

ARBITRON INC
Form 10-K
March 02, 2009

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

FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008
- or
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number: 1-1969

Arbitron Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-0278528
(I.R.S. Employer Identification No.)

**9705 Patuxent Woods Drive
Columbia, Maryland 21046**
(Address of principal executive offices) (zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Registered
Common Stock, par value \$0.50 per share

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

The aggregate market value of the registrant's common stock as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter (based upon the closing sale price of Arbitron's common stock as reported by the New York Stock Exchange on that date), held by nonaffiliates, was approximately \$1,271,611,243.

Common stock, par value \$0.50 per share, outstanding as of February 23, 2009: 26,433,016 shares

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2009 annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the end of the registrant's fiscal year ended December 31, 2008.

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Arbitron owns or has the rights to various trademarks, trade names or service marks used in its radio audience measurement business and subsidiaries, including the following: the Arbitron name and logo, *Arbitrends*sm, RetailDirect[®], RADAR[®], TAPSCAN[™], TAPSCAN WORLDWIDE[™], LocalMotion[®], MaximiSer[®], MaximiSer[®] Plus, Arbitron PD Advantage[®], SmartPlus[®], Arbitron Portable People Meter[™], PPM[™], Arbitron PPM[™], Marketing Resources Plus[®], MRPsm, PrintPlus[®], MapMAKER Directsm, Media ProfessionalSM, Media Professional Plussm, QUALITAPsm, and Schedule-Itsm.

The trademarks *Windows*[®] and Media Rating Council[®] referred to in this Annual Report on Form 10-K are the registered trademarks of others.

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FORWARD-LOOKING STATEMENTS

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

In this report, Arbitron Inc. and its subsidiaries may be referred to as Arbitron, or the Company, or we, or us, or o

This Annual Report on Form 10-K 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, intends, anticipates, believes, or plans or 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 results to be materially different from results implied by such forward-looking statements. These risks and uncertainties include, in no particular order, whether we will be able to:

absorb costs related to legal proceedings and governmental entity interactions and avoid related fines, limitations, or conditions on our business activities;

successfully commercialize our Portable People Metertm service;

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

successfully maintain and promote industry usage of our services, a critical mass of broadcaster encoding, and the proper understanding of our audience measurement services and methodology in light of governmental regulation, legislation, litigation, activism, or adverse public relations efforts;

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

successfully design, recruit and maintain PPM panels that appropriately balance research quality, panel size, and operational cost;

successfully develop, implement, and fund initiatives designed to increase sample sizes;

complete the Media Rating Council, Inc. (MRC) audits of our local market PPM ratings services in a timely manner and successfully obtain and/or maintain MRC accreditation for our audience measurement business;

renew contracts with key customers;

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

effectively manage the impact, if any, of any further ownership shifts in the radio and advertising agency industries;

effectively respond to rapidly changing technological needs of our customer base, including creating new proprietary software systems, such as software systems to support our cell phone-only sampling plans, and new customer services that meet these needs in a timely manner;

successfully manage the impact on costs of data collection due to lower respondent cooperation in surveys, consumer trends including a trend toward increasing incidence of cell phone-only households, privacy concerns, technology changes, and/or government regulations; and

successfully develop and implement technology solutions to encode and/or measure new forms of media content and delivery, and advertising in an increasingly competitive environment.

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

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forth in Item 1A. Risk Factors in this report, and other factors noted in Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly those noted under Critical Accounting Policies and Estimates, and elsewhere, and any subsequent periodic or current reports filed by us with the Securities and Exchange Commission.

In addition, any forward-looking statements represent our expectations only as of the day we first filed this annual report with the Securities and Exchange Commission 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.

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PART I

ITEM 1. BUSINESS

Arbitron Inc., a Delaware corporation, was formerly known as Ceridian Corporation (Ceridian). Ceridian was formed in 1957, though its predecessors began operating in 1912. We commenced our audience research business in 1949. Our principal executive offices are located at 9705 Patuxent Woods Drive, Columbia, Maryland 21046 and our telephone number is (410) 312-8000.

Overview

We are a leading media and marketing information services firm primarily serving radio, cable television, advertising agencies, advertisers, retailers, out-of-home media, online media and, through our Scarborough Research joint venture with The Nielsen Company (Nielsen), broadcast television and print media. We currently provide four main services:

measuring and estimating radio audiences in local markets in the United States;

measuring and estimating radio audiences of network radio programs and commercials;

providing software used for accessing and analyzing our media audience and marketing information data; and

providing consumer, shopping, and media usage information services.

We provide radio audience estimates and related services in the United States to radio stations, advertising agencies, and advertisers. We estimate the size and demographics of the audiences of radio stations in local markets in the United States and report these estimates and certain related data as ratings to our customers. Our customers use the information we provide for executing advertising transactions in the radio industry. Radio stations use our data to price and sell advertising time, and advertising agencies and advertisers use our data in purchasing advertising time. Our Radio All Dimension Audience Research (RADAR) service estimates national radio audiences and the size and composition of audiences of network radio programs and commercials.

We also provide software applications that allow our customers to access our databases and enable our customers to more effectively analyze and understand that information for sales, management, and programming purposes. Some of our software applications also allow our customers to access data owned by third parties, provided the customers have a separate license to use such third-party data.

In addition to our core radio ratings services, we provide qualitative measures of consumer demographics, retail behavior, and media consumption in local markets throughout the United States. We provide custom research services to companies that are seeking to demonstrate the value of their advertising propositions. We also seek to market our quantitative and qualitative audience and consumer information to customers outside of our traditional base, such as the advertising sales organizations of local cable television companies, national cable television networks and out-of-home media sales organizations.

We have developed an electronic Portable People Meter (PPM) system of audience measurement for commercialization in the United States and have licensed our PPM technology to a number of international media information services companies to use in their media audience measurement services in specific countries outside of the United States. See Item 1. Business Portable People Meter Service below.

Our quantitative radio audience ratings services and related software have historically accounted for a substantial majority of our revenue. The radio audience ratings service represented 81 percent, 79 percent, and 79 percent of our total revenue in 2008, 2007, and 2006, respectively. The related software revenues represented nine percent of our total revenue in each of 2008, 2007, and 2006. Our revenue from continuing operations from domestic sources and international sources was approximately 99 percent and one percent of our total revenue, respectively, for each of the years ended December 31, 2008, 2007 and 2006. Additional information regarding revenues by service and by geographical area is provided in Note 19 in the Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

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Corporate Strategy

Our leading strategic objectives include growing our radio audience measurement business and expanding our information services to a broader range of media, including broadcast television, cable, out-of-home media, satellite radio and television, Internet broadcasts and mobile media. Key elements of our strategy to pursue these objectives include:

Improving customer relations. We intend to continue to invest in quality improvements in our radio audience measurement services and engage with our customers, listen to and understand their needs and requirements and provide solutions that are competitive on price, quality and value.

Diversifying revenues. We believe that growth opportunities exist in adjacent markets and intend to seek to expand our customer base by developing and marketing new information services designed to assist customers in implementing marketing strategies.

Building on our experience in the radio audience measurement industry and our PPM technology to expand into information services for other types of media and/or multimedia. In some cases, we may enter into agreements with third parties to assist with the marketing, technical and financial aspects of expanding into measurement services for other types of media and/or multimedia.

Developing and commercializing the next-generation data collection and processing techniques. Our businesses require sophisticated data collection and processing systems, software and other technology. The collection of our survey participant information in our diary-based radio ratings service is dependent on individuals keeping track of their listening, viewing and reading activities in diaries. The technology underlying the media measurement industry is undergoing rapid change, and we will need to continue to attempt to develop our data collection, processing and software systems to accommodate these changes. The development of our PPM service is in response to a growing demand for higher quality, and more efficient and timely methods for measuring and reporting audiences.

Addressing scale issues. We compete against many companies that are larger and have greater capital and other resources. We will seek to explore strategic opportunities to expand our business and better enable us to compete with such companies.

Expanding our international PPM business. We continue to explore opportunities to license our PPM technology into selected international regions, such as Europe and the Asia/Pacific regions. We believe there is an international demand for quality audience information from global advertisers and media.

Industry Background and Markets

Since 1965, we have delivered to the radio industry actionable and timely radio audience information collected from a representative sample of radio listeners. The presence of independent audience estimates in the radio industry has helped radio stations to price and sell advertising time, and advertising agencies and advertisers to purchase advertising time. The Arbitron ratings have also become a valuable tool for use in radio programming, distribution, and scheduling decisions.

Shifts in radio station ownership in the United States, among other factors, has led to a greater diversity of programming formats. As audiences have become more fragmented, advertisers have increasingly sought to tailor

their advertising strategies to target specific demographic groups through specific media. The audience information needs of radio broadcasters, advertising agencies and advertisers have correspondingly become more complex. Increased competition, including from nontraditional media, and more complex informational requirements have heightened the desire of radio broadcasters for more frequent and timely data delivery, improved information management systems, larger sample sizes, and more sophisticated means to analyze this information. In addition, there is a demand for high-quality radio and television audience information internationally from the increasing number of commercial, noncommercial, and public broadcasters in other countries.

As the importance of reaching niche audiences with targeted marketing strategies increases, broadcasters, publishers, advertising agencies, and advertisers increasingly require that information regarding exposure to advertising is provided on a more granular basis and that this information is coupled with more detailed information

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regarding lifestyles and purchasing behavior. We believe the need to integrate purchase data information with advertising exposure information may create future opportunities for innovative approaches to satisfy these information needs.

Radio Audience Measurement Services

Diary Service

Collection of Listener Data Through Diary Methodology. We use listener diaries to gather radio listening data from a random sample group of persons aged 12 and over in households in the 288 United States local markets in which we currently provide Diary-based radio ratings. Participants in Arbitron surveys are currently selected at random by landline telephone number. When participants in our Diary survey (whom we refer to as diarykeepers) agree to take part in a survey, we mail them a small, pocket-sized diary and ask them to record their listening in the diary over the course of a seven-day period. We ask diarykeepers to report in their diary the station(s) to which they listened, when they listened and where they listened, such as home, car, work, or other place. Although survey periods are 12 weeks long, no participant keeps a diary for more than seven days. Each diarykeeper receives a diary, instructions for filling it out and a small cash incentive. The incentive varies according to markets, and the range is generally \$1.00 to \$6.00 for each diarykeeper in the household and up to \$10.00 additional per person in certain incentive programs for returned diaries. In addition to the cash incentives included with the diaries, further cash incentives are used at other points in the survey process along with other communications such as follow-up letters and phone calls to maximize response rates. Diarykeepers mail the diaries to our operations center, where we conduct a series of quality control checks, enter the information into our database, and produce periodic audience listening estimates. We currently receive and process more than 1.2 million diaries every year to produce our audience listening estimates. We measure each of our local markets at least twice each year, and major markets four times per year.

Diary Service Quality Improvement Initiatives. Throughout 2008, we invested in Diary service quality enhancements. As part of our continuous improvement program, we intend to continue to invest in Diary service quality enhancements in 2009. Set forth below is a description of several of the significant Diary service quality initiatives we made in 2008. As the needs of our customers and the service continue to evolve, we may choose to focus on different areas for improvement during 2009 and beyond.

One of the challenges in estimating radio audiences is to ensure that the composition of survey respondents is sufficiently representative of the market being measured. We strive to achieve representative samples. A measure often used by clients to assess sample quality in our ratings is proportionality, which refers to how well the distribution of the sample for any individual survey matches the distribution of the population in the local market. For example, if eight percent of the population in a given market is comprised of women aged 18 to 34, ideally eight percent of the diarykeepers in our sample are women aged 18 to 34. Therefore, each survey respondent's listening should statistically represent not only the survey respondent's personal listening but also the listening of the demographic segment in the overall market. In striving to achieve representative samples, we provide enhanced incentives and enhanced support to certain demographic segments that our experience has shown may be less likely to respond to encourage their participation. Households identified as having at least one member who is Hispanic receive bilingual materials. We also use bilingual (Spanish-English) interviewers for households where Spanish is the preferred language.

In the first quarter of 2008, we upgraded our diary-processing capabilities with a new state-of-the-art facility that combines several business processes under one roof. We designed the new building, layout, and equipment to increase productivity, efficiency, and accuracy for diary processing, which will allow us to implement future planned diary sample improvement initiatives more quickly.

Beginning with the Winter 2008 Diary survey, we implemented an enhanced sex/age enumeration initiative. In this initiative, we ask the sex and age of each household member during placement calls. We then use this information in determining whether the household should receive enhanced Young Male premiums and other differential survey treatments applicable to households that contain one or more males 18-34 years old. Households that decline to provide the requested sex/age information during the calls are asked whether the household contains

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a male within specified age ranges. We continue to use sex/age information recorded by diarykeepers in returned diaries to assign the diaries to appropriate demographic groups.

Beginning with the Spring 2008 Diary survey, we expanded our young male promised incentive survey treatment. Under this initiative, we offer an additional premium to households with young male respondents, aged 18-34, for each returned diary. We now offer this survey treatment to noncontinuously measured markets in which the male 18-34 proportionality index is less than 60, averaged across the two most recent surveys, initially a total of 117 markets. We also began offering a second chance to participate in our surveys to households in which respondents initially agreed to participate, but failed to return any diaries for the week selected. The second chance survey week occurs approximately six weeks after the week in which the household originally consented to participate. We offered this second chance in 94 markets during 2008. All continuously measured Metro markets are eligible for the second chance diary treatment. In 2009, we are considering the implementation of a second chance to consent where households that initially decline to participate and households where we reach only an answering machine or voicemail will be mailed a card with a small cash premium and contacted again two weeks later.

Beginning with the Spring 2008 Diary survey, we also modified our High-Density Hispanic Area (HDHA) criteria. When a market qualifies for differential survey treatment, we then evaluate it for High-Density Area (HDA) sampling. Use of HDA sampling allows us to focus on areas where the desired demographic is statistically most likely to reside, which we employ as a means designed to promote better sampling and achievement of better In-Tab proportionality in our overall sample. With the significant increase in Hispanic population in recent years, we determined during 2008 to update our criteria for a county to be eligible for HDHA sampling. Counties are now eligible to include a High Density Hispanic Area definition when the county meets both of the following criteria: (i) the county contains at least one zip code whose population is at least 40 percent Hispanic (up from the 25 percent criterion in previous surveys); and (ii) the proposed ethnically split portions of the county (HDHA and balance) must have sufficient population, as a proportion of the total Metro, to appropriately be allocated an In-Tab target of at least 21 diaries. Under our methodology, we will retain an HDHA for as long as the target for each portion of the county is at least 18 diaries.

Beginning with the Fall 2008 Diary survey, we enhanced post-placement premiums for households that agree to participate in our surveys in which at least one household member is Hispanic in applicable markets without an HDHA, and for households in which at least one household member is Black in applicable markets without a High Density Black Area. We also extended our young male promised incentive survey treatment to additional markets.

We use a measure known as Designated Delivery Index (DDI) to measure our performance in delivering sample targets based on how many persons in the sample represent a particular demographic. We define DDI as the actual sample size achieved for a given demographic indexed against the target sample size for that demographic (multiplied by 100). Beginning with the Fall 2008 survey, we established a sample benchmark for persons aged 18-54 in all Diary markets equal to a DDI of 80. Should the actual persons 18-54 DDI fall below this benchmark in a given market survey, we will attempt to bring the sample performance above that benchmark in that market in subsequent surveys.

In recent years, our ability to deliver good sample proportionality in our surveys among younger demographic groups has deteriorated, caused in part by the trend among some households to disconnect their landline phones, effectively removing these households from the Arbitron sample frame. In December 2008, we announced plans to accelerate the introduction of cell phone-only sampling in Diary markets. Beginning with the Spring 2009 survey, we intend to add cell phone-only households to the Diary sample in 151 Diary markets using a hybrid methodology of address-based recruitment for cell phone-only households, while using random digit dialing (RDD) recruitment for landline households. Beginning with the Fall 2009 survey, we intend to expand cell phone-only sampling to all Diary markets (except Puerto Rico). The acceleration of cell phone-only sampling to 151 markets in the spring assumes that we will be able to complete the development of software necessary to support the rollout as scheduled. If we are not able to develop the software as expected, the planned acceleration of cell phone-only sampling could be delayed. In an effort

to better target our premium expenditures to key buying demographics of the users of our estimates, beginning with the Spring 2009 Diary survey, we intend to reduce the premium for households where all members are aged 55 or older and redirect those premiums to households containing persons aged 18-34.

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In addition to sample proportionality, response rates are an important measure of our effectiveness in obtaining consent from persons to participate in our surveys. It has become increasingly difficult and more costly for us to obtain consent from persons to participate in our surveys. We must achieve a level of both sample proportionality and response rates sufficient to maintain confidence in our ratings, the support of the industry and accreditation by the MRC. Response rates are one quality measure of survey performance among many and an important factor impacting costs associated with data collection. Overall response rates have declined over the past several years. If response rates continue to decline further or if recruitment costs significantly increase, our radio audience measurement business could be adversely affected. We believe that additional expenditures will be required in the future with respect to response rates and sample proportionality. We continue to research and test new measures to address these sample quality challenges.

Portable People Meter Service

Since 1992, we have pursued a strategy of evolving our audience ratings business from diaries, which are completed by hand and returned by mail from survey participants, to portable electronic measurement devices, which passively collect information regarding survey participants' exposure to encoded media without additional manual effort by the survey participants beyond carrying the meter. We have pursued this strategy in an effort to improve quality by taking advantage of new technological capabilities and to address the vast proliferation of media delivery vehicles, both inside and outside of the home.

We have developed our proprietary PPM technology, which is capable of collecting data regarding panelists' exposure to encoded media for programming and advertising purposes across multiple media including, among others, broadcast and satellite radio, broadcast, cable and satellite television, Internet, and retail in-store audio and video broadcasts. The PPM meter is a small cell phone-sized device that a panel of survey participants carries throughout the day. The PPM meter automatically detects proprietary codes that are inaudible to the human ear, which broadcasters embed in the audio portion of their programming using technology and encoders we license to the broadcaster at no cost. We refer to the embedding of our proprietary codes into the audio portion of broadcasters' programming as encoding the broadcast. These proprietary codes identify the encoded media to which a survey participant is exposed throughout the day without the survey participant having to engage in any recall-based manual recording activities. At the end of each day, the survey participant places the PPM device into a base station that recharges the device and sends the collected codes to Arbitron for tabulation for use in creating audience estimates.

We believe there are many advantages to our PPM technology. It is simple and easy for respondents to use. It requires no button pushing, recall, or other effort by the survey participant to identify and write down media outlets to which they are exposed. The PPM technology can passively detect exposure to encoded media by identifying each source using our unique identification codes. We believe the PPM service can help support the media industry's increased focus on providing accountability for the investments made by advertisers. It helps to shorten the time period between when advertising runs and when audience delivery is reported, and can be utilized to provide multimedia measurement from the same survey participant. The PPM technology also produces high-quality motion and compliance data, which we believe is an additional advantage that makes the PPM data more accountable to advertisers than various recall-based data collection methods. The PPM technology can produce more granular data than the diary, including minute by minute exposure data, which we believe can be of particular value to radio programmers. Because our PPM service panels have larger weekly and monthly samples than our Diary service, the audience estimates exhibit more stable listening trends between survey reports. Also, our PPM technology can be leveraged to measure new digital platforms, time-shifted broadcasts (such as media recorded for later consumption using a DVR or similar technology), and broadcasts in retail, sports, music, and other venues.

The PPM technology could potentially be used to measure audiences of out-of-home media, print, commercials, and entertainment audio, including movies and video games. The new Audience Reaction service offered by Media

Monitors, LLC (Media Monitors) allows Media Monitors to combine our PPM data with its airplay information to provide a service designed to help radio programmers who also license our data hear what audio was broadcast while observing changes in the audience estimates.

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Domestic. We currently utilize our PPM radio ratings service to produce audience estimates in 14 United States local radio markets. We commercialized the PPM ratings service in the Houston Galveston and Philadelphia local markets during 2007. We commercialized the PPM ratings service in the New York, Nassau Suffolk (Long Island), Middlesex Somerset Union, Los Angeles, Riverside San Bernardino, Chicago, San Francisco, and San Jose local markets on October 6, 2008, and in the Atlanta, Dallas Ft. Worth, Detroit, and Washington, DC local markets on December 31, 2008. We currently intend to commercialize the PPM service in another 19 local markets during 2009.

We are in the process of executing our previously announced plan to commercialize progressively our PPM ratings service in the largest United States radio markets, which we currently anticipate will result in commercialization of the service in 49 local markets by December 2010 (the PPM Markets). We may continue to update the timing of commercialization and the composition of the PPM Markets from time to time. On November 4, 2008, we announced an adjustment to our PPM commercialization schedule. Information regarding the affected PPM Markets is set forth below. We have rebalanced our PPM commercialization schedule in order to create financial and operational efficiencies.

Market	Current Schedule			Prior Schedule			Final Diary Survey		
	Initial PPM Report	Period Covered	Release Date	Initial PPM Report	Period Covered	Release Date	Scheduled Final Diary Survey	Period Covered	Schedule
City;		November							
onio; Salt Lake		12 -						June 25 -	
nden-Provo; Las	December 2009	December 9	December 2009	March 2010	March 4 - March 31	April 2010	Summer 2009	September 16	O
kee-Racine;		August							
e-Gastonia-Rock		19 -							
lumbus, OH;									
nce-Warwick;	September 2010	September 15	October 2010	June 2010	May 27 - June 23	July 2010	Spring 2010	April 1 - June 23	2
cket; Orlando									

Media Rating Council Accreditation

The Media Rating Council, Inc. (the MRC) is a voluntary, nonprofit organization, comprised of broadcasters, advertisers, advertising agencies, and other users of media research that reviews and accredits audience ratings services. The MRC accreditation process is voluntary and there is no legal or compulsory requirement that a rating service seek accreditation or submit to an MRC audit. The MRC lends its seal of approval to ratings services that demonstrate compliance with the MRC s standards of media rating research. MRC accreditation is not a legal or regulatory prerequisite to commercialization of any of our audience ratings services.

Although accreditation is not required, we currently are pursuing MRC accreditation for several of our audience ratings services. We intend to use commercially reasonable efforts in good faith to pursue MRC accreditation of our PPM radio ratings service in each PPM Market where we intend to commercialize the service. We have complied with and currently intend to continue to comply with the MRC Voluntary Code of Conduct (VCOC) in each PPM Market prior to commercializing our PPM radio ratings service in that market. The VCOC requires, at a minimum, that we complete an MRC audit of the local market PPM service, share the results of that audit with the MRC PPM audit subcommittee, and disclose pre-currency impact data prior to commercializing the PPM radio ratings service in that local market.

Local Markets First Considered for Accreditation During 2006 and 2007. As previously disclosed, the MRC completed initial audits of the Houston Galveston, Philadelphia, New York, Nassau Suffolk (Long Island), and Middlesex Somerset Union (collectively, the 2007 Markets) local market PPM methodology and execution in late 2006 in the case of Houston Galveston, and in the first half of 2007 in the case of the remaining 2007 Markets. In January 2007, the MRC accredited the average-quarter-hour, time-period radio ratings data produced by the PPM ratings service in the Houston-Galveston local market. For more information regarding MRC accreditation, see Item 1. Business Governmental Regulation. In June 2007, the MRC also accredited the average-quarter-hour, time-period television ratings data produced by the PPM ratings service in the Houston-Galveston local market. Because we are not currently producing television viewing estimates, we have applied to

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the MRC for temporary hiatus status for our Houston-Galveston television ratings service and the accreditation status of the television estimates is currently not active.

Based on initial audits completed during 2007, and our replies to the MRC's follow-up queries, the MRC denied accreditation of the PPM ratings services in the remaining 2007 Markets during January 2008. During 2008, the MRC reaudited the Philadelphia, New York, Nassau Suffolk (Long Island), and Middlesex Somerset Union local market PPM methodology and execution. The results of those reaudits, together with additional information provided by Arbitron, were shared with the MRC PPM audit subcommittee in late 2008. As of the date of this Annual Report on Form 10-K, the denial status remains in place, and the PPM services in the Philadelphia, New York, Nassau Suffolk (Long Island), and Middlesex Somerset Union local markets remain unaccredited. Among other things, the MRC identified response rates, compliance rates, and differential compliance rates as concerns it had with the PPM service in these local markets.

Local Markets First Considered for Accreditation During 2008. During 2008, the MRC completed initial audits of the Los Angeles, Riverside San Bernardino, Chicago, San Francisco, San Jose, Atlanta, Dallas Ft. Worth, Detroit, and Washington, DC (collectively, the 2008 Markets) local market PPM methodology and execution, and the results of each of those audits were shared with the MRC PPM audit subcommittee, together with additional information provided by Arbitron in late 2008. On January 9, 2009, we announced that the MRC had accredited the average-quarter-hour, time-period radio ratings data produced by the PPM ratings service in the Riverside San Bernardino local market. With respect to the PPM service in the remaining 2008 Markets, the MRC has taken no formal action on the initial applications for accreditation and therefore, the services are not currently accredited by the MRC.

In November 2007, we announced our decision to delay the commercialization of the PPM ratings service in nine local markets in order to address feedback regarding the PPM service we had received from our customers, the MRC, and certain other constituencies. We believe during the course of the delay, we enhanced our PPM service and during 2008, we commercialized each of the markets that we had delayed. To date, more than 15 radio broadcasting groups, including Clear Channel Communications, Inc. (Clear Channel), our largest customer, CBS Radio, Inc., Citadel Broadcasting Corporation, Entercom Communications Corporation, Cox Radio, Inc., Radio One, Inc. and Cumulus Media Inc. (Cumulus), have signed long-term contracts to use the PPM service as and when we commercialize it in the PPM Markets. We believe these broadcasters, together with other broadcasters under contract to receive PPM ratings, accounted for the substantial majority of the total radio advertising dollars in the PPM Markets in 2008. We have also signed contracts with a number of national and regional advertising agencies to use the PPM service as and when we commercialize in the PPM Markets. We believe these agencies also accounted for the substantial majority of the national advertising dollars spent on radio advertising in the PPM Markets in 2008.

Although additional milestones remain and there is the possibility that the pace of commercialization of the PPM ratings service could be slowed further, we believe that the PPM ratings service is both a viable replacement for our Diary-based ratings service and a significant enhancement to our audience estimates in major radio markets, and is an important component of our anticipated future growth. If the pace of the commercialization of our PPM ratings service is slowed further, revenue increases that we expect to receive related to the service will also be delayed.

Commercialization of our PPM radio ratings service requires and will continue to require a substantial financial investment. We believe our cash generated from operations, as well as access to our existing credit facility, is sufficient to fund such requirements. We currently estimate that the 2009 annual capital expenditures associated with the PPM ratings service commercialization for audience ratings measurement will be approximately \$25.0 million. As we have anticipated, our efforts to support the commercialization of our PPM ratings service have had a material negative impact on our results of operations. The amount of capital required for deployment of our PPM ratings service and the impact on our results of operations will be greatly affected by the speed of the commercialization.

Collection of Listener Data Through PPM Methodology. In our PPM service, we gather data regarding exposure to encoded audio material through the use of our PPM meters. We randomly recruit a sample panel of households to participate in the service (all persons aged six and older in the household). The household members

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are asked to participate in the panel for a period of up to two years, carrying their meters from rise to retire each day. Panelists earn points based on their compliance with the task of carrying the meter. Longer carry time results in greater points, which