

December 8, 2014

**Electronically Filed**

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Re: *Petition of Telcordia Technologies, Inc. to Reform or Strike Amendment 70, To Institute a Competitive Bidding for Number Portability Administration, and To End the LLC's Interim Role in Number Portability Administration Contract Management, WC Docket Nos. 07-149 & 09-109, CC Docket No. 95-116.*

Dear Ms. Dortch:

On behalf of CTIA-The Wireless Association, I write in response to the December 3, 2014, *ex parte* letter of Aaron Panner on behalf of Neustar.

Neustar's *ex parte* takes issue with the following statement in an *ex parte* letter CTIA filed with the Commission on November 20, 2014: "As CTIA and US Telecom noted in their filed comments in this proceeding, any extension of the current LNPA contract beyond its scheduled June 2015 expiration will automatically trigger a price escalation clause and will cost consumers over \$40 million *per month*. See Comments of CTIA & U.S. Telecom Association at 20-21; see also Reply Comments of CTIA & U.S. Telecom Association at 7-8." As explained below, while Neustar might prefer that the public remain ignorant of the massive cost of its service as the incumbent LNP Administrator, CTIA's statement is based on Neustar's most recent 10-K, and as such, has been certified to be accurate and not misleading by the company's Chief Financial Officer and Chief Executive Officer.

Neustar baldly asserts that CTIA's "claim" is "wrong on its face," but provides no explanation for disputing the accuracy of the calculation. Nor could it. As noted above, the calculation is based on the 2013 Annual Report that Neustar itself filed with the SEC. As the comments cross-referenced in CTIA's *ex parte* noted, Neustar acknowledged that "our fees are billed to telecommunications service providers based on their allocable share of the total transaction charges." Neustar Annual Report on SEC Form 10-K for Fiscal Year 2013 at 9. (Copies of relevant pages of the Annual Report are attached.) And it is indisputable that these

charges have dramatically escalated in recent years. As Neustar itself states, “[t]he total amount of revenue derived under the Company’s contracts with NAPM”—including “fees for NPAC Services” and “fees for system enhancements”—“was approximately \$374.4 million, \$418.2 million and \$446.4 million for the years ended December 31, 2011, 2012 and 2013, respectively.” *Id.* at 58. Moreover, Neustar’s “Base Fee” for 2013 (\$437.4 million) “is subject to an annual price escalator of 6.5% in subsequent years.” *Id.* Thus, as CTIA explained, the triggering of the 6.5% annual escalator will equate to costs of “over \$40 million *per month*,” effective January 1, 2015:

1. \$437.4 million (2013 annual base fee) x 1.065 = \$465.83 million (2014 annual fee with escalation)
2. \$465.83 million (2014 annual fee with escalation) x 1.065 = \$496.11 million (2015 annual fee with escalation)
3. \$496.11 million (2015 annual fee with escalation) ÷ 12 months = ***\$41.34 million/month.***

Neustar suggests that CTIA focused on this monthly cost—a cost that would be borne by telecommunications service providers and their customers—without regard to the costs that would be incurred if Telcordia were awarded the LNPA contract. That is simply untrue. The CTIA comments expressly referenced in CTIA’s *ex parte* compared the “equivalent monthly cost” of Telcordia, noted the FoNPAC Report’s evaluation of the disparity between the two vendors’ costs, and explained how much more the public would pay per month if the Neustar contract were extended. *See* Reply Comments of CTIA & United States Telecom Association at 7-8 (cited in CTIA Nov. 20, 2014 *ex parte* at 1-2). For the same reason, Neustar is also wrong in asserting that CTIA “ignore[d] the fact that no matter what happens, NPAC services must be provided, and the company that provides them will charge for those services.” Neustar Dec. 3, 2014 *ex parte* at 1. The evaluation of the two vendors’ costs fully considered the *comparative* costs.

Neustar’s assertions that CTIA has focused on cost to the exclusion of other factors—and “ignore[d]” transition costs (*id.* at 2)—are likewise incorrect. Indeed, Neustar has it exactly backwards when it claims that transition costs would “overwhelm the claimed potential savings from a lower-priced contract” (*id.*): The price differential between the two “best and final” bids in fact dwarfs all conceivable transition costs, as CTIA demonstrated. *See* Reply Comments of CTIA & United States Telecom Association at 7-8 (cited in CTIA Nov. 20, 2014 *ex parte* at 1-2).

CTIA further explained that, in addition to transition costs, the competence of the proposed vendors was carefully considered. “From the outset, the key objective in selecting an LNPA has been ‘to provide the neutral, technologically proficient, and cost-effective administrative services that are necessary for achieving the important pro-consumer and pro-competitive purposes of local number portability.’ To this end, the NANC, NAPM, their subcommittees and this Commission carefully crafted an RFP with the following weighted evaluation criteria: *technical proficiency, management proficiency*, and cost. The RFP stated: ‘The Technical and Management criteria when combined are significantly more important than

the Cost criterion alone. If Respondents' Technical and Management merits are not significantly disparate, the Cost may become determinative.'"Comments of CTIA & U.S. Telecom Association at 20-21 (quoting *Petition of Telcordia Technologies Inc. to Reform or Strike Amendment 70, to Institute Competitive Bidding for Number Portability Administration and to End the NAPM LLC's Interim Role in Number Portability Administration Contract; Telephone Number Portability*, 26 FCC Rcd 3685, 3687 (2011), and RFP, § 14.1.1) (emphasis added); see also Reply Comments of CTIA & U.S. Telecom Association at 8 (cited in CTIA Nov. 20, 2014 *ex parte* at 1-2). The NANC's unanimous recommendation makes clear that its members were fully satisfied with the qualifications of the recommended vendor (Telcordia). Under those circumstances, consideration of cost was entirely appropriate. Indeed, it would be the height of arbitrary and capricious decision-making to *disregard* cost.

Neustar raises the specter of a "*botched* transition" (Neustar Dec. 3, 2014 *ex parte* at 3), but that is mere hand-waving. Indeed, Neustar's thinly veiled threat that "once there is a transition, it may be impossible for Neustar to take back the database and restore it to its current highly functional status" (*id.* at 2-3) all but suggests the Commission has no choice but to select Neustar on Neustar's terms—and at any price. The very notion of an RFP, however, contemplates that a different vendor may be selected. And Neustar has presented no cogent evidence that a smooth transition to Telcordia could not be accomplished. To the contrary, CTIA has explained that the RFP required prospective bidders to submit detailed plans demonstrating how they would manage multiple aspects of a transition. See Reply Comments of CTIA & U.S. Telecom Association at 3-4. And the FoNPAC, SWG, and NANC itself each diligently evaluated those issues. *Id.* at 5-7.

Neustar's letter underscores the need for urgent action. Neustar has offered no plausible response to the concerns expressed by a broad coalition of stakeholders about the escalating costs of the current LNPA contract. We continue to urge the Commission to act by year-end (2014) to select a new Administrator in order to allow the carriers' business and technical units to start the necessary logistical planning for a seamless transition.

If you have any questions concerning this matter, please feel free to contact me at (202) 973-4256.

Sincerely,

/s/

Peter Karanjia  
*Counsel for CTIA-The Wireless Association*

Enclosures

December 8, 2014

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cc: Daniel Alvarez  
Amy Bender  
Nick Bourne  
Terry Cavanaugh  
Randy Clarke  
Nicholas Degani  
Neil Dellar  
Michele Ellison  
Myrva Freeman  
Lisa Gelb  
David Goldman  
Rebekah Goodheart  
Heather Hendrickson  
Richard Hovey  
Marcus Maher  
Jonathan Sallet  
Michelle Sclater  
Ann Stevens  
Julie Veach  
Sanford Williams

# **Attachment**

Excerpts from Neustar 2013 Form 10-K

10-K 1 nsr-20131231x10k.htm FORM 10-K

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549  
**Form 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

Or

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

For the transition period from

to

Commission File No. 001-32548

**NeuStar, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*State or other jurisdiction of incorporation or organization)*

**21575 Ridgetop Circle  
Sterling, Virginia**

*(Address of principal executive offices)*

**52-2141938**

*(I.R.S. Employer Identification No.)*

**20166**

*(Zip Code)*

**(571) 434-5400**

*(Registrant's telephone number, including area code)*

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock	New York Stock Exchange

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

**None**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

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

On February 21, 2014, 61,186,486 shares of NeuStar Class A common stock were outstanding and 3,082 shares of NeuStar Class B common stock were outstanding. The aggregate market value of the NeuStar common equity held by non-affiliates as of June 30, 2013 was approximately \$4.2 billion.

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**DOCUMENTS INCORPORATED BY REFERENCE:**

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of NeuStar's definitive proxy statement for its 2014 Annual Meeting of Stockholders, which NeuStar intends to file with the Securities and Exchange Commission within 120 days of December 31, 2013.

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registries, and a number of managers of country-specific domain name registries, such as .uk for domain names in the United Kingdom. We compete with TNS, Inc. with respect to our caller identification services.

Competitive factors in the market for our services include breadth and quality of services offered, reliability, security, cost-efficiency, privacy compliance and client support. Our ability to compete successfully depends on numerous factors, both within and outside our control, including:

- our responsiveness to clients' needs;
- our ability to support existing and new industry standards and protocols;
- our ability to continue to develop technical innovations; and
- the quality, reliability, security and price-competitiveness of our services.

We may not be able to compete successfully against current or future competitors and competitive pressures that we face may materially and adversely affect our business. See "Risk Factors — Risks Related to Our Business — *The markets for our services are competitive, and if we do not adapt our organization and services to meet rapid technological and market change, we could lose clients or market share.*" in Item 1A of this report.

## Employees

As of December 31, 2013, we had 1,623 employees. None of our employees are currently represented by a labor union. We have not experienced any work stoppages and consider our relationship with our employees to be good.

## Contracts

We provide many of our services pursuant to private commercial and government contracts. Specifically, in the United States, we provide wireline and wireless number portability, implement the allocation of pooled blocks of telephone numbers and provide network management services pursuant to seven regional contracts with NAPM. Although the FCC has plenary authority over the administration of telephone number portability, it is not a party to our contracts with NAPM. The NANC, a federal advisory committee to which the FCC has delegated limited oversight responsibilities, reviews and oversees NAPM's management of these contracts. See — "Regulatory Environment — Telephone Numbering."

Our seven regional contracts with NAPM provide for an annual fixed-fee pricing model under which the annual fixed fee, or Base Fee, was set at \$385.6 million, \$410.7 million and \$437.4 million in 2011, 2012 and 2013, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. If the actual volume of transactions in a given year is above or below the contractually established volume range for that year, the Base Fee may be adjusted up or down, respectively, with any such adjustment being applied in the following year. The contracts also provided for a fixed credit of \$5.0 million in 2011, which was applied to reduce the Base Fee in 2011. Additional credits of up to \$15.0 million in 2011 could have been triggered if the clients reached certain levels of aggregate telephone number inventories and adopted and implemented certain IP fields and functionality. During 2011, our clients earned all of the available additional credits of \$15.0 million for the adoption and implementation of certain IP fields and functionality and the attainment of specific levels of aggregate telephone number inventories.

Under the fixed-fee model, our fees are billed to telecommunications service providers based on their allocable share of the total transaction charges. This allocable share is based on each respective telecommunications service provider's share of the aggregate end-user services revenue of all U.S. telecommunications service providers, as determined by the FCC. Under these contracts, we also bill to our clients a revenue recovery collections fee, or RRC fee, equal to a percentage of monthly billings, which is available to us if any telecommunications service provider fails to pay its allocable share of total transaction charges. If the RRC fee proves insufficient for that purpose, these contracts also provide for the recovery of such differences from the remaining telecommunications service providers. Under these contracts, users of our directory services also pay fees to connect to our data center and additional fees for reports that we generate at the user's request. Our contracts with NAPM continue through June 2015. (See "Risk Factors — Risks Related to Our Business — *The revenue we receive under our seven contracts with North American Portability Management LLC represents, in the aggregate, a substantial portion of our overall revenue. These contracts are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are*

*due to expire in June 2015 and are currently subject to a competitive proposal process. If we are not selected to continue to provide these services on the same terms and conditions, or at all, our business, prospects, financial condition and results of operations will be materially adversely affected.” in Item 1A of this report).*

We also provide wireline and wireless number portability and network management services in Canada pursuant to a contract with the Canadian LNP Consortium Inc., a private corporation composed of telecommunications service providers who

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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 and Item 1A of this report, "Risk Factors," for certain matters that may bear on our results of operations.

***Revenue Recognition***

We provide wireline and wireless number portability, implement the allocation of pooled blocks of telephone numbers and provide network management services pursuant to seven contracts with NAPM. The aggregate fees for transactions processed under the contracts are determined by an annual fixed-fee pricing model under which the annual fixed fee is subject to an annual price escalator of 6.5%. If actual volume of transactions in a given year is above or below the contractually established volume range for that year, the annual fixed fee may be adjusted up or down, respectively. At each reporting period, we assess the volume of transactions in comparison to the contractually established volume range for that year and determine the probability of an adjustment, either up or down, to the annual fixed fee. If we determine an adjustment is probable and measurable, we record the adjustment to revenue in the reporting period in which our assessment is made. We have not recorded any adjustments to the annual fixed fee since the inception of these contract terms in January 2009.

For more information regarding our revenue recognition policy, please see Note 2 to our Consolidated Financial Statements in Item 8 of Part II of this report.

***Service Level Standards***

Some of our private commercial contracts require us to meet minimum service level standards and impose corresponding penalties for failure to meet those standards. We record a provision for these performance-related penalties when we become aware that we have failed to meet required service levels, which results in a corresponding reduction of our revenue.

***Goodwill***

Goodwill represents the excess purchase price paid over the fair value of tangible or identifiable intangible assets acquired and liabilities assumed in our acquisitions. In accordance with the Intangibles-Goodwill and Other Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, we test our goodwill for impairment on an annual basis, or on an interim basis if an event occurs or circumstances change that indicate an impairment may have occurred.

In the fourth quarter of 2013, we reorganized our operating structure and internal financial reporting to a functional structure, to reflect of how our chief operating decision maker, or CODM, allocates resources and assesses performance. This reorganization changed our operating segments and the underlying reporting units. Prior to the reorganization, we reported our results of operations based on three operating segments and reporting units: Carrier Services, Enterprise Services, and Information Services. The new functional structure resulted in a single operating segment and reporting unit. We did not identify indicators of impairment in connection with this realignment.

Our 2013 annual goodwill impairment analysis, which we performed as of October 1, 2013, did not result in an impairment charge. We compared our market capitalization to our reporting unit carrying value as of October 1, 2013. As a result of this analysis, we determined that the estimated fair value of our reporting unit was substantially in excess of the carrying value.

We believe that the assumptions and estimates used to determine the estimated fair value of our reporting unit are reasonable; however, there are a number of factors, including factors outside of our control, including stock price volatility, that could cause actual results to differ from our estimates.

Any changes to our key assumptions about our business and our prospects, or changes in market conditions, could cause the fair value of our reporting unit to fall below its carrying value, resulting in a potential impairment charge. In addition,

changes in our organizational structure or how our management allocates resources and assesses performance could result in a change of our operating segment or reporting unit, requiring a reallocation and impairment analysis of our goodwill. A goodwill impairment charge could have a material effect on our consolidated financial statements because of the significance of goodwill to our consolidated balance sheet. As of December 31, 2013, we had \$642.8 million in goodwill.

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**NEUSTAR, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

the residual method, revenue is allocated to the undelivered elements using VSOE of fair value, and the remaining contract fee is allocated to the delivered elements and recognized as revenue when all other revenue recognition criteria have been met. For software contracts that include customization services that are essential to the functionality of the delivered software, the software license and implementation and customization revenue is recognized under the contract method of accounting using the percentage-of-completion method. The Company estimates the percentage-of-completion for each contract based on the ratio of direct labor hours incurred to total estimated direct labor hours required under such contract and recognizes an amount of revenue equal to the percentage-of-completion multiplied by the contract amount allocated to the software license and implementation and customization services fees. The contract amount allocated to these delivered elements is determined under the residual method approach. The Company determined the VSOE of PCS under the bell-shape curve approach and determined that a substantial majority of its actual PCS renewals are within a narrow range of the median pricing. For arrangements with bundled PCS where there is no stated contractual PCS rate or where the rate is less than the established range of VSOE, the Company utilizes the low end of the range for VSOE as the fair value of PCS. PCS revenue is recognized on a straight-line basis over the service term of the contract.

In the event the Company estimates losses on its fixed price contracts, the Company recognizes these losses in the period in which a loss becomes apparent.

***Professional Services***

The Company's professional services revenue is comprised of fees for consulting services that support a client's pre- and post- implementation activities, including plan and design, optimization, support and training services. Consulting services may be provided on a stand-alone basis or bundled within a multiple deliverable arrangement. For consulting services provided on a stand-alone basis, revenue is recognized as services are performed. For consulting services bundled within a multiple deliverable arrangement, the services are evaluated for separability by determining if they have stand-alone value to the client. The selling price for the consulting services is established using the VSOE, TPE, ESP hierarchy. For consulting services with no stand-alone value, the contract fee allocated to the consulting services is combined with the consideration from the undelivered elements in the arrangement and recognized as revenue when all other revenue recognition criteria have been met.

***Significant Contracts***

The Company provides number portability administration center services (NPAC Services), which include wireline and wireless number portability, implementation of the allocation of pooled blocks of telephone numbers and network management services in the United States pursuant to seven contracts with NAPM, an industry group that represents all telecommunications service providers in the United States. The aggregate fees for transactions processed under these contracts are determined by an annual fixed-fee pricing model under which the annual fixed fee (Base Fee) was set at \$385.6 million, \$410.7 million and \$437.4 million in 2011, 2012 and 2013, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. These contracts also provide for a fixed credit to clients of \$5.0 million in 2011, which was applied to reduce the Base Fee for the applicable year. Clients under these contracts could have earned additional credits of up to \$15.0 million in 2011 if the clients reached specific levels of aggregate telephone number inventories and adopted and implemented certain IP fields and functionality. In the event that the volume of transactions in a given year is above or below the contractually established volume range for that year, the Base Fee may be adjusted up or down, respectively, with any such adjustment being applied against invoices in the following year. To the extent any available additional credits expire unused at the end of a year, they will be recognized in revenue at that time. The Company determines the fixed and determinable fee under these contracts on an annual basis at the beginning of each year and recognizes this fee on a straight-line basis over twelve months.

For 2011, the Company concluded that the fixed and determinable fee equaled \$365.6 million, which represents the Base Fee of \$385.6 million, reduced by the \$5.0 million fixed credit and \$15.0 million of additional credits. During 2011, the Company determined that its clients earned all of the additional credits of \$15.0 million attributable to the adoption and implementation of the requisite IP fields and functionality and the achievement of specific levels of aggregate telephone number inventories. For 2012 and 2013, the Company concluded that the fixed and determinable fee equaled \$410.7 million and \$437.4 million, respectively, which represents the Base Fee.

The total amount of revenue derived under the Company's contracts with NAPM, which is comprised of fees for NPAC Services, connection service fees related to the Company's NPAC Services and fees for system enhancements, was approximately \$374.4 million, \$418.2 million and \$446.4 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Fees under the Company's contracts with NAPM are billed to telecommunications service providers based on their allocable share of the total transaction charges. This allocable share is based on each respective telecommunications service

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101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation

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† Compensation arrangement.

\*\* Confidential treatment has been requested or granted for portions of this document. The omitted portions of this document have been filed with the Securities and Exchange Commission.