors, analysts and others, if they so choose, understand and evaluate our operating performance in some of the same ways we do because EBIT and EBITDA exclude certain items not directly related to our core operating performance. We reference these non-GAAP financial measures in assessing current performance and making decisions about internal budgets, resource allocation and financial goals. EBIT is calculated by deducting interest income from net income and adding back interest expense and income tax expense to net income. EBITDA is calculated by deducting interest income from net income and adding back interest expense, income tax expense, and depreciation and amortization to net income. EBIT and EBITDA margins are calculated as percentages of revenue. EBIT and EBITDA should not be considered substitutes either for net income, as indicators of our operating performance, or for cash flow, as measures of our liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

EBIT and EBITDA decreased by $4.0 million and $5.9 million, respectively, for the six-month period ended June 30, 2013, as compared to 2012, primarily due to consulting and legal expenses incurred in association with the pending merger with Nielsen.

Liquidity and Capital Resources

	As of June 30, 2013	As of December 31, 2012	Change
Cash and cash equivalents	$ 95,065	$ 66,469	$ 28,596
Working capital	$ 82,706	$ 53,900	$ 28,806
Working capital, excluding deferred revenue which does not require a significant additional cash outlay	$ 133,702	$ 92,397	$ 41,305
Total debt	$	$	$

We have historically relied upon our cash flow from operations, supplemented by borrowings under our available revolving credit facility as needed, to fund our dividends, common stock repurchases, capital expenditures, and contractual obligations. We expect, based on current and anticipated levels of operating performance, our cash flow from operations, cash and cash equivalents, and availability under our Credit Facility will be sufficient to support our operations, as well as any expected costs to be incurred in association with completing the pending merger with Nielsen for the next 12 to 24 months. See Credit Facility below for further discussion of the relevant terms and covenants.

Cash flow from operating activities. For the six-month period ended June 30, 2013, the net cash provided by operating activities was $34.7 million, which was primarily due to $54.4 million of EBITDA, increased by $3.9 million of non-cash share-based compensation, partially offset by $21.7 million in income taxes paid.

Net cash provided by operating activities also included a $12.5 million increase in deferred revenues resulting from an increase in contracted billings in advance of the delivery of our ratings services as of June 30, 2013, as compared to December 31, 2012. These positive operating activities were offset by a $13.0 million decrease in payroll, bonus, and benefit accruals, which included the payment of the 2012 incentive bonus during the first quarter of 2013.

EBITDA is discussed and reconciled to net income in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Cash flow from investing activities. Net cash used in investing activities for the six-month periods ended June 30, 2013, and 2012, was $9.8 million and $10.6 million, respectively. This $0.8 million decrease in cash used in investing activities was primarily due to a $0.8 million decrease in internally developed and purchased software capital expenditures.

Cash flow from financing activities. Net cash provided by financing activities for the six-month period ended June 30, 2013, was $3.8 million. Net cash used in financing activities for the six-month period ended June 30, 2012 was $51.6 million. During the six-month period ended June 30, 2013, we had no repurchases of our common stock. During the six-month period ended June 30, 2012, we repurchased $50.0 million of our common stock. During the six-month period ended June 30, 2013, as compared to the same period in 2012, there was a $2.8 million decrease in dividends paid, which resulted from the fourth quarter of 2012 dividend being paid in December 2012, rather than in January 2013. In addition, there was a $1.9 million increase in proceeds from stock option exercises and stock purchase plans for the six-month period ended June 30, 2013, due to an increase in our average common stock price, as compared to the same period of 2012.

Credit Facility

On November 21, 2011, we entered into the Credit Facility, a new agreement with a consortium of lenders to provide up to $150.0 million of financing through a five-year, unsecured revolving credit facility expiring on November 21, 2016. The agreement contains an expansion feature to increase the total financing available under the Credit Facility by up to $75.0 million to an aggregate of $225.0 million. Such increased financing would be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent. Interest on borrowings under the Credit Facility is calculated based on a floating rate for a duration of up to nine months (or, with the consent of each lender, nine or 12 months), at which time the interest rate is reset based upon the LIBOR.

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Our Credit Facility contains financial terms, covenants and operating restrictions that potentially restrict our financial flexibility. The material debt covenants under our Credit Facility include both a maximum leverage ratio and a minimum interest coverage ratio. The leverage ratio is a non-GAAP financial measure equal to the amount of our consolidated total indebtedness, as defined in our Credit Facility, divided by a contractually defined adjusted Earnings Before Interest, Taxes, Depreciation and Amortization and non-cash compensation (Consolidated EBITDA) for the trailing four-quarter period. The interest coverage ratio is a non-GAAP financial measure equal to Consolidated EBITDA divided by total interest expense. Both ratios are designed as measures of our ability to meet current and future debt obligations. The following table presents the actual ratios and their threshold limits as defined by the Credit Facility as of June 30, 2013:

Covenant	Threshold	Actual
Maximum leverage ratio	3.25	0.00
Minimum interest coverage ratio	3.00	214.0

As of June 30, 2013, based upon these financial covenants, there was no default or limit on our ability to borrow the unused portion of our Credit Facility.

Our Credit Facility contains customary events of default, including nonpayment and breach covenants. In the event of default, repayment of borrowings under the Credit Facility could be accelerated. Our Credit Facility also contains cross default provisions whereby a default on any material indebtedness, as defined in the Credit Facility, could result in the acceleration of our outstanding debt and the termination of any unused commitment under the Credit Facility. The agreement potentially limits, among other things, our ability to sell assets, incur additional indebtedness, and grant or incur liens on our assets. Under the terms of the Credit Facility, all of our material domestic subsidiaries, if any, must guarantee the commitment. Currently, we do not have any material domestic subsidiaries as defined under the terms of the Credit Facility. Although we do not believe the terms of our Credit Facility limit the operation of our business in any material respect, the terms of the Credit Facility may restrict or prohibit our ability to raise additional debt when needed or could prevent us from investing in other growth initiatives. We have been in compliance with the terms of the Credit Facility since the inception of the agreement. As of July 23, 2013, we had no outstanding borrowings under the Credit Facility. Although there are no outstanding borrowings under the Credit Facility, we do incur interest expense for the following items: amortization of prepaid financing costs, administrative fees, commitment fees and letter of credit fees.

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Seasonality

Revenue

We recognize revenue for services over the term of license agreements as services are delivered while expenses are recognized as incurred. As of Spring 2013, we gather radio-listening data in 274 U.S. local markets, including 226 Diary markets and 48 PPM Markets.

In 2013, we expect that 12 PPM Markets will have four PPM ratings reports delivered in the third quarter and 36 PPM Markets will have four PPM ratings reports delivered in the fourth quarter. Prior to 2013, all 48 PPM Markets had four reports delivered in the fourth quarter. This change in market delivery dates for the 12 PPM Markets receiving the reports in the third quarter of 2013 are expected to cause some PPM revenue to shift from the fourth quarter to the third quarter of 2013.

All 226 Diary markets are measured at least twice per year (April-May-June for the Spring Survey and October-November-December for the Fall Survey). In addition, we measure 47 larger Diary markets an additional two times per year (January-February-March for the Winter Survey and July-August-September for the Summer Survey). We generally deliver our Diary ratings reports and recognize the related revenue in the quarter after the survey is measured. Consequently, our Diary revenue is generally higher in the first and third quarters as a result of the delivery of the Fall Survey and Spring Survey to all Diary markets compared to revenue in the second and fourth quarters, when delivery of the Winter Survey and Summer Survey, respectively, is made only to 47 larger Diary markets.

Revenue related to the sale of Scarborough services by Arbitron is recognized predominantly in the second and fourth quarters when the substantial majority of services are delivered.

As a result of the various seasonal impacts mentioned above consolidated revenue is typically highest in the fourth quarter and lowest in the second quarter of each year.

Costs and expenses

Now that all our planned PPM Markets are commercialized, and because we conduct our PPM services continuously throughout the year, we do not expect significant seasonality in PPM costs and expenses. In our Diary service, our expenses are generally higher in the second and fourth quarters as we conduct the Spring and Fall Surveys for all 226 of our Diary Markets.

Equity earnings/losses in Scarborough Research

Our affiliate, Scarborough, typically experiences losses during the first and third quarters of each year because revenue is recognized predominantly in the second and fourth quarters when the substantial majority of services are delivered. The royalties we pay Scarborough are recognized in cost of revenue and are higher during the second and fourth quarters.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our interest income and expense are sensitive to fluctuations in the general level of interest rates. As such, changes in interest rates affect the interest earned on the Company s cash and cash equivalents and other highly liquid investments, as well as the value of those investments.

In November 2011, we entered into our Credit Facility with a consortium of lenders to provide us up to $150.0 million of financing. Interest on borrowings under the Credit Facility is calculated based on a floating rate for a duration of up to nine months, at which time the interest rate is reset based upon the LIBOR. As of June 30, 2013, we had no outstanding borrowings under the Credit Facility. Therefore, a hypothetical market interest rate change of 1% would have zero impact on our results of operations over a 12-month period. A hypothetical market interest rate change of 1% would have no impact on either the carrying amount or the fair value of the Credit Facility. We do not use derivatives for speculative or trading purposes.

Foreign Currency Risk

We are exposed to the translation of foreign currency earnings to the U.S. dollar. Our principal exposures are to the euro via our Finnish subsidiary and the Indian rupee via our Indian subsidiary. If we expand our foreign operations in both Finland and India, our exposure to foreign currency exchange rate trends could increase, resulting in higher or lower translation impacts to our financial results and position.

As of June 30, 2013, we had $13.7 million in recorded intercompany balances on our Finnish and Indian subsidiary balance sheets, which are impacted by fluctuations in currency exchange rates. As the exchange rates increase or decrease, our intercompany balances will be exposed to translation adjustment charges and/or credits, which will be recognized in our financial results.

Financial statements of foreign subsidiaries are translated into U.S. dollars at current rates at the end of the period except that revenue and expenses are translated at average current exchange rates during each reporting period. The translation adjustments are recorded in accumulated other comprehensive loss on our consolidated balance sheet until the net investment in such foreign subsidiaries is liquidated. As of June 30, 2013, the cumulative net currency translation adjustment recorded on our balance sheet reduced our shareholders equity by $2.5 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer and the Company s Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the most recently completed fiscal quarter. Based upon that evaluation, the Company s President and Chief Executive Officer and the Company s Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this Report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved, from time to time, in litigation and proceedings, including with governmental authorities, arising out of the ordinary course of business. Legal costs for services rendered in the course of these proceedings are charged to expense as they are incurred.

On January 24, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware (the Court) regarding the proposed Merger. The complaint (Complaint) was purportedly filed on behalf of the shareholders of the Company, and names as defendants, the Company, each of the Company s directors, Merger Sub, and Nielsen. The Complaint alleged, among other things, that the Company s directors breached their fiduciary duties by failing to maximize shareholder value in a proposed sale of the Company. The Complaint further alleged that the Company s preliminary proxy statement failed to provide material information and provided materially misleading information relating to the Merger and that the Company and Nielsen aided and abetted the alleged breaches by the Company s directors. The plaintiff sought, among other things, class action status, an injunction preventing the completion of the Merger (or, if the Merger were completed, rescinding the Merger or awarding rescissory damages), and the payment of attorneys fees and expenses.

On March 7, 2013, the parties to the litigation entered into a memorandum of understanding (the MOU) providing for a settlement, subject to court approval, of the action on behalf of the named plaintiff and a class of the shareholders affected by the transaction (the Settlement). As part of the MOU, all of the defendants denied all allegations of wrongdoing and denied that the disclosures made by the Company in the Company s preliminary proxy statement on Schedule 14A as filed on January 18, 2013 were inadequate, but the Company agreed to provide certain additional disclosures in its definitive proxy statement relating to the Merger and to waive the no-ask, no-waiver provision in the existing confidentiality agreements. The Settlement will not affect the form or amount of consideration to be paid to the Company s shareholders in the Merger. The Settlement was submitted to the Court of Chancery on July 17, 2013. The preliminary settlement has not yet been approved. If approved by the Court of Chancery, the Settlement will resolve all of the allegations and claims asserted by the plaintiff and the class against all defendants in connection with the Merger and will further provide for the release and settlement by the class of the Company s shareholders of all claims against all of the defendants and their affiliates in connection with the Merger.

Counsel for the plaintiffs intends to seek a payment by the Company of attorneys fees and expenses in light of the Settlement. The Company has reserved the right to oppose plaintiffs motion. The settlement and the releases are final regardless of the outcome of this separate request.

We are involved from time to time in a number of judicial and administrative proceedings considered ordinary with respect to the nature of our current and past operations, including employment-related disputes, contract disputes, government proceedings, customer disputes, and tort claims. In some proceedings, the claimant seeks damages as well as other relief, which, if granted, would require substantial expenditures on our part. Some of these matters raise difficult and complex factual and legal issues, and are subject to many uncertainties, including, but not limited to, the facts and circumstances of each particular action, and the jurisdiction, forum and law under which each action is pending. Because of this complexity, final disposition of some of these proceedings may not occur for several years. As such, we are not always able to estimate the amount of our possible future liabilities. There can be no certainty that we will not ultimately incur charges in excess of present or future established accruals or insurance coverage. Although occasional adverse decisions (or settlements) may occur, we believe that the likelihood that final disposition of these proceedings will, considering the merits of the claims, have a material adverse impact on our financial position or results of operations is remote.

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Item 1A. Risk Factors

See Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 for a detailed discussion of risk factors affecting Arbitron.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing Date	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a 14(a)					*
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a 14(a)					*
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002					*
101+	The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012; (ii) Condensed Consolidated Statement of Income for the Three and Six Months Ended June 30, 2013 and 2012; (iii) Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012;					*

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(iv) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012; and

(v) Notes to Condensed Consolidated Financial Statements.*

* Filed or furnished herewith

\+ Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ARBITRON INC.

By: /s/ Debra L. Delman
Debra L. Delman
Executive Vice President, Chief Financial Officer
(on behalf of the registrant and as the registrant s
principal financial and principal accounting officer)

Date: August 1, 2013