

ARBITRON INC  
Form 10-Q  
August 14, 2001

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

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**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,  
2001**

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 Identification No.) incorporation or organization)

**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)

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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 [ ]

The registrant had 29,160,886 shares of common stock, par value \$0.50 per share, outstanding as of July 31, 2001.

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ARBITRON INC.

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**ITEM 1. FINANCIAL STATEMENTS**

**ARBITRON INC.**

Consolidated Balance Sheets

(In thousands, except per share data)

	<b>June 30, 2001</b>	<b>December 31, 2000 (1)</b>
	<u>2001</u>	<u>2000 (1)</u>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$25,273	\$3,540
Trade accounts receivable, net of allowance for doubtful accounts of \$1,051 in 2001 and \$1,076 in 2000	19,738	19,017
Deferred tax assets	24,142	34,731
Prepaid expenses and other current assets	3,200	3,056
	<hr/>	<hr/>
Total current assets	72,353	60,344
Investments in affiliates	10,131	10,262
Property and equipment, net	6,924	4,844
Goodwill, net	11,321	12,160
Other intangibles, net	1,331	1,689
Deferred tax assets	15,616	16,346
Other noncurrent assets	4,960	2,231
	<hr/>	<hr/>
Total assets	\$122,636	\$107,876
	<hr/>	<hr/>
<b>Liabilities and Stockholders Equity</b>		
(Deficit) Current liabilities		
Trade accounts payable	\$4,248	\$8,758
Accrued expenses and other current liabilities	11,300	15,543
Deferred revenue	42,838	47,833
	<hr/>	<hr/>
	<hr/>	<hr/>

Total current  
liabilities 58,386 72,134 Noncurrent  
liabilities Long-term debt  
(Note 2) 240,000 Other  
noncurrent  
liabilities 2,351 2,520

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Total  
liabilities 300,737 74,654

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Stockholders' equity (deficit)  
Common stock, \$0.50 par  
value, authorized 500,000  
shares, issued  
32,332  
shares 16,166 Additional  
paid-in-capital 58,403 Accumulated  
earnings (net distributions to  
Ceridian in excess of  
accumulated earnings)  
prior to  
Spin-off (255,318) 33,361 Retained  
earnings subsequent to  
Spin-off 4,714 Common  
stock held in treasury, 3,172  
shares (1,586) Accumulated  
other comprehensive  
loss (480) (139)

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Total stockholders' equity  
(deficit) (178,101) 33,222

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Total liabilities and  
stockholders' equity  
(deficit) \$122,636 \$107,876

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See notes to consolidated  
financial statements

(1) Amounts derived from audited combined financial statements as of December 31, 2000.

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**ARBITRON INC.**

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

**Three Months Ended**

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	June 30,	
	2001	2000
Revenue	\$ 50,264	\$ 45,665
Costs and expenses Cost of revenue	22,811	120,995
Selling, general and administrative	11,951	11,254
Research and development	5,638	3,322
<b>Total costs and expenses</b>	<b>40,400</b>	<b>35,571</b>
<b>Operating income</b>	<b>9,864</b>	<b>10,094</b>
Equity in net income of affiliate	2,942	3,126
<b>Income before interest and income tax expense</b>	<b>12,806</b>	<b>13,220</b>
Interest income	354	-
Interest expense	(5,352)	-
<b>Income before income tax expense</b>	<b>7,808</b>	<b>13,220</b>
Income tax expense	3,094	5,222
<b>Net income</b>	<b>\$4,714</b>	<b>\$7,998</b>
<b>Net income and pro forma net income per weighted average common share (Note 5)</b>		
Basic	\$0.16	\$0.27
Diluted	\$0.16	\$0.27
Common shares and pro forma common shares used in calculations		
Basic weighted average common shares	29,155	29,010
Potentially dilutive securities	184	341
<b>Diluted weighted average common shares</b>	<b>29,339</b>	<b>29,351</b>
See		

notes to consolidated  
financial statements

**ARBITRON INC.**

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

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<hr/>	<hr/>
Revenue	\$ 110,454	\$ 101,198
Costs and expenses		
Cost of revenue	38,684	37,067
Selling, general and administrative	23,165	21,976
Research and development	10,334	6,623
	<hr/>	<hr/>
Total costs and expenses	72,183	65,666
	<hr/>	<hr/>
Operating income	38,271	35,532
Equity in net income of affiliate	1,819	2,002
	<hr/>	<hr/>
Income before interest and income tax expense	40,090	37,534
Interest income	373	-
Interest expense	(5,738)	-
	<hr/>	<hr/>
Income before income tax expense	34,725	37,534
Income tax expense	13,716	14,826
	<hr/>	<hr/>
Net income	\$21,009	\$22,708
	<hr/>	<hr/>

Pro forma net income per  
 weighted average  
 common share (Note 5)  
 Basic\$0.72\$0.78Diluted\$0.72\$0.78Pro  
 forma common shares  
 used in calculations Basic  
 weighted average  
 common  
 shares29,15528,984Potentially  
 dilutive securities169204

Diluted weighted average  
 common  
 shares29,32429,188 See  
 notes to consolidated  
 financial statements

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**ARBITRON INC.**

Consolidated Statements of Cash Flows  
 (In thousands)

(unaudited)

**Six Months Ended  
 June 30,**

**2001      2000**

Cash flows from operating activities  
 Net  
 income\$21,009\$22,708Adjustments  
 to reconcile net income to net  
 cash provided by operating  
 activities:Depreciation and  
 amortization of property and  
 equipment1,018900Other  
 amortization1,1971,197Gain on  
 disposals of property and  
 equipment(4)(12)Deferred  
 income taxes13,528231Equity  
 in net income of  
 affiliate(1,819)(2,002)Distributions  
 from affiliate1,9501,725Bad  
 debt expense13692Changes in  
 operating assets and liabilities  
 Trade accounts  
 receivable(855)601Prepaid  
 expenses and other  
 assets126(63)Trade accounts  
 payable(4,511)(1,548)Accrued  
 expenses and other current  
 liabilities568(1,121)Deferred

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revenue(4,994)610Other  
noncurrent liabilities(507)(339)

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Net cash provided by  
operating  
activities26,84222,979

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Cash flows from investing  
activities Additions to property  
and  
equipment(3,264)(1,176)Payment  
of final installment for acquired  
business(3,000) Proceeds from  
disposals of property and  
equipment454

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Net cash used in investing  
activities(6,219)(1,172)

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Cash flows from financing  
activities Proceeds from stock  
option exercises73 Proceeds  
from issuance of long-term  
debt250,000 Payment of  
long-term debt(10,000) Payment  
of deferred financing  
costs(3,002) Net cash  
distributions to Ceridian  
Corporation(235,958)(21,823)

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Net cash provided by (used in)  
financing  
activities1,113(21,823)

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Effect of exchange rate changes  
on cash(3)

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Net increase (decrease) in cash  
and cash  
equivalents21,733(16)Cash and  
cash equivalents at beginning of  
period3,5402,255

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Cash and cash equivalents at  
end of period\$25,273\$2,239

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See notes to consolidated  
financial statements

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**ARBITRON INC.**  
Notes to Consolidated Financial Statements  
June 30, 2001  
(In thousands, except per share data)  
(unaudited)

## **1. Basis of Presentation and Consolidation**

### *Presentation*

On March 30, 2001, Ceridian Corporation ( Ceridian ) separated into two independent, publicly traded companies New Ceridian Corporation ( New Ceridian ) and Arbitron Inc. ( Arbitron or the Company ). The separation was accomplished through a tax-free spin-off to the shareholders of Ceridian (the Spin-off ) of all of the shares of common stock of a newly formed, wholly owned subsidiary corporation (New Ceridian). In connection with the Spin-off, Ceridian completed an internal reorganization so that the business of New Ceridian consists solely of the business of Ceridian's human resource service division and subsidiaries and Comdata subsidiaries (the New Ceridian Business ) and the business of Ceridian consists solely of the media information division and subsidiaries (the Arbitron Business ). In addition, at the time of the Spin-off, Ceridian was renamed Arbitron Inc. and New Ceridian was renamed Ceridian Corporation (hereafter referred to as New Ceridian ). Shares of common stock of Ceridian represent a continuing interest in the Arbitron Business.

For purposes of, among other things, governing certain of the ongoing relations between New Ceridian and Arbitron as a result of the Spin-off, as well as to allocate certain tax, employee benefit and other liabilities arising prior to the Spin-off, the companies entered into various agreements, including a Distribution Agreement, Personnel Agreement, Tax Matters Agreement, Transition Services Agreement and Sublease Agreement.

In general, pursuant to the terms of the Distribution Agreement, all assets of Ceridian prior to the date of the Spin-off, other than those specifically relating to the Arbitron Business, became assets of New Ceridian. The Distribution Agreement also provides for assumptions of liabilities and cross-indemnities designed to allocate generally, effective as of the date of the Spin-off, financial responsibility for all liabilities arising out of or in connection with the New Ceridian Business to New Ceridian and all liabilities arising out of or in connection with the Arbitron Business to Arbitron. In addition, New Ceridian will indemnify Arbitron for liabilities relating to past divestitures made by Ceridian to the extent these divestitures relate to all businesses other than the business of Arbitron and for liabilities relating to some of the litigation in which Ceridian is involved or its subsidiaries are involved. New Ceridian will also be liable for any claims arising from or based upon controlling person liability relating to the registration statement on Form 10 filed with the SEC by New Ceridian other than liabilities, if any, relating to material misstatements or omissions pertaining to the Arbitron Business, which liabilities will remain liabilities of Arbitron. Furthermore, New Ceridian will indemnify Arbitron for tax liabilities relating to matters existing on or before March 30, 2001.

On January 31, 2001, in connection with completion of the Spin-off, Arbitron entered into a bank credit facility for \$225,000 of financing. On March 29, 2001, proceeds of \$200,000 were used to satisfy debt obligations of Ceridian with the remaining balance being available to Arbitron for working capital purposes. Arbitron also issued senior secured notes with an aggregate principal amount of \$50,000 and distributed the proceeds realized from that issuance to New Ceridian to satisfy \$50,000 of Ceridian's debt obligations (see Note 2).

Prior to the date of the Spin-off, New Ceridian and Arbitron entered into a Personnel Agreement to set forth the manner in which assets and liabilities under Ceridian's employee benefit plans and other employee related liabilities will be divided between them. In general, New Ceridian is responsible for compensation and employee benefits relating to New Ceridian's current employees and Ceridian's former employees and Arbitron is responsible for compensation and employee benefits relating to its current employees. The Personnel Agreement also provided that substantially all unexercised Ceridian stock options outstanding at the date of the Spin-off became options to purchase Arbitron common stock or options to purchase New Ceridian common stock. Ceridian stock options held by Arbitron employees, regardless of whether the options are vested or unvested, remained options to purchase Arbitron common stock. The number of shares and exercise price was adjusted to reflect the effect of the Spin-off

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**ARBITRON INC.**

Notes to Consolidated Financial Statements - Continued  
(In thousands, except per share data)  
(unaudited)

and a reverse stock split. The options continue to be and became exercisable on substantially the same terms and conditions set forth in the original Ceridian benefit plans. Ceridian stock options held by New Ceridian employees and consultants, regardless of whether the options are vested or unvested, were converted into options to purchase New Ceridian common stock. The value of replacement awards preserved, as closely as possible, the intrinsic value of awards that existed prior to the Spin-off.

Due to the relative significance of New Ceridian as compared to Arbitron, the transaction was accounted for as a reverse Spin-off, with New Ceridian treated as the accounting successor to Ceridian for financial reporting purposes.

***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 and CSW Research Limited.

The financial information included herein may not necessarily reflect the financial position, results of operations and cash flows of Arbitron in the future or what they would have been had it been operated as a separate, stand-alone entity during the periods presented. In periods subsequent to the three month period ended March 31, 2001, the Company's consolidated financial statements no longer include allocations from Ceridian.

In periods ended prior to the Spin-off, the Company's financial statements reflected the combined financial position and results of operations of Arbitron (The Arbitron Company, Tapscan Worldwide, and Northstar, each of which was a division of Ceridian, and CSW Research Limited and Ceridian Infotech (India) Private Limited, each of which was a wholly owned subsidiary of Ceridian).

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered for fair presentation have been included. The combined balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles 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, 2000. Certain amounts previously reported for 2000 have been reclassified to conform with 2001 presentation.

## 2. Long-term Debt

Long-term debt consists of the following:

	<b>June 30, 2001</b>
Senior fixed rate notes	\$50,000
Long-term revolving credit facility 190,000	
	<hr/>
	\$240,000
	<hr/>

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### ARBITRON INC.

Notes to Consolidated Financial Statements    Continued  
(In thousands, except per share data)  
(unaudited)

On January 31, 2001, the Company entered into a \$225,000 five-year revolving credit agreement with a consortium of banks ( Credit Facility ). On March 29, 2001, in connection with the Spin-off, \$200,000 was drawn on the facility and distributed to Ceridian.

The Credit Facility has two borrowing options, a Eurodollar rate option or a base rate option, as defined in the agreement. Under the Eurodollar option, the Company may elect interest periods of one, two, three or six months at the inception date and each renewal date. Borrowings under the Eurodollar option bear interest at the London Interbank Offered Rate (LIBOR) plus a margin of 2.00% to 2.75%. Borrowings under the base rate option bear interest at the higher of the lead lender's prime rate or the Federal Funds rate plus 50 basis points, plus a margin of .50% to 1.25%. The specific margins, under both options, will be determined based on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (leverage ratio), and will be adjusted every ninety days. The agreement contains a commitment fee provision whereby the Company will be charged a fee based on the unused portion of the facility. Under the terms of the Credit Facility, the Company is required to maintain certain other financial ratios, in addition to the leverage ratio, and meet other financial conditions. The agreement restricts, among other things, the Company's ability to sell assets, incur additional indebtedness, grant or incur liens on its assets, repay indebtedness, pay dividends, make investments or acquisitions, repurchase or redeem capital stock and engage in certain mergers or consolidations.

Upon consummation of the Spin-off, the Company issued \$50,000 of senior secured notes due January 31, 2008. In connection with the Spin-off, the Company distributed the \$50,000 of note proceeds to Ceridian. The notes bear interest at a fixed rate of 9.96%.

On June 29, 2001, the Company made a discretionary payment of \$10,000 on the Credit Facility.

## 3. Accounting for Derivatives

Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activity* (as amended by SFAS No. 138 with respect to certain interpretations) became effective for the Company in January 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. These fair value adjustments are to be included either in the determination of net income or as a component of other comprehensive income, depending on the purpose of the derivative transaction. The Company adopted SFAS No. 133, as amended, during the three month period ended March 31, 2001. The effect of adoption on the Company's consolidated financial statements was not material.

The Company's initial objective for holding or issuing derivative instruments is to mitigate its exposure to interest rate risk. The Company's strategy for minimizing interest rate exposure on variable rate debt is to lock into fixed rates of interest with pay-fixed, receive-variable interest rate swaps. The Company's foreign operations are not significant at this time, and therefore exposure to foreign currency rate fluctuations is minimal.

The Company entered into an interest rate swap agreement effective on March 29, 2001 to hedge its exposure to fluctuations in interest rates relating to its outstanding variable rate debt. The contract's notional amount is \$200,000 at inception, and declines each quarter over the life of the contract in proportion to the Company's estimated outstanding balance on its revolving credit agreement. Under the terms of the contract, the Company will pay a fixed rate of 5.02% and receive LIBOR, which resets every 90 days. The contract matures on March 31, 2005. The interest rate swap agreement was designated as a cash flow hedge, and was designed to be entirely effective by matching the terms of the swap agreement with the debt. The base rate for both the debt and the swap is LIBOR and the instruments have the same renewal dates over the lives of the instruments.

The fair value of the cash flow hedge was recorded as a non-current liability and the offsetting unrealized loss was recorded in accumulated other comprehensive income as of June 30, 2001.

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**ARBITRON INC.**

Notes to Consolidated Financial Statements Continued  
(In thousands, except per share data)  
(unaudited)

The Company did not hold derivative instruments prior to January 1, 2001. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

**4. New Accounting Pronouncements**

SFAS No. 141, *Business Combinations*, became effective for the Company on July 1, 2001. SFAS No. 141 prohibits the use of the pooling-of-interests method for business combinations occurring after June 30, 2001, and establishes accounting and reporting standards for business combinations accounted for under the purchase accounting method. SFAS No. 141 provides criteria for the measurement and recognition of goodwill and other acquired intangible assets. The Company is currently evaluating the impact that SFAS No. 141 will have on its consolidated financial statements.

SFAS No. 142, *Goodwill and Other Intangible Assets*, will become effective for the Company on January 1, 2002. Under SFAS No. 142, the Company's goodwill will no longer be amortized to expense but rather goodwill will be 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. The Company is currently evaluating the impact that SFAS No. 142 will have on its

consolidated financial statements.

## 5. Net Income and Pro Forma Net Income per Weighted Average Common Share

The computations of basic and diluted net income per common share for the three month period ended June 30, 2001 are based on Arbitron's weighted average shares of common stock and potentially dilutive securities outstanding, respectively. For the six month period ended June 30, 2001, as well as periods ended prior to June 30, 2001, the pro forma net income per weighted average common share computations are based in part, or entirely, upon Ceridian's weighted average number of shares of Ceridian common stock and potentially dilutive securities outstanding.

Potentially dilutive securities are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all stock options are used to repurchase the Company's common stock at the average market price for the period.

In November 2000, Ceridian's board of directors approved a one-for-five reverse stock split for Arbitron common stock, which was effective immediately after the Spin-off. Pro forma net income per common share and weighted average common shares outstanding included in the accompanying consolidated financial statements and related notes have been adjusted to reflect this reverse stock split.

## 6. Comprehensive Income

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments and changes in unrealized gains and losses on interest rate swap agreements. The unrealized loss on the interest rate swap was calculated based upon a valuation of the instrument by a financial institution.

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### ARBITRON INC.

Notes to Consolidated Financial Statements - Continued  
(In thousands, except per share data)  
(unaudited)

The components of comprehensive income for the three and six months ended June 30, 2001 and 2000 are as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net income	\$4,714	\$7,998	\$21,009	\$22,708
Items of other comprehensive income				
Change in foreign currency translation adjustment	(53)	(3)		
Change in unrealized loss on interest rate swap	(50)	(338)		
_____				
_____				
_____				
_____				

Comprehensive  
income\$4,611\$7,998\$20,668\$22,708

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## 7. Subsequent Event

On July 2, 2001, the Company acquired Radio's All Dimension Audience Service ( RADAR ), the radio network service business from Statistical Research, Inc. ( SRI ). RADAR is a national radio ratings service that measures audiences to radio commercials aired on 29 networks. The service produces its estimates using a 12-month, 12,000 person telephone survey in combination with the industry-standard commercial clearance system.

The Company acquired the RADAR business for up to \$25,000, of which an initial cash payment of \$10,000 was made on July 2, 2001. A second cash payment of \$11,000 (subject to indemnification claims) is due on July 2, 2002 with the remaining \$4,000 payable as contingent consideration. The transaction will be accounted for using the purchase method of accounting considering guidance set forth in SFAS No. 141.

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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 Arbitron's consolidated financial statements and the notes related to those consolidated financial statements contained elsewhere in this Form 10-Q.

### Forward-Looking Statements

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 in this document that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, anticipates, believes or plans, or comparable terminology, are forward-looking statements based on current expectations about future events, which Arbitron has derived from the information currently available to it. These forward-looking statements involve known and unknown risks and uncertainties that may cause our results to be materially different from results implied in such forward-looking statements. These risks and uncertainties include whether we will be able to:

realize the benefits we expect to achieve from our Spin-off from Ceridian Corporation;

renew contracts with large customers as they expire;

successfully execute our business strategies, including timely implementation of our Portable People Meter and our Webcast Ratings<sup>SM</sup> service, as well as expansion of international operations;

benefit from further consolidation in the radio industry; and

keep up with rapidly changing technological needs of our customer base, including creating new products and services that meet these needs.

Additional important factors known to Arbitron that could cause forward-looking statements to turn out to be incorrect are identified and discussed from time to time in Arbitron's filings with the Securities and Exchange Commission, including in particular the risk factors discussed under the caption ITEM 1. BUSINESS Business Risks in Arbitron's Form 10-K for the year ended December 31, 2000.

The forward-looking statements contained in this document speak only as of the date hereof, and Arbitron undertakes no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Overview

Arbitron Inc. was formerly known as Ceridian Corporation. Prior to March 31, 2001, Ceridian was a publicly traded company, the principal lines of business of which were the human resource services business, 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 (the Spin-off). In connection with the Spin-off, the assets and liabilities associated with the human resource services division, human resource services and Comdata subsidiaries were transferred to a new corporation (which we call New Ceridian in this document). The radio audience measurement business stayed with Ceridian. Ceridian then distributed the stock of this new company 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.

The information presented below relates to the business of Arbitron following the Spin-off unless the context otherwise requires. Except as context otherwise requires, the terms Arbitron or the Company as used herein shall include Arbitron Inc. and its subsidiaries.

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 and CSW Research Limited. The financial information included in this Form 10-Q includes expenses related to certain centralized services provided by Ceridian during the periods presented. The expenses for these services have been allocated to Arbitron based on utilization of specific services or, where an estimate could not be determined, based on Arbitron's revenues in proportion to Ceridian's total revenues. Management believes these allocation methods provided a rational basis for allocation. However, the costs of these services and benefits charged to Arbitron are not necessarily indicative of the costs that would have been incurred if Arbitron had performed these services as a separate entity. Accordingly, following the Spin-off, the financial results of Arbitron may be different than results for periods prior to the Spin-off.

Arbitron's radio audience measurement business has generally accounted for a substantial portion of its revenue. In recent years, significant consolidation of radio station ownership has tended to intensify competition within the radio industry and to intensify competition between radio and other forms of media for advertising dollars. At the same time, audiences have become more fragmented as a result of the greatly increased programming choices and entertainment and media options. Consequently, the increased competition together with the desire for more complex information have driven demand by radio broadcasters, advertising agencies and advertisers for Arbitron's audience measurement information. In addition, although radio industry consolidation has led to the increased concentration of Arbitron's customer base, it has also contributed to an increase in the number of stations subscribing for the ratings service as well as increases in sales of Arbitron's analytical software applications and other services.

Clear Channel Radio is Arbitron's largest customer and represented approximately 22% of Arbitron's revenue in 2000. In August, 2001 Arbitron entered into a four (4) year radio ratings license agreement with Clear Channel Radio to provide audience estimates and data to Clear Channel radio stations in 130 markets. Arbitron and Clear Channel Radio had been in negotiations since the fourth quarter of 2000 over ratings contracts for all Clear Channel radio stations including those stations (which collectively had accounted for approximately 14% of Arbitron's revenue in 2000) that expired with the Fall 2000 or Winter 2001 survey. In addition, in August 2001, Arbitron also entered into a new five (5) year license agreement with Citadel Communications. Citadel's previous contract with Arbitron had expired at the end of 2000. Arbitron cannot make any assurances that it will retain current customers or attract new customers that would replace the revenue that could be lost if any other key customer failed to renew its agreement with Arbitron.

Arbitron recognizes revenue for products and services over the term of the license agreement as products and services are delivered. Direct costs associated with data collection and diary processing are expensed as incurred.

The computations of basic and diluted net income per common share for the three month period ended June 30, 2001 are based on Arbitron's weighted average shares of common stock and potentially dilutive securities outstanding, respectively. For the six month period ended June 30, 2001, as well as periods ended prior to June 30, 2001, the pro forma net income per weighted average common share computations are based in part, or entirely, upon Ceridian's weighted average number of shares of Ceridian common stock and potentially dilutive securities outstanding. Arbitron has also presented EBITDA as supplemental information that management of Arbitron believes may be useful to some investors in evaluating Arbitron because it is widely used as a measure to evaluate a company's operating performance before interest expense, as well as to evaluate its operating cash flow. EBITDA is calculated by adding back net interest expense, income tax expense, depreciation and amortization on property and equipment and amortization of goodwill and other intangible assets to net income. EBITDA should not be considered a substitute either for net income, as an indicator of Arbitron's operating performance, or for cash flow, as a measure of Arbitron's liquidity. In addition, because EBITDA is not calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies.

## Results of Operations

### *Comparison of the Three Months Ended June 30, 2001 to the Three Months Ended June 30, 2000*

The following table sets forth information with respect to the consolidated statements of income of Arbitron for the three months ended June 30, 2001 and 2000 (dollars in thousands, except per share amounts).

#### **Consolidated Statements of Operations (Dollars in thousands, except per share amounts)**

	<b>Three Months Ended June 30,</b>		<b>Increase (Decrease)</b>		<b>Percentage of Revenue</b>	
	<b>2001</b>	<b>2000</b>	<b>Dollar</b>	<b>Percent</b>	<b>2001</b>	<b>2000</b>
Revenue	\$50,264	\$45,665	\$4,599	10.1%	100.0%	100.0%
Costs and expenses						
Cost of revenue	22,811	20,995	1,816	8.6%	45.4%	46.0%
Selling, general and						



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administrative11,95111,2546976.2%23.8%24.6%Research  
and development costs5,6383,3222,31669.7%11.2%7.3%

Total costs and  
expenses40,40035,5714,82913.6%80.4%77.9%

Operating  
income9,86410,094(230)(2.3%)19.6%22.1%Equity in net  
income of affiliate2,9423,126(184)(5.9%)5.9%6.8%

Income before interest and income tax  
expense12,80613,220(414)(3.1%)25.5%28.9%Interest  
income354 354100.0%0.7%0.0%Interest  
expense(5,352) 5,352100.0%(10.6%)0.0%

Income before income tax  
expense7,80813,220(5,412)(40.9%)15.5%28.9%Income tax  
expense3,0945,222(2,128)(40.8%)6.2%11.4%

Net income\$4,714\$7,998\$(3,284)(41.1%)9.3%17.5%

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Net income and pro forma net income per weighted average  
common  
shareBasic\$0.16\$0.27\$(0.11)(40.7%)Diluted\$0.16\$0.27\$(0.11)(40.7%)Other  
data:EBITDA\$13,946\$14,233\$(287)(2.0%)27.7%31.2%

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**Revenue.** Revenue increased 10.1% from \$45.7 million for the three months ended June 30, 2000 to \$50.3 million for the same period in 2001. Approximately 67% of the increase is related to an increase in the ratings subscriber base and escalations in multi-year customer contracts and contract renewals. Additionally, analytical software applications and qualitative services accounted for approximately 17% and 15% of the increase, respectively.

**Cost of Revenue.** Cost of revenue increased 8.6% from \$21.0 million for the three months ended June 30, 2000 to \$22.8 million for the same period in 2001, but decreased as a percentage of revenue from 46.0% in 2000 to 45.4% in 2001. The dollar increase is attributed to increases in computer center costs, royalties and diary and data collection costs.

**Selling, General and Administrative.** Selling, general and administrative expenses increased 6.2% from \$11.3 million for the three months ended June 30, 2000 to \$12.0 million for the same period in 2001 but decreased as a percentage of revenue from 24.6% in 2000 to 23.8% in 2001. Contributing to the dollar increase were certain variable costs, including marketing expenses related to the Webcast Ratings<sup>SM</sup> service and higher marketing communications costs.

**Research and Development Costs.** Research and development costs increased 69.7% from \$3.3 million during the three months ended June 30, 2000 to \$5.6 million for the same period in 2001 and increased as a percentage of revenue from 7.3% in 2000 to 11.2% in 2001. Approximately 50% of the increase is related to product development and enhancement in the core services with the remainder being attributed to increased spending on new product development, related to the Portable People Meter (PPM) and the Webcast Ratings<sup>SM</sup> service.

**Operating Income.** Operating income decreased 2.3% from \$10.1 million for the three months ended June 30, 2000 to \$9.9 million for the same period in 2001. Operating margin decreased from 22.1% in 2000 to 19.6% in 2001. The decline is attributed primarily to the increase in research and development costs as a percentage of revenues.

**Equity in Net Income of Affiliate.** Equity in net income of affiliate decreased 5.9% from \$3.1 million for the three months ended June 30, 2000 to \$2.9 million for the same period in 2001.

**Interest Expense.** Interest expense of \$5.4 million in the three months ended June 30, 2001 is related to the long-term debt outstanding during the period. Prior to the Spin-off, the Company had no debt, and therefore, no interest expense.

**Income Tax Expense.** Arbitron's effective tax rate was 39.6% for the three months ended June 30, 2000 and 2001.

**Net Income.** Net income decreased 41.1% from \$8.0 million for the three months ended June 30, 2000 to \$4.7 million for the same period in 2001. The decrease was primarily attributed to interest expense on long-term debt outstanding since the Spin-off and the increase in research and development costs related to PPM and the Webcast Ratings<sup>SM</sup> service.

**EBITDA.** EBITDA decreased 2.0% from \$14.2 million for the three months ended June 30, 2000 to \$13.9 million for the same period in 2001.

**Comparison of the Six Months Ended June 30, 2001 to the Six Months Ended June 30, 2000**

The following table sets forth information with respect to the consolidated statements of income of Arbitron for the six months ended June 30, 2001 and 2000 (dollars in thousands, except per share amounts).

**Consolidated Statements of Operations  
(Dollars in thousands, except per share amounts)**

	Six Months Ended June 30,		Increase (Decrease)		Percentage of Revenue	
	2001	2000	Dollar	Percent	2001	2000
Revenue	\$ 110,454	\$ 101,198	\$ 9,256	9.1%	100.0%	100.0%
Costs and expenses						
Cost of revenue	38,684	37,067	1,617	4.4%	35.0%	36.6%
Selling, general and administrative	23,165	21,976	1,189	5.4%	21.0%	21.7%
Research and development costs	10,334	6,233	4,101	66.0%	9.4%	6.6%
Total costs and expenses	72,183	65,666	6,517	9.9%	65.4%	64.9%
Operating income	38,271	35,532	2,739	7.7%	34.6%	35.1%
Equity in net income of affiliate	1,819	2,002	(183)	(9.1%)	1.7%	2.0%

Income before interest and income tax expense	40,090	37,534	2,556	6.8%	36.3%	37.1%	Interest
income	373	373	100	0.0%	0.3%	0.0%	Interest
expense	(5,738)	5,738	100	0.0%	(5.2%)	0.0%	

Income before income tax expense	34,725	37,534	(2,809)	(7.5%)	31.4%	37.1%	Income tax expense
tax expense	13,716	14,826	(1,110)	(7.5%)	12.4%	14.7%	

Net income	\$21,009	\$22,708	\$(1,699)	(7.5%)	19.0%	22.4%	
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Pro forma net income per weighted average common share	Basic	\$0.72	\$0.78	(0.06)	(7.7%)	Diluted	\$0.72	\$0.78	(0.06)	(7.7%)	Other data: EBITDA	\$42,305	\$39,613	\$2,692	6.8%	38.3%	39.1%
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**Revenue.** Revenue increased 9.1% from \$101.2 million during the six months ended June 30, 2000 to \$110.5 million for the same period in 2001. Approximately 63% of the increase is related to an increase in the ratings subscriber base and escalations in multi-year customer contracts and contract renewals. Additionally, analytical software applications contributed approximately 20% of the increase, with the remaining growth being attributed to qualitative services and the Company's U.K. subsidiary, which provides media, advertising, financial telecommunications and Internet research services in the United Kingdom and elsewhere in Europe.

**Cost of Revenue.** Cost of revenue increased 4.4% from \$37.1 million for the six months ended June 30, 2000 to \$38.7 million for the same period in 2001, but decreased as a percentage of revenue from 36.6% in 2000 to 35.0% in 2001. The dollar increase is largely attributed to increases in computer center costs and royalties.

**Selling, General and Administrative.** Selling, general and administrative expenses increased 5.4% from \$22.0 million for the six months ended June 30, 2000 to \$23.2 million for the same period in 2001 but decreased as a percentage of revenue from 21.7% in 2000 to 21.0% in 2001. The increase in dollar amount is attributed to certain variable costs, including marketing expenses related to the upcoming Webcast Ratings<sup>SM</sup> service and overall increases in selling expenses.

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**Research and Development Costs.** Research and development costs increased 56.0% from \$6.6 million during the six months ended June 30, 2000 to \$10.3 million for the same period in 2001 and increased as a percentage of revenue from 6.6% in 2000 to 9.4% in 2001. Approximately 50% of the increase is related to product development and enhancement in the core services with the remainder being attributed to increased spending on new product development, related to the PPM and the Webcast Ratings<sup>SM</sup> service.

**Operating Income.** Operating income increased 7.7% from \$35.5 million for the six months ended June 30, 2000 to \$38.3 million for the same period in 2001. Operating margin decreased from 35.1% in 2000 to 34.6% in 2001. The operating margin decrease is due primarily to the increase in research and development costs as a percentage of revenue.

**Equity in Net Income of Affiliate.** Equity in net income of affiliate decreased 9.1% from \$2.0 million for the six months ended June 30, 2000 to \$1.8 million for the same period in 2000.

**Interest Expense.** Interest expense of \$5.7 million in the six months ended June 30, 2001 is related to the long-term debt outstanding during the period. Prior to the Spin-off, the Company had no debt, and therefore, no interest expense.

**Income Tax Expense.** Arbitron's effective tax rate was 39.5% for the six months ended June 30, 2000 and 2001.

**Net Income.** Net income decreased 7.5% from \$22.7 million for the six months ended June 30, 2000 to \$21.0 million for the same period in 2001. The decrease was primarily attributed to interest expense on long-term debt outstanding since the Spin-off and the increase in research and development costs related to PPM and the Webcast Ratings<sup>SM</sup> service.

**EBITDA.** EBITDA increased 6.8% from \$39.6 million for the six months ended June 30, 2000 to \$42.3 million for the same period in 2001.

## Liquidity and Capital Resources

Prior to the Spin-off, Arbitron participated in Ceridian's centralized cash management system to finance its operations. Cash deposits from the majority of Arbitron's operations were transferred to Ceridian on a daily basis and Ceridian funded Arbitron's cash disbursements from the centralized cash management system. Accordingly, Arbitron's net change in cash in periods prior to the Spin-off is not indicative of its liquidity or cash flow.

Arbitron's cash flow from operating activities was \$26.8 million and \$23.0 million during the six month periods ended June 30, 2001 and 2000, respectively, an increase of \$3.8 million. The increase in 2001 is largely due to the Company's taxable income being offset by net operating losses resulting in the recovery of deferred tax assets.

Cash used in investing activities consists of additions to property and equipment and acquisitions of businesses. Property and equipment additions during the six months ended June 30, 2001 were \$3.3 million, a \$2.1 million increase over the same period in 2000. In June 2001, Arbitron made the final payment of \$3.0 million related to the

Tapscan Worldwide business acquired in May 1998. There were no business acquisition payments during the six month period ended June 30, 2000.

Cash flow from financing activities is primarily attributed to proceeds from the issuance and payment of long-term debt, as well as distributions to Ceridian. On March 29, 2001, Arbitron borrowed \$250.0 million, consisting of \$50.0 million in senior notes and \$200.0 million under a Credit Facility, and distributed the net proceeds to Ceridian in connection with the Spin-off. On June 29, 2001, Arbitron made a discretionary payment of \$10.0 million on the Credit Facility bringing the outstanding balance to \$190.0 million as of June 30, 2001. During the six month period ended June 30, 2000, Arbitron had no debt-related activity and cash distributions to Ceridian were \$21.8 million.

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The unused portion of the Credit Facility, \$35.0 million as of June 30, 2001, is available to support Arbitron's operations, however, it is subject to mandatory reduction provisions for the passage of time and for excess cash flow, if any. Under the terms of the Credit Facility, Arbitron is required to maintain leverage and coverage ratios and meet other financial conditions. The agreement restricts, among other things, Arbitron's ability to sell assets, incur additional indebtedness, grant or incur liens on its assets, repay senior indebtedness, pay cash dividends, make certain investments or acquisitions, repurchase or redeem capital stock and engage in certain mergers or consolidations. Arbitron used a derivative instrument as a hedge of its variable interest rate debt as indicated below under Item 3.

Arbitron expects that cash flow generated from operations and available borrowings from its Credit Facility, if necessary, will be sufficient to support its operations and growth initiatives for the foreseeable future.

### **Seasonality**

Arbitron recognizes revenue for products and services over the terms of license agreements as products and services are delivered, and expenses are recognized as incurred. Arbitron gathers radio-listening data in approximately 286 local markets in the United States and Puerto Rico. All markets are measured at least twice per year (April, May, June, Spring Survey, and October, November, December, Fall Survey). In addition, major markets are measured two additional times per year (January, February, March, Winter Survey, and July, August, September Summer Survey). Arbitron's revenue is generally higher in the first and third quarters as the result of the delivery of the Fall Survey and Spring Survey, respectively, to all markets compared to revenue in the second and fourth quarters when delivery of the Winter Survey and Summer Survey, respectively, is only delivered to major markets. Arbitron's expenses are generally higher in the second and fourth quarters as the Spring Survey and Fall Survey are being conducted.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK**

### ***Interest Risk***

Following the Spin-off, Arbitron's market risk is with respect to changes in interest rates. Effective with the Spin-off, Arbitron borrowed \$200 million in floating rate debt outstanding under its Credit Facility. Borrowings under the facility bear interest at LIBOR or the lender's base rate plus an applicable margin, as defined, between 2.0% and 2.75%.

Arbitron entered into an interest rate swap contract effective on March 29, 2001 to hedge against rate fluctuations relating to its variable rate debt. The contract's notional amount is \$200,000 at inception, and declines each quarter over the life of the contract in proportion to Arbitron's estimated outstanding balance on its revolving credit agreement. Under the terms of the contract, Arbitron will pay a fixed rate of 5.02% and receive LIBOR, which resets every 90 days. The contract matures on March 31, 2005. As a result, Arbitron believes that it has sufficiently protected itself from interest rate changes. The effective rate on the debt was 7.52% for the three month period ended June 30, 2001.

**Foreign Currency Risk**

Arbitron's foreign operations are not significant at this time, and, therefore, Arbitron's exposure to foreign currency risk is negligible.

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**PART II OTHER INFORMATION****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Arbitron's annual meeting of stockholders was held on May 30, 2001. There were 29,163,942 shares of Arbitron common stock outstanding and entitled to vote at the annual meeting. Of the 29,163,942 shares of Arbitron common stock entitled to vote at the annual meeting, a total of 26,931,550 shares were present in person or by proxy at the annual meeting.

The following eight people designated by Arbitron's Board of Directors as nominees for director were elected at the annual meeting, with the voting as follows:

Nominee	Votes For (1)	Votes Withheld (1)
Erica Farber	26,851,134	80,416
Kenneth F. Gorman 26,855,03576,515Philip Guarascio 26,852,75878,792Larry E. Kittelberger 26,854,04577,505Stephen B. Morris 26,855,29376,257Luis G. Nogales 26,852,64878,902Lawrence Perlman 26,731,797199,753Richard A. Post 26,853,92977,621		

(1) Includes 126,081 votes for and 2,782 votes withheld with respect to each nominee for director, which were submitted by holders who had not exchanged their stock certificates in connection with the Spin-off and subsequent reverse stock split that were effected as of March 31, 2001 (adjusted to reflect the effect of the reverse stock split).

No additional items were on the agenda of the annual meeting of stockholders and no items were brought to a vote during the meeting.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

## (a) Exhibits

Exhibit No.   Description  
None

## (b) Reports on Form 8-K

Arbitron filed a  
Current Report  
on Form 8-K  
on April 2,

2001 reporting  
the reverse  
spin-off  
transaction of  
Ceridian from  
Arbitron.

Arbitron filed a  
Current Report  
on Form 8-K  
on April 20,  
2001 that  
included  
certain  
materials  
mailed to  
stockholders in  
connection  
with the  
adoption of  
Arbitron's  
Stockholders  
Rights Plan.

Arbitron filed a  
Current Report  
on Form 8-K  
on April 24,  
2001 that  
included a  
press release  
reporting its  
first quarter  
2001 earnings.

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## **SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ARBITRON INC

By:           /s/ WILLIAM J. WALSH          

William J. Walsh  
Executive Vice President of Finance and  
Planning and Chief Financial Officer



Date: August 14, 2001

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