

NEUSTAR INC  
Form 10-Q  
April 26, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission file number 001-32548

**NeuStar, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: NEUSTAR INC - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**52-2141938**  
(I.R.S. Employer  
Identification No.)

**21575 Ridgetop Circle**

**Sterling, Virginia 20166**

(Address of principal executive offices) (zip code)

**(571) 434-5400**

(Registrant's telephone number, including area code)

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

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Small reporting company

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

There were 66,906,185 shares of Class A common stock, \$0.001 par value, and 3,082 shares of Class B common stock, \$0.001 par value, outstanding at April 20, 2012.

**Table of Contents**

**NEUSTAR, INC.**

**INDEX**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	3
	<u>Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012 (unaudited)</u>	3
	<u>Unaudited Consolidated Statements of Operations for three months ended March 31, 2011 and 2012</u>	5
	<u>Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2012</u>	6
	<u>Notes to Unaudited Consolidated Financial Statements</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4.	<u>Controls and Procedures</u>	30

**PART II OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	30
Item 1A.	<u>Risk Factors</u>	30
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3.	<u>Defaults Upon Senior Securities</u>	31
Item 4.	<u>Mine Safety Disclosures</u>	31
Item 5.	<u>Other Information</u>	31
Item 6.	<u>Exhibits</u>	31

<u>Signatures</u>	32
-------------------	----

EX 31.1

EX 31.2

EX 32.1

EX 101 INSTANCE DOCUMENT

EX 101 SCHEMA DOCUMENT

EX 101 CALCULATION LINKBASE DOCUMENT

EX 101 LABELS LINKBASE DOCUMENT

EX 101 PRESENTATION LINKBASE DOCUMENT

EX 101 DEFINITION LINBASE DOCUMENT

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****NEUSTAR, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	December 31, 2011	March 31, 2012 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 122,237	\$ 177,168
Restricted cash	10,251	10,258
Short-term investments	10,545	11,388
Accounts receivable, net of allowance for doubtful accounts of \$1,942 and \$2,643, respectively	106,274	124,535
Unbilled receivables	5,551	2,977
Notes receivable	2,786	2,828
Prepaid expenses and other current assets	29,714	19,555
Deferred costs	8,174	8,287
Income taxes receivable	37,599	9,528
Deferred tax assets	6,264	7,345
<b>Total current assets</b>	<b>339,395</b>	<b>373,869</b>
Long-term investments	2,506	108
Property and equipment, net	100,102	102,211
Goodwill	574,651	574,651
Intangible assets, net	338,768	326,196
Notes receivable, long-term	3,748	3,025
Deferred costs, long-term	701	823
Other assets, long-term	22,767	21,837
<b>Total assets</b>	<b>\$ 1,382,638</b>	<b>\$ 1,402,720</b>

*See accompanying notes.*

**Table of Contents****NEUSTAR, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	December 31, 2011	March 31, 2012 (unaudited)
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,385	\$ 4,815
Accrued expenses	79,334	52,339
Deferred revenue	41,080	48,781
Note payable	4,856	59,348
Capital lease obligations	3,065	3,314
Accrued restructuring reserve	4,361	1,747
Other liabilities	5,317	1,576
 Total current liabilities	 145,398	 171,920
Deferred revenue, long-term	10,363	11,088
Note payable, long-term	584,809	529,098
Capital lease obligations, long-term	1,918	1,782
Deferred tax liability, long-term	121,237	124,927
Other liabilities, long-term	16,279	17,767
 Total liabilities	 880,004	 856,582
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.001 par value; 100,000,000 shares authorized; no shares issued and outstanding as of December 31, 2011 and March 31, 2012		
Class A common stock, par value \$0.001; 200,000,000 shares authorized; 82,959,411 and 84,852,080 shares issued and outstanding at December 31, 2011 and March 31, 2012, respectively		
	83	85
Class B common stock, par value \$0.001; 100,000,000 shares authorized; 3,082 and 3,082 shares issued and outstanding at December 31, 2011 and March 31, 2012, respectively		
Additional paid-in capital	436,598	479,107
Treasury stock, 16,807,932 and 17,718,103 shares at December 31, 2011 and March 31, 2012, respectively, at cost	(495,790)	(528,540)
Accumulated other comprehensive loss	(758)	(977)
Retained earnings	562,501	596,463
 Total stockholders equity	 502,634	 546,138
 Total liabilities and stockholders equity	 \$ 1,382,638	 \$ 1,402,720

*See accompanying notes.*

**Table of Contents****NEUSTAR, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>Revenue:</b>		
Carrier Services	\$ 109,615	\$ 124,373
Enterprise Services	36,480	39,485
Information Services		35,724
<b>Total revenue</b>	<b>146,095</b>	<b>199,582</b>
<b>Operating expense:</b>		
Cost of revenue (excluding depreciation and amortization shown separately below)	31,052	44,898
Sales and marketing	24,939	38,353
Research and development	3,996	7,724
General and administrative	20,215	20,993
Depreciation and amortization	9,146	22,706
Restructuring charges	432	522
	<b>89,780</b>	<b>135,196</b>
Income from operations	56,315	64,386
<b>Other (expense) income:</b>		
Interest and other expense	(347)	(8,193)
Interest and other income	203	229
Income from continuing operations before income taxes	56,171	56,422
Provision for income taxes, continuing operations	22,706	22,460
Income from continuing operations	33,465	33,962
Income from discontinued operations, net of tax	38,510	
Net income	\$ 71,975	\$ 33,962
<b>Basic net income per common share:</b>		
Continuing operations	\$ 0.45	\$ 0.51
Discontinued operations	0.52	
Basic net income per common share	\$ 0.97	\$ 0.51
<b>Diluted net income per common share:</b>		
Continuing operations	\$ 0.45	\$ 0.50
Discontinued operations	0.51	
Diluted net income per common share	\$ 0.96	\$ 0.50
<b>Weighted average common shares outstanding:</b>		

Edgar Filing: NEUSTAR INC - Form 10-Q

Basic	73,938	67,205
Diluted	75,285	68,478
Comprehensive income	\$ 72,061	\$ 33,743

*See accompanying notes.*

**Table of Contents****NEUSTAR, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income	\$ 71,975	\$ 33,962
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	9,516	22,743
Stock-based compensation	6,296	3,901
Amortization of deferred financing costs and original discount on debt	42	984
Excess tax benefits from stock option exercises	(1,914)	(6,533)
Deferred income taxes	4,785	2,666
Provision for doubtful accounts	1,009	702
Amortization of investment premium (discount), net	449	152
Loss on asset sale	1,933	
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Accounts receivable	(3,164)	(19,180)
Unbilled receivables	(334)	2,574
Notes receivable	139	681
Prepaid expenses and other current assets	1,736	10,077
Deferred costs	(487)	(235)
Income taxes receivable	(29,706)	34,604
Other assets	334	257
Other liabilities	(636)	(2,253)
Accounts payable and accrued expenses	(15,006)	(30,886)
Income taxes payable	(248)	
Accrued restructuring reserve	(1,560)	(2,614)
Deferred revenue	85	8,426
<b>Net cash provided by operating activities</b>	<b>45,244</b>	<b>60,028</b>
<b>Investing activities:</b>		
Purchases of property and equipment	(13,248)	(9,647)
Sales and maturities of investments	257	1,403
Purchases of investments	(45,428)	
<b>Net cash used in investing activities</b>	<b>(58,419)</b>	<b>(8,244)</b>
<b>Financing activities:</b>		
Increase of restricted cash	(9,235)	(7)
Principal repayments on notes payable		(1,500)
Principal repayments on capital lease obligations	(1,750)	(900)
Proceeds from exercise of common stock options	6,570	32,084
Excess tax benefits from stock-based compensation	1,914	6,533
Repurchase of restricted stock awards	(713)	(8,913)
Repurchase of common stock	(18,478)	(23,837)
<b>Net cash (used in) provided by financing activities</b>	<b>(21,692)</b>	<b>3,460</b>
Effect of foreign exchange rates on cash and cash equivalents	(19)	(313)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(34,886)</b>	<b>54,931</b>
Cash and cash equivalents at beginning of period	331,570	122,237



Edgar Filing: NEUSTAR INC - Form 10-Q

Cash and cash equivalents at end of period	\$ 296,684	\$ 177,168
--	------------	------------

*See accompanying notes.*

---

**Table of Contents**

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

**1. DESCRIPTION OF BUSINESS AND ORGANIZATION**

NeuStar, Inc. (the Company or Neustar) is a trusted, neutral provider of real-time information and analysis to the Internet, telecommunications, entertainment, advertising and marketing industries throughout the world. Using the Company's advanced, secure technologies, the Company provides addressing, routing, policy management and authentication services that enable its customers to find their end users, route network traffic to the optimal location and verify end-user identity. The Company provides services to both communications service providers, or carriers, and commercial businesses, or enterprises. With the Company's expertise in database management and analysis, the Company also provides cyber security, marketing and advertising information and analysis to its customers.

The Company was incorporated as a Delaware corporation in 1998. The Company was founded to meet the technical and operational challenges of the communications industry when the U.S. government mandated local number portability in 1996. The Company provides the authoritative solution that the communications industry relies upon to meet this mandate. Since then, the Company has grown to offer a broad range of innovative services, including registry services, managed domain name system (DNS) services, Internet Protocol (IP) services, fixed IP geolocation services, Internet security services, caller identification (Caller ID) services, web performance monitoring services, and real-time information and analytics services.

The Company operates in three segments:

*Carrier Services.* The Company's carrier services include numbering services, order management services and IP services. Through its set of unique databases and system infrastructure in geographically dispersed data centers, the Company manages the increasing complexity in the communications industry and ensures the seamless connection of its carrier customers' numerous networks, while also enhancing the capabilities and performance of their infrastructure. The Company operates the authoritative databases that manage virtually all telephone area codes and numbers, and enables the dynamic routing of calls and text messages among numerous competing carriers in the United States and Canada. All carriers that offer telecommunications services to the public at large in the United States and Canada must access a copy of the Company's unique database to properly route their customers' calls and text messages. The Company also facilitates order management and work-flow processing among carriers, and allows operators to manage and optimize the addressing and routing of IP communications.

*Enterprise Services.* The Company's enterprise services include Internet infrastructure services (IIS) and registry services. Through the Company's global directory platform, the Company provides a suite of DNS services to its enterprise customers. The Company manages a collection of directories that maintain addresses in order to direct, prioritize and manage Internet traffic, and to find and resolve Internet queries and top-level domains. The Company is the authoritative provider of essential registry services and manages directories of similar resources, or addresses, that its customers use for reliable, fair and secure access and connectivity. In addition, enterprise customers rely on the Company's services to monitor and load-test websites to help identify issues and optimize performance. The Company also provides fixed IP geolocation services that help enterprises identify the location of their online consumers for a variety of purposes, including fraud prevention and marketing. Additionally, the Company provides directory services for the 5- and 6-digit number strings used for all U.S. Common Short Codes, which is part of the short messaging service relied upon by the U.S. wireless industry.

*Information Services.* The Company's information services include on-demand solutions that help carriers and enterprises identify, verify, score and locate customers and prospective customers. The Company's authoritative databases and solutions enable its clients to make informed decisions in real time about consumer-initiated interactions on the Internet, over the telephone and at the point of sale, by correlating consumer identifier information with attributes such as demographics, buying behaviors and location. This allows the Company's customers to offer consumers more relevant services and products, and leads to higher client conversion rates. The

## Edgar Filing: NEUSTAR INC - Form 10-Q

Company's business listings identity management services help local businesses and national brands improve the visibility of their online business listings on local search engines. Using the Company's proprietary databases, the Company's online display advertising solution allows marketers to display, in real time, advertisements that will be most relevant to online consumers without the need for online behavioral tracking.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Unaudited Interim Financial Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and 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. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet as of December 31, 2011 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K) filed with the Securities and Exchange Commission.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets; the identification and quantification of income tax liabilities due to uncertain tax positions; restructuring liabilities; valuation of investments; recoverability of intangible assets, other long-lived assets and goodwill; the determination of the allowance for doubtful accounts; and the classification of note payable. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

**Fair Value of Financial Instruments**

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic Financial Instruments requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Due to their short-term nature, the carrying amounts reported in the accompanying unaudited consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. The Company determines the fair value of its investments using third-party pricing sources, which primarily use a consensus price or weighted average price for the fair value assessment. The consensus price is determined by using matrix prices from a variety of industry standard pricing services, data providers, large financial institutions and other third party sources and utilizing those matrix prices as inputs into a distribution-curve-based algorithm to determine the estimated market value. Matrix prices are based on quoted prices for securities with similar terms (*i.e.*, coupon rate, maturity, credit rating) (see Note 5). The Company believes the carrying value of its notes receivable approximates fair value as the interest rate approximates a market rate. The Company believes the carrying value of its long-term debt approximates the fair value of the debt as the terms and interest rates approximate market rates.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	December 31, 2011		March 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 122,237	\$ 122,237	\$ 177,168	\$ 177,168
Restricted cash (current assets)	\$ 10,251	\$ 10,251	\$ 10,258	\$ 10,258
Short-term investments	\$ 10,545	\$ 10,545	\$ 11,388	\$ 11,388

## Edgar Filing: NEUSTAR INC - Form 10-Q

Notes receivable (including current portion)	\$ 6,534	\$ 6,534	\$ 5,853	\$ 5,853
Marketable securities (other assets, long-term)	\$ 4,008	\$ 4,008	\$ 4,155	\$ 4,155
Long-term investments	\$ 2,506	\$ 2,506	\$ 108	\$ 108
Deferred compensation (other liabilities, long-term)	\$ 4,028	\$ 4,028	\$ 4,133	\$ 4,133
Note payable (including current portion)	\$ 589,665	\$ 589,665	\$ 588,446	\$ 588,446

---

**Table of Contents**

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

**Restricted Cash**

As of each of December 31, 2011 and March 31, 2012, restricted cash was \$10.3 million. As of each of December 31, 2011 and March 31, 2012, cash of \$9.2 million was restricted as collateral for the Company's outstanding letters of credit. As of each of December 31, 2011 and March 31, 2012, cash of \$1.1 million was restricted for deposits on leased facilities.

**Recent Accounting Pronouncements**

In June 2011, the FASB issued Auditing Standard Update 2011-05, Presentation of Comprehensive Income (ASU 2011-05), to improve the comparability, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. The amendments to this standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in ASU 2011-05, which defers the effective date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The adoption of the amended accounting guidance impacted the Company's presentation of other comprehensive income and did not have an impact on the Company's consolidated results of operations.

**3. ACQUISITIONS**

The application of the acquisition method of accounting for business combinations requires management to make significant estimates and assumptions in the determination of the fair value of the assets acquired and liabilities assumed in order to properly allocate purchase price consideration. These assumptions and estimates include a market participant's expected use of the asset and the appropriate discount rates from a market participant perspective. The Company's estimates are based on historical experience and information obtained from the management of the acquired company and are determined with assistance from an independent third-party appraisal firm. The Company's significant assumptions and estimates include the cash flows that an acquired asset is expected to generate in the future, the weighted-average cost of capital, long-term projected revenue and growth rates, and the estimated royalty rate in the application of the relief from royalty method.

***Evolving System Inc. Number Solutions Acquisition***

On July 1, 2011, the Company acquired the assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. for cash consideration of \$39.0 million. The acquisition of Evolving Systems' Numbering Solutions business expanded the Company's Order Management Services portfolio and furthered the Company's long-term initiative to simplify operators' Operations Support Systems architectures by mitigating cost and complexity, while making the evolution to next-generation networks more efficient, manageable, and flexible to meet the increasingly complex needs of end-users.

The acquisition was accounted for under the acquisition method of accounting in accordance with the Business Combinations Topic of the FASB ASC and the results of operations have been included within the Carrier Services segment in the Company's consolidated statement of operations since the date of acquisition. Of the total purchase price, the Company recorded \$20.3 million of goodwill, \$21.7 million of definite-lived intangible assets, and \$3.0 million of net liabilities. The definite-lived intangible assets consist of \$18.9 million of customer relationships and \$2.8 million of acquired technology. The Company is amortizing customer relationships and acquired technology on a straight-line basis over an estimated useful life of 10 years and 5 years, respectively. The total amount of goodwill that is expected to be deductible for tax purposes is \$19.7 million.

***TARGUSinfo Acquisition***

## Edgar Filing: NEUSTAR INC - Form 10-Q

On November 8, 2011, the Company completed its acquisition of Targus Information Corporation (TARGUSinfo), a leading, independent provider of real-time, on-demand information and analytics services including Caller ID.

The acquisition of TARGUSinfo significantly extends the Company's portfolio of services in the real-time information and analytics market and combines TARGUSinfo's leadership in Caller ID and online information services, such as lead verification and scoring, with the Company's strengths in network information services, including address inventory management and network security. These services are delivered through a secure, robust technology platform, and rely on unique, extensive and privacy-protected databases.

The acquisition was accounted for under the acquisition method of accounting in accordance with the Business Combinations Topic of the FASB ASC and the results of operations have been included within the Information Services segment in the Company's consolidated statement of operations since the date of acquisition.

The total purchase price was approximately \$658.0 million, consisting of cash consideration of \$657.3 million and non-cash consideration of \$0.7 million attributable to the assumption of TARGUSinfo options. Of the total cash consideration, approximately \$43.5 million was deposited in an escrow account, of which \$40.0 million was available to satisfy indemnification claims for

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

breaches of the agreement and plan of merger. An additional \$3.0 million and \$0.5 million of the merger consideration payable to the stockholders of TARGUSinfo was deposited into separate escrow accounts and was available to fund purchase price adjustments required under the merger agreement and to reimburse certain costs and expenses of the stockholder representative, respectively. As of March 31, 2012, the remaining escrow to satisfy indemnification claims and to reimburse certain costs and expenses of the stockholder representative were \$39.9 million and \$0.5 million, respectively. During the three months ended March 31, 2012, the purchase price escrow of \$3.0 million was distributed and such distribution did not result in an adjustment to the purchase price or goodwill. The funds in the indemnity escrow account will remain in escrow for a one-year period from the date of acquisition (unless claims are pending at such time), after which remaining proceeds will be distributed to the TARGUSinfo stockholders.

Under the acquisition method of accounting, the total estimated purchase price was allocated to TARGUSinfo's net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of November 8, 2011. The allocation of the purchase price is preliminary pending the finalization of income and non-income based tax liabilities. The Company does not expect the finalization of these items to materially impact the purchase price allocation.

Of the total purchase price, the Company recorded \$429.7 million of goodwill, \$310.2 million of definite-lived intangible assets, and \$81.9 million of net liabilities. The definite-lived intangible assets consist of \$256.7 million of customer relationships, \$46.5 million of acquired technology, and \$7.0 million of trade names and trademarks. The value of customer relationships, acquired technology and trade names and trademarks will be amortized on a straight-line basis over their estimated useful life of 8 years, 5 years and 3 years, respectively. The goodwill balance of \$429.7 million is not expected to be deductible for tax purposes.

As a result of the acquisition of TARGUSinfo, the Company recorded a net deferred tax liability of approximately \$116.2 million in its preliminary purchase price allocation primarily related to the difference in book and tax basis of identifiable intangibles. As of March 31, 2012, the net deferred tax liability was \$110.3 million. The Company also recorded a \$14.3 million income tax receivable assumed from TARGUSinfo as a result of the acquisition and accrued \$1.2 million for potential sales tax and interest due on TARGUSinfo sales for prior years through 2010. As of March 31, 2012, the income tax receivable assumed from TARGUSinfo was \$14.3 million and the accrued potential sales tax and interest due on TARGUSinfo sales for prior years through 2010 was \$1.2 million.

***Pro Forma Financial Information for acquisition of TARGUSinfo***

The following unaudited pro forma financial information summarizes the Company's results of operations for the three months ended March 31, 2011 as if Neustar's acquisition of TARGUSinfo had been completed as of January 1, 2011. These pro forma amounts (unaudited and in thousands) do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of January 1, 2011 and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity. The pro forma financial information presented also includes the effect of the related financing, amortization expense from acquired intangible assets, adjustments to interest expense and related tax effects.

	<b>Three Months Ended March 31, 2011</b>
Pro forma revenue	\$ 180,440
Pro forma income from continuing operations	\$ 59,302
Pro forma net income from continuing operations	\$ 30,292





**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****4. INVESTMENTS**

As of December 31, 2011 and March 31, 2012, the Company held approximately \$13.1 million and \$11.5 million, respectively, in pre-refunded municipal bonds, secured by an escrow fund of U.S. Treasury securities. These investments are accounted for as available-for-sale securities in the Company's consolidated balance sheet pursuant to the Investments - Debt and Equity Securities Topic of the FASB ASC. During the three months ended March 31, 2011 and 2012, the Company sold approximately \$0.3 million and \$1.4 million, respectively, of available-for-sale securities and recognized minimal net gains for both periods. The Company did not record any impairment charges related to these investments during the three months ended March 31, 2011 and 2012. The following table summarizes the Company's investment in these pre-refunded municipal bonds as of December 31, 2011 and March 31, 2012 (in thousands):

	Amortized Cost	December 31, 2011 Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Due within one year	\$ 10,538	\$ 10	\$ (3)	\$ 10,545
Due after one year through three years	2,500	6		2,506
<b>Total</b>	<b>\$ 13,038</b>	<b>\$ 16</b>	<b>\$ (3)</b>	<b>\$ 13,051</b>

	Amortized Cost	March 31, 2012 Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Due within one year	\$ 11,376	\$ 14	\$ (2)	\$ 11,388
Due after one year through three years	108			108
<b>Total</b>	<b>\$ 11,484</b>	<b>\$ 14</b>	<b>\$ (2)</b>	<b>\$ 11,496</b>

**5. FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosure Topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1. Observable inputs, such as quoted prices in active markets;

Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

## Edgar Filing: NEUSTAR INC - Form 10-Q

Level 3. Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires the Company to make significant judgments.

The Company determines the fair value of its investments using third-party pricing sources, which primarily use a consensus price or weighted average price for the fair value assessment. The consensus price is determined by using matrix prices from a variety of industry standard pricing services, data providers, large financial institutions and other third party sources and utilizing those matrix prices as inputs into a distribution-curve-based algorithm to determine the estimated market value. Matrix prices are based on quoted prices for securities with similar terms (*i.e.*, coupon rate, maturity, credit rating). The Company corroborates consensus prices provided by third party pricing sources using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

The following table sets forth, as of December 31, 2011 and March 31, 2012, the Company's financial and non-financial assets and liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy (in thousands):

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Municipal bonds (maturities less than one year)	\$	\$ 10,545	\$	\$ 10,545
Municipal bonds (maturities one to three years)	\$	\$ 2,506	\$	\$ 2,506
Marketable securities <sup>(1)</sup>	\$ 4,008	\$	\$	\$ 4,008

	March 31, 2012			Total
	Level 1	Level 2	Level 3	
Municipal bonds (maturities less than one year)	\$	\$ 11,388	\$	\$ 11,388
Municipal bonds (maturities one to three years)	\$	\$ 108	\$	\$ 108
Marketable securities <sup>(1)</sup>	\$ 4,155	\$	\$	\$ 4,155

- (1) The NeuStar, Inc. Deferred Compensation Plan (the Plan) provides directors and certain employees with the ability to defer a portion of their compensation. The assets of the Plan are invested in marketable securities held in a Rabbi Trust and reported at market value in other assets.

**6. GOODWILL AND INTANGIBLE ASSETS****Goodwill**

The Company's goodwill by operating segment as of December 31, 2011 and March 31, 2012 is as follows (in thousands):

	December 31, 2011	March 31, 2012
<b>Carrier Services:</b>		
Gross goodwill	\$ 222,355	\$ 222,355
Accumulated impairment losses	(93,602)	(93,602)
Net goodwill	128,753	128,753
<b>Enterprise Services:</b>		
Gross goodwill	16,198	16,198
Accumulated impairment losses		
Net goodwill	16,198	16,198

Edgar Filing: NEUSTAR INC - Form 10-Q

<b>Information Services:</b>		
Gross goodwill	429,700	429,700
Accumulated impairment losses		
Net goodwill	429,700	429,700
<b>Total:</b>		
Gross goodwill	668,253	668,253
Accumulated impairment losses	(93,602)	(93,602)
Net goodwill	\$ 574,651	\$ 574,651

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****Intangible Assets**

Intangible assets consist of the following (in thousands):

	December 31, 2011	March 31, 2012	Weighted- Average Amortization Period (in years)
<b>Intangible assets:</b>			
Customer lists and relationships	\$ 315,098	\$ 315,098	7.9
Accumulated amortization	(32,615)	(41,844)	
Customer lists and relationships, net	282,483	273,254	
<b>Acquired technology</b>			
Acquired technology	58,859	58,859	4.8
Accumulated amortization	(9,493)	(12,217)	
Acquired technology, net	49,366	46,642	
<b>Trade name</b>			
Trade name	7,630	7,630	3.0
Accumulated amortization	(711)	(1,330)	
Trade name, net	6,919	6,300	
<b>Intangible assets, net</b>	<b>\$ 338,768</b>	<b>\$ 326,196</b>	

Amortization expense related to intangible assets, which is included in depreciation and amortization expense, was approximately \$1.1 million and \$12.6 million for the three months ended March 31, 2011 and 2012, respectively. Amortization expense related to intangible assets for the years ended December 31, 2012, 2013, 2014, 2015, 2016 and thereafter is expected to be approximately \$50.3 million, \$48.9 million, \$47.9 million, \$45.9 million, \$44.1 million and \$101.7 million, respectively. Intangible assets as of March 31, 2012 will be fully amortized during the year ended December 31, 2021.

**7. NOTE PAYABLE**

On November 8, 2011, the Company entered into a credit facility that provides for: (1) a \$600 million senior secured term loan facility (Term Facility); (2) a \$100 million senior secured revolving credit facility (Revolving Facility and together with the Term Facility, the 2011 Facilities), of which (a) \$30 million is available for the issuance of letters of credit and (b) \$25 million is available as a swingline subfacility; and (3) incremental term loan facilities in an aggregate amount of up to \$400 million. The Revolving Facility matures on November 8, 2016, and the Term Facility matures on November 8, 2018. The entire \$600 million Term Facility was borrowed on November 8, 2011, and used to fund a portion of the acquisition of TARGUSinfo and to pay costs, fees and expenses incurred in connection with the acquisition. The Company has not borrowed under the Revolving Facility.

## Edgar Filing: NEUSTAR INC - Form 10-Q

The 2011 Facilities contain customary representations and warranties, affirmative and negative covenants, and events of default. If an event of default occurs and so long as such event of default is continuing, the amounts outstanding may accrue interest at an increased rate and payments of such outstanding amounts could be accelerated, or other remedies undertaken pursuant to the 2011 Facilities. The Company's quarterly financial covenants include a maximum consolidated fixed charge coverage ratio and a minimum consolidated leverage ratio. As of and for the three months ended March 31, 2012, the Company was in compliance with these covenants.

Principal payments under the Term Facility of \$1.5 million are due on the last day of the quarter starting on December 31, 2011 and ending on September 30, 2018. The remaining Term Facility principal balance of \$558.0 million is due in full on November 8, 2018, subject to early mandatory prepayments as further discussed below. As of December 31, 2011 and March 31, 2012, the annual interest rate on the Term Facility was 5%.

The Company paid \$10.0 million of loan origination fees related to its 2011 Facilities and recorded \$19.4 million in deferred financing costs. Total amortization expense of the loan origination fees and deferred financing costs was approximately \$0.9 million for the three months ended March 31, 2012 and is reported as interest expense in the consolidated statements of operations.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

The Term Facility has a 1% prepayment fee in the event it is refinanced within the first year of issuance. The 2011 Facilities provide for mandatory prepayments with the net cash proceeds of certain debt issuances, equity issuances, insurance receipts, dispositions and excess cash flows. Mandatory prepayments attributable to excess cash flows will be based on the Company's leverage ratio and will be determined at the end of each fiscal year, beginning with the year ended December 31, 2012. A leverage ratio of 1.5x or higher will trigger mandatory prepayments of 25% or 50% of excess cash flow. As of March 31, 2012, the Company estimated a mandatory prepayment of approximately \$54.5 million to be payable in the first quarter of 2013 and reclassified this estimated prepayment amount from long-term note payable to current note payable in the Company's accompanying unaudited consolidated balance sheets.

As of December 31, 2011 and March 31, 2012, the Company's outstanding borrowings under the Term Facility were \$589.7 million and \$588.4 million, respectively, and accrued interest under the 2011 Facilities was \$4.5 million and \$4.5 million, respectively. As of December 31, 2011 and March 31, 2012, the Company's available borrowings under the Revolving Facility were \$100 million.

**8. STOCKHOLDERS EQUITY****Stock-Based Compensation**

The Company has five stock incentive plans: the NeuStar, Inc. 1999 Equity Incentive Plan (1999 Plan); the NeuStar, Inc. 2005 Stock Incentive Plan (2005 Plan); the NeuStar, Inc. 2009 Stock Incentive Plan (2009 Plan); the Targus Information Corporation Amended and Restated 2004 Stock Incentive Plan (TARGUSinfo Plan); and the AMACAI Information Corporation 2004 Stock Incentive Plan (AMACAI Plan) (collectively, the Plans). The Company may grant to its directors, employees and consultants awards under the 2009 Plan in the form of incentive stock options, nonqualified stock options, stock appreciation rights, shares of restricted stock, restricted stock units, performance vested restricted stock units (PVRsUs) and other stock-based awards. The aggregate number of shares of Class A common stock with respect to which all awards may be granted under the 2009 Plan is 11,911,646, plus the number of shares underlying awards granted under the 1999 Plan, the 2005 Plan, the TARGUSinfo Plan, and the AMACAI Plan that remain undelivered following any expiration, cancellation or forfeiture of such awards. As of March 31, 2012, 3,003,499 shares were available for grant or award under the 2009 Plan.

Stock-based compensation expense recognized for the three months ended March 31, 2011 and 2012 was \$6.0 million and \$3.9 million, respectively. As of March 31, 2012, total unrecognized compensation expense related to non-vested stock options, non-vested restricted stock awards, non-vested restricted stock units and non-vested PVRsUs granted prior to that date was estimated at \$72.0 million, which the Company expects to recognize over a weighted average period of approximately 2.59 years. Total unrecognized compensation expense as of March 31, 2012 is estimated based on outstanding non-vested stock options, non-vested restricted stock awards, non-vested restricted stock units and non-vested PVRsUs. Stock-based compensation expense may be increased or decreased in future periods for subsequent grants or forfeitures, and changes in the estimated fair value of non-vested awards granted to consultants.

**Stock Options**

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of stock options granted. The weighted-average grant date fair value of options granted during the three months ended March 31, 2011 was \$8.70. No options were granted during the three months ended March 31, 2012. The following are the weighted-average assumptions used in valuing the stock options granted during the three months ended March 31, 2011:

Dividend yield	%
Expected volatility	36.98 %
Risk-free interest rate	1.70 %



Expected life of options (in years)

4.42

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

The following table summarizes the Company's stock option activity:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted-Average Remaining Contractual Life (in years)
Outstanding at December 31, 2011	6,533,826	\$ 24.15		
Options granted				
Options exercised	(1,399,416)	22.93		
Options forfeited	(572,730)	22.32		
Outstanding at March 31, 2012	4,561,680	\$ 24.76	\$ 57.0	7.5
Exercisable at March 31, 2012	1,820,166	\$ 24.59	\$ 23.0	6.3

The aggregate intrinsic value of options exercised for the three months ended March 31, 2011 and 2012 was \$14.3 million and \$14.8 million, respectively.

**Restricted Stock Awards**

The following table summarizes the Company's non-vested restricted stock activity for the three months ended March 31, 2012:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2011	644,995	\$ 24.16	
Restricted stock granted			
Restricted stock vested	(130,934)	23.74	
Restricted stock forfeited	(89,778)	23.90	
Outstanding at March 31, 2012	424,283	\$ 24.34	\$ 15.8

The total aggregate intrinsic value of restricted stock vested during the three months ended March 31, 2012 was approximately \$4.6 million. During the three months ended March 31, 2012, the Company repurchased 47,790 shares of common stock for an aggregate purchase price of \$1.7 million, pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their tax withholding obligations.

**Performance Vested Restricted Stock Units**

## Edgar Filing: NEUSTAR INC - Form 10-Q

During the three months ended March 31, 2012, the Company awarded 2,126,050 PVRsUs, of which 579,670 PVRsUs were granted with an aggregate fair value of \$21.1 million. For executive management, the awarded PVRsUs are subject to five one-year performance periods, the first of which begins on January 1, 2012 and ends December 31, 2012 and the last of which begins on January 1, 2016 and ends on December 31, 2016. Each executive is eligible to earn up to 150% of one-fifth of the award with respect to each annual performance period subject to the achievement of the respective performance goals for each one-year performance period. For non-executive management, the PVRsUs awarded are subject to three one-year performance periods, the first of which begins on January 1, 2012 and ends December 31, 2012 and the last of which begins on January 1, 2014 and ends on December 31, 2014. Each non-executive is eligible to earn up to 150% of one-third of the award with respect to each annual performance period subject to the achievement of the respective performance goals for each one-year performance period. For both executive and non-executive management, the performance goal for the performance period taking place from January 1, 2012 through December 31, 2012 will be based on: (i) Non-NPAC Revenue, (ii) Total Revenue, and (iii) Adjusted Net Income. The performance goals for the future one-year performance periods will consist of financial measures, weights and payouts to be established no later than 90 days after the beginning of each such period.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

Subject to each participant's continued service and to certain other terms and conditions, the portion of the award, if any, earned (a) by executive management with respect to the first three performance periods will vest on January 1, 2015 and the portion of the award, if any, earned with respect to the final two performance periods will vest on January 1, 2016 and January 1, 2017, respectively; and (b) by non-executive management with respect to all three performance periods will vest 75% of the earned amount on the first business day of 2015, and the remaining 25% of the earned amount on the first business day of 2016. Compensation expense related to these awards is recognized over the requisite service period based on the Company's estimate of the achievement of the performance target and vesting period. As of March 31, 2012, the Company estimates that it will issue 100% of the performance target awards for PVRsUs granted during 2012.

The fair value of a PVRsU is measured by reference to the closing market price of the Company's common stock on the date of the grant. Compensation expense is recognized on a straight-line basis over the requisite service period based on the number of PVRsUs expected to vest.

The following table summarizes the Company's non-vested PVRsU activity for the three months ended March 31, 2012:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Non-vested December 31, 2011	834,375	\$ 19.97	
Granted	579,670	36.39	
Vested	(582,281)	15.58	
Forfeited	(70,621)	24.58	
Non-vested March 31, 2012	761,143	\$ 35.41	\$ 28.4

During the three months ended March 31, 2012, 582,281 PVRsUs vested with a total aggregate intrinsic value of \$19.9 million. The Company repurchased 210,664 shares of common stock for an aggregate purchase price of \$7.2 million pursuant to the participants' rights under the Plans to elect to use common stock to satisfy their tax withholding obligations.

**Restricted Stock Units**

The following table summarizes the Company's restricted stock units activity for the three months ended March 31, 2012:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2011	248,938	\$ 24.44	
Granted	640,360	36.30	
Vested	(750)	25.84	
Forfeited	(150)	37.06	
Outstanding at March 31, 2012	888,398	\$ 32.99	\$ 33.1

## Edgar Filing: NEUSTAR INC - Form 10-Q

During the three months ended March 31, 2012, the Company granted 640,360 restricted stock units to certain employees with an aggregate fair value of \$23.2 million. Restricted stock units granted to executive management will vest annually in five equal installments beginning on January 1, 2013. Restricted stock units granted to non-executive management will vest annually in four equal installments beginning on the first business day in 2013.

These restricted stock units previously issued to non-management directors of the Company's Board of Directors will fully vest on the earlier of the first anniversary of the date of grant or the day preceding the date in the following calendar year on which the Company's annual meeting of stockholders is held. Upon vesting of restricted stock units granted prior to 2011, each director's restricted stock units will automatically be converted into deferred stock units, and will be delivered to the director in shares of the Company's stock six months following the director's termination of board service. Upon vesting of restricted stock units that were granted in 2011, each director's restricted stock units will automatically be converted into deferred stock units and will be delivered to the director in shares of the Company's stock six months following the director's termination of board service unless a director elected near-term delivery, in which case the vested restricted stock units will be delivered on August 15, 2012.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****Share Repurchase Program**

On March 14, 2012, the Company announced the resumption of its three-year share repurchase program authorized by the Board of Directors in 2010, under which the Company may purchase up to \$300 million in value of its Class A common shares. Prior to this date, the Company had previously repurchased approximately 4.5 million shares of stock at a total of \$114.7 million. Share repurchases may be made through 10b5-1 plans, open market purchases, privately negotiated transactions or otherwise as market conditions warrant, at prices the Company deems appropriate, and subject to applicable legal requirements and other factors.

During the three months ended March 31, 2012, the Company repurchased 0.7 million shares of its Class A common stock at an average price of \$36.39 per share for a total purchase price of \$23.8 million. As of March 31, 2012, a total of 5.2 million shares at an average price of \$26.86 per share had been repurchased under this program for an aggregate purchase price of \$138.5 million. All repurchased shares are accounted for as treasury shares.

**9. BASIC AND DILUTED NET INCOME PER COMMON SHARE**

The following table provides a reconciliation of the numerators and denominators used in computing basic and diluted net income per common share (in thousands, except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>Computation of basic net income per common share:</b>		
Income from continuing operations	\$ 33,465	\$ 33,962
Income from discontinued operations, net of tax	38,510	
Net income	\$ 71,975	\$ 33,962
<b>Weighted average common shares and participating securities outstanding basic</b>		
	73,938	67,205
<b>Basic net income per common share from:</b>		
Continuing operations	\$ 0.45	\$ 0.51
Discontinued operations	0.52	
<b>Basic net income per common share</b>	<b>\$ 0.97</b>	<b>\$ 0.51</b>
<b>Computation of diluted net income per common share:</b>		
Weighted average common shares and participating securities outstanding basic	73,938	67,205
Effect of dilutive securities:		
Stock-based awards	1,347	1,273
<b>Weighted average common shares outstanding diluted</b>	<b>75,285</b>	<b>68,478</b>

Edgar Filing: NEUSTAR INC - Form 10-Q

Diluted net income per common share from:			
Continuing operations	\$	0.45	\$ 0.50
Discontinued operations		0.51	
Diluted net income per common share	\$	0.96	\$ 0.50

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

Diluted net income per common share reflects the potential dilution of common stock equivalents such as options and warrants, to the extent the impact is dilutive. The Company used income from continuing operations as the control number in determining whether potential common shares were dilutive or anti-dilutive. The same number of potential common shares used in computing the diluted per-share amount from continuing operations was also used in computing the diluted per-share amounts from discontinued operations even if those amounts were anti-dilutive.

Stock-based awards to purchase an aggregate of 4,340,519 and 485,906 shares were excluded from the calculation of the denominator for diluted net income per common share for the three months ended March 31, 2011 and 2012, respectively, due to their anti-dilutive effects.

**10. COMPREHENSIVE INCOME**

Comprehensive income is comprised of net earnings and other comprehensive income, which includes certain changes in equity that are excluded from income.

The following table summarizes the activity for each component of total comprehensive income during the three months ended March 31, 2012 (in thousands):

	December 31, 2011	(Loss) Gain	March 31, 2012
Foreign currency translation adjustment	\$ (780)	\$ (239)	\$ (1,019)
Unrealized gains on available-for-sale investments	22	20	42
Accumulated other comprehensive loss	\$ (758)	\$ (219)	\$ (977)

**11. RESTRUCTURING CHARGES**

The Company recorded restructuring charges in continuing operations of \$0.4 million related to its 2010 management transition plan during the three months ended March 31, 2011 and \$0.5 million related to its 2011 restructuring plan during the three months ended March 31, 2012.

The Company recorded restructuring charges in discontinued operations of \$1.3 million during the three months ended March 31, 2011. These restructuring charges included charges incurred under its Converged Messaging Services restructuring plan initiated in the fourth quarter of 2008 and completed in the second quarter of 2011.

**Restructuring Plans*****2011 Restructuring Plan***

In the fourth quarter of 2011, the Company initiated a domestic work-force reduction impacting each of its operating segments and recorded severance and severance-related charges of \$3.1 million. During the three months ended March 31, 2012, the Company incurred additional severance and severance-related charges of approximately \$0.5 million. The Company expects to pay approximately \$1.0 million in remaining severance and severance-related payments through the second quarter of 2012.

***2010 Management Transition***



## Edgar Filing: NEUSTAR INC - Form 10-Q

In the fourth quarter of 2010, the Company initiated a work-force reduction impacting its Carrier Services and Enterprise Services operating segments and recorded severance and severance-related charges of \$3.8 million. During the first quarter of 2011, the Company recorded additional severance and severance-related charges of \$0.4 million in connection with this restructuring initiative. The Company does not anticipate it will incur additional expenses under this plan and expects to pay approximately \$0.4 million in remaining severance and severance-related payments through the third quarter of 2012.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012*****Converged Messaging Services, Discontinued Operations***

Beginning in the fourth quarter of 2008, management committed to and implemented a restructuring plan for the Company's Converged Messaging Services business, previously known as the Company's Next Generation Messaging business, to more appropriately allocate resources to the Company's key mobile instant messaging initiatives. The restructuring plan involved a reduction in headcount and closure of specific leased facilities in some of the Company's international locations. In the third quarter of 2009 and the fourth quarter of 2010, the Company extended the restructuring plan to include further headcount reductions and closure of certain additional facilities. During 2011, the Company sold certain assets and liabilities of Neustar NGM Services, Inc. and its subsidiaries used in the Converged Messaging Services business, and completed the wind-down of the residual operations of its Converged Messaging Services business. Restructuring charges for all periods presented have been reclassified into Income from discontinued operations, net of tax in the Company's consolidated statements of operations.

Total net restructuring charges recorded under this plan since the fourth quarter of 2008 include approximately \$8.4 million of severance and severance-related costs and \$1.8 million of lease and facility exit costs. Amounts related to lease terminations due to the closure of excess facilities will be paid over the remainder of the respective lease terms, the longest of which extends through 2013.

***Summary of Accrued Restructuring Plans***

The additions and adjustments to the accrued restructuring liability related to the Company's restructuring plans as described above for the three months ended March 31, 2012 are as follows (in thousands):

	December 31, 2011	Additional Costs	Cash Payments	Adjustments	March 31, 2012
Converged Messaging Services:					
Lease and facilities exit costs	\$ 609	\$	\$ (211)	\$	\$ 398
Total Converged Messaging Services	609		(211)		398
2011 Management Transition:					
Severance and related costs	2,833	615	(2,397)	(69)	982
2010 Management Transition:					
Severance and related costs	919		(528)	(24)	367
Total restructuring plans	\$ 4,361	\$ 615	\$ (3,136)	\$ (93)	\$ 1,747

**12. OTHER (EXPENSE) INCOME**

Other (expense) income consists of the following (in thousands):

	Three Months Ended March 31,	
	2011	2012
Interest and other expense:		
Interest expense	\$ 209	\$ 8,613
Loss (gain) on asset disposals	112	(130)

Edgar Filing: NEUSTAR INC - Form 10-Q

Foreign currency transaction loss (gain)	26	(290)
Total	\$ 347	\$ 8,193
Interest and other income:		
Interest income	\$ 203	\$ 229
Total	\$ 203	\$ 229

---

**Table of Contents**

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

**13. INCOME TAXES**

The Company's effective tax rate from continuing operations decreased to 39.8% for the three months ended March 31, 2012 from 40.4% for three months ended March 31, 2011 primarily due to a settlement of an Internal Revenue Service examination during the first quarter of 2011.

On February 7, 2011, the Company sold certain business assets and liabilities of Neustar NGM Services, Inc. (NGM Services) and its subsidiaries, a portion of the Converged Messaging Services business. The Company intends to treat the common stock of NGM Services as worthless for U.S. income tax purposes in its 2011 U.S. federal and state income tax returns. As a result, the Company recorded an income tax benefit of \$42.7 million for the three months ended March 31, 2011 within discontinued operations, which primarily represents the book and tax basis differences associated with its investment in NGM Services.

As of December 31, 2011 and March 31, 2012, the Company had unrecognized tax benefits of \$1.6 million and \$1.5 million, respectively, of which \$1.6 million and \$1.5 million, respectively, would affect the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the three months ended March 31, 2011 and 2012, the Company recognized potential interest and penalties of \$39,000 and \$51,000, respectively, including interest related to uncertain tax positions of companies acquired during the year. As of December 31, 2011 and March 31, 2012, the Company had established reserves of approximately \$153,000 and \$204,000, respectively, for accrued potential interest and penalties related to uncertain tax positions. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

The Company files income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The tax years 2007 through 2011 remain open to examination by the major taxing jurisdictions to which the Company is subject.

The Company anticipates that total unrecognized tax benefits will decrease by approximately \$565,000 over the next 12 months due to the expiration of certain statutes of limitations and settlement of tax audits.

**14. SEGMENT INFORMATION**

The Company has three operating segments, reflective of the manner in which the chief operating decision maker (CODM) allocates resources and assesses performance: Carrier Services, Enterprise Services, and Information Services. On November 8, 2011, the Company completed its acquisition of TARGUSinfo and introduced its new Information Services operating segment. The Company's operating segments are the same as its reportable segments.

The Company's Carrier Services operating segment provides services that ensure the seamless connection of its carrier customers' numerous networks, while also enhancing the capabilities and performance of its customers' infrastructure. The Company enables its carrier customers to use, exchange and share critical resources, such as telephone numbers, to facilitate order management and work flow processing among carriers, and allows operators to manage and optimize the addressing and routing of IP communications.

The Company's Enterprise Services operating segment provides services to its enterprise customers to meet their respective directory-related needs, as well as IIS. The Company is the authoritative provider of essential registry services and manages directories of similar resources, or addresses, that its customers use for reliable, fair and secure access and connectivity. The Company provides a suite of DNS services to its enterprise customers built on a global directory platform. The Company manages a collection of directories that maintain addresses in order to direct, prioritize and manage Internet traffic, and to find and resolve Internet queries and top-level domains. The Company's services monitor and load-test websites to help identify issues and optimize performance. In addition, the Company provides fixed IP geolocation services that help enterprises identify the location of their consumers used in a variety of purposes, including fraud prevention and marketing. Additionally, the Company provides directory services for the 5- and 6-digit number strings used for all U.S. Common Short Codes, which is part of the short

messaging service relied upon by the U.S. wireless industry.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012**

The Company's Information Services segment provides a broad portfolio of real-time information and analytics services that enable clients to identify, verify and score their customers and prospective customers, or prospects, to deliver customized responses to a large number of consumer-initiated queries. As an example, the Company provides marketers with the ability to tailor offers made to consumers over the telephone or on the Internet in real time. The Company is one of the largest non-carrier providers of Caller ID services, and provides a comprehensive market analytics platform that enables clients to segment and score customers and prospects for real-time interactive marketing initiatives. Additionally, the Company's business listings identity management service provides local businesses and local search platforms with a single, trusted source of verified business listings for local searches. The Company's online audience solution enables online advertisers to display relevant advertisements to specific audiences, increasing the effectiveness of online advertising and delivering a more useful online experience for consumers using a database and targeting system that protect a consumer's privacy.

The Company reports segment information based on the management approach which relies on the internal performance measures used by the CODM to assess the performance of each operating segment in a given period. In connection with that assessment, the CODM reviews revenues and segment contribution, which excludes certain unallocated costs within the following expense classifications: cost of revenue, sales and marketing, research and development and general and administrative. Depreciation and amortization and restructuring charges are also excluded from segment contribution.

Information for the three months ended March 31, 2011 and 2012 regarding the Company's reportable segments from continuing operations was as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>
<b>Revenue:</b>		
Carrier Services	\$ 109,615	\$ 124,373
Enterprise Services	36,480	39,485
Information Services		35,724
<b>Total revenue</b>	<b>\$ 146,095</b>	<b>\$ 199,582</b>
<b>Segment contribution:</b>		
Carrier Services	\$ 96,579	\$ 108,446
Enterprise Services	15,651	16,731
Information Services		18,014
<b>Total segment contribution</b>	<b>112,230</b>	<b>143,191</b>
<b>Indirect operating expenses:</b>		
Cost of revenue (excluding depreciation and amortization shown separately below)		
Sales and marketing	19,627	24,269
Research and development	3,825	5,730
General and administrative	3,598	4,860
Depreciation and amortization	19,287	20,718
Restructuring charges	9,146	22,706
	432	522
<b>Income from operations</b>	<b>\$ 56,315</b>	<b>\$ 64,386</b>

## Edgar Filing: NEUSTAR INC - Form 10-Q

Assets are not tracked by segment and the CODM does not evaluate segment performance based on asset utilization.

**Table of Contents****NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2012****Enterprise-Wide Disclosures**

Geographic area revenues and service offering revenues from external customers for the three months ended March 31, 2011 and 2012, and geographic area long-lived assets as of December 31, 2011 and March 31, 2012 are as follows (in thousands):

	00000000000	00000000000
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2012</b>
Revenues by geographical areas:		
North America	\$ 137,093	\$ 189,348
Europe and Middle East	5,565	6,293
Other regions	3,437	3,941
<b>Total revenues</b>	<b>\$ 146,095</b>	<b>\$ 199,582</b>

	00000000000	00000000000
	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2012</b>
Revenues by service offerings:		
Carrier Services:		
Numbering Services	\$ 99,426	\$ 110,489
Order Management Services	7,144	10,910
IP Services	3,045	2,974
<b>Total Carrier Services</b>	<b>109,615</b>	<b>124,373</b>
Enterprise Services:		
Internet Infrastructure Services	20,404	21,723
Registry Services	16,076	17,762
<b>Total Enterprise Services</b>	<b>36,480</b>	<b>39,485</b>
Information Services:		
Identification Services		22,719
Verification & Analytics Services		8,236
Local Search & Licensed Data Services		4,769
<b>Total Information Services</b>		<b>35,724</b>
<b>Total revenues</b>	<b>\$ 146,095</b>	<b>\$ 199,582</b>



Edgar Filing: NEUSTAR INC - Form 10-Q

	0000000000 December 31, 2011	0000000000 March 31, 2012
Long-lived assets, net		
North America	\$ 438,799	\$ 428,351
Central America	45	33
Europe and Middle East	25	22
Other regions	1	1
Total long-lived assets, net	\$ 438,870	\$ 428,407

---

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations and economic performance, and our business and growth strategy. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, or negative of these terms or other comparable terminology. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Many of these risks are beyond our ability to control or predict. These forward-looking statements are based on estimates and assumptions by our management that we believe to be reasonable but are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those described in this report, in Part II, Item 1A. Risk Factors and in subsequent filings with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as required by law.

**Overview**

During the first quarter of 2012, we continued to experience increased demand for our Enterprise Services. In particular, revenue from Registry Services grew 10% compared to the first quarter of 2011 due to an increase of 14% in the number of common short codes under management and an increase of 12% in the number of domain names under management. Revenue under our contracts to provide NPAC Services increased 12% driven by an increase in the fixed fee established under our contracts. Also in the first quarter, we generated \$35.7 million from our Information Services operating segment. This operating segment was created as a result of the TARGUSinfo acquisition completed in the fourth quarter of 2011.

We continued to focus on positioning our company for future growth by integrating TARGUSinfo's administrative functions with our existing systems and processes, streamlining our business activities, leveraging our operational capabilities in new areas and continuing to develop an entrepreneurial, customer-focused organization. We developed new customer relationships and invested modestly in growth opportunities that leveraged our core competencies, which include managing directories and providing real-time information and analytics derived from addresses.

During the first quarter of 2012, we continued our capital allocation strategy of returning cash to shareholders through a share repurchase program. On March 14, 2012, we resumed our three-year share repurchase program to purchase up to \$300 million in value of our Class A common shares. Prior to this date, we repurchased approximately 4.5 million shares of stock at a total of \$114.7 million. During the first quarter of 2012, we repurchased approximately 655,000 shares of our common stock at an average price of \$36.39 per share for a total of \$23.8 million. As of March 31, 2012, the remaining authorized amount under our share repurchase program is approximately \$161.3 million.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our unaudited consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements in accordance with U.S. GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue and expense during a fiscal period. The Securities and Exchange Commission, or SEC, considers an accounting policy to be critical if it is important to a company's financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. We have discussed the selection and development of the critical accounting policies with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed our related disclosures in this report.

Although we believe that our judgments and estimates are appropriate and reasonable, actual results may differ from those estimates. In addition, while we have used our best estimates based on the facts and circumstances available to us at the time, we reasonably could have used different estimates in the current period. Changes in the accounting estimates we use are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations could be materially affected. See the information in our filings with the SEC from time to time, including Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, for certain matters that may bear on our results of operations.



## **Table of Contents**

The following discussion of selected critical accounting policies supplements the information relating to our critical accounting policies described in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in our Annual Report on Form 10-K for the year ended December 31, 2011.

### ***Stock-Based Compensation***

We recognize stock-based compensation expense in accordance with the Compensation Stock Compensation Topic of the FASB ASC which requires the measurement and recognition of compensation expense for stock-based awards granted to employees based on estimated fair values on the date of grant.

See Note 8 to our Unaudited Consolidated Financial Statements in Item 1 of Part I of this report for information regarding our assumptions related to stock-based compensation and the amount of stock-based compensation expense we incurred for the periods covered in this report.

We estimate the fair value of our restricted stock unit awards based on the fair value of our common stock on the date of grant. Our outstanding restricted stock unit awards are subject to service-based vesting conditions and performance-based vesting conditions. We recognize the estimated fair value of service-based awards, net of estimated forfeitures, as stock-based compensation expense over the vesting period on a straight-line basis. Awards with performance-based vesting conditions require the achievement of specific financial targets at the end of the specified performance period and the employee's continued employment over the vesting period. We recognize the estimated fair value of performance-based awards, net of estimated forfeitures, as stock-based compensation expense over the vesting period, which considers each performance period or tranche separately, based upon our determination of whether it is probable that the performance targets will be achieved. At each reporting period, we reassess the probability of achieving the performance targets within the related performance period. Determining whether the performance targets will be achieved involves judgment, and the estimate of stock-based compensation expense may be revised periodically based on changes in the probability of achieving the performance targets. If any performance goals are not met, no compensation cost is ultimately recognized against that goal, and to the extent previously recognized, compensation cost is reversed. As of March 31, 2012, we estimated that the level of achievement of the performance targets for performance vested restricted stock units granted during 2012 was 100%.

**Table of Contents****Consolidated Results of Operations****Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2012**

The following table presents an overview of our results of operations for the three months ended March 31, 2011 and 2012:

	Three Months Ended March 31,			
	2011	2012	2011 vs. 2012	
	\$	\$	\$ Change	% Change
(unaudited)				
(dollars in thousands, except per share data)				
<b>Revenue:</b>				
Carrier Services	\$ 109,615	\$ 124,373	\$ 14,758	13.5%
Enterprise Services	36,480	39,485	3,005	8.2%
Information Services		35,724	35,724	100.0%
<b>Total revenue</b>	<b>146,095</b>	<b>199,582</b>	<b>53,487</b>	<b>36.6%</b>
<b>Operating expense:</b>				
Cost of revenue (excludes depreciation and amortization shown separately below)	31,052	44,898	13,846	44.6%
Sales and marketing	24,939	38,353	13,414	53.8%
Research and development	3,996	7,724	3,728	93.3%
General and administrative	20,215	20,993	778	3.8%
Depreciation and amortization	9,146	22,706	13,560	148.3%
Restructuring charges	432	522	90	20.8%
	89,780	135,196	45,416	50.6%
Income from operations	56,315	64,386	8,071	14.3%
<b>Other (expense) income:</b>				
Interest and other expense	(347)	(8,193)	(7,846)	2,261.1%
Interest and other income	203	229	26	12.8%
Income from continuing operations before income taxes	56,171	56,422	251	0.4%
Provision for income taxes, continuing operations	22,706	22,460	(246)	(1.1)%
Income from continuing operations	33,465	33,962	497	1.5%
Income from discontinued operations, net of tax	38,510		(38,510)	(100.0)%
Net income	\$ 71,975	\$ 33,962	\$ (38,013)	(52.8)%
<b>Basic net income per common share:</b>				
Continuing operations	\$ 0.45	\$ 0.51		
Discontinued operations	0.52			
Basic net income per common share	\$ 0.97	\$ 0.51		
<b>Diluted net income per common share:</b>				
Continuing operations	\$ 0.45	\$ 0.50		
Discontinued operations	0.51			
Diluted net income per common share	\$ 0.96	\$ 0.50		

Edgar Filing: NEUSTAR INC - Form 10-Q

Weighted average common shares outstanding:

Basic	73,938	67,205
Diluted	75,285	68,478

---

**Table of Contents****Revenue**

*Carrier Services.* Revenue from our Carrier Services operating segment increased \$14.8 million due to an increase of \$11.1 million in revenue from Numbering Services and an increase of \$3.8 million in revenue from Order Management Services, or OMS. The \$11.1 million increase in revenue from Numbering Services was primarily the result of an \$11.3 million increase in the fixed fee established under our contracts to provide NPAC Services. The increase in revenue from OMS was due to the acquisition of our licensed order management services in the third quarter of 2011 and greater demand and usage from existing customers.

*Enterprise Services.* Revenue from our Enterprise Services operating segment increased \$3.0 million due to an increase of \$1.7 million in revenue from Registry Services. This increase was primarily due to an increase in the number of common short codes and domain names under management. In addition, revenue from Internet Infrastructure Services, or IIS, increased \$1.3 million primarily due to increased demand for our managed domain name systems, or DNS, solutions, to direct and manage Internet traffic.

*Information Services.* In the fourth quarter of 2011, we completed the acquisition of TARGUSinfo and established Information Services as a new operating segment. Revenue from our Information Services operating segment was \$35.7 million, comprised of \$22.7 million in Identification Services, \$8.2 million in Verification & Analytics Services, and \$4.8 million in Local Search and Licensed Data Services.

**Expense**

*Cost of revenue.* Cost of revenue increased \$13.8 million, including \$9.0 million of operating costs related to acquisitions completed subsequent to March 31, 2011. The overall increase of \$13.8 million in cost of revenue was due to a \$5.8 million increase in personnel and personnel-related expense. This increase in personnel and personnel-related expense was due to increased headcount in our technology teams to support system enhancements for new and existing service offerings. In addition, costs relating to our information technology and systems, including data processing costs and general facilities costs, increased \$4.3 million due to growth in our business and ongoing operations. Furthermore, royalty expense increased \$2.1 million and contractor costs increased \$1.6 million as a result of increased costs incurred for customer deployment and customer support.

*Sales and marketing.* Sales and marketing expense increased \$13.4 million, including \$9.1 million of operating costs related to acquisitions subsequent to March 31, 2011. The overall increase of \$13.4 million in sales and marketing expense was due to an \$11.5 million increase in personnel and personnel-related expense related to our expanded sales and marketing teams to support our new and diversified service offerings. In addition, advertising and external marketing costs increased \$2.2 million to increase brand awareness.

*Research and development.* Research and development expense increased \$3.7 million, including \$2.3 million of operating costs related to acquisitions subsequent to March 31, 2011. The overall increase of \$3.7 million in research and development expense was due to an increase of \$2.8 million in personnel and personnel-related expense due to new development initiatives. In addition, contractor costs increased \$0.9 million to augment internal development resources.

*General and administrative.* General and administrative expense increased \$0.8 million, including \$3.0 million of operating costs related to acquisitions subsequent to March 31, 2011. The overall increase of \$0.8 million was primarily due to an increase of \$1.1 million in personnel and personnel-related expense. This increase was comprised of a \$3.3 million increase related to headcount additions to support business operations and the completion of the senior management team, partially offset by a decrease of \$2.2 million in stock-based compensation expense. Of this \$2.2 million decrease in stock-based compensation expense, \$1.2 million resulted from higher expense recorded during the first quarter of 2011 for the departure of certain senior executives for which there was no corresponding expense in the first quarter of 2012.

*Depreciation and amortization.* Depreciation and amortization expense increased \$13.6 million, including \$12.3 million in expense related to acquisitions subsequent to March 31, 2011. The overall increase of \$13.6 million was due to an increase in amortization expense of \$11.4 million as a result of the amortization of intangible assets acquired in connection with acquisitions of our Information Services business and licensed order management assets. In addition, depreciation expense increased \$2.7 million due to acquisitions of new property and equipment, including furniture and fixtures and leasehold improvements.

*Restructuring charges.* Restructuring charges increased \$0.1 million due to severance and severance-related expense of \$0.5 million attributable to our 2011 domestic work-force reduction initiated in the fourth quarter of 2011, partially offset by a decrease in severance and severance-related expense of \$0.4 million attributable to our 2010 management transition plan.

*Interest and other expense.* Interest and other expense increased \$7.8 million due to an \$8.4 million increase in interest expense attributable to our 2011 credit facility, including amortization of related deferred financing costs. This increase was partially offset by a decrease of \$0.3

million in foreign currency losses.



**Table of Contents**

*Interest and other income.* Interest and other income for the three months ended March 31, 2012 was comparable to the interest and other income for the three months ended March 31, 2011.

*Provision for income taxes, continuing operations.* Our estimated annual effective tax rate decreased to 39.8% for the three months ended March 31, 2012 from 40.4% for the three months ended March 31, 2011 primarily due to a settlement of an Internal Revenue Service examination during the first quarter of 2011.

*Income from discontinued operations, net of tax.* During the second quarter of 2011, we completed our plan to wind down and cease operations of our Converged Messaging Services business, following the sale in February 2011 of certain assets and liabilities of Neustar NGM Services, Inc., or NGM Services, and its subsidiaries. The financial results for the three months ended March 31, 2011 and 2012 reflect the results of operations, net of tax, of the Converged Messaging Services business as discontinued operations. We intend to treat the common stock of NGM Services as worthless for U.S. income tax purposes in our 2011 U.S. federal and state income tax returns. As a result, we recorded a discrete income tax benefit of \$42.7 million in the three months ended March 31, 2011.

**Summary of Operating Segments**

The following table presents a summary of our operating segments revenue, contribution and the reconciliation to income from operations for the three months ended March 31, 2011 and 2012 (in thousands):

	Three Months Ended March 31,			
	2011 \$	2012 \$	2011 vs. 2012 \$ Change	% Change
<b>Revenue:</b>				
Carrier Services	\$ 109,615	\$ 124,373	\$ 14,758	13.5%
Enterprise Services	36,480	39,485	3,005	8.2%
Information Services		35,724	35,724	100.0%
<b>Total revenue</b>	<b>\$ 146,095</b>	<b>\$ 199,582</b>	<b>\$ 53,487</b>	<b>36.6%</b>
<b>Segment contribution:</b>				
Carrier Services	\$ 96,579	\$ 108,446	\$ 11,867	12.3%
Enterprise Services	15,651	16,731	1,080	6.9%
Information Services		18,014	18,014	100.0%
<b>Total segment contribution</b>	<b>112,230</b>	<b>143,191</b>	<b>30,961</b>	<b>27.6%</b>
<b>Indirect operating expenses:</b>				
Cost of revenue (excluding depreciation and amortization shown separately below)	19,627	24,269	4,642	23.7%
Sales and marketing	3,825	5,730	1,905	49.8%
Research and development	3,598	4,860	1,262	35.1%
General and administrative	19,287	20,718	1,431	7.4%
Depreciation and amortization	9,146	22,706	13,560	148.3%
Restructuring charges	432	522	90	20.8%
<b>Income from operations</b>	<b>\$ 56,315</b>	<b>\$ 64,386</b>	<b>\$ 8,071</b>	<b>14.3%</b>

Segment contribution is determined based on internal performance measures used by the chief operating decision maker, or CODM, to assess the performance of each operating segment in a given period. In connection with this assessment, the CODM reviews revenue and segment contribution, which excludes certain unallocated costs within the following expense classifications: cost of revenue, sales and marketing, research and development and general and administrative. Depreciation and amortization and restructuring charges are also excluded from the segment contribution.

The following is a discussion of our operating segment results for the three months ended March 31, 2011 and 2012:

## Edgar Filing: NEUSTAR INC - Form 10-Q

*Carrier Services.* Revenue from our Carrier Services operating segment increased \$14.8 million due to an increase of \$11.1 million in revenue from Numbering Services and an increase of \$3.8 million in revenue from OMS. The \$11.1 million increase in revenue from our Numbering Services was primarily the result of an \$11.3 million increase in the fixed fee established under our contracts to provide NPAC services. The increase in revenue from OMS was due to the acquisition of our licensed order management services completed in the third quarter of 2011 and greater demand from existing customers. Segment operating costs for Carrier Services totaled \$15.9 million, an increase of \$2.9 million. This increase in segment operating costs was primarily driven by the

## **Table of Contents**

acquisition of our licensed order management services. In particular, personnel and personnel-related expense increased \$2.7 million due to increased headcount attributable to the acquisition and to support revenue growth. Carrier Services segment revenue less its segment operating costs resulted in a segment contribution of \$108.4 million, an increase of \$11.9 million.

*Enterprise Services.* Revenue from our Enterprise Services operating segment increased \$3.0 million due to an increase of \$1.7 million in revenue from Registry Services primarily due to an increase in the number of common short codes and domain names under management. In addition, revenue from IIS increased \$1.3 million primarily due to our DNS solutions. Segment operating costs for Enterprise Services totaled \$22.8 million, an increase of \$1.9 million. This increase in segment operating costs was due to an increase of \$1.3 million in personnel and personnel-related expense and an increase of \$0.9 million in Registry Services royalty expense driven by increased revenue from managing a larger number of common short codes and domain names. These increases were partially offset by a decrease of \$0.6 million in general facilities costs and network costs. Enterprise Services segment revenue less its segment operating costs resulted in a segment contribution of \$16.7 million, an increase of \$1.1 million.

*Information Services.* In the fourth quarter of 2011, we completed the acquisition of TARGUSinfo and established Information Services as a new operating segment. Revenue from our Information Services operating segment was \$35.7 million, comprised of \$22.7 million in Identification Services, \$8.2 million in Verification & Analytics Services, and \$4.8 million in Local Search and Licensed Data Services. Segment operating costs for Information Services totaled \$17.7 million and included \$12.4 million in personnel and personnel-related expense, \$4.3 million in costs related to our information technology and systems and \$1.0 million in data processing costs and general facilities costs. Information Services segment revenue less its segment operating costs resulted in a segment contribution of \$18.0 million.

## **Liquidity and Capital Resources**

Our principal sources of liquidity are cash provided by operating activities. Our principal uses of cash have been to fund share repurchases, capital expenditures, debt service requirements, facility expansions and acquisitions. We anticipate that our principal uses of cash in the future will be for share repurchases, capital expenditures, debt service requirements and acquisitions.

Total cash, cash equivalents and investments were \$188.7 million at March 31, 2012, an increase of \$53.4 million from \$135.3 million at December 31, 2011. This increase in cash, cash equivalents and investments was primarily due to cash provided by operations.

We believe that our existing cash and cash equivalents, short-term investments, and cash from operations will be sufficient to fund our operations for the next twelve months.

## ***Credit Facilities***

On November 8, 2011, we entered into a credit agreement that includes: (1) a \$600 million senior secured term loan facility, or Term Facility; and (2) a \$100 million senior secured revolving credit facility, or Revolving Facility, and together with the Term Facility, the 2011 Facilities. The Revolving Facility matures on November 8, 2016, and the Term Facility matures on November 8, 2018. The entire \$600 million Term Facility was borrowed on November 8, 2011, and used to fund a portion of the acquisition of TARGUSinfo and to pay costs, fees and expenses incurred in connection with the acquisition. We did not borrow any amounts under the Revolving Facility in 2011 or through March 31, 2012.

Principal payments under the Term Facility of \$1.5 million are due on the last day of the quarter starting on December 31, 2011 and ending on September 30, 2018. The remaining Term Facility principal balance of \$558.0 million is due in full on November 8, 2018, subject to early mandatory prepayments. The loans outstanding under the credit facility bear interest, at our option, either: (i) at the base rate, which is defined as the highest of (a) the federal funds rate plus 0.50%, (b) the interest rate published by the Wall Street Journal as the U.S. Prime Rate and (c) the adjusted LIBOR rate for a one-month interest period beginning on such day plus 1.00%; *provided* that the base rate for loans under the Term Facility is deemed to be not less than 2.25% per annum or (ii) at the LIBOR rate plus, in each case, an applicable margin. The applicable margin is (i) in respect of the Term Facility, 2.75% per annum for borrowings based on the base rate and 3.75% per annum for borrowings based on the LIBOR rate, and (ii) in respect of the Revolving Facility, 2.50% per annum for borrowings based on the base rate and 3.50% per annum borrowings based on the LIBOR rate. The accrued interest under the Term Facility is payable quarterly beginning on February 8, 2012. As of March 31, 2012, the annual interest rate on the Term Facility was 5%. The accrued interest under the Revolving Facility is due on the last day of the quarter starting on December 31, 2011.

The Term Facility has a 1% prepayment fee in the event it is refinanced within the first year of issuance. The 2011 Facilities provide for mandatory prepayments with the net cash proceeds of



---

**Table of Contents**

certain debt issuances, equity issuances, insurance receipts, dispositions and excess cash flows. Mandatory prepayments attributable to excess cash flows will be based on our leverage ratio and will be determined at the end of each fiscal year, beginning with the year ended December 31, 2012. A leverage ratio of 1.5x or higher will trigger mandatory prepayments of 25% or 50% of excess cash flow. As of March 31, 2012, we estimated a mandatory prepayment of approximately \$54.5 million to be payable in the first quarter of 2013 and reclassified this estimated prepayment amount from long-term note payable to current note payable.

The 2011 Facilities contain customary representations and warranties, affirmative and negative covenants, and events of default. The quarterly financial covenants include a maximum consolidated fixed charge coverage ratio and a minimum consolidated leverage ratio. As of and for the three months ended March 31, 2012, we were in compliance with these covenants. Further, we believe these covenants will not restrict our ability to execute our business plan.

As of March 31, 2012, our outstanding borrowings under the Term Facility were \$588.4 million and accrued interest under the Facilities was \$4.5 million. As of March 31, 2012, the Company's available borrowings under the Revolving Facility were \$100 million.

**Discussion of Cash Flows***Cash flows from operations*

Net cash provided by operating activities for the three months ended March 31, 2012 was \$60.0 million, as compared to \$45.2 million for the three months ended March 31, 2011. This \$14.8 million increase in net cash provided by operating activities was the result of a decrease in net income of \$38.0 million, an increase in non-cash adjustments of \$2.5 million, and an increase in net changes in operating assets and liabilities of \$50.3 million.

Net income decreased \$38.0 million primarily due to a tax benefit of \$42.7 million recorded in the first quarter of 2011 and related to a worthless stock deduction for the common stock of Neustar NGM Services, Inc.

Non-cash adjustments increased \$2.5 million due to an increase of \$13.2 million in depreciation and amortization expense. This increase in non-cash adjustments was partially offset by a decrease of \$4.6 million in excess tax benefits from stock option exercises, a decrease of \$2.4 million in stock-based compensation, a decrease of \$2.1 million in deferred income taxes, and a decrease of \$1.9 million in loss on sale, recorded in the first quarter of 2011, attributable to the sale of certain assets liabilities of our Converged Messaging Services business.

Net changes in operating assets and liabilities increased \$50.3 million primarily due to a decrease of \$64.3 million in income taxes receivable, primarily the result of the tax benefit we recorded in the first quarter of 2011 in connection with a deduction for the loss on worthless stock, a decrease of \$8.3 million in prepaid expenses and other current assets, and an increase of \$8.3 million in deferred revenue. These increases in net changes in operating assets and liabilities were partially offset by a decrease of \$15.9 million in accounts payable and accrued expenses, a net change of \$13.1 million attributable to net increases in accounts and unbilled receivables, and a decrease of \$1.1 million in accrued restructuring.

*Cash flows from investing*

Net cash used in investing activities for the three months ended March 31, 2012 was \$8.2 million, as compared to \$58.4 million for three months ended March 31, 2011. This \$50.2 million decrease in net cash used in investing activities was primarily due to a decrease of \$45.4 million in investment purchases, a decrease of \$3.6 million in cash used for purchases of property and equipment and an increase of \$1.1 million in cash received from the sale of investments.

*Cash flows from financing*

Net cash provided by financing activities was \$3.5 million for the three months ended March 31, 2012, as compared to net cash used in financing activities of \$21.7 million for the three months ended March 31, 2011. This \$25.2 million increase in net cash provided by financing activities was primarily due to an increase of \$25.5 million in proceeds from the exercise of stock options, an increase of \$9.2 million in restricted cash, recorded in the first quarter of 2011, primarily used to collateralize our outstanding letters of credit, and an increase of \$4.6 million in excess tax benefits from stock-based compensation. These increases in cash provided by financing activities were partially offset by an increase of \$8.2 million in cash used for the repurchase of restricted stock awards attributable to participants electing to use stock to satisfy their tax withholdings and an increase of \$5.4 million in cash used to repurchase shares of our Class A common stock under our share repurchase programs.



## **Table of Contents**

### **Recent Accounting Pronouncements**

See Note 2 to our Unaudited Consolidated Financial Statements in Item 1 of Part 1 of this report for a discussion of the effects of recent accounting pronouncements.

### **Off-Balance Sheet Arrangements**

None.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about our market risk, see **Quantitative and Qualitative Disclosures About Market Risk** in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Our exposure to market risk has not changed materially since December 31, 2011.

### **Item 4. Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

In addition, there were no changes in our internal control over financial reporting that occurred in the first quarter of 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we are subject to claims in legal proceedings arising in the normal course of our business. We do not believe that we are party to any pending legal action that could reasonably be expected to have a material adverse effect on our business or operating results.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in Part I, Item 1A. **Risk Factors** in our Annual Report on Form 10-K for our fiscal year ended December 31, 2011, filed with the SEC on February 29, 2012. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.





**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended March 31, 2012:

Month	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)(3)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3)
January 1 through January 31, 2012	220,881	\$ 34.24		\$ 185,299,019
February 1 through February 29, 2012	36,424	35.32		185,299,019
March 1 through March 31, 2012	656,379	36.39	655,000	161,461,573
Total	913,684	\$ 35.83	655,000	\$ 161,461,573

- (1) The number of shares purchased includes shares of common stock tendered by employees to us to satisfy the employees' tax withholding obligations arising as a result of vesting of restricted stock grants under our stock incentive plan. We purchased these shares for their fair market value on the vesting date.
- (2) The difference between the total number of shares purchased and the total number of shares purchased as part of publicly announced plans or programs is 258,624 shares, all of which relate to shares surrendered to us by employees to satisfy the employees' tax withholding obligations arising as a result of vesting of restricted stock grants under our incentive stock plans.
- (3) On July 28, 2010, we announced the adoption of a share repurchase program. The program authorizes the repurchase of up to \$300 million of Class A common shares through Rule 10b5-1 programs, open market purchases, privately negotiated transactions or otherwise as market conditions warrant, at prices we deem appropriate. The program will expire in July 2013.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Table of Contents**

**Item 6. Exhibits**

See exhibits listed under the Exhibit Index below.

**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.

**NeuStar, Inc.**

Date: April 26, 2012

By: /s/ Paul S. Lalljie  
Paul S. Lalljie  
Chief Financial Officer

(Principal Financial and Accounting Officer and Duly Authorized  
Officer)

**Table of Contents**

## EXHIBIT INDEX

Exhibit	
No.	Description
2.1	Agreement and Plan of Merger, dated as of October 10, 2011, by and among NeuStar, Inc., Tumi Merger Sub, Inc., Targus Information Corporation and Michael M. Sullivan, as Stockholder Representative, incorporated herein by reference to Exhibit 2.1 to NeuStar's Current Report on Form 8-K, filed October 11, 2011.
3.1	Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 7 to NeuStar's Registration Statement on Form S-1, filed June 28, 2005 (File No. 333-123635).
3.2	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 99.1 to NeuStar's Current Report on Form 8-K, filed December 16, 2010.
10.38	Separation Agreement, dated January 11, 2012, between Douglas Arnold and Neustar, incorporated herein by reference to Exhibit 99.3 to NeuStar's Current Report on Form 8-K, filed January 13, 2012.
10.39	Form of Restricted Stock Unit Award Agreement under the NeuStar, Inc. 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.1 to NeuStar's Current Report on Form 8-K, filed March 2, 2012.
10.40	Form of Performance-Vested Restricted Stock Unit Award Agreement under the NeuStar, Inc. 2009 Stock Incentive Plan, incorporated herein by reference to Exhibit 99.2 to NeuStar's Current Report on Form 8-K, filed March 2, 2012.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema**
101.CAL	XBRL Taxonomy Extension Calculation**
101.DEF	XBRL Taxonomy Extension Definition**
101.LAB	XBRL Taxonomy Extension Label**
101.PRE	XBRL Taxonomy Extension Presentation**

## Compensatory Arrangement

\*\* Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or other liability provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In addition, users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.