ARBITRON INC
Form 10-Q
August 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

Or

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

Commission file number: 1-1969

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

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

9705 Patuxent Woods Drive
Columbia, Maryland 21046
(Address of principal executive offices) (Zip Code)
(410) 312-8000
(Registrant s telephone number, including area code)

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

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

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

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

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

The registrant had 26,511,199 shares of common stock, par value $0.50 per share, outstanding as of July 31, 2009.

ARBITRON INC.
INDEX

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℠, RetailDirect®*, *RADAR®*, *Tapscan™*, *Tapscan WorldWide™*, *LocalMotion®, Maximi$er®, Maximi$er® Plus*, *Arbitron PD Advantage®*, *SmartPlus®*, *Arbitron Portable People Meter™*, *PPM™*, Arbitron *PPM®*, *Marketing Resources Plus®, MRP℠, PrintPlus®, MapMAKER Direct℠*, *Media Professional℠, Media Professional Plus℠*, *Qualitap℠* and *Schedule-It℠*.

The trademarks *Windows®* and Media Rating Council® are the registered trademarks of others.

We routinely post important information on our website at www.arbitron.com. Information contained on our website is not part of this quarterly report.

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

	June 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Current assets		
Cash and cash equivalents	$ 12,669	$ 8,658
Trade accounts receivable, net of allowance for doubtful accounts of $3,036 in 2009 and $2,598 in 2008	64,959	50,037
Inventory	1,169	2,507
Prepaid expenses and other current assets	9,699	10,167
Deferred tax assets	2,391	2,476
Total current assets	90,887	73,845
Equity and other investments	15,482	14,901
Property and equipment, net	67,209	62,930
Goodwill, net	38,500	38,500
Other intangibles, net	879	950
Noncurrent deferred tax assets	7,188	7,576
Other noncurrent assets	684	895
Total assets	$ 220,829	$ 199,597
Liabilities and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 9,183	$ 15,401
Accrued expenses and other current liabilities	22,934	29,732
Deferred revenue	56,566	57,304
Total current liabilities	88,683	102,437
Long-term debt	105,000	85,000
Other noncurrent liabilities	26,909	26,655
Total liabilities	220,592	214,092
Commitments and contingencies		
Stockholders equity (deficit)		
Preferred stock, $100.00 par value, 750 shares authorized, no shares issued		
Common stock, $0.50 par value, authorized 500,000 shares, issued 32,338 shares as of June 30, 2009, and December 31, 2008	16,169	16,169
Net distributions to parent prior to March 30, 2001, spin-off	(239,042)	(239,042)
Retained earnings subsequent to spin-off	240,622	226,345
Common stock held in treasury, 5,827 shares in 2009 and 5,928 shares in 2008	(2,914)	(2,964)
Accumulated other comprehensive loss	(14,598)	(15,003)

Total stockholders equity (deficit)	237	(14,495)
Total liabilities and stockholders equity (deficit)	$ 220,829	$ 199,597

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2009	**2008**
Revenue	$ 86,799	$ 78,655
Costs and expenses		
Cost of revenue	55,762	52,585
Selling, general and administrative	19,351	19,977
Research and development	10,584	9,864
Restructuring and reorganization	185	
Total costs and expenses	85,882	82,426
Operating income (loss)	917	(3,771)
Equity in net income of affiliate(s)	5,581	5,166
Income from continuing operations before interest and income tax expense	6,498	1,395
Interest income	14	271
Interest expense	365	682
Income from continuing operations before income tax expense	6,147	984
Income tax expense	2,651	359
Income from continuing operations	3,496	625
Discontinued operations		
Loss on sale of discontinued operations, net of taxes		(25)
Total loss from discontinued operations, net of taxes		(25)
Net income	$ 3,496	$ 600
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.13	$ 0.02
Discontinued operations		
Net income	$ 0.13	$ 0.02
Diluted		
Continuing operations	$ 0.13	$ 0.02

Discontinued operations		
Net income	$ 0.13	$ 0.02
Weighted-average common shares used in calculations		
Basic	26,486	27,183
Potentially dilutive securities	169	251
Diluted	26,655	27,434
Dividends declared per common share outstanding	$ 0.10	$ 0.10

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2009	**2008**
Revenue	$ 185,288	$ 172,720
Costs and expenses		
Cost of revenue	95,291	87,695
Selling, general and administrative	37,775	38,529
Research and development	19,890	19,528
Restructuring and reorganization	8,356	
Total costs and expenses	161,312	145,752
Operating income	23,976	26,968
Equity in net income of affiliate(s)	2,581	1,221
Income from continuing operations before interest and income tax expense	26,557	28,189
Interest income	33	455
Interest expense	698	880
Income from continuing operations before income tax expense	25,892	27,764
Income tax expense	10,055	10,827
Income from continuing operations	15,837	16,937
Discontinued operations		
Loss from discontinued operations, net of taxes		(495)
Gain on sale of discontinued operations, net of taxes		425
Total loss from discontinued operations, net of taxes		(70)
Net income	$ 15,837	$ 16,867
Income per weighted-average common share		
Basic		
Continuing operations	$ 0.60	$ 0.61
Discontinued operations		
Net income	$ 0.60	$ 0.61
Diluted		
Continuing operations	$ 0.60	$ 0.61

Discontinued operations		
Net income	$ 0.60	$ 0.61
Weighted-average common shares used in calculations		
Basic	26,458	27,687
Potentially dilutive securities	142	186
Diluted	26,600	27,873
Dividends declared per common share outstanding	$ 0.20	$ 0.20

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2009	2008
Cash flows from operating activities		
Net income	$ 15,837	$ 16,867
Loss from discontinued operations, net of taxes		70
Income from continuing operations	15,837	16,937
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	10,810	7,896
Amortization of intangible assets	71	205
Loss on asset disposals	1,071	692
Deferred income taxes	206	1,003
Equity in net income of affiliate(s)	(2,581)	(1,221)
Distributions from affiliate	5,400	4,750
Bad debt expense	674	460
Non-cash share-based compensation	4,626	4,347
Changes in operating assets and liabilities		
Trade accounts receivable	(15,596)	2,021
Prepaid expenses and other assets	548	56
Inventory	1,219	(467)
Accounts payable	(5,367)	(1,845)
Accrued expenses and other current liabilities	(7,060)	(6,390)
Deferred revenue	(738)	3,555
Other noncurrent liabilities	998	612
Net cash used in operating activities of discontinued operations		(1,225)
Net cash provided by operating activities	**10,118**	**31,386**
Cash flows from investing activities		
Additions to property and equipment	(16,752)	(13,403)
Purchases of equity and other investments	(3,400)	(1,061)
Net cash provided by investing activities from discontinued operations		2,123
Net cash used in investing activities	**(20,152)**	**(12,341)**
Cash flows from financing activities		
Proceeds from stock option exercises and stock purchase plan	738	7,138
Stock repurchases		(59,731)
Tax (loss) benefits realized from share-based awards	(1,437)	787
Dividends paid to stockholders	(5,284)	(5,650)
Borrowings under Credit Facility	33,000	95,000
Payments of outstanding debt	(13,000)	(57,000)

Net cash provided by (used in) financing activities	**14,017**	**(19,456)**
Effect of exchange rate changes on cash and cash equivalents	28	(6)
Net change in cash and cash equivalents	4,011	(417)
Cash and cash equivalents at beginning of period	8,658	22,128
Cash and cash equivalents at end of period	**$ 12,669**	**$ 21,711**

See accompanying notes to consolidated financial statements.

ARBITRON INC.
Notes to Consolidated Financial Statements
June 30, 2009
(unaudited)

1. Basis of Presentation and Consolidation

Presentation

The accompanying unaudited consolidated financial statements of Arbitron Inc. (the Company or Arbitron) have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and are of a normal recurring nature. The consolidated balance sheet as of December 31, 2008, was audited at that date, but all of the information and notes as of December 31, 2008, required by U.S. generally accepted accounting principles have not been included in this Form 10-Q. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Consolidation

The consolidated financial statements of the Company for the three and six months ended June 30, 2009, reflect the consolidated financial position, results of operations and cash flows of the Company and its subsidiaries: Arbitron Holdings Inc., Audience Research Bureau S.A. de C.V., Ceridian Infotech (India) Private Limited, Arbitron International, LLC and Arbitron Technology Services India Private Limited. All significant intercompany balances have been eliminated in consolidation. The Company consummated the sale of CSW Research Limited (Continental) and Euro Fieldwork Limited, a subsidiary of Continental, on January 31, 2008. The financial information of Continental and Euro Fieldwork Limited has been separately reclassified within the consolidated financial statements as a discontinued operation. See Note 2 for further information.

2. Discontinued Operation

During the fourth quarter of 2007, the Company approved a plan to sell Continental, which represented a component of the Company s international operations. As a result, the assets and liabilities, results of operations and cash flow activity of Continental were reclassified separately as a discontinued operation held for sale within the consolidated financial statements for all periods presented on the Company s annual consolidated financial statements filed on Form 10-K for the years ended December 31, 2008, and 2007. On January 31, 2008, the sale of Continental was completed at a gain of $0.5 million. The following table presents key information associated with the operating results of the discontinued operations for the 2008 reporting period presented in the consolidated financial statements filed in this quarterly report on Form 10-Q for the period ended June 30, 2009 (in thousands):

Results of Discontinued Operations	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenue	$	$ 1,011
Operating expenses		1,802
Operating loss		(791)
Net interest income		7
Loss before income tax benefit		(784)
Income tax benefit		289
Loss from discontinued operations, net of taxes		(495)
(Loss) gain on sale, net of taxes	(25)	425
Total loss from discontinued operations, net of taxes	$ (25)	$ (70)

3. Long-Term Debt

On December 20, 2006, the Company entered into an agreement with a consortium of lenders to provide up to $150.0 million of financing to the Company through a five-year, unsecured revolving credit facility (the Credit Facility). The agreement contains an expansion feature for the Company to increase the total financing available under the Credit Facility up to $200.0 million with such increased financing to be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent. As of June 30, 2009, and December 31, 2008, the outstanding borrowings under the Credit Facility were $105.0 million and $85.0 million, respectively.

Under the terms of the Credit Facility, the Company is required to maintain certain leverage and coverage ratios and meet other financial conditions. The Credit Facility contains certain financial covenants, and limits among other things, the Company s ability to sell certain assets, incur additional indebtedness, and grant or incur liens on its assets. Under the terms of the Credit Facility, all of the Company s material domestic subsidiaries, if any, guarantee the commitment. As of June 30, 2009, and December 31, 2008, the Company had no material domestic subsidiaries as defined by the terms of the Credit Facility. As of June 30, 2009, and December 31, 2008, the Company was in compliance with the terms of the Credit Facility.

If a default occurs on outstanding borrowings, either because the Company is unable to generate sufficient cash flow to service the debt or because the Company fails to comply with one or more of the restrictive covenants, the lenders could elect to declare all of the then outstanding borrowings, as well as accrued interest and fees, to be immediately due and payable. In addition, a default may result in the application of higher rates of interest on the amounts due.

The Credit Facility has two borrowing options, a Eurodollar rate option or an alternate base rate option, as defined in the Credit Facility 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 0.575% to 1.25%. 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 0.00% to 0.25%. The specific margins, under both options, are determined based on the Company s ratio of indebtedness to earnings before interest, income taxes, depreciation, amortization and non-cash share-based compensation (the leverage ratio), and is adjusted every 90 days. The Credit Facility agreement contains a facility fee provision whereby the Company is charged a fee, ranging from 0.175% to 0.25%, applied to the total amount of the commitment. The interest rate on outstanding borrowings as of June 30, 2009, and December 31, 2008, was 1.11% and 1.31%, respectively.

Interest paid during the six-month periods ended June 30, 2009, and 2008, was $0.6 million and $0.9 million, respectively. Interest capitalized during each of the six-month periods ended June 30, 2009, and 2008, was less than $0.1 million. Non-cash amortization of deferred financing costs classified as interest expense during the six-month periods ended June 30, 2009, and 2008, was less than $0.1 million.

4. Stockholders Equity (Deficit)

Changes in stockholders equity (deficit) for the six months ended June 30, 2009, were as follows (in thousands):

	Shares Outstanding	Common Stock	Treasury Stock	Net Distributions to Parent Prior to March 30, 2001 Spin-off	Retained Earnings Subsequent to Spin-off	Accumulated Other Comprehensive Loss	Total Stockholders Equity (Deficit)
Balance as of December 31, 2008	26,410	$16,169	$(2,964)	$ (239,042)	$226,345	$ (15,003)	$ (14,495)
Net income					15,837		15,837
Common stock issued from treasury stock	101		50		544		594
Tax loss from share-based awards					(1,437)		(1,437)
Non-cash share-based compensation					4,626		4,626
Dividends declared					(5,293)		(5,293)
Other comprehensive income						405	405
Balance as of June 30, 2009	26,511	$16,169	$(2,914)	$ (239,042)	$240,622	$ (14,598)	$ 237

A quarterly cash dividend of $0.10 per common share was paid to stockholders on July 1, 2009.

5. Net Income per Weighted-Average Common Share

The computations of basic and diluted net income per weighted-average common share for the three and six-month periods ended June 30, 2009, and 2008, are based on the Company s weighted-average shares of common stock and potentially dilutive securities outstanding.

Potentially dilutive securities are calculated in accordance with the treasury stock method, which assumes that the proceeds from the exercise of all stock options are used to repurchase the Company s common stock at the average market price for the period. As of June 30, 2009, and 2008, there were options to purchase 2,764,049 and 1,804,844 shares of the Company s common stock outstanding, of which options to purchase 2,375,313 and 432,397 shares of the Company s common stock, respectively, were excluded from the computation of diluted net income per weighted-average common share for the quarter ended June 30, 2009, and 2008, respectively, either because the options exercise prices were greater than the average market price of the Company s common shares or assumed repurchases from proceeds from the options exercise were potentially antidilutive.

The Company elected to use the alternative method prescribed by the Financial Accounting Standards Board (FASB) Staff Position Statement of Financial Accounting Standards (SFAS) No. 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards,* for determining its initial hypothetical tax benefit pool. In addition, in accordance with provisions under SFAS No. 123R, *Share-Based Payment,* (SFAS No. 123R) the assumed proceeds associated with the entire amount of tax benefits for share-based awards granted prior to SFAS No. 123R adoption, if any, were used in the diluted shares computation. For share-based awards granted subsequent to the January 1, 2006, SFAS No. 123R adoption date, the assumed proceeds for the related excess tax benefits, if any, were used in the diluted shares computation.

6. Comprehensive Income and Accumulated Other Comprehensive Loss

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 3,496	$ 600	$ 15,837	$ 16,867
Other comprehensive income (loss):				
Change in foreign currency translation adjustment, net of tax expense of $24, and $0 for the three months ended June 30, 2009, and 2008, respectively; and a tax benefit of $28, and $240 for the six months ended June 30, 2009, and 2008, respectively.	35	(2)	(44)	(373)
Change in retirement liabilities, net of tax expense of $136, and $94 for the three months ended June 30, 2009, and 2008, respectively; and a tax expense of $295, and $187 for the six months ended June 30, 2009, and 2008, respectively.	210	142	449	286
Other comprehensive income (loss)	245	140	405	(87)
Comprehensive income	$ 3,741	$ 740	$ 16,242	$ 16,780

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

	June 30, 2009	December 31, 2008
Foreign currency translation adjustment, net of taxes	$ (328)	$ (284)
Retirement plan liabilities, net of taxes	(14,270)	(14,719)
Accumulated other comprehensive loss	$ (14,598)	$ (15,003)

7. Equity and Other Investments

The Company s equity and other investments consisted of the following:

	June 30, 2009	December 31, 2008
Scarborough	$ 12,082	$ 14,901
Equity investments	12,082	14,901
TRA preferred stock	3,400	
Other investments	3,400	
Equity and other investments	$ 15,482	$ 14,901

The Company s 49.5% investment in Scarborough, a syndicated, qualitative local market research partnership, is accounted for using the equity method. The Company s preferred stock investment in TRA Global, Inc., a Delaware corporation (TRA), providing media and marketing research, is accounted for using the cost method. The Company invested $3.4 million in TRA in May 2009. The Company s 50.0% interest in Project Apollo LLC, a pilot national marketing research service, was terminated in June 2008 and was accounted for using the equity method of accounting. The following table shows the investment activity for each of the Company s investments and in total for the three and six months ended June 30, 2009, and 2008:

Summary of Investment Activity (in thousands)

	Three Months Ended June 30, 2009			**Three Months Ended June 30, 2008**		
	Scarborough	TRA	Total	Scarborough	Project Apollo LLC	Total
Beginning balance	$ 8,400	$	$ 8,400	$ 8,006	$ 199	$ 8,205
Investment income (loss)	5,581		5,581	6,038	(872)	5,166
Distributions from investee	(1,899)		(1,899)	(1,250)		(1,250)
Cash investments		3,400	3,400		673	673
Ending balance at June 30	$ 12,082	$ 3,400	$ 15,482	$ 12,794	$	$ 12,794

Summary of Investment Activity (in thousands)

	Six Months Ended June 30, 2009			**Six Months Ended June 30, 2008**		
	Scarborough	TRA	Total	Scarborough	Project Apollo	Total

					LLC	
Beginning balance	$14,901	$	$14,901	$14,420	$ 842	$15,262
Investment income (loss)	2,581		2,581	3,124	(1,903)	1,221
Distributions from investee	(5,400)		(5,400)	(4,750)		(4,750)
Cash investments		3,400	3,400		1,061	1,061
Ending balance at June 30	$12,082	$3,400	$15,482	$12,794	$	$12,794

8. Prepaids and Other Current Assets

Prepaids and other current assets as of June 30, 2009 and December 31, 2008, consist of the following (in thousands):

	June 30, 2009	December 31, 2008
Insurance recovery receivables	$ 5,120	$ 5,775
Survey participant incentives and prepaid postage	2,875	2,615
Other	1,704	1,777
Prepaids and other current assets	$ 9,699	$ 10,167

During 2008, the Company became involved in two securities-law civil actions and a governmental interaction primarily related to the commercialization of our PPM service. During 2008 and the six months ended June 30, 2009, the Company incurred $7.8 million in legal fees and costs in defense of its positions related to those actions and interaction. As of June 30, 2009, $2.0 million in insurance proceeds related to these legal actions was collected and the Company estimates that $4.1 million of such legal fees and costs are probable for future recovery under the Company s Directors and Officers insurance policy. During the six months ended June 30, 2009, a $1.3 million increase in the estimated gross insurance recovery was reported as a reduction to selling, general and administrative expense on the income statement, which partially offsets the $1.6 million in related legal fees recorded during the first half of 2009.

The Company also recorded a $1.0 million insurance claims receivable related to business interruption losses and damages incurred as a result of Hurricane Ike as of December 31, 2008. As of June 30, 2009, the Company estimates that $1.0 million of the $2.3 million loss incurred during 2008 and the first half of 2009 for Hurricane Ike are probable for recovery through insurance.

9. Restructuring and Reorganization Initiative

During the first quarter of 2009, the Company implemented a restructuring, reorganization and expense reduction plan. Part of the reorganization included reducing the Company s workforce by approximately 10 percent of its full-time employees. During the six months ended June 30, 2009, the Company incurred $8.4 million of pre-tax implementation expenses, related principally to severance, termination benefits, outplacement support and certain relocation cost obligations that were incurred as part of the reorganization of the Company s management structure.

The following table presents additional information regarding the activity for the three and six month periods ended June 30, 2009 (in thousands):

Reconciliation of beginning and ending liability balances

Restructuring and Reorganization	**For the Three Months Ended June 30, 2009**	**For the Six Months Ended June 30, 2009**
Beginning liability	$ 8,156	$
Costs incurred and charged to expense	185	8,356
Costs paid during the period	(5,707)	(5,722)
Ending liability as of June 30, 2009	$ 2,634	$ 2,634

Although the Company recognized a substantial majority of the related expense during the first half of 2009, certain other expenses associated with the restructuring will be incurred and recognized during the remainder of 2009. In accordance with our retirement plan provisions, retirement plan participants may elect, at their option, to receive their retirement benefits either in a lump sum payment or an annuity. According to SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, if the lump sum distributions paid during the plan year exceed the total of the service cost and interest cost for the plan year, any unrecognized loss or gain in the plan should be recognized for the pro rata portion equal to the percentage reduction of the projected benefit obligation. Subsequent to the June 30, 2009 financial statement report date, the aggregate of lump sum distribution elections by a number of pension plan participants, who were part of the restructuring, resulted in the recognition of a pro rata settlement loss related to two of the Company s retirement plans during the third quarter 2009. The Company estimates that the total restructuring charge for the full year ending December 31, 2009, including the estimated loss for the pro rata settlement, will be approximately $11.0 million.

10. Retirement Plans

Certain of the Company s United States employees participate in a defined-benefit pension plan that closed to new participants effective January 1, 1995. The Company subsidizes healthcare benefits for eligible retired employees who participate in the pension plan and were hired before January 1, 1992. The Company also sponsors two nonqualified, unfunded supplemental retirement plans.

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

	Defined-Benefit Pension Plan Three Months Ended June 30,		Postretirement Plan Three Months Ended June 30,		Supplemental Retirement Plans Three Months Ended June 30,	
	2009	2008	2009	2008	2009	2008
Service cost	$ 222	$ 196	$ 13	$ 11	$ 5	$ 29
Interest cost	477	507	23	23	72	58
Expected return on plan assets	(576)	(615)				
Amortization of prior service cost	5	5			(3)	(5)
Amortization of net loss	248	182	10	9	83	46
Net periodic benefit cost	$ 376	$ 275	$ 46	$ 43	$ 157	$ 128
SFAS No. 88 curtailment	$	$	$	$	$ 15	$

	Defined-Benefit Pension Plan Six Months Ended June 30,		Postretirement Plan Six Months Ended June 30,		Supplemental Retirement Plans Six Months Ended June 30,	
	2009	2008	2009	2008	2009	2008
Service cost	$ 444	$ 392	$ 25	$ 21	$ 46	$ 59
Interest cost	953	1,013	46	47	162	117
Expected return on plan assets	(1,153)	(1,229)				
Amortization of prior service cost	11	11			(8)	(11)
Amortization of net loss	497	364	21	17	222	92
Net periodic benefit cost	$ 752	$ 551	$ 92	$ 85	$ 422	$ 257
SFAS No. 88 curtailment	$	$	$	$	$ 15	$

The curtailment charge of $15, related to one of the Company s supplemental retirement plans, was incurred as a result of an employee termination under the Company s restructuring and reorganization initiative.

The Company currently estimates that it will contribute $3.9 million to its defined benefit plans during 2009.

11. Taxes

The effective tax rate from continuing operations decreased to 38.8% for the six months ended June 30, 2009, from 39.0% for the six months ended June 30, 2008.

During 2009, the Company s net unrecognized tax benefits for certain tax contingencies increased from $1.4 million as of December 31, 2008, to $1.6 million as of June 30, 2009. If recognized, the $1.6 million of unrecognized tax benefits would reduce the Company s effective tax rate in future periods.

Income taxes paid on continuing operations for the six months ended June 30, 2009, and 2008, were $12.6 million and $11.5 million, respectively.

12. Share-Based Compensation

The following table sets forth information with regard to the income statement recognition of share-based compensation (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Cost of revenue	$ 52	$ 252	$ 82	$ 412
Selling, general and administrative	2,649	2,344	4,504	3,700
Research and development	42	133	40	235
Share-based compensation	$ 2,743	$ 2,729	$ 4,626	$ 4,347

There was no capitalized share-based compensation cost recorded during the six-month periods ended June 30, 2009, and 2008.

On May 13, 2008, the Company s shareholders approved the 2008 Equity Compensation Plan that provides for the grant of share-based awards, including stock options, stock appreciation rights, restricted stock and restricted stock units. The maximum amount of share awards authorized to be issued under this plan is 2,500,000 shares of the Company s common stock and of this amount, a maximum of 625,000 shares of the Company s common stock are authorized to be issued for awards other than stock options and stock appreciation rights. The expiration date of the 2008 Equity Compensation Plan is May 13, 2018. The Company s policy for issuing shares upon option exercise or conversion of its nonvested share awards and deferred stock units under all of the Company s stock incentive plans is to issue new shares of common stock, unless treasury stock is available at the time of exercise or conversion.

Stock Options

Stock options awarded to employees under the 1999 and 2001 Stock Incentive Plans and the 2008 Equity Compensation Plan (referred to herein collectively as the SIPs) generally vest annually over a three-year period, have 10-year terms and have an exercise price of not less than the fair market value of the underlying stock at the date of grant. Stock options granted to directors under the SIPs generally vest upon the date of grant, are generally exercisable in six months after the date of grant, have 10-year terms and have an exercise price not less than the fair market value of the underlying stock at the date of grant. The Company s options provide for accelerated vesting if there is a change in control of the Company.

The Company uses historical data to estimate option exercises and employee terminations in order to determine the expected term of the option; identified groups of optionholders that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted represents the period of time that such options are expected to be outstanding. The expected term can vary for certain groups of optionholders exhibiting different behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury strip bond yield curve in effect at the time of grant. Expected volatilities are based on the historical volatility of the Company s common stock.

The fair value of each option granted to employees and nonemployee directors during the three-month and six-month periods ended June 30, 2009, and 2008, was estimated on the date of grant using a Black-Scholes option valuation model. Those assumptions, along with other data regarding the Company s stock options, are noted in the following table (dollars in thousands, except per share data):

Assumptions for Options Granted to Employees and Nonemployee Directors	**Three Months Ended June 30, 2009**	**Three Months Ended June 30, 2008**	**Six Months Ended June 30, 2009**	**Six Months Ended June 30, 2008**
Expected volatility	34.01 - 34.77%	24.30 - 25.22%	31.88 - 34.77%	24.30 - 25.27%
Expected dividends	1.91 - 1.97%	1.00%	1.91 - 2.95%	1.00%
Expected term (in years)	5.75 - 6.25	5.50 - 6.00	5.75 - 6.25	5.50 - 6.00
Risk-free rate	2.44 - 2.94%	3.30 - 3.44%	2.13 - 2.94%	2.60 - 3.44%
Weighted-average volatility	34.31%	25.14%	33.65%	25.20%
Weighted-average term (in years)	6.03	5.96	6.01	5.94
Weighted-average risk-free rate	2.50%	3.34%	2.42%	2.91%
Weighted-average dividend rate	1.97%	1.00%	2.17%	1.00%
Weighted-average grant date fair value per option	$ 6.09	$ 12.96	$ 5.43	$ 11.47
Other Data				
Options granted	935,789	58,551	1,320,293	312,505
Weighted-average exercise price for options granted per share	$ 20.33	$ 46.64	$ 18.79	$ 42.71
Intrinsic value of options exercised		$ 2,238		$ 2,384

As of June 30, 2009, there was $7.8 million of total unrecognized compensation cost related to options granted under the SIPs. This aggregate unrecognized cost is expected to be recognized over a weighted-average period of 2.7 years. The weighted-average exercise price and weighted-average remaining contractual term for outstanding stock options as of June 30, 2009, were $29.73 and 7.74 years, respectively, and as of June 30, 2008, $39.57 and 6.84 years, respectively.

Nonvested Share Awards

The Company s nonvested share awards vest over four or five years on either a monthly or annual basis. The Company s awards provide for accelerated vesting if there is a change in control of the Company. Compensation expense is recognized on a straight-line basis using the market price on the date of grant as the awards vest. As of June 30, 2009, there was $9.0 million of total unrecognized compensation cost related to nonvested share awards granted under the SIPs. This aggregate unrecognized cost for nonvested share awards is expected to be recognized over a weighted-average period of 2.75 years. Other nonvested share award information for the three-month and six-month periods ended June 30, 2009, and 2008, is noted in the following table (dollars in thousands, except per share data):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Number of shares granted	208,910	24,933	310,449	102,748
Weighted average grant-date fair value per share	$ 20.29	$ 49.98	$ 18.56	$ 43.91
Fair value of shares vested	$ 132	$ 65	$ 781	$ 1,601

Deferred Stock Units

Deferred stock units granted to one of the Company s employees vest annually on a calendar year basis through December 31, 2009, and are convertible into shares of common stock, subsequent to employment termination. Deferred stock units granted to nonemployee directors vest immediately upon grant and are convertible into shares of common stock subsequent to the directors termination of service. As of June 30, 2009, the total unrecognized compensation cost related to deferred stock units granted under the SIPs was $0.9 million and is expected to be recognized over a weighted-average period of 0.50 years. Other deferred stock unit information for the three-month and six-month periods ended June 30, 2009, and 2008, is noted in the following table (dollars in thousands):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Shares granted to employee directors	21,868	26	22,158	21,724
Shares granted to nonemployee directors	4,360	1,287	9,476	2,766
Fair value of shares vested	$ 74	$ 63	$ 154	$ 128

Employee Stock Purchase Plan

On May 13, 2008, the Company s shareholders approved an amendment to its compensatory Employee Stock Purchase Plan (ESPP) increasing the maximum number of shares of Company common stock reserved for sale under the ESPP from 600,000 to 850,000. The purchase price of the stock to ESPP participants is 85% of the lesser of the fair market value on either the first day or the last day of the applicable three-month offering period. ESPP information for the three-month and six-month periods ended June 30, 2009, and 2008, is noted in the following table (dollars in thousands):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Share-based compensation expense	$ 90	$ 75	$ 210	$ 167
Number of ESPP shares issued	25,666	8,628	63,381	18,457
Amount of proceeds received from employees	$ 276	$ 316	$ 612	$ 664

13. Concentration of Credit Risk

The Company s quantitative radio audience measurement business and related software licensing accounted for the following percentages of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Quantitative Radio Business	73%	69%	82%	80%
Related Software Licensing	9%	10%	8%	9%

The Company had one customer that individually represented 18% of its annual revenue for the year ended December 31, 2008. The Company had three customers that individually represented 19%, 11%, and 10% of its total accounts receivable as of June 30, 2009. The Company has historically experienced a high level of contract renewals.

14. Financial Instruments

Fair values of accounts receivable and accounts payable approximate carrying values due to their short-term nature. Due to the floating rate nature of the Company s revolving obligation under its Credit Facility, the fair values of the $105.0 million and $85.0 million in outstanding borrowings as of June 30, 2009, and December 31, 2008, respectively, also approximate their carrying amounts.

15. Stock Repurchases

On November 14, 2007, the Company s Board of Directors authorized a program to repurchase up to $200.0 million of the Company s outstanding common stock through either periodic open-market or private transactions at then-prevailing market prices over a period of up to two years through November 14, 2009. For the six months ended June 30, 2009, no shares of common stock were repurchased. As of June 30, 2009, the Company paid $100.0 million to repurchase 2,247,400 shares of outstanding common stock under this program since the program s inception. For the six months ended June 30, 2008, the Company repurchased 1,371,900 shares of outstanding common stock under this program for $59.7 million.

16. Subsequent Events

In accordance with SFAS No. 165, *Subsequent Events*, the Company is required to disclose the date through which subsequent events have been evaluated for disclosure. Subsequent events were evaluated through August 5, 2009, the date of issuance for the Company s financial statements for the quarter ended June 30, 2009, as filed on this Form 10-Q. Except as disclosed elsewhere, no subsequent events that warrant further disclosure herein were noted during this evaluation.

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

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements regarding Arbitron Inc. and its subsidiaries (we, our, Arbitron or the Company) in this document that are not historical in nature, particularly those that utilize terminology such as may, will, should, likely, expects, intends, anticipates, estimates, believes or plans or com 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, including, without limitation, by meeting or exceeding our commitments and agreements with various governmental entities;

successfully commercialize our Portable People Meter™ 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 actions, including investigation, regulation, legislation or litigation, customer or industry group activism, or adverse community or 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 quality;

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;

- 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;
- successfully integrate our new management team;
- realize the anticipated savings from the Company s workforce and expense reduction program; and
- provide appropriate levels of operational capacity and funding to support the more labor intensive identification and recruitment of cell-phone-only households into our panels and samples.

There are a number of additional important factors that could cause actual events or our actual results to differ materially from those indicated by such forward-looking statements, including, without limitation, the factors set forth in ITEM 1A. RISK FACTORS in our Annual Report on Form 10-K for the year ended December 31, 2008, the caption Item 1A. Risk Factors in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and elsewhere, and any subsequent periodic or current reports filed by us with the Securities and Exchange Commission (the SEC).

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

Overview

We are a leading media and marketing information services firm primarily serving radio, 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.

Historically, our quantitative radio audience measurement business and related software have accounted for a substantial majority of our revenue. Our quantitative radio audience measurement business accounted for 82 percent and 80 percent of our revenue for the six-month periods ended June 30, 2009, and 2008, respectively. Our related software licensing accounted for eight percent and nine percent of our revenue for the six-month periods ended June 30, 2009, and 2008, respectively. We expect that for the year ending December 31, 2009, our quantitative radio audience measurement business and related software licensing will account for approximately 82 percent and eight percent, respectively, of our revenue, which is consistent with historic annual trends.

Quarterly fluctuations in these percentages are reflective of the seasonal delivery schedule of our quantitative radio audience measurement business and our Scarborough revenues. For further information regarding seasonality trends, see Seasonality. While we expect that our quantitative radio audience measurement business and related software licensing will continue to account for the majority of our revenue for the foreseeable future, we are actively seeking opportunities to diversify our revenue base by, among other things, leveraging the investment we have made in our PPM technology and by exploring applications of the technology beyond our domestic radio audience measurement business.

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 have entered into multi-year agreements with many of our largest customers, including agreements for PPM-based ratings as we commercialize the service in the PPM Markets. These agreements generally provide for a higher fee for PPM-based ratings than we charge for Diary-based ratings. As a result, we expect that the percentage of our revenues derived from our radio ratings and related software is likely to increase as we commercialize the PPM service.

Nielsen s signing of Cumulus Media Inc. (Cumulus) and Clear Channel Communications, Inc. (Clear Channel) as customers for its radio ratings service in certain small to mid-sized markets is anticipated to adversely impact our expected revenue by approximately $5.0 million in 2009, and $10.0 million per year thereafter. Due to the current economic downturn s impact on anticipated sales of discretionary services, as well as the high penetration of our current services in the radio station business, we expect that our future annual organic rate of revenue growth from our quantitative Diary-based radio ratings services will be slower than historical trends.

Diary Trends and Initiatives

Response rates are an important measure of our effectiveness in obtaining consent from persons to participate in our surveys. Another measure often used by clients to assess quality in our ratings is sample 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. 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. Overall response rates have declined over the past several years. We have worked to address this decline through several initiatives, including various survey incentive programs. If response rates continue to decline or the costs of recruitment initiatives significantly increase, our radio audience measurement business could be adversely affected. Response rates are one quality measure of survey performance among many and an important factor impacting costs associated with data collection. We believe that additional expenditures will be required in the future to research and test new measures associated with improving response rates and sample proportionality. As part of our continuous improvement program, we intend to continue to invest in Diary service quality enhancements in 2009.

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). On April 30, 2009, we announced a sample quality benchmark for persons aged 18-34 in all Diary markets beginning with the Spring 2009 survey. For the first twelve months, the benchmark will be a DDI of 70. Thereafter, the DDI benchmark will be 80. Benchmarks do not represent goals or targets for performance, rather these benchmarks represent the level of sample performance for a given demographic group below which we intend to take corrective action to improve the sample performance.

In December 2008, we announced plans to accelerate the introduction of sampling cell-phone-only households in Diary markets in an effort to improve sample proportionality. With the Spring 2009 survey, we added 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 households with landline phone service. Beginning with the Fall 2009 survey, we intend to expand cell-phone-only sampling to all Diary markets in the continental United States, Alaska and Hawaii.

In an effort to better target our Diary keeper premium expenditures to key buying demographics of the users of our estimates, beginning with the Spring 2009 Diary survey, we reduced the premium we pay to households where all members are aged 55 or older and redirected those premiums to households containing persons aged 18-34.

PPM Trends and Initiatives

MRC Accreditation. In January 2007, the MRC accredited the average-quarter-hour, time period radio ratings data produced by our PPM ratings service in the Houston-Galveston local market. In January 2009, the MRC accredited the average-quarter-hour, time-period radio ratings data produced by our PPM ratings service in the Riverside San Bernardino local market.

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 Philadelphia, New York, Nassau Suffolk (Long Island), and Middlesex Somerset Union in January 2008. During 2008, the MRC reaudited the PPM ratings service in those markets. 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 Form 10-Q, 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.

The MRC has audited the local market PPM methodology and execution in all other PPM Markets where we have commercialized the service, including Los Angeles, Chicago, San Francisco, San Jose, Atlanta, Dallas-Ft. Worth, Detroit, Washington D.C., Boston, Miami-Ft. Lauderdale-Hollywood, Seattle-Tacoma, Phoenix, Minneapolis-St. Paul and San Diego. With these audits currently under evaluation, the MRC has neither granted nor denied accreditation for these markets.

Commercialization. We may continue to update the timing of commercialization and the composition of the PPM Markets from time to time. We currently utilize our PPM radio ratings service to produce audience estimates in 20 United States local radio markets. We commercialized our PPM ratings service in Boston with the release of the March data in April 2009, and most recently, we commercialized the service in Miami-Ft. Lauderdale-Hollywood, Seattle-Tacoma, Phoenix, Minneapolis-St. Paul, and San Diego with the release of the June data in July 2009. We currently intend to commercialize the PPM service in another 13 local markets during the second half of 2009.

Quality Improvement Initiatives. As we have commercialized the PPM service in the PPM Markets, we have experienced and expect to continue to experience challenges in the operation of the PPM service similar to those we face in the Diary-based service, including several of the challenges related to sample proportionality and response rates mentioned above. We expect to continue to implement additional measures to address these challenges. In connection with our interactions with several governmental entities, we have announced a series of commitments concerning our PPM radio ratings services that we have agreed to implement over the next several years. We believe these commitments, which we refer to as our continuous improvement initiatives, are consistent with our ongoing efforts to obtain and maintain MRC accreditation and to improve our radio ratings services. These initiatives will likely require expenditures that may be material in the aggregate.

On April 30, 2009, we announced a plan to increase our sample target for cell-phone-only households in all PPM Markets to 15 percent of total households by the end of 2009. We use a RDD approach to recruit cell-phone-only households to our PPM panels and this requires us to hand-dial each number. However, we expect to implement a hybrid method of using an address-based sample frame for cell-phone-only households together with an RDD sample frame to recruit landline households during 2009. Under this new methodology, we will be able to use auto-dialers to contact cell-phone-only households for recruitment into our panels.

We confirmed in March 2009 that we continue to implement key methodological enhancements in our PPM service, which include, but are not limited to:

use of address-based sampling techniques for at least 10 percent of our total recruitment efforts by late 2009 and for at least 15 percent of our total recruitment efforts by the end of December 2010 in all PPM Markets;

application of an average-daily in-tab (our actual percentage of the installed panel that provides useable data) benchmark of 75 percent to all PPM Markets; and

continued focus on improving the Sample Performance Indicator and other sample quality metrics in all PPM Markets.

We continue to operate in a highly challenging business environment. Our future performance will be impacted by our ability to address a variety of challenges and opportunities in the markets and industries we serve, including our ability to continue to maintain and improve the quality of our PPM service, and manage increased costs for data collection, arising among other ways, from increased numbers of cell-phone-only households, which are more expensive to recruit than households with landline phones. Our goal is to obtain and maintain MRC accreditation in all of our PPM Markets, and develop and implement effective and efficient technological solutions to measure multimedia and advertising.

While 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 it 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 would also be delayed.

Commercialization of our PPM radio ratings service has and will continue to require a substantial financial investment. 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. We anticipate that PPM costs and expenses will accelerate six to nine months in advance of the commercialization of each PPM Market as we build the panels. These costs are incremental to the costs associated with our Diary-based ratings service. Our cell-phone-only household recruitment initiatives in both the Diary and PPM services will also increase our cost of revenue. Growth in revenue and earnings per share remain our most important financial goals. Protecting and supporting our existing customer base, and ensuring our services are competitive from a price, quality and service perspective are critical components to these overall goals, although there can be no guarantee that we will be successful in our efforts.

Television Suite of Audience Measurement Services

On June 23, 2009, we announced the creation of ARB-*TV,* a new suite of audience measurement services designed to improve visibility into away-from-home television audiences for media companies and advertisers. By leveraging the mobility and utility of our PPM technologies, we believe the ARB-*TV* analytical tool can complement existing data services, offers media greater insight into what constitutes their total audience, and help advertisers plan how to reach that audience. The ARB-*TV* service is not part of a regular syndicated rating service accredited by the MRC, and we have not requested accreditation. Arbitron does provide one or more syndicated services that are accredited by the MRC.

General Economic Conditions

Our clients derive most of their revenue from transactions involving the sale or purchase of advertising. During the challenging economic times we are presently experiencing, advertisers have reduced advertising expenditures, impacting advertising agencies and media companies. This, as well as the general economic downturn and credit conditions, has had a material impact on our customers, which has had a material and negative effect on our sales and renewal activity.

During 2009, we have experienced an increase in the average number of days our sales have been outstanding before we have received payment, which has resulted in a material increase in trade accounts receivable. If the economic downturn expands or is sustained for an extended period, it also may lead to increased incidence of customers inability to pay their accounts, an increase in our provision for doubtful accounts, a further increase in collection cycles for accounts receivable or insolvency of our customers.

We depend on a limited number of key customers for our radio ratings services and related software. For example, in 2008, Clear Channel represented 18 percent of our total revenue. Because many of our largest customers own and operate radio stations in markets that we expect to transition to PPM measurement, we expect that our dependence on our largest customers will continue for the foreseeable future. Additionally, if one or more key customers owning radio stations in a number of markets do not renew all or part of their contracts, we could experience a significant decrease in our operating results.

Restructuring, Reorganization and Expense Reduction Plan

During the first quarter of 2009, we implemented a restructuring, reorganization, and expense reduction plan in an effort to offset the impact of the recession on the Company. Part of the reorganization included reducing our workforce by approximately 10 percent of our full-time employees. During the six months ended June 30, 2009, we incurred $8.4 million of pre-tax implementation expenses, related principally to severance, termination benefits, outplacement support and certain relocation cost obligations that were incurred as part of the reorganization of our management structure.

Although we recognized a substantial majority of the related expense during the first half of 2009, certain other expenses associated with the restructuring will be incurred and recognized during the remainder of 2009. In accordance with our retirement plan provisions, retirement plan participants may elect, at their option, to receive their retirement benefits either in a lump sum payment or an annuity. According to SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, if the lump sum distributions paid during the plan year exceed the total of the service cost and interest cost for the plan year, any unrecognized loss or gain in the plan should be recognized for the pro rata portion equal to the percentage reduction of the projected benefit obligation. Subsequent to the June 30, 2009 financial statement report date, the aggregate of lump sum distribution elections by a number of pension plan participants, who were part of the restructuring, resulted in the recognition of a pro rata settlement loss related to two of the Company s retirement plans during the third quarter 2009. As a result of this settlement charge, we estimate that the total restructuring charge for the full year ending December 31, 2009, including the non-cash estimated loss for the pro rata settlement, will be approximately $11.0 million, as compared to our previous estimate of approximately $9.0 million.

We expect that the net savings resulting from our restructuring, reorganization and expense reduction plan will reduce our projected 2010 operating expenses by $10.0 million.

Lawsuits and Governmental Interactions

During the six months ended June 30, 2009, we incurred approximately $1.6 million in legal costs and expenses in connection with two securities-law civil actions and a governmental interaction that commenced during 2008, relating primarily to the commercialization of our PPM service. We believe approximately $1.3 million is probable for recovery under our Directors and Officers insurance policy. We are also involved in other legal matters for which we do not expect that the legal costs and expenses will be recoverable through insurance. We can provide no assurance that we will not incur significant net legal costs and expenses during the remainder of 2009.

TRA Investment

On May 7, 2009, we announced our $3.4 million investment in TRA, a media and marketing research firm.

Customer Contracts

Clear Channel Agreement Executed in May 2009

On May 5, 2009, we announced that we had entered into new three-year agreements with Clear Channel, and certain other subsidiaries of CC Media Holdings, Inc., to provide diary-based radio ratings and other related services for Clear Channel s radio stations in the 105 United States local markets set forth in the Current Report on Form 8-K we filed with the SEC on May 5, 2009. We entered into the agreements on May 4, 2009, with an effective term beginning on January 1, 2009, and expiring on December 31, 2011.

Under the terms and conditions of the new agreements, we will provide our diary-based Radio Market Reports, Maximi$er, TAPSCAN, Scarborough consumer data and Arbitron qualitative data, and related services and software to Clear Channel.

The aggregate amount of all payments to be made by Clear Channel for the Radio Market Report and other related services during the term of the agreements (assuming the agreements are not terminated prior to the expiration of the stated term) currently is expected to be approximately $69.0 million, based on the radio stations currently owned by Clear Channel.

The new agreements do not amend or otherwise affect the Radio Station License Agreement to Receive and Use Arbitron PPM Data and Estimates by and between the Company and Clear Channel Broadcasting, Inc., dated June 26, 2007, which was disclosed in a Current Report on Form 8-K filed with the SEC on June 29, 2007 and filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 20, 2007, and related agreements.

Univision Communications, Inc. (Univision)

On March 30, 2009, we received a notice from Univision that it did not intend to renew its contract for PPM ratings in Chicago, Los Angeles, New York, San Francisco and San Jose on June 30, 2009 and Dallas-Ft. Worth on September 30, 2009. Univision also informed us that it does not intend to subscribe or encode its broadcast signals in Miami-Ft. Lauderdale-Hollywood, San Diego and Phoenix.

Critical Accounting Policies and Estimates

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

We capitalize software development costs with respect to significant internal use software initiatives or enhancements in accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. The costs are capitalized from the time that the preliminary project stage is completed and management considers it probable that the software will be used to perform the function intended, until the time the software is placed in service for its intended use. Once the software is placed in service, the capitalized costs are amortized over periods of three to five years. We perform an assessment quarterly to determine if it is probable that all capitalized software will be used to perform its intended function. If an impairment exists, the software cost is written down to estimated fair value. As of June 30, 2009, and December 31, 2008, our capitalized software developed for internal use had carrying amounts of $24.2 million and $22.6 million, respectively, including $13.9 million and $13.3 million, respectively, of software related to the PPM service.

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

In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48), an interpretation of FASB Statement No. 109, *Accounting for Income Taxes,* we include, in our tax calculation methodology, an assessment of the uncertainty in income taxes by establishing recognition thresholds for our tax positions. Inherent in our calculation are critical judgments by management related to the determination of the basis for our tax positions. FIN No. 48 provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. For further information, see Note 11 in the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

During 2008, we became involved in two securities-law civil actions and a governmental interaction primarily related to the commercialization of our PPM service. During 2008 and the six months ended June 30, 2009, we incurred $7.8 million in legal fees and expenses in connection with these matters. As of June 30, 2009, $2.0 million in insurance proceeds related to these legal actions was collected and we estimate that $4.1 million of such legal fees and expenses are probable for future recovery under our Directors and Officers insurance policy. This amount is included in our prepaids and other current assets as of June 30, 2009.

We also recorded a $1.0 million insurance claims receivable related to business interruption losses and damages incurred as a result of Hurricane Ike as of December 31, 2008. As of June 30, 2009, the Company estimates that $1.0 million of the $2.3 million loss incurred during 2008 and the first half of 2009 for Hurricane Ike are probable for recovery through insurance.

Results of Operations

Comparison of the Three Months Ended June 30, 2009 to the Three Months Ended June 30, 2008

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

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Increase (Decrease)		Percentage of Revenue	
	2009	2008	Dollars	Percent	2009	2008
Revenue	$ 86,799	$ 78,655	$ 8,144	10.4%	100.0%	100.0%
Costs and expenses						
Cost of revenue	55,762	52,585	3,177	6.0%	64.2%	66.9%
Selling, general and administrative	19,351	19,977	(626)	(3.1%)	22.3%	25.4%
Research and development	10,584	9,864	720	7.3%	12.2%	12.5%
Restructuring and reorganization	185		185	NM	0.2%	0.0%
Total costs and expenses	85,882	82,426	3,456	4.2%	98.9%	104.8%
Operating income (loss)	917	(3,771)	4,688	NM	1.1%	(4.8%)
Equity in net income of affiliate(s)	5,581	5,166	415	8.0%	6.4%	6.6%
Income from continuing operations before interest and tax expense	6,498	1,395	5,103	365.8%	7.5%	1.8%
Interest income	14	271	(257)	(94.8%)	0.0%	0.3%
Interest expense	365	682	(317)	(46.5%)	0.4%	0.9%
Income from continuing operations before income tax expense	6,147	984	5,163	524.7%	7.1%	1.3%
Income tax expense	2,651	359	2,292	638.4%	3.1%	0.5%
Income from continuing operations	3,496	625	2,871	459.4%	4.0%	0.8%
Discontinued operations						
Loss from discontinued operations, net of taxes				NM	0.0%	0.0%
Loss on sale, net of taxes		(25)	25	NM	0.0%	(0.0%)
Total loss from discontinued operations, net of taxes		(25)	25	NM	0.0%	(0.0%)
Net income	$ 3,496	$ 600	$ 2,896	482.7%	4.0%	0.8%

Income per weighted average common share				
Basic				
Continuing operations	$ 0.13	$ 0.02	$ 0.11	550.0%
Discontinued operations				
Net income per share, basic	$ 0.13	$ 0.02	$ 0.11	550.0%
Diluted				
Continuing operations	$ 0.13	$ 0.02	$ 0.11	550.0%
Discontinued operations				
Net income per share, diluted	$ 0.13	$ 0.02	$ 0.11	550.0%
Cash dividends declared per common share	$ 0.10	$ 0.10	$	

Certain per share data and percentage amounts may not total due to rounding.

NM not meaningful

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Increase (Decrease) Dollars	Increase (Decrease) Percent
Other data:				
EBIT (1)	$ 6,498	$ 1,395	$ 5,103	365.8%
EBITDA (1)	$ 12,156	$ 5,574	$ 6,582	118.1%
EBIT and EBITDA Reconciliation (1)				
Income from continuing operations	$ 3,496	$ 625	$ 2,871	459.4%
Income tax expense	2,651	359	2,292	638.4%
Interest (income)	(14)	(271)	257	(94.8%)
Interest expense	365	682	(317)	(46.5%)
EBIT (1)	6,498	1,395	5,103	365.8%
Depreciation and amortization	5,658	4,179	1,479	35.4%
EBITDA (1)	$ 12,156	$ 5,574	$ 6,582	118.1%

(1) EBIT (earnings before interest and income taxes) and EBITDA (earnings before interest, income taxes, depreciation and amortization) are non-GAAP financial measures that we believe are useful to investors in evaluating our results. For further discussion of these non-GAAP financial

measures, see paragraph below entitled EBIT and EBITDA of this quarterly report.

Revenue. Revenue increased 10.4% for the three months ended June 30, 2009, as compared to the same period in 2008, due primarily to a $22.6 million increase in our PPM ratings revenue, which was substantially offset by a $14.7 million decrease in our Diary-ratings revenue. This net increase of approximately $7.9 million in our ratings revenue was substantially due to the commercialization of 12 PPM Markets during the latter half of 2008, as well as six PPM Markets during the first half of 2009, including Boston, Miami-Ft. Lauderdale-Hollywood, Seattle-Tacoma, Phoenix, Minneapolis-St. Paul, and San Diego. Our PPM agreements provide for a higher fee for PPM-based ratings than we charge for Diary-based ratings. In addition, as five of the six markets were commercialized during the quarter ended June 30, 2009, revenue increased as a result of the recognition of pre-currency revenue, which is incremental to the Diary service revenue earned for two of the three months ended June 30, 2009, for those markets. See Seasonality for more information on pre-currency revenue. PPM International sales increased by $1.1 million for the three months ended June 30, 2009, as compared to the same period in 2008. The growth rate of our ratings revenue was diminished due to decreased demand for discretionary services, such as software and qualitative data services, in the current challenging economic environment.

Cost of Revenue. Cost of revenue increased by 6.0% for the three months ended June 30, 2009, as compared to the same period in 2008. Cost of revenue increased by $4.9 million due to increased management and recruitment costs incurred to manage PPM panels for 12 PPM Markets commercialized in the latter half of 2008, costs incurred to build the panels for the 19 PPM Markets in total that we have commercialized or intend to commercialize during 2009, and increased cell-phone-only household recruitment in the PPM Markets. We expect that our cost of revenue will continue to increase as a result of our efforts to support the continued commercialization of our PPM service through 2010. These increases were partially offset by a $0.7 million decrease associated with Scarborough royalties and a net decrease of $0.5 million associated with Diary data collection and processing costs due to reduced Diary expenses of $2.6 million resulting from the transition from our Diary service to the PPM service, which were partially offset by $2.1 million spent on cell-phone-only household recruitment initiatives for our Diary markets during 2009.

Net Income. Net income increased 482.7% for the three months ended June 30, 2009, as compared to the same period in 2008, due primarily to the commercialization of our PPM service in 18 additional PPM Markets for the quarter ended June 30, 2009, as compared to the same period in 2008. Net income was adversely impacted by our continuing efforts to further build and operate our PPM service panels for markets launched in the latter half of 2008, as well as the markets scheduled to launch in 2009. Such efforts include cell-phone-only household recruitment initiatives, the cost of which we expect will continue to increase during the remainder of 2009.

EBIT and EBITDA. We believe that presenting EBIT and EBITDA, both non-GAAP financial measures, as supplemental information helps investors, analysts and others, if they so choose, in understanding and evaluating our operating performance in some of the same ways that we do because EBIT and EBITDA exclude certain items that are not directly related to our core operating performance. We reference these non-GAAP financial measures in assessing current performance and making decisions about internal budgets, resource allocation and financial goals. EBIT is calculated by deducting interest income from income from continuing operations and adding back interest expense and income tax expense to income from continuing operations. EBITDA is calculated by deducting interest income from income from continuing operations and adding back interest expense, income tax expense, and depreciation and amortization to income from continuing operations. EBIT and EBITDA should not be considered substitutes either for income from continuing operations, as indicators of our operating performance, or for cash flow, as measures of our liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. EBIT increased by 365.8% for the three months ended June 30, 2009, as compared to the same period in 2008, due primarily to the commercialization of our PPM service in 18 additional PPM Markets for the quarter ended June 30, 2009 as compared to the same period in 2008. EBITDA increased by only 118.1% because this non-GAAP financial measure excludes depreciation and amortization, which for the three months ended June 30, 2009, increased by 35.4%, as compared to the three months ended June 30, 2008.

Comparison of the Six Months Ended June 30, 2009 to the Six Months Ended June 30, 2008

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

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 30,		Increase (Decrease)		Percentage of Revenue	
	2009	**2008**	**Dollars**	**Percent**	**2009**	**2008**
Revenue	$ 185,288	$ 172,720	$ 12,568	7.3%	100.0%	100.0%
Costs and expenses						
Cost of revenue	95,291	87,695	7,596	8.7%	51.4%	50.8%
Selling, general and administrative	37,775	38,529	(754)	(2.0%)	20.4%	22.3%
Research and development	19,890	19,528	362	1.9%	10.7%	11.3%
Restructuring and reorganization	8,356		8,356	NM	4.5%	0.0%
Total costs and expenses	161,312	145,752	15,560	10.7%	87.1%	84.4%
Operating income	23,976	26,968	(2,992)	(11.1%)	12.9%	15.6%
Equity in net income of affiliate(s)	2,581	1,221	1,360	111.4%	1.4%	0.7%
Income from continuing operations before interest and tax expense	26,557	28,189	(1,632)	(5.8%)	14.3%	16.3%
Interest income	33	455	(422)	(92.7%)	0.0%	0.3%
Interest expense	698	880	(182)	(20.7%)	0.4%	0.5%
Income from continuing operations before income tax expense	25,892	27,764	(1,872)	(6.7%)	14.0%	16.1%
Income tax expense	10,055	10,827	(772)	(7.1%)	5.4%	6.3%
Income from continuing operations	15,837	16,937	(1,100)	(6.5%)	8.5%	9.8%
Discontinued operations						
Loss from discontinued operations, net of taxes		(495)	495	NM	0.0%	(0.3%)
Gain on sale, net of taxes		425	(425)	NM	0.0%	0.2%
Total loss from discontinued operations, net of taxes		(70)	70	NM	0.0%	(0.0%)
Net income	$ 15,837	$ 16,867	$ (1,030)	(6.1%)	8.5%	9.8%

Income per weighted average common share							
Basic							
Continuing operations	$	0.60	$	0.61	$	(0.01)	(1.6%)
Discontinued operations							
Net income per share, basic	$	0.60	$	0.61	$	(0.01)	(1.6%)
Diluted							
Continuing operations	$	0.60	$	0.61	$	(0.01)	(1.6%)
Discontinued operations							
Net income per share, diluted	$	0.60	$	0.61	$	(0.01)	(1.6%)
Cash dividends declared per common share	$	0.20	$	0.20	$		

Certain per share data and percentage amounts may not total due to rounding.

NM not meaningful

34

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Increase (Decrease) Dollars	Increase (Decrease) Percent
Other data:				
EBIT (1)	$ 26,557	$ 28,189	$ (1,632)	(5.8%)
EBITDA (1)	$ 37,438	$ 36,290	$ 1,148	3.2%
EBIT and EBITDA Reconciliation (1)				
Income from continuing operations	$ 15,837	$ 16,937	$ (1,100)	(6.5%)
Income tax expense	10,055	10,827	(772)	(7.1%)
Interest (income)	(33)	(455)	422	(92.7%)
Interest expense	698	880	(182)	(20.7%)
EBIT (1)	26,557	28,189	(1,632)	(5.8%)
Depreciation and amortization	10,881	8,101	2,780	34.3%
EBITDA (1)	$ 37,438	$ 36,290	$ 1,148	3.2%

(1) EBIT (earnings before interest and income taxes) and EBITDA (earnings before interest, income taxes, depreciation and amortization) are non-GAAP financial measures that we believe are useful to investors in evaluating our results. For further discussion of these non-GAAP financial measures, see paragraph below entitled EBIT

and EBITDA of this quarterly report.

Revenue. Revenue increased 7.3% for the six months ended June 30, 2009, as compared to the same period in 2008, due primarily to a $40.5 million increase in our PPM ratings revenue, which was substantially offset by a $29.7 million decrease in our Diary-ratings revenue. This net increase of approximately $10.9 million in our ratings revenue was substantially due to the commercialization of 12 PPM Markets during the latter half of 2008, as well as six PPM Markets during the first half of 2009, including Boston, Miami-Ft. Lauderdale-Hollywood, Seattle-Tacoma, Phoenix, Minneapolis-St. Paul, and San Diego. Our PPM agreements provide for a higher fee for PPM-based ratings than we charge for Diary-based ratings. In addition, as six markets were commercialized during the six months ended June 30, 2009, revenue increased as a result of the recognition of precurrency revenue, which is incremental to the Diary service revenue earned for two of the six months ended June 30, 2009, for those markets. See Seasonality for more information on pre-currency revenue. PPM International sales increased by $2.4 million for the six months ended June 30, 2009, as compared to the same period in 2008. The growth rate of our ratings revenue was diminished due to decreased demand for discretionary services, such as software and qualitative data services, in the currently challenging economic environment.

Cost of Revenue. Cost of revenue increased by 8.7% for the six months ended June 30, 2009, as compared to the same period in 2008. Cost of revenue increased by $8.6 million due to increased management and recruitment costs incurred to manage PPM panels for the 12 markets commercialized in the latter half of 2008, costs incurred to build the panels for the 19 markets in total that we have commercialized or intend to commercialize during 2009 and increased cell-phone-only household recruitment in the PPM Markets. We expect that our cost of revenue will continue to increase as a result of our efforts to support the continued commercialization of our PPM service through 2010. Cost of revenue also increased by $0.9 million due to higher PPM International equipment sales. These increases were partially offset by a $0.7 million decrease associated with Scarborough royalties and a decrease of $0.8 million associated primarily with decreased Diary data collection and processing costs of $3.8 million resulting from the transition from our Diary service to the PPM service, which were partially offset by $3.4 million spent on cell-phone-only household recruitment initiatives for our Diary markets during 2009.

Restructuring and Reorganization. During the first quarter of 2009, we implemented a restructuring, reorganization, and expense reduction plan for the Company. Part of the reorganization included reducing our workforce by approximately 10 percent of our full-time employees. We have incurred $8.4 million of pre-tax implementation expenses, related principally to severance, termination benefits, outplacement support, and certain relocation cost obligations that were incurred as part of the reorganization of our management structure.

Although we recognized a substantial majority of the related expense during the first half of 2009, certain other expenses associated with the restructuring will be incurred and recognized during the remainder of 2009. In accordance with our defined benefit retirement plan provisions, retirement plan participants may elect, at their option, to receive their retirement benefits either in a lump sum payment or an annuity. According to SFAS No. 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, if the lump sum distributions paid during the plan year exceed the total of the service cost and interest cost for the plan year, any unrecognized loss or gain in the plan should be recognized for the pro rata portion equal to the percentage reduction of the projected benefit obligation. Subsequent to the June 30, 2009 financial statement report date, the aggregate of lump sum distribution elections by a number of pension plan participants, who were part of the restructuring, resulted in the recognition of a pro rata settlement loss related to two of the Company s retirement plans during the third quarter 2009. As a result of this settlement charge, we estimate that the total restructuring charge for the full year ending December 31, 2009, including the non-cash estimated loss for the pro rata settlement, will be approximately $11.0 million, as compared to our previous estimate of approximately $9.0 million.

Equity in Net Income of Affiliates. Equity in net income of affiliates increased by 111.4% for the six months ended June 30, 2009, as compared to the same period in 2008, due primarily to the termination of the Project Apollo affiliate in June 2008. Our share of the Project Apollo affiliate loss was $1.9 million for the six months ended June 30, 2008, as compared to no loss incurred for 2009. Our share of the Scarborough affiliate income decreased by $0.5 million for the six months ended June 30, 2009, as compared to the same period in 2008.

Income Tax Expense. The effective tax rate from continuing operations decreased to 38.8% for the six months ended June 30, 2009, from 39.0% for the six months ended June 30, 2008.

Net Income. Net income decreased 6.1% for the six months ended June 30, 2009, as compared to the same period in 2008, due primarily to severance and other termination benefits incurred during the first half of 2009. The annual savings in 2009 derived from the restructuring, which began in February 2009, are expected to largely offset the severance and other costs of the reorganization. We also expect to reduce our projected 2010 expense run rate by $10.0 million. Net income was also impacted by our continuing efforts to further build and operate our PPM service panels for markets launched in the latter half of 2008, as well as the markets scheduled to launch in 2009. Such efforts include cell-phone-only household recruitment initiatives, the cost of which we expect will continue to increase during the remainder of 2009. We expect that the year-over-year net income reduction trend that was noted for 2008, as well as the previous two years, will reverse in 2009 as a result of the continued commercialization of our PPM service.

EBIT and EBITDA. We believe that presenting EBIT and EBITDA, both non-GAAP financial measures, as supplemental information helps investors, analysts and others, if they so choose, in understanding and evaluating our operating performance in some of the same ways that we do because EBIT and EBITDA exclude certain items that are not directly related to our core operating performance. We reference these non-GAAP financial measures in assessing current performance and making decisions about internal budgets, resource allocation and financial goals. EBIT is calculated by deducting interest income from income from continuing operations and adding back interest expense and income tax expense to income from continuing operations. EBITDA is calculated by deducting interest income from income from continuing operations and adding back interest expense, income tax expense, and depreciation and amortization to income from continuing operations. EBIT and EBITDA should not be considered substitutes either for income from continuing operations, as indicators of our operating performance, or for cash flow, as measures of our liquidity. In addition, because EBIT and EBITDA may not be calculated identically by all companies, the presentation here may not be comparable to other similarly titled measures of other companies. EBIT decreased by 5.8% for the six months ended June 30, 2009, as compared to the same period in 2008, due primarily to severance and other transition costs incurred as part of our restructuring, as well as our continuing efforts and expenditures to further build our PPM service panels, including cell-phone-only household recruitment. These decreases in EBIT were partially offset by higher affiliate share income incurred due to our termination of the Project Apollo affiliate in June 2008. In contrast to the decline in EBIT, EBITDA increased by 3.2% because this non-GAAP financial measure excludes depreciation and amortization, which for the six months ended June 30, 2009, increased by 34.3%, as compared to the six months ended June 30, 2008.

Liquidity and Capital Resources

Working capital, which is the amount by which our current assets exceed (are less than) our current liabilities, was $2.2 million and ($28.6) million as of June 30, 2009, and December 31, 2008, respectively. Excluding the deferred revenue liability, which does not require a significant additional cash outlay, working capital was $58.8 million and $28.7 million as of June 30, 2009, and December 31, 2008, respectively. Cash and cash equivalents were $12.7 million and $8.7 million as of June 30, 2009, and December 31, 2008, respectively. We expect that our cash position as of June 30, 2009, cash flow generated from operations, and our available revolving credit facility (Credit Facility) will be sufficient to support our operations for the next 12 to 24 months and to provide for the $3.0 million of restructuring and reorganization charges that we anticipate spending during the remainder of 2009.

Net cash provided by operating activities was $10.1 million and $31.4 million for the six months ended June 30, 2009, and 2008, respectively. This $21.3 million decrease in net cash provided by operating activities relates substantially to a $17.6 million change associated with increased accounts receivable balances for the first half of 2009 as compared to the decrease noted for the first half of 2008. The increased accounts receivable in 2009 resulted from higher PPM service billings recorded in conjunction with the 13 PPM Markets commercialized during the last half of 2008 and the first quarter of 2009. In addition, in the midst of a recessionary economy, certain customers are managing the availability of their cash resources, which has lengthened our collection cycle and increased our accounts receivable balance as of June 30, 2009. Due to execution of the agreement with Clear Channel on May 4, 2009, we billed Clear Channel approximately $9.0 million, reflecting license fees starting from the January 1, 2009, effective date of the agreement, which was included in our accounts receivable as of June 30, 2009 and was subsequently collected in July 2009.

Net cash used in investing activities was $20.2 million and $12.3 million for the six months ended June 30, 2009, and 2008, respectively. This $7.8 million increase in cash used in investing activities was primarily due to a $3.3 million increase in capital spending related to our PPM service and internally developed software for our Diary service, a $2.3 million increase in equity and other investments related to our $3.4 million investment in TRA in 2009, as compared to our $1.1 million investment in Project Apollo during 2008, and a $2.1 million net cash inflow for 2008 related to our discontinued operation (i.e., Continental). See Note 2 in the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for further information regarding the sale of Continental.

Net cash provided by financing activities was $14.0 million for the six months ended June 30, 2009, as compared to net cash used in financing activities of ($19.5) million for the six months ended June 30, 2008. This $33.5 million increase in net cash from financing activities was due primarily to no stock repurchase activity during the six months ended June 30, 2009, as compared to $59.7 million of cash used to repurchase our common stock during the six months ended June 30, 2008. In addition, net borrowings under our Credit Facility decreased by $18.0 million and proceeds from stock option exercises and employee stock purchase plans were reduced by $6.4 million resulting primarily from lower average stock prices experienced during the first half of 2009, as compared to the same period of 2008.

On December 20, 2006, we entered into an agreement with a consortium of lenders to provide up to $150.0 million of financing to us through a five-year, unsecured revolving credit facility. The agreement contains an expansion feature for us to increase the total financing available under the Credit Facility to $200.0 million with such increased financing to be provided by one or more existing Credit Facility lending institutions, subject to the approval of the lending banks, and/or in combination with one or more new lending institutions, subject to the approval of the Credit Facility s administrative agent. Interest on borrowings under the Credit Facility is calculated based on a floating rate for a duration of up to six months as selected by us.

Our Credit Facility contains financial terms, covenants and operating restrictions that potentially restrict our financial flexibility. Under the terms of the Credit Facility, we are required to maintain certain leverage and coverage ratios and meet other financial conditions. The Credit Facility potentially limits, among other things, our ability to sell assets, incur additional indebtedness, and grant or incur liens on our assets. Under the terms of the Credit Facility, all of our material domestic subsidiaries, if any, guarantee the commitment. Currently, we do not have any material domestic subsidiaries as defined under the terms of the Credit Facility. Although we do not believe that the terms of our Credit Facility limit the operation of our business in any material respect, the terms of the Credit Facility may restrict or prohibit our ability to raise additional debt capital when needed or could prevent us from investing in other growth initiatives. Our outstanding borrowings increased from $85.0 million at December 31, 2008, to $105.0 million at June 30, 2009. We have been in compliance with the terms of the Credit Facility since the agreement s inception. As of August 1, 2009, we had $105.0 million in outstanding debt under the Credit Facility.

On November 14, 2007, our Board of Directors authorized a program to repurchase up to $200.0 million in shares of our outstanding common stock through either periodic open-market or private transactions at then-prevailing market prices over a period of up to two years through November 14, 2009. No shares of our common stock have been repurchased under the program in the first six months of 2009. As of August 1, 2009, 2,247,400 shares of outstanding common stock had been repurchased under this program for $100.0 million.

Commercialization of our PPM radio ratings service requires and will continue to require a substantial financial investment. The amount of capital required for further deployment of our PPM ratings service and the impact on our results of operations will be greatly affected by the speed of commercialization. In our experience, PPM costs and expenses accelerate six to nine months in advance of the commercialization of a PPM Market as we build the panels. These costs are incremental to the costs associated with our Diary-based ratings service and we expect this trend to continue. Cell-phone-only household recruitment initiatives in both the Diary and PPM services have and will continue to increase our cost of revenue.

Seasonality

We recognize revenue for services over the terms of license agreements as services are delivered, and expenses are recognized as incurred. We currently gather radio-listening data in 300 U.S. local markets, including 280 Diary markets and 20 PPM Markets. All Diary markets are measured at least twice per year (April-May-June for the Spring Survey and October-November-December for the Fall Survey). In addition, we measure all major Diary markets two additional times per year (January-February-March for the Winter Survey and July-August-September for the Summer Survey). Our revenue is generally higher in the first and third quarters as a result of the delivery of the Fall Survey and Spring Survey, respectively, to all Diary markets compared to revenue in the second and fourth quarters, when delivery of the Winter Survey and Summer Survey, respectively, is made only to major Diary markets.

The seasonality for PPM services will result in higher revenue in the fourth quarter because the PPM service delivers surveys 13 times a year with four surveys delivered in the fourth quarter. There will be fluctuations in the depth of the seasonality pattern during the periods of transition between the services in each PPM Market. The amount of deferred revenue recorded on our balance sheet is expected to decrease as we commercialize additional PPM Markets due to the more frequent recognition of revenue for our PPM service, which is delivered 13 times a year, as compared to the quarterly and semi-annual delivery for our Diary service.

Pre-currency represents PPM data that is released to clients for planning purposes in advance of the period of commercialization of the service in a local market. Once the service is commercialized, the data then becomes currency and the client may use it to buy and sell advertising. Pre-currency revenue will be recognized in the two months preceding the PPM survey release month for commercialization. The PPM service in new markets is generally commercialized and declared currency at the beginning of a quarter for the preceding period

Our expenses are generally higher in the second and fourth quarters as we conduct the Spring Survey and Fall Survey for our Diary markets. The transition from the Diary service to the PPM service in the PPM Markets has and will continue to have an impact on the seasonality of costs and expenses. We anticipate that PPM costs and expenses will accelerate six to nine months in advance of the commercialization of each market as we build the panels. These preliminary costs are incremental to the costs associated with our Diary-based ratings service and we will recognize these increased costs as incurred rather than upon the delivery of a particular survey.

The size and seasonality of the PPM transition impact on a period to period comparison will be influenced by the timing, number, and size of individual markets contemplated in our PPM commercialization schedule, which currently includes a goal of commercializing 49 PPM Markets by the end of 2010. During the first half of 2009, we commercialized six PPM Markets, and we expect to commercialize 13 PPM Markets in the latter half of 2009.

Scarborough historically has experienced losses during the first and third quarters of each year because revenue is predominantly recognized in the second and fourth quarters when the substantial majority of services are delivered. Scarborough royalty costs, which are recognized in costs of revenue, are also historically higher during the second and fourth quarters.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company holds its cash and cash equivalents in highly liquid securities.

Foreign Currency Exchange Rate Risk

The Company s foreign operations are not significant at this time and, therefore, its exposure to foreign currency risk is not material. If we expand our foreign operations, this exposure to foreign currency exchange rate changes could increase.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarterly period ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On April 30, 2008, Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund filed a securities class action lawsuit in the United States District Court for the Southern District of New York on behalf of a purported Class of all purchasers of Arbitron common stock between July 19, 2007, and November 26, 2007. The plaintiff asserts that Arbitron, Stephen B. Morris (our former Chairman, President and Chief Executive Officer), and Sean R. Creamer (our Executive Vice President, Finance and Planning & Chief Financial Officer) violated federal securities laws. The plaintiff alleges misrepresentations and omissions relating, among other things, to the delay in commercialization of our PPM radio ratings service in November 2007, as well as stock sales during the period by company insiders who were not named as defendants and Messrs. Morris and Creamer. The plaintiff seeks class certification, compensatory damages plus interest and attorneys fees, among other remedies. On September 22, 2008 the plaintiff filed an Amended Class Action Complaint. On November 25, 2008, Arbitron, Mr. Morris, and Mr. Creamer each filed Motions to Dismiss the Amended Class Action Complaint. On January 23, 2009, the plaintiff filed a Memorandum of Law in Opposition to Defendants Motions to Dismiss the Amended Class Action Complaint. On February 23, 2009, Arbitron, Mr. Morris, and Mr. Creamer filed replies in support of their Motions to Dismiss.

On or about June 13, 2008, a purported stockholder derivative lawsuit, Pace v. Morris, et al., was filed against Arbitron, as a nominal defendant, each of our directors, and certain of our executive officers in the Supreme Court of the State of New York for New York County. The derivative lawsuit is based on essentially the same substantive allegations as the securities class action lawsuit. The derivative lawsuit asserts claims against the defendants for misappropriation of information, breach of fiduciary duty, abuse of control, and unjust enrichment. The derivative plaintiff seeks equitable and/or injunctive relief, restitution and disgorgement of profits, plus attorneys fees and costs, among other remedies.

The Company intends to defend itself and its interests vigorously against these allegations.

On April 22, 2009, Arbitron Inc. filed suit in the United States District Court for the Southern District of New York against John Barrett Kiefl seeking a judgment that Arbitron is the sole owner and assignee of certain patents relating to Arbitron s Portable People Meter technology. On July 22, 2009, Mr. Kiefl filed an answer and counterclaim and seeks a judgment that Arbitron is not the sole owner, Mr. Kiefl is an inventor and owner of one of the patents at issue, Arbitron breached certain non-disclosure agreements entered into with Mr. Kiefl and further relief as the court may deem just and proper.

The Company intends to prosecute its interests vigorously.

New York

On October 6, 2008, we commenced a civil action in the United States District Court for the Southern District of New York, seeking a declaratory judgment and injunctive relief against the New York Attorney General to prevent any attempt by the New York Attorney General to restrain our publication of our PPM listening estimates (the New York Federal Action). On October 27, 2008, the United States District Court issued an order dismissing this civil action and on October 31, 2008, we filed a notice of appeal of the District Court s order to the United States Court of Appeals for the Second Circuit.

On October 10, 2008, the State of New York commenced a civil action against the Company in the Supreme Court of New York for New York County alleging false advertising and deceptive business practices in violation of New York consumer protection and civil rights laws relating to the marketing and commercialization in New York of our PPM radio ratings service (the New York State Action). The lawsuit sought civil penalties and an order preventing us from continuing to publish our PPM listening estimates in New York.

On January 7, 2009, we joined in a Stipulated Order on Consent (the New York Settlement) in connection with the New York State Action. The New York Settlement, when fully performed by the Company to the reasonable expectation of the New York Attorney General, will resolve all claims against the Company that were alleged by the New York Attorney General in the New York State Action. In connection with the New York Settlement, we also agreed to dismiss the New York Federal Action.

In connection with the New York Settlement, we have agreed to achieve specified metrics concerning telephone number-based, address-based, and cell-phone-only sampling, and to take reasonable measures designed to achieve specified metrics concerning sample performance indicator and in-tab rates (the Specified Metrics) in our New York local market PPM radio ratings service by agreed dates. We also will make certain disclosures to users and potential users of our audience estimates, report to the New York Attorney General on our performance against the Specified Metrics, and make all reasonable efforts in good faith to obtain and retain accreditation by the MRC of our New York local market PPM ratings service. If, by October 15, 2009, we have not obtained accreditation from the MRC of our New York local market PPM radio ratings service and also have failed to achieve all of the Specified Metrics, the New York Attorney General reserves the right to rescind the New York Settlement and reinstitute litigation against us for the allegations made in the civil action.

We have paid $200,000 to the New York Attorney General in settlement of the claims and $60,000 for investigative costs and expenses.

On October 9, 2008, the Company and certain of our executive officers received subpoenas from the New York Attorney General regarding, among other things, the commercialization of the PPM radio ratings service in New York and purchases and sales of Arbitron securities by those executive officers. The New York Settlement does not affect these subpoenas.

New Jersey

On October 10, 2008, we commenced a civil action in the United States District Court for the District of New Jersey, seeking a declaratory judgment and injunctive relief against the New Jersey Attorney General to prevent any attempt by the New Jersey Attorney General to restrain our publication of our PPM listening estimates (the New Jersey Federal Action).

On October 10, 2008, the State of New Jersey commenced a civil action against us in the Superior Court of New Jersey for Middlesex County, alleging violations of New Jersey consumer fraud and civil rights laws relating to the marketing and commercialization in New Jersey of our PPM radio ratings service (the New Jersey State Action). The lawsuit sought civil penalties and an order preventing us from continuing to publish our PPM listening estimates in New Jersey.

On January 7, 2009, we joined in a Final Consent Judgment (the New Jersey Settlement) in connection with the New Jersey State Action. The New Jersey Settlement, when fully performed by the Company to the reasonable expectation of the New Jersey Attorney General, will resolve all claims against the Company that were alleged by the New Jersey Attorney General in the New Jersey State Action. In connection with the New Jersey Settlement, we also agreed to dismiss the New Jersey Federal Action. As part of the New Jersey Settlement, the Company denied any liability or wrongdoing.

In connection with the New Jersey Settlement, we have agreed to achieve, and in certain circumstances to take reasonable measures designed to achieve, Specified Metrics in our New York and Philadelphia local market PPM radio ratings services by agreed dates. We also will make certain disclosures to users and potential users of our audience estimates, report to the New Jersey Attorney General on our performance against the Specified Metrics, and make all reasonable efforts in good faith to obtain and retain accreditation by the MRC of our New York and Philadelphia local market PPM ratings services. If, by December 31, 2009, we have not obtained accreditation from the MRC of either our New York and Philadelphia local market PPM radio ratings service and also have failed to achieve all of the Specified Metrics, the New Jersey Attorney General reserves the right to rescind the New Jersey Settlement and reinstitute litigation against us for the allegations made in the New Jersey Action.

The Company has paid $130,000 to the New Jersey Attorney General for investigative costs and expenses.

Jointly in connection with the New York Settlement and the New Jersey Settlement, the Company also will create and fund a non-response bias study in the New York market, fund an advertising campaign promoting minority radio in major trade journals, and pay a single lump sum of $100,000 to the National Association of Black Owned Broadcasters (NABOB) for a joint radio project between NABOB and the Spanish Radio Association to support minority radio.

Maryland

On February 6, 2009 we announced that we had reached an agreement with the Office of the Attorney General of Maryland regarding our PPM radio ratings services in the Washington, DC and Baltimore local markets. In connection with the Washington, DC local market we agreed to achieve, and in certain circumstances take reasonable measures designed to achieve Specified Metrics by agreed dates. We will also make certain disclosures to users and potential users of our audience estimates and take all reasonable efforts to obtain accreditation by the MRC of our Washington, DC local market PPM service. We have agreed to use comparable methods and comply with comparable terms in connection with the commercialization of the PPM service in the Baltimore local market that reflect the different demographic characteristics of that local market and the timetable for commercializing the PPM service in the Baltimore local market. Arbitron and the Maryland Attorney General will agree to the specific comparable terms at a later date.

Florida

On July 14, 2009, the State of Florida commenced a civil action against us in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, alleging violations of Florida consumer fraud law relating to the marketing and commercialization in Florida of our PPM radio ratings service. The lawsuit seeks civil penalties and an order preventing us from continuing to publish our PPM listening estimates in Florida.

The Company intends to defend itself and its interests vigorously against these allegations.

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

Item 1A. Risk Factors

See Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008 for a detailed discussion of risk factors affecting Arbitron.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 14, 2007, our Board of Directors authorized a program to repurchase up to $200.0 million in shares of our outstanding common stock through either periodic open-market or private transactions at then-prevailing market prices over a period of up to two years through November 14, 2009. No shares of common stock were purchased under the program during the quarter ended June 30, 2009. The maximum dollar value of shares that may yet be purchased under the program is $100.0 million.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Arbitron s annual meeting of stockholders was held on May 26, 2009. There were 26,480,190 shares of Arbitron common stock outstanding and entitled to vote at the annual meeting. Of the 26,480,190 shares of Arbitron common stock entitled to vote at the annual meeting, a total of 24,921,648 shares were present in person or by proxy at the annual meeting. There were no broker non-votes on the matters submitted for a vote at the annual meeting. The following persons 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	Votes Withheld
Shellye L. Archambeau	24,767,103	154,545
David W. Devonshire	24,732,335	189,313
Philip Guarascio	20,895,048	4,026,600
William T. Kerr	20,663,291	4,258,357
Larry E. Kittelberger	20,895,082	4,026,566
Luis G. Nogales	20,891,590	4,030,058
Richard A. Post	24,751,791	169,857
Michael P. Skarzynski	24,724,269	197,379

KPMG LLP was ratified as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009, with the voting as follows:

Total Votes For	Total Votes Against	Total Votes Abstain
24,586,124	315,158	20,366

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

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing Date	Filed Herewith
(10) Executive Compensation Plans and Arrangements						
10.1	Form of 2008 Equity Compensation Plan Non-Statutory Stock Option Agreement (Non-Executive Officers)					*
10.2	Form of 2008 Equity Compensation Plan Restricted Stock Unit Agreement (Executive Officers)					*
10.3	Form of 2008 Equity Compensation Plan Restricted Stock Unit Agreement (Non-Executive Officers)					*
10.4	Form of Waiver and Amendment of Executive Retention Agreement					*
10.5	Master Station License Agreement to Receive and Use Arbitron Radio Audience Estimates, effective as of May 4, 2009, between Arbitron Inc. and Clear Channel Broadcasting, Inc.**					*
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a 14(a)					*
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a 14(a)					*
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002					*

* Filed or furnished herewith

** A request for confidential treatment has been submitted with respect to this exhibit. The copy filed as an exhibit omits the information subject to the request for confidential treatment.

SIGNATURE

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

ARBITRON INC.

By: /s/ SEAN R. CREAMER
Sean R. Creamer
Executive Vice President of Finance and Planning and Chief Financial Officer (on behalf of the registrant and as the registrant s principal financial and principal accounting officer)

Date: August 5, 2009

$11,838 $ $1,541

(A) In accordance with the applicable management fee agreements, the Subsidiary Guarantors are the direct beneficiaries of substantially all of the pre-tax income of the Non-Guarantor Subsidiaries.

Table of Contents

AMERIPATH, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Successor:

For the period from March 28, 2003 through September 30, 2003	AmeriPath, Inc.	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidated Total
Net revenues	$	$ 171,007	$ 70,941	$ 241,948
Cost of services		(100,715)	(23,751)	(124,466)
Selling, general and administrative expense	(2,020)	(68,687)	(12,280)	(82,987)
Amortization expense		(5,021)	(537)	(5,558)
Merger-related charges	(2,404)			(2,404)
Restructuring costs	(127)	(81)	(1,836)	(2,044)
Asset impairment & related charges		287	(287)	
Total operating costs and expense	(4,551)	(174,217)	(38,691)	(217,459)
(Loss) income from operations	(4,551)	(3,210)	32,250	24,489
Other income (expense):				
Interest expense	(23,009)	(133)		(23,142)
Management fee [(A)]		32,266	(32,266)	
Other, net	64	81	16	161
Total other (expense) income	(22,945)	32,214	(32,250)	(22,981)
(Loss) income before income taxes	(27,496)	29,004		1,508
Benefit (provision) for income taxes	9,886	(12,230)		(2,344)
Net (loss) income	$ (17,610)	$ 16,774	$	$ (836)

(A) In accordance with the applicable management fee agreements, the Subsidiary Guarantors are the direct beneficiaries of substantially all of the pre-tax income of the Non-Guarantor Subsidiaries

Table of Contents

AMERIPATH, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(Continued)

Condensed Consolidating Statements of Cash Flows:

Successor:

For the nine months ended September 30, 2004	AmeriPath, Inc.	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidated Total
Cash flows from operating activities:				
Net (loss) income	$ (26,507)	$ 29,643	$	$ 3,136
Adjustments to reconcile net (loss) income to cash provided by operating activities	6,899	60,281	13,021	80,201
Changes in assets and liabilities which used cash, net of effects of acquisitions	38,812	(66,981)	(11,946)	(40,115)
Net cash provided by operating activities	19,204	22,943	1,075	43,222
Cash flows from investing activities	(1,552)	(24,249)	(1,295)	(27,096)
Cash flows from financing activities	(17,652)	(1,253)		(18,905)
Decrease in cash and equivalents		(2,559)	(220)	(2,779)
Cash and cash equivalents, beginning of period		22,652	884	23,536
Cash and cash equivalents, end of period	$	$ 20,093	$ 664	$ 20,757

Predecessor:

For the period from January 1, 2003 through March 27, 2003	AmeriPath, Inc.	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidated Total
Cash flows from operating activities:				
Net (loss) income	$ (10,297)	$ 11,838	$	$ 1,541
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities	11,319	16,845	3,097	31,261
Changes in assets and liabilities which used cash, net of effects of acquisitions	(1,029)	(8,018)	895	(8,152)

Net cash (used in) provided by operating activities	(7)	20,665	3,992	24,650
Cash flows from investing activities	(300)	(20,510)	(4,981)	(25,791)
Cash flows from financing activities	307	(130)		177
Increase (decrease) in cash and equivalents		25	(989)	(964)
Cash and cash equivalents, beginning of period		(25)	989	964
Cash and cash equivalents, end of period	$	$	$	$

Successor:

For the period from March 28, 2003 through September 30, 2003	AmeriPath, Inc.	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidated Total
Cash flows from operating activities:				
Net (loss) income	$ (17,610)	$ 16,774	$	$ (836)
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities	(5,819)	49,207	7,790	51,178
Changes in assets and liabilities which used cash, net of effects of acquisitions	(2,719)	(22,825)	(6,273)	(31,817)
Net cash (used in) provided by operating activities	(26,148)	43,156	1,517	18,525
Cash flows from investing activities	(1,812)	(18,474)	89	(20,197)
Cash flows from financing activities	27,960	2,308		30,268
Increase in cash and equivalents		26,990	1,606	28,596
Cash and cash equivalents, beginning of period				
Cash and cash equivalents, end of period	$	$ 26,990	$ 1,606	$ 28,596

Table of Contents

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

General

On December 8, 2002, AmeriPath Holdings, Inc. (Holdings) formerly known as Amy Holding Company, and its wholly- owned subsidiary Amy Acquisition Corp., entered into a merger agreement providing for the merger of Amy Acquisition Corp. with and into AmeriPath, with AmeriPath continuing as the surviving corporation and a wholly-owned subsidiary of Holdings. The merger was consummated on March 27, 2003. We refer to the merger as the March 2003 Transaction.

The condensed consolidated financial statements contained in Item 1 include the accounts of AmeriPath, Inc. and subsidiaries (collectively, AmeriPath or the Company) as of and for the three and nine months ended September 30, 2004, activity subsequent to the March 2003 Transaction, as well as the accounts of the Predecessor prior to the March 2003 Transaction. The financial statements and financial data of the Predecessor are presented for comparative purposes and include the combined historical financial statements of our wholly-owned subsidiaries. The Predecessor ceased operations as of the date of the merger.

The following discussion of our financial condition and results of operations should be read together with our condensed consolidated financial statements and the accompanying notes included elsewhere in Item 1. Our fiscal year is the calendar year ending December 31. As noted in Note 2 to the condensed consolidated financial statements, the March 2003 Transaction resulted in a new basis of accounting for the Company. In some cases, for ease of comparison purposes, financial data for the period from March 28, 2003 through September 30, 2003 has been added to financial data for the period from January 1, 2003 through March 27, 2003, to arrive at a nine-month combined period ended September 30, 2003. This combined data may be referred to herein as the combined nine-month period ended September 30, 2003.

AmeriPath is one of the leading anatomic pathology laboratory companies in the United States. We offer a broad range of anatomic pathology laboratory testing and information services used by physicians in the detection, diagnosis, evaluation and treatment of cancer and other diseases and medical conditions. We service an extensive referring physician base through our 15 regional laboratories and 36 satellite laboratories, and we provide inpatient diagnostic and medical director services at more than 200 hospitals. Our services are performed by over 400 pathologists.

Because the laws of many states restrict corporations from directly employing physicians or owning corporations that employ physicians, we often conduct our business through affiliated entities that we manage and control but do not own. In states where we are under these restrictions, we perform only non-medical administrative and support services, do not represent to the public or our clients that we offer medical services and do not exercise influence or control over the practice of medicine by our physicians. Because of the degree of non-medical managerial control we exercise over our affiliated entities, we consolidate the financial results of these entities with those of our wholly-owned operations. We collectively refer to these consolidated entities and our wholly-owned operations as our owned operations. In addition, we have also entered into management agreements with a few anatomic pathology laboratory operations over which we do not exercise non-medical managerial control and, accordingly, do not consolidate with our owned operations. We refer to these operations as our managed operations. For the nine months ended September 30, 2004, our revenues from owned operations and managed operations accounted for 95.2% and 4.8% of our total net revenues, respectively. For the combined nine months ended September 30, 2003, our revenues from owned operations and managed operations accounted for 95.2% and 4.8% of our total net revenues, respectively.

Acquisitions. During the first nine months of 2004, we acquired one hospital-based practice in Bountiful, Utah. The total consideration paid by us in connection with this acquisition included cash and contingent notes. During the three and nine months ended September 30, 2004, we made contingent note payments of approximately $2.2 and $11.0 million, respectively, relating to previous acquisitions.

Medical Malpractice Costs. In June 2002, we replaced our existing medical malpractice insurance coverage with third party insurance companies with a new self-insurance, or captive, arrangement. We entered into this self-insurance arrangement because we were unable to renew our existing coverage at acceptable rates, which we believe was an industry-wide situation. Under our self-insurance structure, we retain more risk for medical malpractice costs, including settlements and claims expense, than under our previous coverage. While we have obtained excess liability coverage for medical malpractice costs, we have no aggregate excess stop loss protection, meaning there is no aggregate limitation on the amount of risk we retain under these arrangements. Our medical malpractice costs are based on actuarial estimates of our medical malpractice settlement and claims expense and the costs of maintaining our captive insurance program and excess coverage. We periodically review and update the appropriateness of our accrued liability for medical malpractice costs. Because we retain these risks, in addition to an actual increase in claims or related expenses, a change in the actuarial assumptions upon which our medical malpractice costs are based could materially affect results of operations in a particular period even if we do not experience an actual increase in claims or related expenses. For fiscal year 2003,

Table of Contents

our medical malpractice costs were approximately $12.4 million. For the three and nine months ended September 30, 2004, our medical malpractice costs were approximately $3.6 million and $9.8 million, respectively.

Medicare Reimbursement. The Medicare statute includes a methodology to adjust payments for services, including anatomic pathology services, under the physician fee schedule. This methodology is applied each year unless it is overridden by Congressional action. The statutory methodology would have led to a 4.4% reduction in the physician fee schedule conversion factor in 2003 and a 4.5% reduction in 2004 if those reductions had not been blocked by Congress. Instead, Congress required a 1.6% increase in 2003 and a 1.5% increase in each of 2004 and 2005. In addition, because it was projected that the statutory methodology would result in additional reductions in the physician fee schedule conversion factor in future years, Congress revised the methodology through legislation enacted in December 2003. It is unclear how this revision in the methodology will affect the annual adjustments in the physician fee schedule conversion factor in future years and, if it will not prevent reductions, whether Congress will intervene to prevent decreases in the physician fee schedule conversion factor in future years

Financial Statement Presentation

The following paragraphs provide a brief description of the most important items that appear in our financial statements and general factors that impact these items.

Net revenues. Net revenues consist of revenues received from patients, third-party payors and others for services rendered. Our same store net revenue is affected by changes in customer volume, payor mix and reimbursement rates. References to same store refer to operations that have been included in our financial statements throughout the periods compared.

Costs of services. Costs of services consists principally of the compensation and fringe benefits of pathologists, medical malpractice insurance, licensed technicians and support personnel, laboratory supplies, shipping and distribution costs and facility costs. Historically, acquisitions, and the costs associated with additional personnel and facilities, have been the most significant factor driving increases in our costs of services. Also, increases in medical malpractice insurance have affected our costs of services.

Selling, general and administrative expenses. Selling, general and administrative expenses primarily include the cost of field operations, corporate support, sales and marketing, information technology and billing and collections. As we have developed our national sales and marketing infrastructure, our selling, general and administrative expenses have increased. In addition, spending on new information technology initiatives historically has contributed to increased expenses in this category.

Provision for doubtful accounts. Provision for doubtful accounts is affected by our mix of revenue from outpatient and inpatient services. Provision for doubtful accounts typically is higher for inpatient services than for outpatient services due primarily to a larger concentration of indigent and private pay patients, greater difficulty gathering complete and accurate billing information and longer billing and collection cycles for inpatient services. Management service revenue generally does not include a provision for doubtful accounts.

Amortization expense. Our acquisitions have resulted in significant net identifiable intangible assets and goodwill. We record net identifiable intangible assets at fair value on the date of acquisition. Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* which required us to cease amortizing goodwill and instead perform a transitional impairment test as of January 1, 2002 and an annual impairment analysis to assess the recoverability of goodwill. The results of the transitional and annual impairment tests indicated no impairment of goodwill or other indefinite lived intangibles. We continually evaluate whether events or circumstances have occurred that may warrant revisions to the carrying values of our goodwill and other identifiable intangible assets or to the estimated useful lives assigned to such assets. Any significant impairment recorded on the carrying values of our goodwill or other identifiable intangible assets would be recorded as a charge to income from operations and a reduction of intangible assets and could materially reduce our profitability in the period in which the charge is recorded.

Critical Accounting Policies

Our critical accounting policies remain consistent with those reported in our Annual Report on Form 10-K for the year ended December 31, 2003.

Principles of Consolidation

Our condensed consolidated financial statements include our accounts and those of our owned operations. As part of the consolidation process, we have eliminated intercompany accounts and transactions. We do not consolidate the results of operations of our managed operations.

Table of Contents

Segments

Our two reportable segments are our owned operations and our managed operations. We determine our segments based upon the type of service performed and our customers. Our owned operations provide anatomic pathology services to hospitals and referring physicians, while our managed operations provide management services to the affiliated physician groups.

18

Table of Contents

Results of Operations

The following table outlines, for the periods indicated, selected operating data as a percentage of net revenues.

	(Successor) Three Months Ended September 30, 2004	(Successor) Three Months Ended September 30, 2003	(Successor) Nine Months Ended September 30, 2004	(Predecessor) Period from January 1, 2003 through March 27, 2003	(Successor) Period from March 28, 2003 through September 30, 2003
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:					
Costs of services	53.1%	51.8%	52.6%	52.2%	51.4%
Selling, general and administrative expenses	17.1%	17.8%	18.3%	18.3%	18.3%
Provision for doubtful accounts	17.6%	17.1%	15.4%	12.6%	16.0%
Amortization expense	2.2%	2.0%	2.2%	2.6%	2.3%
Asset impairment and related charges			0.2%		
Merger-related charges				8.4%	1.0%
Restructuring costs				1.0%	0.9%
Total operating costs and expenses	90.0%	88.7%	88.7%	95.1%	89.9%
Income from operations	10.0%	11.3%	11.3%	4.9%	10.1%
Interest expense	(8.7)%	(9.1)%	(8.8)%	(1.0)%	(9.6)%
Change in value of derivative	0.4%		(0.2)%		
Write-off of deferred financing costs			(1.0)%	(0.8)%	
Other income, net	0.1%	0.1%	0.1%		0.1%
Income before income taxes	1.8%	2.3%	1.4%	3.1%	0.6%
Provision for income taxes	0.8%	0.9%	0.6%	1.8%	1.0%
Net income (loss)	1.0%	1.4%	0.8%	1.3%	(0.4)%

Net Revenues.

Net revenues increased by $5.7 million, or 4.7%, from $122.0 million for the three months ended September 30, 2003 to $127.7 million for the three months ended September 30, 2004. Revenues for the third quarter of 2003 were negatively impacted by a $2.2 million charge to revenues based on changes in our estimated contractual allowances resulting from an analysis of our managed care contracts. Same store net revenue increased $5.0 million or 4.1% from $120.3 million for the three months ended September 30, 2003 to $125.3 million for the three months ended September 30, 2004. Same store net revenue, excluding revenue from national laboratory companies, for the third quarter of 2004 increased 4.6%, or $5.5 million, compared to the third quarter of 2003. Revenue from our contracts with national laboratory companies is expected to be minimal during the remainder of 2004. Our mix of revenue for the third quarter of 2004 was 54.3% outpatient, 41% inpatient (hospital-based), and 4.7% management services. This compares to a mix of 51.5% outpatient, 43.5% inpatient (hospital-based) and 5.0% management services for the third quarter in 2003.

Net revenues increased by $17.9 million, or 5.0%, from $360.9 million for the combined nine months ended September 30, 2003 to $378.8 million for the nine months ended September 30, 2004. Revenues for the nine months ended September 30, 2003 were negatively impacted by a $4.5 million charge to revenues based on changes in our estimated contractual allowance resulting from an analysis of our managed care contracts. Same store net revenue increased $19.7 million or 5.6% from $352.3 million for the combined nine months ended September 30, 2003 to $372.0 million for the nine months ended September 30, 2004. Same store net revenue, excluding revenue from national laboratory companies, for the nine months ended September 30, 2004 increased 6.7%, or $23.5 million, compared to the same period of 2003. For the nine months ended September 30, 2004, revenue from our contracts with national laboratory companies was $0.2 million, down from $4.0 million in the same period of 2003. Revenue from our contracts with national laboratory companies is expected to be minimal during the remainder of 2004. Our mix of revenue for the nine months ended September 30, 2004 was 53.3% outpatient, 41.9% inpatient (hospital-based), and 4.8% management services. This compares to a mix of 50.4% outpatient, 44.8% inpatient (hospital-based) and 4.8% management services in the same period for 2003.

Costs of Services.

Costs of services increased by $4.6 million, or 7.3%, from $63.2 million for the three months ended September 30, 2003 to $67.8 million for the three months ended September 30, 2004. Costs of services as a percentage of net revenues increased from 51.8% for the three months ended September 30, 2003 to 53.1% for the three months ended September 30, 2004. The increase in costs of services as a percentage of net revenues is primarily due to increased physician compensation and increased courier and distribution costs associated with the increased revenue from physicians offices. Gross margin decreased from 48.2% for the three months ended September 30, 2003 to 46.9% for the three months ended September 30, 2004.

Table of Contents

Costs of services increased by $12.8 million, or 6.9%, from $186.6 million for the combined nine months ended September 30, 2003 to $199.4 million for the nine months ended September 30, 2004. Costs of services as a percentage of net revenues increased from 51.7% for the combined nine months ended September 30, 2003 to 52.6% for the nine months ended September 30, 2004. The increase in costs of services as a percentage of net revenues is primarily due to increased physician compensation and increased courier and distribution costs associated with the increased revenue from physicians offices. Gross margin decreased from 48.3% for the combined nine months ended September 30, 2003 to 47.4% for the nine months ended September 30, 2004.

Selling, General and Administrative Expenses.

Selling, general and administrative expenses increased by $0.1 million from $21.7 million for the three months ended September 30, 2003 to $21.8 million for the three months ended September 30, 2004. As a percentage of net revenues, selling, general and administrative expenses decreased from 17.8% for the three months ended September 30, 2003 to 17.1% for the three months ended September 30, 2004.

Selling, general and administrative expenses increased by $3.4 million, or 5.2%, from $65.9 million for the combined nine months ended September 30, 2003 to $69.3 million for the nine months ended September 30, 2004. As a percentage of net revenues, selling, general and administrative expenses were 18.3% for both the combined nine months ended September 30, 2003 and for the nine months ended September 30, 2004. The increase was primarily due to the severance cost of approximately $1.4 million for the Company s former Chief Executive Officer incurred during the three month period ended March 31, 2004, investments in information technology and the expansion of the sales and marketing efforts.

Provision for Doubtful Accounts.

Our provision for doubtful accounts increased by $1.6 million, or 7.7%, from $20.9 million for the three months ended September 30, 2003 to $22.5 million for the same period of 2004. The provision for doubtful accounts for the three months ended September 30, 2003 was increased by charges of $4.0 million to reflect the net realizable value of certain receivables based on our analysis of the ability to collect historical revenues and billings associated with clinical professional component (CPC) services. The provision for doubtful accounts as a percentage of net revenues increased from 17.1% for the three months ended September 30, 2003 to 17.6% for the same period of 2004.

Our provision for doubtful accounts increased by $4.5 million, or 8.4%, from $53.8 million for the combined nine months ended September 30, 2003 to $58.3 million for the same period of 2004. The provision for doubtful accounts for the combined nine months ended September 30, 2003 was increased by charges of $6.5 million to reflect the net realizable value of certain receivables based on our analysis of the ability to collect historical revenues and billings associated with clinical professional component services. The provision for doubtful accounts as a percentage of net revenues increased from 14.9% for the combined nine months ended September 30, 2003 to 15.4% for the same period of 2004.

Amortization Expense.

Amortization expense increased by $0.3 million, or 12.0%, from $2.5 million for the three months ended September 30, 2003 to $2.8 million for the three months ended September 30, 2004.

Amortization expense decreased by $0.4 million, or 4.6%, from $8.7 million for the combined nine months ended September 30, 2003 to $8.3 million for the nine months ended September 30, 2004.

Merger-related Charges.

The merger-related charges of $12.4 million for the combined nine months ended September 30, 2003 relate to the March 2003 Transaction. These costs were primarily for legal, accounting, advisory services and employee change in control payments related to the March 2003 Transaction. There were no merger-related charges for the nine months ended September 30, 2004.

Restructuring Costs.

For the combined nine months ended September 30, 2003, we incurred certain restructuring costs as promulgated by SFAS No. 146 of approximately $3.2 million for employee severance costs in connection with a reduction in workforce at our Southern California, Philadelphia, Central Florida and North Texas laboratories.

Table of Contents

Write-off of Deferred Financing Costs.

In February 2004, the Company wrote-off a portion of the balance of its deferred debt financing costs totaling approximately $3.5 million related to the amendment of its term B credit facility and the related reduction in the facility to $125.0 million. In June 2004, the Company wrote-off a portion of the balance of its deferred debt financing costs of approximately $0.3 million related to voluntary principal prepayments of its term B credit facility. The remaining balance is being amortized over the life of the term loan facility.

In March 2003, the Company wrote-off the remaining balance of its deferred financing costs of approximately $1.0 million related to the termination of its former credit facility as part of the March 2003 Transaction.

Asset Impairment and Related Charges.

In March 2004, the Company sold a practice in Michigan resulting in an impairment charge of approximately $0.6 million.

Interest Expense.

Interest expense remained constant at $11.1 million for the three-months ended September 30, 2003 and for the three months ended September 30, 2004. Our effective interest rate was 9.5% and 8.8% for the three months ended September 30, 2004 and 2003, respectively.

Interest expense increased by $9.0 million from $24.3 million for the combined nine months ended September 30, 2003 to $33.3 million for the nine months ended September 30, 2004. This increase was primarily attributable to the increased debt incurred in connection with the March 2003 Transaction. Our effective interest rate was 9.3% and 9.1% for the nine months ended September 30, 2004 and 2003, respectively.

Change in Value of Derivative.

In April 2004, the Company entered into a 2 $^{1}/2$ year interest rate swap transaction with a notional amount of $75.0 million. The market valuation is performed quarterly by an independent third party and the change in market value of the derivative instrument is recognized in the consolidated statements of operations. For the nine months ended September 30, 2004, the Company recognized a $0.8 million change in the value of the derivative.

Provision for Income Taxes.

Our effective income tax rate was 44.5% and 39.2% for the three-month period ended September 30, 2004 and 2003, respectively.

Our effective income tax rate was 41.4% and 86.4% for the nine-month period ended September 30, 2004 and 2003, respectively. The 2003 rate was due to the non-deductibility of certain charges relating to the March 2003 Transaction. The effective tax rate for the combined nine-month period ended September 30 2003, excluding the non-deductibility of merger related charges would have been approximately 39.1%.

Net Income (Loss).

Net income for the three months ended September 30, 2004, was $1.3 million, compared with net income of $1.7 million for the three months ended September 30, 2003.

Net income for the nine months ended September 30, 2004, was $3.1 million, compared with net income of $0.7 million for the combined nine months ended September 30, 2003. The difference was primarily due to the write-off of $3.8 million in deferred financing costs, increased interest expense of $9.0 million, and the change in the value of the derivative of $0.8 million during the nine months ended September 30, 2004 compared to a write-off of $1.0 million of deferred financing costs, merger-related charges of $12.4 million and the restructuring charge of $3.2 million for the combined nine months ended September 30, 2003.

Liquidity and Capital Resources

At September 30, 2004, we had working capital of approximately $77.2 million, a decrease of $8.9 million from working capital of $86.1 million at December 31, 2003. The decrease in working capital for the first nine months of 2004 was due primarily to an increase in accrued interest of $11.2 million and an increase in accrued salary of $6.3 million, partially offset by an increase in cash and equivalents of $5.5 million.

Table of Contents

Net cash provided by operating activities remained constant at $43.2 million for the combined nine months ended September 30, 2003 and for the nine months ended September 30, 2004. For the nine months ended September 30, 2004, cash flows from operations were primarily used to make voluntary term loan payments of $10.0 million, and to acquire property and equipment of $7.3 million.

Our Credit Facility provides for senior secured financing of up to $190.0 million, consisting of a $125.0 million term loan facility with a maturity of March 27, 2010 and a $65.0 million revolving loan facility with a maturity of March 27, 2009.

The interest rates per annum applicable to loans under our Credit Facility are, at our option, equal to either an alternate base rate or an adjusted LIBOR for a one, two, three or six month interest period chosen by us, or a nine or twelve month period if agreed to by all participating lenders, in each case, plus an applicable margin percentage. The interest rate at September 30, 2004 was approximately 4.83%. The Credit Facility also requires a commitment fee to be paid quarterly equal to 0.5% of any unused commitments under the revolving loan facility.

The Credit Facility requires scheduled quarterly payments on the term loan in amounts equal to $312,500 on each of June 30, September 30, December 31 and March 31, beginning on June 30, 2004. On June 30, 2004, we made the mandatory payment of $312,500 and also made a voluntary prepayment of $9,687,500. The voluntary prepayment was applied chronologically to the future mandatory quarterly payments. Therefore, the next mandatory payment on the facility will not be until 2009. As a result of the voluntary paydown, we recognized a $0.3 million write-off of deferred debt costs.

On March 27, 2003, in connection with the March 2003 Transaction, Amy Acquisition Corp. issued $275.0 million of 10 $^{1}/2$% Senior Subordinated Notes due 2013. We assumed Amy Acquisition Corp. s obligations under these notes upon consummation of the March 2003 Transaction. Interest became payable semi-annually in arrears beginning in October 2003. In February 2004, we issued an additional $75.0 million of our 10 $^{1}/2$% Senior Subordinated Notes due 2013 at a premium price of 106%. The notes are unconditionally guaranteed, jointly and severally and on an unsecured senior subordinated basis, by certain of our current and former subsidiaries. The notes and guarantees rank junior to all of our and the guarantors existing and future senior indebtedness, on par with all of our and the guarantors existing and future senior subordinated indebtedness and senior to all of our and the guarantors existing and future subordinated indebtedness. We may redeem any of the notes at any time and from time to time beginning on April 1, 2008, in whole or in part, in cash at the specified redemption prices, plus accrued and unpaid interest to the date of redemption.

The Credit Facility and the indenture governing the notes contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur or guarantee additional indebtedness, pay dividends or make other equity distributions, purchase or redeem capital stock, make certain investments, transfer and sell assets, engage in certain transactions with affiliates and effect a consolidation or merger.

In connection with our acquisitions prior to the March 2003 Transaction, we generally agreed to pay a base purchase price plus additional contingent purchase price consideration to the sellers of the acquired operations. The additional payments generally were contingent upon the achievement of specified levels of income from operations (as defined by the specific purchase agreements with the seller) by the acquired operations over periods of three to five years from the date of acquisition. In certain cases, the payments were contingent upon other factors such as the retention of certain hospital contracts or relationships for periods ranging from three to five years. The amount of the payments cannot be determined until the final determination of the income from operations levels or other performance targets during the relevant periods of the respective agreements. If the maximum specified levels of income from operations for all acquired operations are achieved, we estimate that we would make aggregate maximum principal payments of approximately $71.7 million over the next five years. A lesser amount or no payments at all would be made if the stipulated levels of income from operations or other evaluation factors specified in each agreement were not met. During the first nine months of 2004, we made contingent note payments, including interest, aggregating $11.0 million. In addition, we intend to fund future payments under our contingent payment obligations relating to acquisitions completed prior to the March 2003 Transaction from contributions made to us by Holdings out of the funds from the remaining cash collateral account balance of $41.7 million and, if needed, cash flows from operations. We do not expect to use contingent notes on future acquisitions.

Historically, our capital expenditures have been primarily for laboratory equipment, information technology equipment and leasehold improvements. Total capital expenditures were $7.3 million for both the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003.

We expect to use our revolving loan facility to fund internal growth, for acquisitions and for working capital. We anticipate that funds generated by operations, funds available under our new revolving loan facility and funds in the cash collateral account will be sufficient to meet working capital requirements and anticipated contingent note obligations and to finance capital expenditures over the next twelve months. Further, in the event payments under the contingent payment obligations exceed the amounts held in the cash collateral account, we believe that the incremental cash generated from operations would exceed the cash required to satisfy those additional payments.

Table of Contents

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 2004.

Contractual Obligations

The following is a summary of our contractual cash obligations, excluding contingent note payments, as of September 30, 2004, for our term loan, other indebtedness and senior subordinated notes, and as of December 31, 2003 for our operating leases, the balance of which has not changed substantially since year end:

	Payments Due By Period (in millions)				
Contractual Obligations	**1 year**	**1-2 years**	**3-5 years**	**After 5 years**	**Total**
Term loans under our new credit facility	$	$	$ 55.6	$ 59.4	$ 115.0
Other indebtedness	2.7	0.1	0.1		2.9
Operating leases	5.6	10.2	9.4	12.6	37.8
Senior subordinated notes				350.0	350.0
Total contractual cash obligations	$ 8.3	$ 10.3	$ 65.1	$ 422.0	$ 505.7

In June 2004, the Company entered into a new operating lease agreement and is relocating its Corporate offices in November 2004. The new lease is for a 5 year term, beginning in October 2004. Under the terms of the new lease, the Company will be obligated to make base rent payments totaling approximately $2.3 million over the 5 year period.

Interest Rate Risk

The Company is subject to market risk associated principally with changes in interest rates. Our principal interest rate exposure relates to the amount outstanding under the Company s credit facility. The balances outstanding under the credit facility are at floating rates. Based on the outstanding balance of $115.0 million at September 30, 2004, each quarter point increase or decrease in the floating rate increases or decreases interest expense by approximately $0.3 million per year, respectively.

In April 2004, the Company entered into a 2 $^{1}/2$ year interest rate swap transaction which involves the exchange of fixed for floating rate interest payments without the exchange of the underlying principal amount. The interest differential to be paid or received is accrued and is recognized as an adjustment to interest expense. The change in the market value of the derivative instrument is recognized in the condensed consolidated statements of operations. For the nine months ended September 30, 2004, the change in the value of the derivative was a loss of approximately $0.8 million. The agreement has a notional amount of $75.0 million. The Company receives interest on the notional amount if the LIBOR rate is less than 2.405% and pays interest on the notional amount if the LIBOR rate exceeds 2.405%. The floating rate resets every October 1 and April 1. From April 2004 through October 2004, the LIBOR rate was 1.23%. In August 2004, the Company locked in to a forward LIBOR rate contract for October 2004 through March 2005 at a rate of 2.08%. This derivative instrument is being used by the Company to reduce interest rate volatility and associated risks arising from the fixed rate structure of our Senior Subordinated Notes, and is not held or issued for trading purposes.

Inflation

Inflation was not a material factor in either revenue or operating expenses during the first nine months of 2004.

Qualification of Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to risks and uncertainties. All statements other than statements of historical facts included in this Form 10-Q that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. Forward-looking statements give our current expectations and projections relating to the financial condition, results of operations, plans, objectives, future performance and business of AmeriPath, and its subsidiaries. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and o and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

These forward-looking statements are based on our expectations and beliefs concerning future events affecting us. They are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many

Table of Contents

of which are beyond our control. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we do not know whether our expectations will prove correct. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Form 10-Q, including the risks outlined under Risk Factors, will be important in determining future results.

Because of these factors, we caution that investors should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and except as required by law we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

Table of Contents

RISK FACTORS

You should carefully consider each of the following risks and all of the other information set forth in this Form 10-Q. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business prospects, financial condition and results of operations could be materially adversely affected. You should also review the risk factors and cautionary statements we make in other filings with the Securities and Exchange Commission.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our term loan and subordinated debt.

We have a significant amount of indebtedness. As of September 30, 2004, as adjusted to give effect to the refinancing of the term loan outstanding under our senior credit facility and the issuance of additional senior subordinated notes, our total debt was $467.9 million, excluding unused revolving loan commitments under our senior credit facility, which would have represented approximately 57.5% of our total anticipated capitalization. This debt also excludes our obligations under our existing contingent notes.

Our substantial indebtedness could have important consequences by adversely affecting our financial condition and thus making it more difficult for us to satisfy our obligations. Our substantial indebtedness could:

- increase our vulnerability to adverse general economic and industry conditions,
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, payments under our contingent notes and other general corporate purposes,
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- place us at a competitive disadvantage compared to our competitors that have less debt and
- limit our ability to borrow additional funds.

Despite our level of indebtedness, we will be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We will be able to incur significant additional indebtedness in the future. Although the indenture governing the notes and the credit agreement governing our senior credit facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the indebtedness incurred in compliance with these restrictions could be substantial. Moreover, the restrictions also do not prevent us from incurring obligations that do not constitute indebtedness. To the extent new debt is added to our currently anticipated debt levels, the substantial leverage risks described above would increase.

The terms of our senior credit facility and the indenture relating to our notes may restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

Our senior credit facility contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests. Our senior credit facility includes covenants restricting, among other things, our ability to:

- incur additional debt,
- pay dividends and make restricted payments,
- create liens,
- use the proceeds from sales of assets and subsidiary stock,
- enter into sale and leaseback transactions,
- make capital expenditures,

Table of Contents

- change our business,
- enter into transactions with affiliates and
- transfer all or substantially all of our assets or enter into merger or consolidation transactions.

The indenture relating to the notes also contains numerous operating and financial covenants including, among other things, restrictions on our ability to:

- incur additional debt,
- pay dividends or purchase our capital stock,
- make investments,
- enter into transactions with affiliates,
- sell or otherwise dispose of assets and
- merge or consolidate with another entity.

Our senior credit facility, as amended, also includes financial covenants, including requirements that we maintain:

- a minimum interest coverage ratio,
- a minimum fixed charge coverage ratio and
- a maximum senior leverage ratio.

These financial covenants will become more restrictive over time.

A failure by us to comply with the covenants contained in our senior credit facility or the indenture could result in an event of default. In the event of any default under our senior credit facility, the lenders under our senior credit facility could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable, enforce their security interest, require us to apply all of our available cash to repay these borrowings (even if the lenders have not declared a default) or prevent us from making debt service payments on the notes, any of which would result in an event of default under the notes. In addition, future indebtedness could contain financial and other covenants more restrictive than those applicable to our senior credit facility and the notes.

We may not be able to generate sufficient cash flow to meet our debt service obligations.

Our ability to generate sufficient cash flow from operations to make scheduled payments on our debt obligations will depend on our future financial performance, which will be affected by a range of economic, competitive, regulatory, legislative and business factors, many of which are outside of our control. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, including payments on the notes, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any refinancing would be possible or that any assets could be sold on acceptable terms or otherwise. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect on our business, financial condition and results of operations, as well as on our ability to satisfy our obligations under the notes.

We conduct business in a heavily regulated industry, and changes in regulations or violations of regulations may, directly or indirectly, reduce our revenues and harm our business.

The healthcare industry is highly regulated, and there can be no assurance that the regulatory environment in which we operate will not change significantly and adversely in the future. Several areas of regulatory compliance that may affect our ability to conduct business include:

federal and state anti-kickback laws,

- federal and state self-referral and financial inducement laws, including the federal physician anti-self referral law, or the Stark Law,
- federal and state false claims laws,
- state laws regarding prohibitions on the corporate practice of medicine,
- state laws regarding prohibitions on fee-splitting,
- federal and state anti-trust laws,
- the Health Insurance Portability and Accountability Act of 1996, or HIPAA,
- federal and state regulations of privacy, security and electronic transactions and code sets and
- federal, state and local laws governing the handling and disposal of medical and hazardous waste.

These laws and regulations are extremely complex. In many instances, the industry does not have the benefit of significant regulatory or judicial interpretation of these laws and regulations. It also is possible that the courts could ultimately interpret these laws in a manner that is different from our interpretations. While we believe that we are currently in material compliance with applicable laws and regulations, a determination that we have violated these laws, or the public announcement that we are being investigated for possible violations of these laws, would have an adverse effect on our business, financial condition and results of operations. For a more complete description of these regulations, see Business Government Regulation in our Form 10-K for the year ended December 31, 2003.

Our business could be materially harmed by future interpretation or implementation of state laws regarding prohibitions on the corporate practice of medicine.

The manner in which licensed physicians can be organized to perform and bill for medical services is governed by state laws and regulations. Under the laws of some states, business corporations generally are not permitted to employ physicians or to own corporations that employ physicians or to otherwise exercise control over the medical judgments or decisions of physicians.

We believe that we currently are in compliance with the corporate practice of medicine laws in the states in which we operate in all material respects. Nevertheless, there can be no assurance that regulatory authorities or other parties will not assert that we are engaged in the corporate practice of medicine or that the laws of a particular state will not change. If such a claim were successfully asserted in any jurisdiction, or as a result of such a change in law, we could be required to restructure our contractual and other arrangements, our company and our pathologists could be subject to civil and criminal penalties and some of our existing contracts, including non-competition provisions, could be found to be illegal and unenforceable. In addition, expansion of our operations to other states may require structural and organizational modification of our form of relationship with pathologists, operations or hospitals. These results or the inability to successfully restructure contractual arrangements would have an adverse effect on our business, financial condition and results of operations.

We could be hurt by future interpretation or implementation of federal and state anti-kickback and anti-referral laws.

Federal and state anti-kickback laws prohibit the offer, solicitation, payment and receipt of remuneration in exchange for referrals of products and services for which payment may be made by Medicare, Medicaid or other federal and state healthcare programs. Federal and state anti-referral laws, including the Stark Law, prohibit physicians from referring their patients to healthcare providers with which the physicians or their immediate family members have a financial relationship for designated services when such services are subject to reimbursement by Medicare or Medicaid. A violation of any of these laws could result in monetary fines, civil and criminal penalties and exclusion from participation in Medicare, Medicaid or other federal or state healthcare programs, which accounted for approximately 21% of our revenues during the first nine months of 2004.

We owe some of our physicians contingent payment obligations entered into in connection with acquisitions we have completed and some of our physicians are party to compensation arrangements with us and own common stock of our parent. Although we have attempted to structure our businesses so that our financial relationships with our physicians and our referral practices comply in all material respects with federal and state anti-referral laws, including the Stark Law, the government may take the position that they do not comply, or a prohibited referral may be made by one of our physicians without our knowledge. If our financial relationships with our physicians were found to be unlawful or unlawful referrals were found to have been made, we or they could be fined, become subject to government recoupment of fees previously paid to us and forfeiture of revenues due to us or become subject to civil and criminal penalties. In such situations, we also may be excluded from participation in Medicare, Medicaid and other federal and state healthcare programs. Any one of these consequences could have an adverse effect on our business, financial conditions and results of operations.

Our business could be harmed by future interpretation or implementation of state law prohibitions on fee-splitting.

Many states prohibit the splitting or sharing of fees between physicians and non-physicians. We believe our arrangements with pathologists and operations comply in all material respects with the fee-splitting laws of the states in which we operate. Nevertheless, it is possible that regulatory authorities or other parties could claim we are engaged in fee-splitting. If such a claim were successfully asserted in any jurisdiction, our pathologists could be subject to civil and criminal penalties, including loss of licensure, and we could be required to restructure our contractual and other arrangements. In addition, expansion of our operations to new states with fee-splitting prohibitions may require structural and organizational modification to the form of our current relationships which may be less profitable. A claim of fee-splitting or modification of our business to avoid such a claim could have an adverse effect on our business, financial condition and results of operations.

Federal and state regulation of privacy could cause us to incur significant costs.

The Federal Trade Commission, or FTC, pursuant to consumer protection laws, and the Department of Health and Human Services, or HHS, pursuant to HIPAA, regulate the use and disclosure of information we may have about our patients. Many states also have laws regarding privacy of health information. While we believe that we are in compliance with FTC and state laws regarding privacy, and with the HIPAA privacy regulations, these laws are complex and will have an impact upon our operations. Violations of the HIPAA privacy regulations are punishable by civil and criminal penalties. In addition, while individuals do not have a private right of action under HIPAA, the privacy regulations may be viewed by the courts as setting a standard of conduct, and the failure to comply could serve as the basis for a private claim. In addition, HIPAA regulations regarding the security of health information and standards for electronic transactions have also been issued. While many of our systems have already been configured to comply with these regulations, to achieve compliance we may need to modify or replace systems in certain of our locations and incur related expenses.

We are subject to significant professional or other liability claims and we cannot assure you that insurance coverage will be available or sufficient to cover such claims.

We may be sued under physician liability or other liability law for acts or omissions by our pathologists, laboratory personnel and hospital employees who are under the supervision of our hospital-based pathologists. We and our pathologists periodically become involved as defendants in medical malpractice and other lawsuits, some of which are currently ongoing, and are subject to the attendant risk of substantial damage awards.

Through June 30, 2002, we were insured for medical malpractice risks on a claims made basis under traditional professional liability insurance policies. In July 2002, we began using a captive insurance program to partially self-insure our medical malpractice risk. Under the captive insurance program we retain more risk for medical malpractice costs, including settlements and claims expenses, than under our prior coverage. We have no aggregate excess stop loss protection under our captive insurance arrangements, meaning there is no aggregate limitation on the amount of risk we retain under these arrangements. Because of our self-insurance arrangements and our lack of aggregate excess stop loss protection, professional malpractice claims could result in substantial uninsured losses. In addition, it is possible that the costs of our captive insurance arrangements and excess insurance coverage will rise, causing us either to incur additional costs or to further limit the amount of our coverage. Further, our insurance does not cover all potential liabilities arising from governmental fines and penalties, indemnification agreements and certain other uninsurable losses. For example, from time to time we agree to indemnify third parties, such as hospitals and national clinical laboratories, for various claims that may not be covered by insurance. As a result, we may become responsible for substantial damage awards that are uninsured. We are currently subject to indemnity claims, which if determined adversely to us, could result in substantial uninsured losses. Therefore, it is possible that pending or future claims will not be covered by or will exceed the limits of our insurance coverage and indemnification agreements or that third parties will fail or otherwise be unable to comply with their obligations to us.

Government programs account for approximately 21% of our revenues, so a decline in reimbursement rates from government programs would harm our revenues and profitability.

We derived approximately 21% of our net revenue during the first nine months of 2004 from payments made by government programs, principally Medicare and Medicaid. These programs are subject to substantial regulation by federal and state governments. Any changes in reimbursement policies, practices, interpretations or statutes that place limitations on reimbursement amounts or change reimbursement coding practices could materially harm our business by reducing revenues and lowering profitability. Increasing budgetary pressures at both the federal and state levels and concerns over escalating costs of healthcare have led, and may continue to lead, to significant reductions in healthcare reimbursements, which would have an adverse effect on our business, financial condition and results of operations.

Table of Contents

We incur financial risk related to collections as well as potentially long collection cycles when seeking reimbursement from third-party payors.

Substantially all of our net revenues are derived from services for which our operations charge on a fee-for-service basis. Accordingly, we assume the financial risk related to collection, including potential write-offs of doubtful accounts, and long collection cycles for accounts receivable, including reimbursements by third-party payors, such as governmental programs, private insurance plans and managed care organizations. Our provision for doubtful accounts for the first nine months of 2004 was 15.4% of net revenues, with net revenues from inpatient services having a provision for doubtful accounts of approximately 24.3%. If our revenue from hospital-based services increases as a percentage of our total net revenues, our provision for doubtful accounts as a percentage of total net revenues may increase. Increases in write-offs of doubtful accounts, delays in receiving payments or potential retroactive adjustments and penalties resulting from audits by payors could have an adverse effect on our business, financial condition and results of operations.

In addition to services billed on a fee-for-service basis, our hospital-based pathologists in their capacities as medical directors of hospitals clinical laboratories, microbiology laboratories and blood banking operations bill non-Medicare patients according to a fee schedule for their clinical professional component, or CPC, services. Our historical collection experience for CPC services is significantly lower than other anatomic pathology procedures. See Business-Billing in our Form 10-K for the year ended December 31, 2003. Hospitals and third party payors are continuing to increase pressure to reduce our revenue from CPC services, including but not limited to encouraging their patients not to pay us for such services.

The continued growth of managed care may have a material adverse effect on our business.

The number of individuals covered under managed care contracts or other similar arrangements has grown over the past several years and may continue to grow in the future. In addition, Medicare and Medicaid and other government healthcare programs may continue to shift to managed care. For the first nine months of 2004 and 2003, approximately 57%, and 61%, respectively, of our net revenue was derived from reimbursements from managed care organizations and third party payors. Entities providing managed care coverage have reduced payments for medical services in numerous ways, including entering into arrangements under which payments to a service provider are capitated, limiting testing to specified procedures, denying payment for services performed without prior authorization and refusing to increase fees for specified services. These trends reduce our revenues and limit our ability to pass cost increases to our customers. Also, if these or other managed care organizations do not select us as a participating provider, we may lose some or all of that business, which could have an adverse effect on our business, financial condition and results of operations.

There have been an increasing number of state and federal investigations of healthcare companies, which may increase the likelihood of investigations of our business practices and the possibility that we will become subject to lawsuits.

Prosecution of fraudulent practices by healthcare companies is a priority of the United States Department of Justice, HHS s Office of the Inspector General, or OIG, and state authorities. The federal government has become more aggressive in examining laboratory billing practices and seeking repayments and penalties allegedly resulting from improper billing practices, such as using an improper billing code for a test to realize higher reimbursement. While the primary focus of this initiative has been on hospital laboratories and on routine clinical chemistry tests, which comprise only a small portion of our revenues, the scope of this initiative could expand, and it is not possible to predict whether or in what direction the expansion might occur. In certain circumstances, federal and some state laws authorize private whistleblowers to bring false claim or qui tam suits against providers on behalf of the government and reward the whistleblower with a portion of any final recovery. In addition, the federal government has engaged a number of non-governmental audit organizations to assist in tracking and recovering false claims for healthcare services.

Since investigations relating to false claims have increased in recent years, it is more likely that companies in the healthcare industry, like us, could become the subject of a federal or state civil or criminal investigation or action. While we believe that we are in compliance in all material respects with federal and state fraud and abuse statutes and regulations, and we monitor our billing practices and hospital arrangements for compliance with prevailing industry practices under applicable laws, these laws are complex and constantly evolving, and it is possible that governmental investigators may take positions that are inconsistent with our practices. Moreover, even when the results of an investigation or a qui tam suit are favorable to a company, the process is time consuming and legal fees and diversion of company management focus are expensive. Any lengthy investigation could have an adverse effect on our business, financial condition and results of operations.

Investigations of entities with which we do business could adversely affect us.

HCA Inc., or HCA, has been under investigation with respect to fraud and abuse issues. As of September 30, 2004, we provided medical director services for 27 HCA hospital laboratories. As a result, the government s investigation of HCA could result in investigations of one or more of our operations. Furthermore, we have received subpoenas from the United States Attorney s office in

Table of Contents

Tampa, Florida to deliver Medicare billing records and other documents relating to alleged financial inducements received by a Florida physician who is not a pathologist with our company but is one of our clients. We are providing information to the United States Attorney s office and intend to cooperate in the investigation. We also are conducting our own internal investigation of the matter. It is not possible at this point in the investigation to determine whether the government will pursue action against us or to assess the merits of possible defenses we may have to any such action. Accordingly, no assurances can be given regarding the ultimate outcome of the investigation.

We derive a significant portion of our revenues from short-term hospital contracts and hospital relationships that can be terminated without penalty.

Many of our hospital contracts may be terminated prior to the expiration of the initial or any renewal term by either party with relatively short notice and without cause. We also have business relationships with hospitals that are not governed by written contracts and may be terminated by the hospitals at any time. Loss of a hospital contract or relationship would not only result in a loss of net revenue but may also result in a loss of the outpatient net revenue derived from our association with the hospital and its medical staff. Any such loss could also result in an impairment of the balance sheet value of the assets we have acquired or may acquire, requiring substantial charges to earnings. Continuing consolidation in the hospital industry resulting in fewer hospitals and fewer laboratories enhances the risk that some of our hospital contracts and relationships may be terminated, which could have an adverse effect on our business, financial condition and results of operations.

If we cannot effectively implement our internal growth strategy, it would materially and adversely affect our business and results of operations.

Our focus on internal growth, which is based upon our existing relationships and services offered, is a departure from our prior focus on growth through acquisitions. The success of our strategy rests upon increasing testing volumes, improving the mix of our services and obtaining more favorable pricing, all of which will result in a greater focus on our sales and marketing function. The success of this strategy also is dependent upon our ability to hire and retain qualified personnel, including pathologists, to develop new areas of expertise and new customer relationships and to expand our current relationships with existing customers. There can be no assurance that we will be able to make our new strategy a success.

We may inherit significant liabilities from operations that we have acquired or acquire in the future.

We perform due diligence investigations with respect to potential liabilities of acquired operations and typically obtain indemnification from the sellers of such operations. Nevertheless, undiscovered claims may arise, and liabilities for which we become responsible may be material and may exceed either the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties. Claims or liabilities of acquired operations may include matters involving compliance with laws, including healthcare laws. While we believe, based on our due diligence investigations that our acquired operations were generally in compliance with applicable healthcare laws prior to their acquisition, they may not have been in full compliance and we may become accountable for their non-compliance. A violation of the healthcare laws could result in monetary fines, government recoupment of fees previously paid to us, forfeiture of revenues due to us, or civil and criminal penalties. In such situations, we may also be excluded from participation in Medicare, Medicaid and other federal and state healthcare programs. Any one of these consequences could have an adverse effect on our business, financial condition and results of operations.

We have significant contingent liabilities payable to many of the sellers of operations that we have acquired.

In connection with our past acquisitions, we typically have agreed to pay the sellers additional consideration in the form of contingent note obligations. Payment on these contingent notes typically depends upon the financial performance of the acquired operation or the retention of specified hospital contracts over periods ranging from three to five years after the acquisition. The amount of these contingent note payments cannot be determined until the contingency periods terminate and the level of the performance is ascertainable. As of September 30, 2004, if the minimum performance that would result in the maximum amount being payable for existing contingent notes were achieved, we would be obligated to make principal payments of approximately $71.7 million over the next five years. Lesser amounts would be paid if the maximum criteria is not met. Although we believe we will be able to make payments on contingent note obligations existing prior to the March 2003 Transaction from the remaining balance in the cash collateral account held by our parent, it is possible that such payments, or payments on additional contingent notes issued as part of subsequent acquisitions, could cause significant liquidity problems for us.

We have recorded a significant amount of intangible assets, which may never generate the returns we expect.

Our acquisitions have resulted in significant increases in net identifiable intangible assets and goodwill. Net identifiable intangible assets, which include hospital contracts, management service agreements and laboratory contracts acquired in acquisitions, were approximately $178.7 million at September 30, 2004, representing approximately 19.4% of our total assets. Goodwill, which relates to the excess of cost over the fair value of the net assets of the businesses acquired, was approximately $543.8 million at September 30, 2004, representing approximately 59.1% of our total assets. Goodwill and net identifiable intangible assets are recorded at fair value on the date of acquisition and, under Financial Accounting Standards Board Statement No. 142, will be reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in performance of the acquired company, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. The amount of any impairment must be written off. We evaluated our recorded goodwill and identifiable intangible assets during the fourth quarter of 2003 and determined that there was no asset impairment charge required with respect to our intangible assets. We may not ever realize the full value of our intangible assets. Any future determination requiring the write-off of a significant portion of intangible assets would have an adverse effect on our financial condition and results of operations.

Our business is highly dependent on the recruitment and retention of qualified pathologists.

Our business is dependent upon recruiting and retaining pathologists, particularly those with subspecialties, such as dermatopathology, hematopathology, immunopathology and cytopathology. While we have been able to recruit and retain pathologists in the past, we may be unable to continue to do so in the future as competition for the services of pathologists increases. In addition, we may need to provide more compensation to our pathologists in order to enhance our recruitment and retention efforts and may be unable to recover these increased costs through price increases. The relationship between the pathologists and their respective local medical communities is important to the operation and continued profitability of each of our local operations. Loss of even one of our pathologists could lead to the loss of hospital contracts or other sources of revenue derived from our relationship with the pathologist. For the years ending 2001, 2002 and 2003, turnover rates for our pathologists were 10.0%, 8.8% and 13.3%, respectively. If turnover rates were to increase, our revenues and earnings could be adversely affected.

Our success is dependent on the ability of our new management team to work together effectively.

A number of the members of our senior management team, including David Redmond, our Chief Financial Officer, and Martin Stefanelli, our Chief Operating Officer, have been with our company for slightly more than one year. Other senior officers, including Joseph Sonnier, our President, have also been in their current positions for slightly more than one year. Given the limited experience that our new management team has working together, it is possible that these officers will not integrate well within our organization. In addition, effective July 1, 2004, Donald E. Steen was appointed Chief Executive Officer of AmeriPath. There is no guarantee that our new Chief Executive Officer will integrate well with the other members of management. The failure of our new management team to integrate well within our organization would have a significant effect on our future operations.

We may be unable to enforce non-competition provisions with departed pathologists.

We either directly employ our pathologists or control a physician-owned entity that employs our pathologists. Each of our pathologists typically enters into an employment agreement with us or a company we control. Most of these employment agreements prohibit the pathologist from competing with our company within a defined geographic area and prohibit solicitation of other pathologists, employees or clients for a period of one to two years after termination of employment. We attempt to structure all of these contracts in accordance with applicable laws and to maintain and enforce these contracts as necessary. However, agreements not to compete are subject to many limitations under state law and these limitations may vary from state to state. We cannot predict whether a court will enforce the non-competition covenants in our various employment agreements. A finding that these covenants are unenforceable could have an adverse effect on our business, financial condition and results of operations.

Competition from other providers of pathology services may materially harm our business.

We have numerous competitors, including anatomic pathology practices, large physician group practices, hospital laboratories, specialized commercial laboratories and the anatomic pathology divisions of some national clinical laboratories. Moreover, companies in other healthcare segments, some of which have previously been customers of ours, such as hospitals, national clinical laboratories, managed care organizations and other third-party payors, may enter our markets and begin to compete with us. For example, Quest Diagnostics, Incorporated, or Quest, a national clinical laboratory company and former customer of ours, has begun to compete with us in some markets. Some of our competitors may have greater financial resources than us, which could further intensify competition. Increasing competition may erode our customer base, reduce our sources of revenue, cause us to reduce prices, enter into more capitated contracts in which we take on greater pricing risks or increase our marketing and other costs of doing business. Increasing competition may also impede our growth objectives by making it more difficult or more expensive for us to acquire or affiliate with additional pathology operations.

We depend on numerous complex information systems, and any failure to successfully maintain those systems or implement new systems could materially harm our operations.

We depend upon numerous information systems for operational and financial information, test reporting for our physicians and our complex billing operations. We currently have several major information technology initiatives underway, including the integration of information from our operations. No assurance can be given that we will be able to enhance existing or implement new information systems that can integrate successfully our disparate operational and financial information systems. In addition to their integral role in helping our operations realize efficiencies, these new systems are critical to developing and implementing a comprehensive enterprise-wide management information database. To develop an integrated network, we must continue to invest in and administer sophisticated management information systems. We may experience unanticipated delays, complications and expenses in implementing, integrating and operating our systems. Furthermore, our information systems may require modifications, improvements or replacements as we expand and as new technologies become available. These modifications, improvements or replacements may require substantial expenditures and may require interruptions in operations during periods of implementation. Moreover, implementation of these systems is subject to the availability of information technology and skilled personnel to assist us in creating and implementing the systems. The failure to successfully implement and maintain operation, financial, test reports, billing and physician practice information systems would have an adverse effect on our business, financial condition and results of operations.

Failure to timely or accurately bill for our services may have a substantial negative impact on our revenues, cash flow and bad debt expense.

Billing for laboratory testing services involves numerous parties and complex issues and procedures. The industry practice is to perform tests in advance of payment and without certainty as to the outcome of the billing process. We bill various payors, such as patients, government programs, physicians, hospitals and managed care organizations. These various payors have different billing information requirements and typically reimburse us only for medically necessary tests and only after we comply with a variety of procedures, such as providing them with Current Procedural Terminology, or CPT, codes and other information. If we do not meet all of the payors stringent requirements, we may not be reimbursed, which would increase our bad debt expense.

Among many other factors complicating our billing are:

- disputes between payors as to which party is responsible for payment,
- disparity in coverage among various payors, and
- difficulty satisfying the specific compliance requirements and CPT coding of and other procedures mandated by various payors.

The complexity of laboratory billing also tends to cause delays in our cash collections. Confirming incorrect or missing billing information generally slows down the billing process and increases the age of our accounts receivable. We assume the financial risk related to collection, including the potential write-off of doubtful accounts and delays due to incorrect or missing information.

Our tests and business processes may infringe on the intellectual property rights of others, which could cause us to engage in costly litigation, pay substantial damages or prohibit us from selling our services.

Other companies or individuals, including our competitors, may obtain patents or other property rights that would prevent, limit or interfere with our ability to develop, perform or sell our tests or operate our business. As a result, we may be involved in intellectual property litigation and may be found to infringe on the proprietary rights of others, which could force us to do one or more of the following:

- cease developing and performing services that incorporate the challenged intellectual property,
- obtain and pay for licenses from the holder of the infringed intellectual property right,
- redesign or reengineer our tests,
- change our business processes or
- pay substantial damages, court costs and attorneys fees, including potentially increased damages for any infringement determined to be willful.

Table of Contents

Infringement and other intellectual property claims, whether with or without merit, can be expensive and time-consuming to litigate. In addition, any requirement to reengineer our tests or change our business processes could substantially increase our costs, force us to interrupt the delivery of our services or delay new test releases.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is subject to market risk associated principally with changes in interest rates. Our principal interest rate exposure relates to the amount outstanding under the Company s Credit Facility. The balances outstanding under the credit facility are at floating rates. Based on the outstanding balance of $115.0 million at September 30, 2004, each quarter point increase or decrease in the floating rate increases or decreases interest expense by approximately $0.3 million per year, respectively.

In April 2004, the Company entered into a 2 1/2 year interest rate swap transaction which involves the exchange of fixed for floating rate interest payments without the exchange of the underlying principal amount. The interest differential to be paid or received is accrued and is recognized as an adjustment to interest expense. The change in the market value of the derivative instrument is recognized in the condensed consolidated statements of operations. For the nine months ended September 30, 2004, the change in the value of the derivative was a loss of approximately $0.8 million. The agreement has a notional amount of $75.0 million. The Company receives interest on the notional amount if the LIBOR rate is less than 2.405% and pays interest on the notional amount if the LIBOR rate exceeds 2.405%. This derivative instrument is being used by the Company to reduce interest rate volatility and associated risks arising from the fixed rate structure of our Senior Subordinated Notes, and is not held or issued for trading purposes.

ITEM 4. CONTROLS AND PROCEDURES

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of September 30, 2004. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures as of September 30, 2004 were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no changes in the Company s internal controls over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we receive subpoenas from government officials. While to date none of these investigations has resulted in liability, investigations are expensive and take valuable management time. For instance, we received subpoenas from the United States Attorney s office in Tampa, Florida to deliver Medicare billing records and other documents relating to the alleged financial inducements received by a Florida physician who is not a pathologist with our company but is one of our clients. In addition, certain of our affiliates received subpoenas from the Florida Attorney General Medicaid Fraud Control Unit requesting copies of agreements that we have with certain hospitals. To our knowledge, numerous other hospitals and facilities have received similar subpoenas, which may indicate a state-wide audit of pathology operations. We are providing information to both the United States Attorney s office and the Florida Attorney General s office and intend to cooperate in the investigations. It is not possible at this point in either investigation to determine whether the government will pursue action against us or to assess the merits of possible defenses we may have to any such action. Accordingly, no assurances can be given regarding the ultimate outcome of these investigations. Any action against us by the government could result in fines or penalties being imposed upon us. Additionally, although we believe that we are in material compliance with federal and state fraud and abuse laws, there is no assurance that at a future time a federal or state government agency will not reach a different conclusion.

In addition, during the ordinary course of business, the Company has become and may in the future become subject to pending and threatened legal actions and proceedings. The Company may have liability with respect to its employees and its pathologists as well as with respect to hospital employees who are under the supervision of the hospital based pathologists. The majority of the Company s pending legal proceedings involve claims of medical malpractice. Most of these relate to cytology services. Based upon current information, the Company believes the outcome of such pending legal actions and proceedings, individually or in the aggregate, will not have a material adverse effect on the Company s financial condition, results of operations or liquidity. If the Company is ultimately found liable under these medical malpractice claims, there can be no assurance that the Company s medical malpractice insurance coverage will be adequate to cover any such liability, and thus, the Company s financial condition, results of

Table of Contents

operations and liquidity could suffer a material adverse effect. The Company may also, from time to time, be involved with legal actions related to the acquisition of and affiliation with physician operations, the prior conduct of such practices, or the employment (and restriction on competition of) physicians. There can be no assurance that any costs or liabilities for which the Company becomes responsible in connection with such claims or actions will not be material or will not exceed the limitations of any applicable indemnification provisions or the financial resources of the indemnifying parties.

ITEM 6. EXHIBITS

10.1 Lease agreement dated June 22, 2004 and effective as of October 1, 2004 between AmeriPath, Inc. and 7111 Fairway, L.L.C.

10.2 Stock purchase agreement dated November 1, 2004 between Ameripath, Inc. and St. Luke s Pathology Associates, Inc. and the shareholders of St. Luke s Pathology Associates, Inc.

31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934

32.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350

32.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350

Table of Contents

SIGNATURES

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

		AMERIPATH, INC.
Date: November 12, 2004	By:	/S/ DONALD E. STEEN **Donald E. Steen** **Chief Executive Officer**
Date: November 12, 2004	By:	/S/ DAVID L. REDMOND **David L. Redmond** **Executive Vice President and** **Chief Financial Officer**

35

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
10.1	Lease agreement dated June 22, 2004 and effective as of October 1, 2004 between AmeriPath, Inc. and 7111 Fairway, L.L.C.
10.2	Stock purchase agreement dated November 1, 2004 between Ameripath, Inc. and St. Luke s Pathology Associates, Inc. and the shareholders of St. Luke s Pathology Associates, Inc.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
32.2	Certification of Principal Financial Officer, as required by Rule 13a-14(b)/15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350