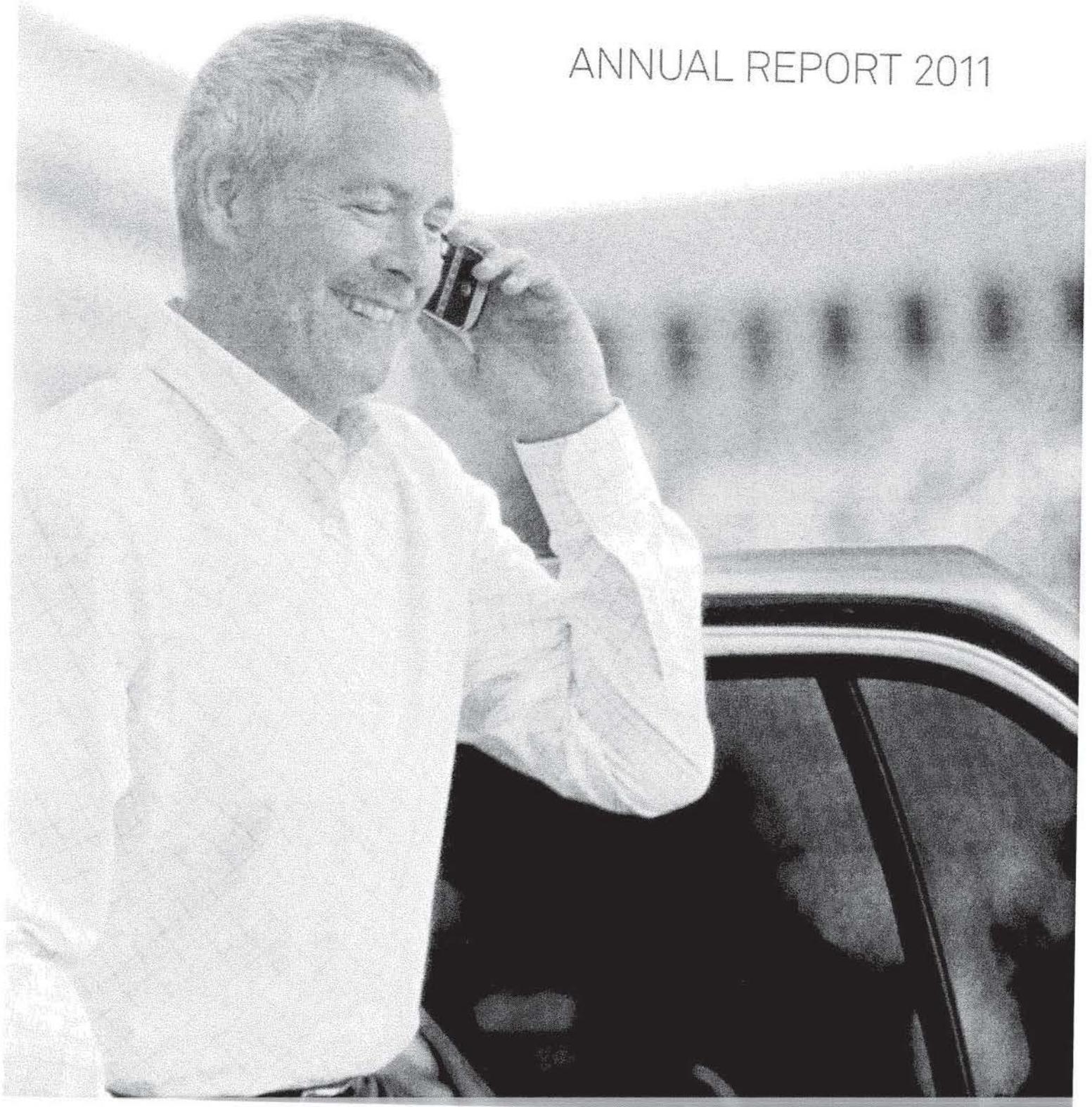


**neustar**<sup>®</sup>  
Real Intelligence. Better Decisions.

## ANNUAL REPORT 2011



# FINANCIAL HIGHLIGHTS

(\$-Millions, except per share data)

	2009	2010	2011
<b>Revenue</b>	\$467.3	\$520.9	\$620.5
<b>Income from operations</b>	\$189.7	\$205.7	\$209.0
<b>EPS<sup>(1)</sup></b>	\$1.53	\$1.63	\$1.66

(1) Income from continuing operations per diluted share

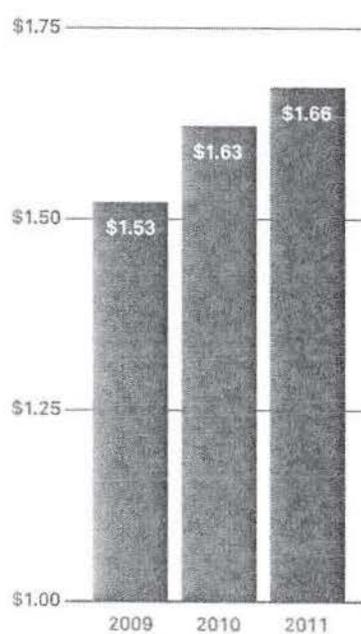
**Revenue**  
(\$-Millions)



**Income from Operations**  
(\$-Millions)



**EPS**



Real  
Intelligence.  
Better  
Decisions.

Dear Stockholder,

This was a year of tremendous change for Neustar. We shifted our strategic plan to focus more intensely on providing information and analytics services to the Internet, telecommunications, entertainment, and marketing services sectors. We expanded our capabilities, reorganized our structure, and streamlined our operations in order to promote growth and build stockholder value. We told the market what we intended to do and then we did it. Thus, amidst significant change, Neustar delivered a familiar result: strong performance.

We began the year with a pledge to sharpen our focus on our best opportunities, and I believe we fulfilled that commitment. We continue to be a leading provider of addressing, routing, and policy management for the communications and Internet sectors, while expanding this expertise into the digital content sector. We also built upon our expertise in data analysis to provide real-time information and analytics services that save our customers time and money, help them build their businesses, and protect them and their customers against fraud.

During 2011, we also delivered strong growth in revenue, earnings, and cash flow. We did so even as we completed four major transactions, including the acquisition of assets from Evolving Systems, Inc., our first term loan, the acquisition of Targus Information Corporation (TARGUSinfo), and a share buyback on an accelerated basis. In 2011, we executed the right transactions, at the right time, with the right financial structure.

### **Making Smart Acquisitions**

In the first several months after I became CEO of Neustar, we assessed the scale, competitive position, and economics of all of our businesses to determine how to position the Company strategically for the future. We decided that, given the enormous data resources it possessed, Neustar could and should become a global leader in real-time information and analysis based on addressing. We defined a strict set of acquisition criteria with a focus on low risk, value-creating transactions in near adjacent sectors, including acquisitions that would accelerate product development in our core businesses.

In July, we acquired numbering assets from Evolving Systems for approximately \$39 million, integrating a business that was both an extension of our Number Portability Administration Center (NPAC) business as well as a numbering analytics service.

Then, in November, we acquired TARGUSinfo, a provider of real-time on-demand information and analytics services, for approximately \$657 million in cash. The value of our TARGUSinfo purchase will come both from its powerful market position in Caller ID services and from our ability to use our existing businesses to leverage its information and analytics capabilities in fast-growing markets, including lead verification, online advertising, and local search.

The integration of TARGUSinfo into Neustar has gone smoothly, and it is now operating as our Information Services business segment. This acquisition makes our goal of becoming a global leader in real-time information and analysis a reality by expanding our ability to offer a more diverse portfolio of services in the \$30 billion real-time information and analytics market.

### **Continuing our Stewardship of the NPAC**

Throughout 2011, our Carrier Services business segment provided our NPAC customers with exceptional performance, while introducing new, innovative capabilities. We are pleased to report our highest-ever customer satisfaction ratings, and that we were 100 percent compliant with over 2,200 individual service level agreement measurements. Neustar's management of the NPAC, the complex ecosystem of local number portability, is a well-established business that will provide predictable growth through at least June 2015.

The process is underway to select a vendor to serve as the NPAC administrator when the current contract expires. We look forward to working with our customers and the telecommunications industry throughout the procurement process. Neustar's stewardship of the NPAC has been a reliable constant over a period of time that has seen remarkable change. Our trusted neutrality on behalf of all our customers benefits consumers and the telecommunications industry. Neustar is fully committed to competing vigorously in the procurement process and ultimately to renewing our NPAC contract.

### **Offering Trusted And Reliable Services to Multiple Customer Segments**

In addition to Carrier Services, which is responsible for our NPAC business, Neustar has other exciting and fast-growing businesses, such as Enterprise Services. Key growth drivers in 2011 for Enterprise Services included our expanded cybersecurity and Internet infrastructure protection services. Increased mobile marketing spend rates and strong renewal rates for common short codes under management also drove growth.

Over time, Neustar's customer base – originally limited to wireline voice calls and the telecommunications industry – has expanded to mobile communications, data, and texting services; to the world's leading Internet and marketing firms; and to the content sector. Additionally, our TARGUSinfo acquisition has broadened the range of customers using our trusted and reliable services even further. As we head into 2012, we plan to drive continued customer growth within our expanding set of core competencies.

### **Delivering Strong Financial Results**

Neustar made significant progress across the board in 2011. We continued to deliver strong revenue growth, margins, and cash flow while we increased our scale and strengthened our position as a neutral and trusted provider of information and analytics services.

Revenue increased 19 percent to \$620.5 million, due to growth in our Carrier Services and Enterprise Services business segments, as well as the addition of revenue from our Information Services business segment. Income from continuing operations totaled \$123.6 million, representing a margin of 20 percent.

In the beginning of the year, we said we would focus on a more efficient balance sheet. We achieved that goal through the manner in which we financed our acquisitions and bought back our common stock. In early December, we repurchased almost 10 percent of our outstanding shares through our \$250 million modified "Dutch Auction" tender offer. This transaction, and the \$600 million term loan issued to finance the TARGUSinfo acquisition, brought our debt to equity ratio to levels we believe are appropriate for a company with our strong cash flow generation.

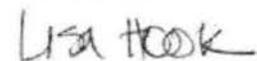
### **Looking to 2012**

We took significant steps in 2011 to position the Company for continued success with two acquisitions that enhanced our ability to execute our strategy of becoming the global leader in real-time information and analysis based on addressing. We rationalized our capital structure and improved our organizational structure for faster decision-making and execution. We expanded the sectors and customers we serve, enhanced our services, and delivered them reliably, securely, and on time. We continued to manage the NPAC flawlessly and achieved our highest-ever satisfaction levels from our customers, who will play a vital role in deciding how and by whom the NPAC will be managed in the future.

Looking to 2012, we will focus on leveraging our newly acquired customer base and data sets as we integrate them into our already strong organization. Our talented team anticipates that 2012 will be another exciting year and that Neustar will continue to perform for our stockholders.

**On behalf of all of us at Neustar, I thank you for your continued support.**

All the best,



Lisa A. Hook

# YEAR IN REVIEW

In 2011, Neustar continued its transformation from a clearinghouse provider to a leading provider of addressing, routing, and policy management for the communications and Internet sectors. This evolution is positioning Neustar to become a leader in real-time information and analysis based on addressing.

Our base of assets expanded to include Evolving Systems, Inc.'s numbering assets, which we acquired in July, as well as TARGUSinfo, a provider of real-time on-demand information and analytics services, which we acquired in November. Through the TARGUSinfo acquisition, Neustar will be able to leverage our combined information and predictive analytics capabilities in fast-growing markets like lead verification, online advertising, and local search. We are now well positioned to increase our market share of this fast-growing \$30 billion market.

The purchase of the Evolving Systems numbering assets, meanwhile, enabled Neustar to enhance our service as the North American Numbering Plan Administrator while also expanding our numbering analytics business. Our Numbering Portability Administration Center (NPAC) business continues to be a valuable and well-run service, as evidenced by the fact that in 2011 we achieved our highest-ever customer satisfaction rating. Neustar's NPAC is a well-established business and remains a critical element of North America's underlying telecommunications infrastructure.

Through our Carrier Services' NPAC business as well as our other information and analytics properties, Neustar provides value to a variety of industries. We provide real-time information and analysis on over 6 billion global physical and virtual addresses. This includes **3.4 billion global telephone numbers, 2.8 billion global IP addresses, 5.5 million global domain names, and 14.3 million U.S. business listings.**

Our Enterprise Services business segment, which includes Internet Infrastructure Services and Registry Services, was a key growth driver in 2011. Through our global directory platform, we provide a suite of Domain Name Services (DNS) to our enterprise customers. Moreover, we are the authoritative provider of essential registry and directory services. Our customers use these services for reliable, fair, and secure access and connectivity. Today, Neustar's UltraDNS Services are used by more than 3,000 enterprises and Top Level Domain (TLD) infrastructure customers worldwide, and currently power the resolution of nearly **20 million global Internet domains.**

The entertainment industry recognized our skill in operating complex directories flawlessly and selected Neustar to build and operate the underlying technology for UltraViolet™. This digital locker system enables people to purchase a DVD or digital movie and watch it anywhere, anytime, and on any device. Neustar's selection underscores our commitment to neutrality as well as our understanding of cloud services.

During 2011, Neustar recruited a number of talented senior executives. In March, Scott Blake Harris joined the team and serves as General Counsel and Senior Vice President of External Affairs. In July, Neustar named Mark Bregman as our new Chief Technology Officer. Then in January 2012, Christine Brennan came on board as Senior Vice President of Human Resources.

Throughout 2011, we also began developing strategies that help us build on our considerable assets and strengths to help the world around us. For example, the "My Digital Life" program, which was launched by Neustar and EverFi™ in early 2012, aims to improve digital literacy and responsibility in our schools. Similarly, Neustar's dedication to our community and environmental preservation led us to design a highly-efficient new headquarters building in Sterling, Virginia which received LEED certification from the U.S. Green Building Council.

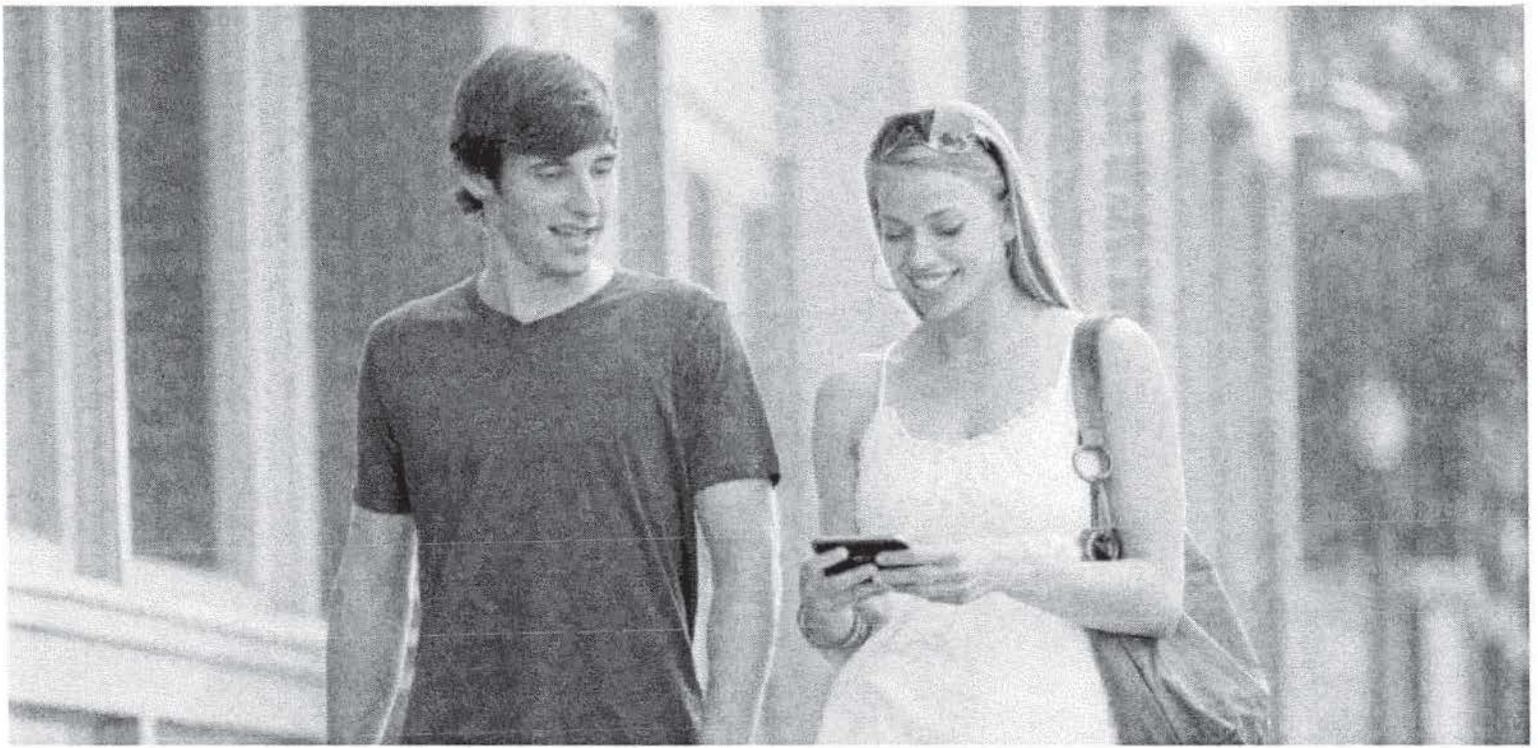
As we head into 2012, we will continue to stress the importance of giving back to our community while executing our vision to become a world leader in real-time information and analysis based on addressing.

Paul S. Lalji, Senior Vice President and Chief Financial Officer, and Lisa A. Hook, President and Chief Executive Officer



# NEUSTAR SERVICES

Neustar is a trusted, neutral provider of real-time information and analysis to the Internet, communications, entertainment, advertising, and marketing industries throughout the world. Using advanced, secure technologies, Neustar provides addressing, routing, policy management, and authentication services that enable customers to find their end users, route network traffic to the optimal location, and verify end-user identity. With expertise in database management and analysis, Neustar also provides cybersecurity, marketing, and advertising information and analysis to customers. Neustar provides services to both communications service providers, or carriers, and commercial businesses, or enterprises. Neustar's services are delivered through a secure, robust technology platform and rely on unique, extensive, and privacy-protected databases.



## CARRIER SERVICES

**Numbering Services.** Neustar operates and maintains authoritative databases that help manage the increased complexity in the communications industry. Neustar ensures the seamless connection of carriers' numerous networks, while also enhancing the capabilities and performance of their infrastructure. Neustar's unique set of databases enables carriers to obtain data successfully for the dynamic routing of telephone calls and text messages in the United States and Canada. Using these databases, Neustar provides numbering services to carriers, including Number Portability Administration Center (NPAC) Services, NPAC Services in Canada and Local Number Portability (LNP) services in Taiwan and Brazil, and number inventory and allocation management. Additionally, Neustar enables carriers to manage their networks more efficiently by centrally processing essential changes they use to route communications.

**Order Management Services.** Neustar's Order Management Services (OMS) include all services necessary to manage number port activity through the entire lifecycle. OMS permits carriers, through a single interface, to exchange essential operating data with multiple carriers in order to provision services.

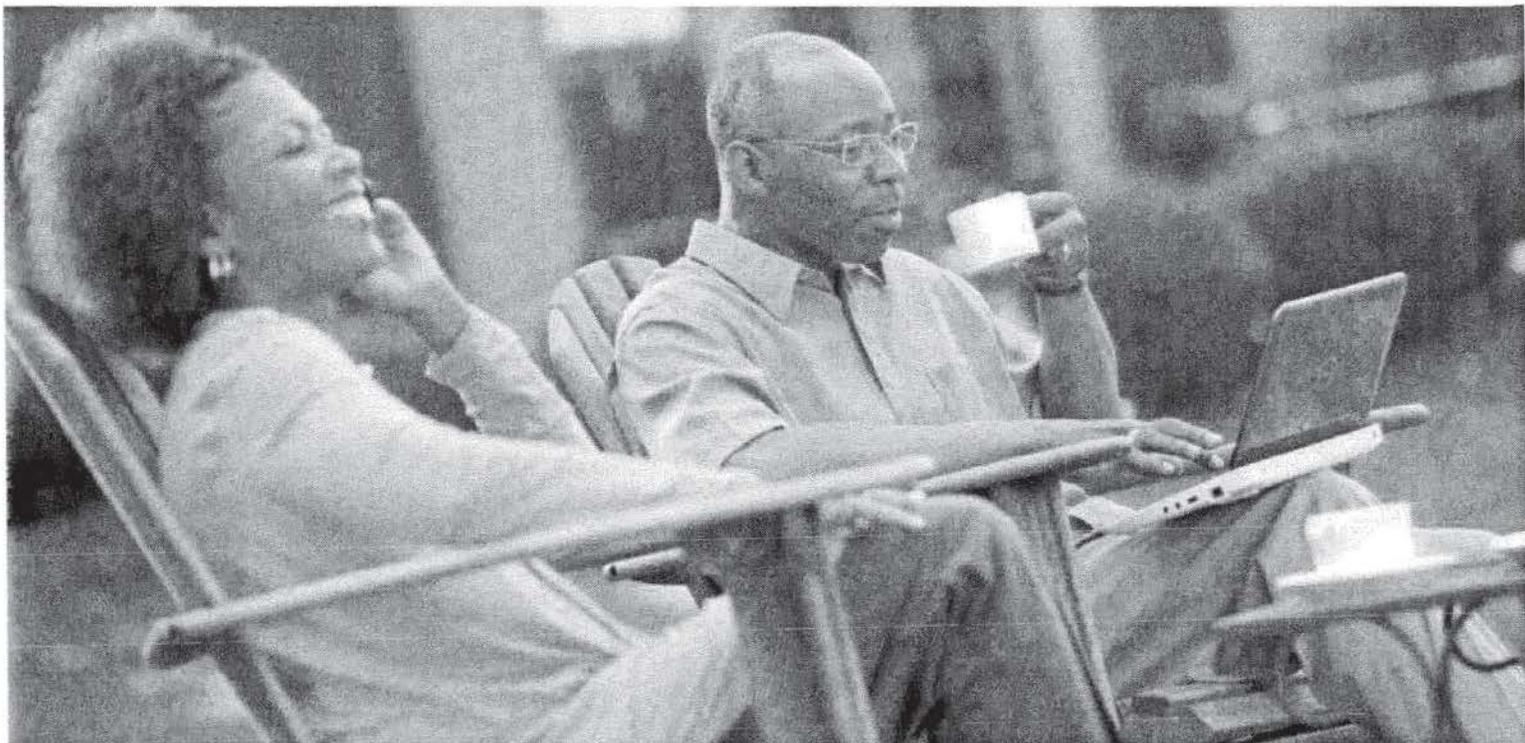
**IP Services.** Neustar provides scalable IP services to global carriers that enable them to manage access for the routing of IP communications, such as multimedia messaging service. These IP solutions solve the complexity of mapping a phone number to an IP address for accurate and reliable routing to a carrier's network. Neustar also enables direct network-to-network peering between carriers for voice, video, and content services.



## ENTERPRISE SERVICES

**Internet Infrastructure Services.** Neustar provides a suite of DNS services to enterprise customers built on a global directory platform. These Internet Infrastructure Services play a key role in directing and managing Internet traffic flow, resolving Internet queries, providing security protection against Internet breaches called Distributed Denial of Service attacks, providing location services used to enhance fraud prevention and online marketing, and monitoring, testing, and measuring the performance of websites and networks.

**Registry Services.** Neustar operates the authoritative registries of Top Level Domain (TLD) names for the .biz, .us, .cc, .tel, and .travel domains. Neustar also provides international registry gateways for China's .cn and Taiwan's .tw country-code TLDs. All Internet communications routed to any of these domains must query a copy of Neustar's directory to ensure that the communication is routed to the appropriate destination. Neustar operates the authoritative Common Short Codes registry on behalf of the U.S. wireless industry. In addition, Neustar operates the digital content authentication directory, which supports the UltraViolet digital content locker through which consumers can gain access to their entertainment content.



## INFORMATION SERVICES

**Identification Services.** Neustar provides Caller ID services to carriers in the U.S. and real-time identification and location services to over 1,000 businesses in the U.S. across multiple industries. Neustar's location service enables clients to match a 10-digit phone number to a latitude and longitude, and is used for a number of applications, including intelligent site planning, market scoring, and Web-based location lookup. In addition, Neustar provides services that enable clients to remarket to non-converting prospects and to help identify whether an inbound inquiry is coming from an existing customer or from a prospect.

**Verification & Analytics Services.** Neustar provides lead verification services that allow clients to validate customer data, enhance leads, and assign a lead quality rating to each lead to provide a client the ability to contact a customer. This lead verification application has evolved into a lead scoring service, which assigns a real-time predictive score to inbound telephone and web leads, and predicts which prospects are most likely to convert into customers; and/or become high-value customers; or for current customers, which leads will respond to a specific up-sell offer.

**Local Search & Licensed Data Services.** Neustar provides an online local business listing identity management solution that serves local search platforms, national brands, authorized channel partners, and local businesses. This service provides businesses and channel partners the essential tools to verify, enhance, and manage the identity of local listings on local search platforms across the Web, and offers these local search platforms an accurate, complete, and up-to-date database of local business listings for online publishing.

# CORPORATE SOCIAL RESPONSIBILITY

In 2011, Neustar dramatically expanded its robust social responsibility program by launching new programs aimed at improving science, technology, engineering, and mathematics (STEM) education and our environment. In 2012 and beyond, Neustar plans to continue making corporate social responsibility a priority.

Our goal has always been to invest our time and money in innovative programs that will benefit our society, our communities, and our company. We believe that investing wisely in this way is not only the right thing to do – it is the smart thing to do.

This past year we also began to think about Neustar's unique strengths and how we could use those strengths to improve our society and our communities, while also doing our best for our stockholders. The answer was obvious: as a world-class technology and information services company with a unique understanding of technology, networks, and our data-driven online economy, we can provide technical assistance to our communities that others cannot.

Many students do not receive sufficient STEM education. This is particularly true for young women. Too few students are knowledgeable about or comfortable with technology. Our country – and, yes, our company – needs a workforce with STEM training and that is comfortable with technology.

So in 2011, we began planning a major investment to train middle school and high school students in digital literacy and responsibility. Partnering with EverFi, which produces highly respected online educational programs, we recently launched "My Digital Life," an online, in-school digital literacy program for students. It covers subjects ranging from how a computer works, to the benefits and pitfalls of social networking, to the dangers of texting while driving, to how to pursue careers in technology. We are offering this program free of charge to every school district in Virginia and Kentucky, two of our corporate homes. We already have plans to expand the program to other communities we call home.

With these same goals in mind, we also began working with YearUp!, an intensive training program that provides low-income young adults, ages 18–24, with a combination of hands-on skill development, college credits, and corporate internships. Neustar has had five YearUp! interns, two of whom are now permanent Neustar employees. We also have become involved with the Anita Borg Institute, which supports and promotes women in technology. Our Chief Technology Officer, Mark Bregman, is on the Institute's Board.

Neustar is committed to energy efficiency, which enables us to preserve our environment, reduce our nation's dependence on foreign sources of energy, and save money. Our headquarters building in Sterling, Virginia, was recently LEED certified. The LEED certification recognizes the facility for its energy and water efficiency, material use during construction, occupant health, and financial return.

We mandate energy conservation, recycling, and efficiency throughout our facilities. For example, we use automated meeting room sensors and timers to control lighting; automated, time-controlled temperature gauges throughout our offices; electronic rather than paper records; and web conferencing and videoconferencing to reduce travel. We also print double-sided documents, recycle, and purchase renewable materials when possible.

Additionally, we have a volunteer "Green Team" that looks for new ways to improve our energy efficiency. As a result of these many efforts, Neustar has been recognized as a "Certified Green Business" by Loudoun County, Virginia, home to our corporate headquarters.

Finally, we empower our employees to take corporate social responsibility personally by giving all full-time employees a day off each year to volunteer for non-profits and community organizations.



## BOARD OF DIRECTORS

**James G. Cullen**  
Chairman of the Board;  
Retired President and  
Chief Operating Officer  
of Bell Atlantic Corporation

**Gareth C. C. Chang**  
Chairman and  
Chief Executive Officer  
of Towona Media

**Joel P. Friedman**  
Former President  
of Accenture's Business Process  
Outsourcing Organization

**Mark N. Greene**  
Former Chief Executive Officer  
of Fair Isaac Corporation

**Lisa A. Hook**  
President and  
Chief Executive Officer

**Ross K. Ireland**  
Retired Senior Executive  
Vice President of Services and  
Chief Technology Officer  
of SBC Communications Inc.

**Paul A. Lacouture**  
Retired Executive Vice President  
of Engineering and Technology  
for Verizon Telecom

**Michael J. Rowny**  
Chairman of Rowny Capital

**Hellene S. Runtagh**  
Former President and  
Chief Executive Officer  
of Berwind Group

## EXECUTIVE OFFICERS

**Lisa A. Hook**  
President and  
Chief Executive Officer

**Paul S. Lalljie**  
Senior Vice President and  
Chief Financial Officer

**Mark F. Bregman**  
Senior Vice President and  
Chief Technology Officer

**Scott Blake Harris**  
General Counsel  
and Senior Vice President,  
External Affairs

**Steve J. Edwards**  
Senior Vice President,  
Carrier Services

**Alexander L. Berry**  
Senior Vice President,  
Enterprise Services

**Dennis G. Ainge**  
Senior Vice President,  
Information Services

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**Corporate Secretary**  
Lawrence Samuelson  
Vice President and  
Deputy General Counsel  
Phone: +1 (571) 434-5400

**Stock Information**  
Neustar stock is publicly traded on the  
NYSE under the ticker symbol NSR.

**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, 2011

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 17, 2012, 67,397,843 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, 2011 was approximately \$2.13 billion.

**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 2012 Annual Meeting of Stockholders, which NeuStar intends to file with the Securities and Exchange Commission within 120 days of December 31, 2011.

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Unless the context requires otherwise, references in this report to "Neustar," "we," "us," the "Company" and "our" refer to NeuStar, Inc. and its consolidated subsidiaries.

## PART I

### ITEM 1. BUSINESS

#### Overview

We are a trusted, neutral provider of real-time information and analytics to the Internet, communications, entertainment, advertising and marketing industries throughout the world. Using our advanced, secure technologies, we provide addressing, routing, policy management and authentication services that enable our customers to find their end users, route network traffic to the optimal location and verify end-user identity. With our expertise in database management and analysis, we also provide cyber security, marketing and advertising information and analytics to our customers. We provide services to both communications service providers, or carriers, and commercial businesses, or enterprises.

We were founded to meet the technical and operational challenges of the communications industry when the U.S. government mandated local number portability in 1996. We provide the authoritative solution that the communications industry relies upon to meet this mandate. Since then, we have grown to offer a broad range of innovative services, including registry services, managed domain name system, or DNS, services, Internet Protocol, or IP, services, fixed IP geolocation services, Internet security services, and web performance monitoring services. On November 8, 2011, we acquired Targus Information Corporation, or TARGUSinfo, for approximately \$658.0 million. The acquisition of TARGUSinfo, our new Information Services segment, significantly extends our portfolio of services in the real-time information and analytics market and combines TARGUSinfo's leadership in caller identification, or Caller ID, services and online information services with our 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.

We operate in three segments:

- *Carrier Services.* Our carrier services include numbering services, order management services and IP services. Through our set of unique databases and system infrastructure in geographically dispersed data centers, we manage the increasing complexity in the communications industry and ensure the seamless connection of our carrier customers' numerous networks, while also enhancing the capabilities and performance of their infrastructure. We operate the authoritative databases that manage virtually all telephone area codes and numbers, and enable 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 our unique database to properly route their customers' calls and text messages. We also facilitate order management and work-flow processing among carriers, and allow operators to manage and optimize the addressing and routing of IP communications.
- *Enterprise Services.* Our enterprise services include Internet infrastructure services, or IIS, and registry services. Through our global directory platform, we provide a suite of DNS services to our enterprise customers. We manage 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 on behalf of our enterprise customers. We are the authoritative provider of essential registry services and manage directories of similar resources, or addresses, that our customers use for reliable, fair and secure access and connectivity. In addition, enterprise customers rely on our services to monitor and load-test websites to help identify issues and optimize performance. We also provide 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, we provide 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.* Our information services include on-demand solutions that help carriers and enterprises identify, verify, score and locate customers and prospective customers. Our authoritative databases and solutions enable our 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 our customers to offer consumers more relevant services and products, and leads to higher client conversion rates. Our business listings identity management services help local businesses and national brands improve the visibility of their online business listings on local search engines. Using our proprietary database, our 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.

## Background

Changes in the structure of the communications industry over the past two decades have presented increasingly complex technical and operating challenges. Whereas the Bell Operating System once dominated the U.S. telecommunications industry, there are now thousands of service providers, all with disparate networks. Today these service providers must interconnect their networks and carry each other's traffic to route phone calls, unlike in the past when a small number of incumbent wireline carriers used established, bilateral relationships. In addition, carriers and enterprises are delivering a broad set of new services using a diverse array of technologies. These services, which include voice, data and video, are used in combinations that are far more complex than the historical, uniform voice services of traditional carriers.

The increasing complexity of the communications industry has produced operational challenges, as the in-house network management and back office systems of traditional carriers were not designed to capture all of the information necessary for provisioning, authorizing, routing and billing these new services. In particular, it has become significantly more difficult for carriers to:

- *Locate end-users.* Identify the appropriate destination for a given communication among multiple networks and unique addresses, such as wireline and wireless phone numbers as well as IP and email addresses;
- *Establish identity.* Authenticate that the users of the communications networks are who they represent themselves to be and that they are authorized to use the services being provided;
- *Connect.* Route the communication across disparate networks;
- *Manage communications traffic.* Authorize and account for the exchange of communications traffic across multiple networks; and
- *Process transactions.* Capture, process and clear accounting records for billing, and generate settlement data for inter-provider compensation.

Enterprises in the United States and throughout the world have become increasingly reliant on the Internet and other DNS-based systems to support their businesses. With the growth in e-commerce and the continuing growth of advanced DNS-based communication services, large and small enterprises have increased demand for:

- *Internet security.* Security protection services against Internet breaches and online fraud;
- *Network and web performance.* Website performance monitoring and testing services to improve online performance, competitive advantages and positive end-user experiences; and
- *Registry services.* Essential registry services to manage addresses and access to content in a reliable, prompt and secure manner.

Companies are under increasing pressure to predict the future behavior of customers and potential customers. Furthermore, companies are looking for more profitable ways to interact with their customers and prospective customers. Accordingly, there is an increasing demand for:

- *Identification.* Real-time marketing information and authentication services, including Caller ID;
- *Relevant advertising.* Relevant online advertising solutions for desktop and mobile advertising; and
- *Online visibility.* Improving the visibility and accuracy of online business listings and localized searches.

## **Our Company**

We incorporated in Delaware in 1998 to acquire our number portability business from Lockheed Martin Corporation. We completed this acquisition in November 1999. Our principal executive offices are located at 21575 Ridgetop Circle, Sterling, Virginia, 20166, and our telephone number at that address is (571) 434-5400.

With the advent of local number portability, the Internet and mobility, and the routing of communications among thousands of service providers worldwide has become infinitely more complex. We help simplify this complex environment by providing real-time information and analytics services that enable trusted communication across networks, applications and businesses throughout the world. We have a shared operations group that spans across our organization to support our global infrastructure. Our global infrastructure has been designed to provide services that are:

- *Reliable.* Our services depend on complex technology that is configured to deliver high reliability consistent with stringent industry and customer standards. We have made a commitment to our customers to deliver high quality services meeting numerous measured service level requirements, such as system availability, response times for help desk inquiries and billing accuracy.
- *Scalable.* The modular design of our infrastructure enables capacity expansion without service interruption or quality of service degradation, and with incremental investment that provides significant economies of scale.
- *Neutral.* We provide our services in a competitively neutral way to ensure that no customer or industry segment is favored over any other. Our databases and capabilities provide competing entities with fair, equal and secure access to essential shared resources. Moreover, we have made a commitment not to provide the same services our customers provide.
- *Trusted.* The data we collect are important and proprietary. Accordingly, we have implemented appropriate procedures and systems to protect the privacy and security of customer data, restrict access to our systems and protect the integrity of our databases. Our performance with respect to neutrality and security is independently audited on a regular basis.

## **Carrier Services**

As noted above, our carrier customers face increasingly complex technical and operating challenges resulting from changes in the structure of the communications industry over the past two decades. Through our set of unique databases and system infrastructure in geographically dispersed data centers, we manage this complexity and ensure the seamless connection of our carrier customers' numerous networks, while enhancing the capabilities and performance of their infrastructure. We enable our carrier customers to use, exchange and share critical information, such as telephone numbers and critical data associated with telephone numbers; facilitate order management and work flow processing among carriers; and allow operators to direct, prioritize and optimize the addressing and routing of emerging IP communications, particularly as they migrate to the mobile environment.

Through our Carrier Services operating segment, we provide a range of services to our carrier customers, including:

- *Numbering Services.* We operate and maintain authoritative databases that help manage the increased complexity in the communications industry. We also ensure the seamless connection of our carrier customers' numerous networks, while also enhancing the capabilities and performance of their infrastructure. Our unique set of databases enables our carrier customers to obtain data successfully to dynamically route telephone calls and text messages in the United States and Canada. The numbering services we provide to our carrier customers using these databases include number portability administration center services, or NPAC Services, NPAC Services in Canada and LNP services in Taiwan and Brazil, or international LNP solutions, and number inventory and allocation management. Additionally, we enable carriers to manage their networks more efficiently by centrally processing essential changes they use to route communications.
- *Order Management Services.* Our Order Management Services permit our carrier customers, through a single interface, to exchange essential operating data with multiple carriers in order to provision services.
- *IP Services.* We provide scalable IP services to global carriers that allow them to manage access for the routing of IP communications, such as multimedia messaging service. Our solutions solve the complexity of mapping a phone number to an IP address for accurate and reliable routing to a carrier's network. We also enable direct network-to-network peering between carriers for voice, video and content services.

### *Enterprise Services*

Our Enterprise Services segment provides an innovative suite of network and directory services for our enterprise customers. We provide DNS solutions and fixed IP geolocation services for enterprises, and serve as the authoritative provider of essential registry services. We manage a directory of similar resources, or addresses, where customers have reliable, fair and secure access and connectivity to their data. We maintain a collection of these essential directories that maintain addresses to help find and resolve Internet queries and top-level domains on behalf of our enterprise customers. Additionally, we provide 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.

The range of services we offer to our enterprise customers includes:

- *Internet Infrastructure Services.* We provide a suite of DNS services to our enterprise customers built on a global directory platform. These services play a key role in directing and managing Internet traffic flow, resolving Internet queries, providing security protection against Internet breaches called Distributed Denial of Service attacks, providing location services used to enhance fraud prevention and online marketing, and monitoring, testing and measuring the performance of websites and networks.
- *Registry Services.* We operate the authoritative registries of Internet domain names for the .biz, .us, .co, .tel and .travel top-level domains. We also provide international registry gateways for China's .cn and Taiwan's .tw country-code top-level domains. All Internet communications routed to any of these domains must query a copy of our directory to ensure that the communication is routed to the appropriate destination. We also operate the authoritative Common Short Codes registry on behalf of the U.S. wireless industry. In addition, we operate the digital content authentication directory, which supports the UltraViolet™ digital content locker by which consumers can gain access to their entertainment content.

## *Information Services*

Our 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, we provide marketers with the ability to tailor offers made to consumers over the telephone or on the Internet in real time. We are one of the largest non-carrier providers of Caller ID services, and we provide a comprehensive market analytics platform that enables clients to segment and score customers and prospects for real-time interactive marketing initiatives. Additionally, our business listings identity management service provides local businesses and local search platforms with a single, trusted source of verified business listings for local searches. Our online audience marketing 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.

- *Identification Services.* We provide Caller ID services to carriers in the U.S. and real-time identification and location services to over 1,000 businesses in the U.S across multiple industries. Our location service enables clients to match a 10-digit phone number to a latitude and longitude, and is used for a number of applications including intelligent site planning, market scoring, and Web-based location lookup. In addition, we provide services that enable clients to remarket to non-converting prospects and to help identify whether an inbound inquiry is coming from an existing customer or a prospect.
- *Verification & Analytics Services.* We provide lead verification services that allow clients to validate customer data, enhance leads and assign a lead quality rating to each lead to provide a client the ability to contact a customer. This lead verification application has evolved into a lead scoring service, which assigns a real-time predictive score to inbound telephone and web leads and predicts which prospects are most likely to convert into customers and/or become high-value customers, or for current customers, which ones will respond to a specific up-sell offer.
- *Local Search & Licensed Data Services.* We provide an online local business listing identity management solution that serves local search platforms, national brands, authorized channel partners and local businesses. This service provides businesses and channel partners the essential tools to verify, enhance and manage the identity of local listings on local search platforms across the Web, and offers local search platforms an accurate, complete and up-to-date database of local business listings for online publishing.

## **Operations**

### *Sales Force and Marketing*

As of December 31, 2011, our sales and marketing organization consisted of approximately 461 people who work together to offer our customers advanced services and solutions to meet our customers' needs. Our sales teams work closely with our customers to identify and address their needs, while our marketing teams identify growing markets in which we can offer differentiated higher value services to our customers and prospects.

We have an experienced sales and marketing staff who have extensive knowledge of the industries we serve, which help us identify new revenue opportunities and network efficiencies. We believe we have close relationships with our customers, and we understand their systems and operations. We have worked closely with our customers to develop solutions such as national pooling, U.S. Common Short Codes, number translation services, the provisioning of service requests for Voice over Internet Protocol, or VoIP, providers, and Caller ID services.

### *Customer Support*

Customer support personnel are responsible for the resolution of all customer inquiries and provisioning and trouble requests. Our staff works closely with our customers to ensure that our service level agreements are being met. They continually solicit customer feedback and are in charge of bringing together the appropriate internal resources to troubleshoot any problems or issues that customers may have. Performance of these individuals is measured by customer satisfaction surveys and measurements of key performance indicators.

### *Operational Capabilities*

We provide our services through our state-of-the-art data centers and remotely hosted computer hardware that is located in third-party facilities throughout the world. Our data centers, including third-party facilities that we use, are custom designed for the processing and transmission of high volumes of transaction-related, time-sensitive data in a highly secure environment. We are committed to employing best-of-breed tools and equipment for application development, infrastructure management, operations management and information security. In general, we subscribe to the highest level of service and responsiveness available from each third-party vendor that we use. Further, to protect the integrity of our systems, the major components of our networks are generally designed to eliminate any single point of failure.

We consistently meet and frequently exceed our contractual service level requirements. Our performance results for certain services are monitored internally and are subjected to independent audits on a regular basis.

### **Research and Development**

We maintain a research and development group, the principal function of which is to develop new and innovative services and improvements to existing services, oversee quality control processes and perform application testing. Our processes surrounding the development of new services and improvement to existing services focus on the challenges our customers face. We employ industry experts in areas of technology that we believe are key to solving these challenges. Our quality control and application testing processes focus predominantly on resolving highly technical issues that are integral to the performance of our services and solutions. These issues are identified through both internal and external feedback mechanisms, and continuous testing of our applications and systems to ensure uptime commensurate with the service level standards we have agreed to provide to our customers. As of December 31, 2011, we had approximately 137 employees dedicated to research and development, which included software engineers, quality assurance engineers, technical project managers and documentation specialists. We expense our research and development costs as they are incurred. Our research and development expense was \$14.1 million, \$13.8 million and \$17.5 million for the years ended December 31, 2009, 2010 and 2011, respectively.

### **Customers**

We serve traditional providers of communications, including local exchange carriers, such as Verizon Communications Inc. and AT&T Inc.; competitive local exchange carriers, such as XO Holdings, Inc. and Level 3 Communications, Inc.; wireless service providers, such as Verizon Wireless Inc., and long distance carriers. We also serve emerging providers, including Comcast Corporation, Cox Communications, Inc., and Cbeyond, Inc., and emerging providers of VoIP services, such as Vonage Holdings Corp.

In addition to serving traditional carriers, we also serve a growing number of customers who are either enablers of Internet services or providers of information and content to Internet and telephone users. For example, customers for our managed DNS services include a wide range of both large and small enterprises, including registry operators, such as the Canadian Internet Registration Authority, and e-commerce companies, Domain name registrars, including Network Solutions, Inc., The Go Daddy Group, Inc., and Web.com Group, Inc. pay us for each .biz and .us domain name they register on behalf of their customers. Wireless service

providers rely on our registry to route all U.S. Common Short Code communications, but the bulk of our customers for U.S. Common Short Codes are the information and entertainment content providers who register codes with us to allow wireless subscribers to communicate with them via text messaging.

Furthermore, we provide real-time data analytics services to a broad customer base that is looking for more profitable ways to interact with their customers and prospective customers. Customers include a wide range of companies from Fortune 500 to start-up enterprises, including telecommunications service providers, such as MetroPCS Communications, Inc., and marketing and advertising firms.

Our customers include over 13,700 different corporate entities, each of which is separately billed for the services we provide, regardless of whether it may be affiliated with one or more of our other customers. No single corporate entity accounted for more than 10% of our total revenue in 2011. The amount of our revenue derived from customers inside the United States was \$431.2 million, \$480.2 million and \$571.1 million for the years ended December 31, 2009, 2010 and 2011, respectively. The amount of our revenue derived from customers outside the United States was \$36.1 million, \$40.7 million and \$49.4 million for the years ended December 31, 2009, 2010 and 2011, respectively. The amount of our revenue derived under our contracts with North American Portability Management LLC, or NAPM, an industry group that represents all telecommunications service providers in the United States, was \$306.1 million, \$337.1 million and \$374.4 million for the years ended December 31, 2009, 2010 and 2011, respectively, representing 66%, 65% and 60% of our revenue for the years ended December 31, 2009, 2010, and 2011, respectively. Our total revenue from our contracts with NAPM includes revenues from our NPAC Services, connection services related to our NPAC Services and NPAC-related system enhancements.

We have three operating segments, Carrier Services, Enterprise Services and Information Services, which are the same as our reportable segments. For further discussion of the operating results of our segments, including revenue, segment contribution, consolidated income from continuing operations, total long-lived assets, goodwill, and intangible assets, as well as information concerning our international operations, see Note 6 and Note 16 to our Consolidated Financial Statements in Item 8 of Part II of this report.

## **Competition**

Our services most frequently compete against the in-house systems of our customers. We believe our services offer greater reliability and flexibility on a more cost-effective basis than these in-house systems.

With respect to our roles as the North American Numbering Plan Administrator, National Pooling Administrator, administrator of local number portability for the communications industry, operator of the sole authoritative registry for the .us and .biz Internet domain names, and operator of the sole authoritative registry for U.S. Common Short Codes, there are no other providers currently providing the services we offer. However, we were awarded the contracts to administer these services in open and competitive procurement processes in which we competed against companies including Accenture plc, Computer Sciences Corporation, Hewlett-Packard Company, International Business Machines Corporation, or IBM, Noblis, Inc., Nortel Networks Corporation, Pearson Education, Inc., Perot Systems Corporation, Telcordia Technologies, Inc., which is now a wholly-owned subsidiary of LM Ericsson Telephone Company, and VeriSign, Inc. We have renewed or extended the term of several of these contracts since they were first awarded to us. Prior to the expiration of our contracts in June 2015 to provide NPAC Services in the United States, our competitors may submit proposals to replace us as the provider of the services covered by these contracts. In addition, NAPM has initiated a selection process for the administration of NPAC services upon the expiration of our existing NPAC contracts in June 2015. Similarly, with respect to our contracts to act as the North American Number Plan Administrator, the National Pooling Administrator, operator of the authoritative registry for the .us and .biz Internet domain names, and the operator of the authoritative registry for U.S. Common Short Codes, the relevant counterparty could elect not to exercise the extension period under the contract, if applicable, or to terminate the contract in accordance with its terms, in which case we could be forced to compete with other providers to continue providing the services covered by the

relevant contract. However, we believe that our position as the incumbent provider with high customer satisfaction of these services will enable us to compete favorably for contract renewals or for new contracts to continue to provide these services.

While we do not face direct competition for the registry of .us and .biz Internet domain names, we compete with other companies that maintain the registries for different domain names, including VeriSign, Inc., which manages the .com and .net registries, Afilias Limited, which manages the .org and .info registries, and a number of managers of country-specific domain name registries, such as .uk for domain names in the United Kingdom.

We compete against a range of providers of carrier, enterprise and information services, as well as the in-house network management and information technology organizations of our customers. Our competitors, other than in-house network systems, generally fall into these categories:

- systems integrators such as Accenture plc, Hewlett-Packard Company, IBM, Oracle Corporation and Perot Systems Corporation, which develop customized solutions for carriers and in some cases operate and manage certain back-office systems for carriers on an outsourced basis;
- with respect to our Order Management Services, companies such as Synchronoss Technologies, Inc., Telcordia Technologies, Inc., and Syniverse Technologies, Inc., which offer communication services, including inter-carrier order processing and workflow management on an outsourced basis;
- with respect to our Internet Infrastructure Services, companies such as Akamai Technologies, Inc., Afilias Limited, F5 Networks, Inc., Keynote Systems, Inc., Compuware Corporation, and VeriSign, Inc., which compete with us in one or more of our DNS Services, including internal and external managed DNS services, network monitoring and load testing; and
- with respect to our Information Services, companies such as TNS, Inc., eBureau, LLC, Acxiom, Nielsen Holdings N.V., DataLogix International Inc. and infoGROUP Inc., which compete with us in Caller ID, lead verification and scoring and market analytics with respect to relevant online advertising solutions and local search business listings.

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

- our responsiveness to customers' needs;
- our ability to support existing and new industry standards and protocols;
- our ability to continue development of 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 Factor — Risks Related to Our Business — The market for certain of our carrier, enterprise and information services is competitive, and if we do not adapt to rapid technological change, we could lose customers or market share." in Item 1A of this report.

## **Employees**

As of December 31, 2011, we employed 1,488 persons worldwide. 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 Federal Communications Commission, or FCC, has plenary authority over the administration of telephone number portability, it is not a party to our contracts with NAPM. The North American Numbering Council, 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." We recognized revenue under our contracts with NAPM primarily on a per-transaction basis through December 31, 2008, and the aggregate fees for transactions processed under these contracts were determined by the total number of transactions.

In January 2009, we amended our seven regional contracts with NAPM to provide for an annual fixed-fee pricing model under which the annual fixed fee, or Base Fee, was set at \$340.0 million, \$362.1 million and \$385.6 million in 2009, 2010 and 2011, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. 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 in the following year. The amendments also provide for a fixed credit of \$40.0 million in 2009, \$25.0 million in 2010 and \$5.0 million 2011, which will be applied to reduce the Base Fee for the applicable year. Additional credits of up to \$15.0 million annually in 2009, 2010 and 2011 may be triggered if the customers reach certain levels of aggregate telephone number inventories and adopt and implement certain IP fields and functionality.

During 2009, our customers adopted and implemented these IP fields and functionality, and earned \$7.5 million of the additional credits as a result, but did not reach the levels of aggregate telephone number inventories required to earn additional credits. During 2010 and 2011, our customers 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 revenues of all U.S. telecommunications service providers as determined by the FCC. Under these contracts, we also bill a revenue recovery collections, or RRC, fee of a percentage of monthly billings to our customers, which is available to us if any telecommunications service provider fails to pay its allocable share of total transaction charges. If the RRC fee is 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.

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 participate in number portability in Canada. The Canadian Radio-television and Telecommunications Commission oversees the Canadian LNP Consortium's management of this contract. We bill each telecommunications service provider for our services under this contract primarily on a per-transaction basis. In July 2010, this contract was amended to continue through December 2016. The services we provide under the contracts with NAPM and the Canadian LNP Consortium are subject to rigorous performance standards, and we are subject to corresponding penalties for failure to meet those standards.

We serve as the North American Numbering Plan Administrator and the National Pooling Administrator pursuant to two separate contracts with the FCC. Under these contracts, we administer the assignment and implementation of new area codes in North America, the allocation of central office codes (which are the

prefixes following the area codes) to telecommunications service providers in the United States, and the assignment and allocation of pooled blocks of telephone numbers in the United States in a manner designed to conserve telephone number resources. The North American Numbering Plan Administration contract is a fixed-fee government contract that was originally awarded by the FCC to us in 2003. Currently, we are serving as the North American Numbering Plan Administrator under a purchase order issued by the FCC, which will expire on July 8, 2012. The National Pooling Administration contract was originally awarded to us by the FCC in 2001. Under this contract, we perform the administrative functions associated with the allocation of pooled blocks of telephone numbers in the United States. The terms of this contract provide for a fixed fee associated with the administration of the pooling system. In August 2007, the FCC awarded us a new contract to continue as the National Pooling Administrator. The initial contract term was two years, commencing in August 2007, and the contract has three one-year extension options that are exercisable at the election of the FCC. In July 2011, the FCC exercised the third of the three one-year extension options to extend the contract through August 14, 2012.

We are the operator of the .biz Internet top-level domain by contract with the Internet Corporation for Assigned Names and Numbers, or ICANN. The .biz contract was originally granted to us in May 2001. In December 2006, ICANN renewed our .biz contract through December 2012. Under the terms of the amended agreement, the .biz contract automatically renews after 2012 unless it is determined that we have been in fundamental and material breach of certain provisions of the agreement and failed to cure such breach. Similarly, pursuant to a contract with the U.S. Department of Commerce, we operate the .us Internet top-level domain. This contract was originally awarded in October 2001. In October 2007, the government renewed our .us contract for a period of three years. This term may be extended by the government for two additional one-year periods. In response to a bid protest filed by one of our competitors, the Department of Commerce evaluated the procedures it followed in awarding to us the .us contract. Pending resolution of this evaluation, performance under our new .us contract was stayed, and the terms of our previous .us contract remained in effect. The evaluation was completed in August 2008 and the terms of the new .us contract were amended. In August 2011, the Department of Commerce exercised the first of its two one-year extension options to extend the contract through August 31, 2012. The .biz and .us contracts allow us to provide domain name registration services to domain name registrars, who pay us on a per-name basis.

We have an exclusive contract with the CTIA — The Wireless Association® to serve as the registry operator for the administration of U.S. Common Short Codes. U.S. Common Short Codes are short strings of numbers to which text messages can be addressed — a common addressing scheme that works across all participating wireless networks. We were awarded this contract in October 2003 through an open procurement process by the major wireless carriers. In June 2008, the contract was amended to include a term through December 2015. We provide U.S. Common Short Code registration services to wireless content providers, who pay us subscription fees per U.S. Common Short Code registered.

## **Regulatory Environment**

### *Telephone Numbering*

*Overview.* Congress enacted the Telecommunications Act of 1996 to remove barriers to entry in the communications market. Among other things, the Telecommunications Act of 1996 mandates portability of telephone numbers and requires traditional telephone companies to provide non-discriminatory access and interconnection to potential competitors. The FCC has plenary jurisdiction over issues relating to telephone numbers, including telephone number portability and the administration of telephone number resources. Under this authority, the FCC promulgated regulations governing the administration of telephone numbers and telephone number portability. In 1995, the FCC established the North American Numbering Council, a federal advisory committee, to advise and make recommendations to the FCC on telephone numbering issues, including telephone number resources administration and telephone number portability. The members of the North American Numbering Council include representatives from local exchange carriers, interexchange carriers, wireless providers, VoIP providers, manufacturers, state regulators, consumer groups, and telecommunications associations.

*Telephone Number Portability.* The Telecommunications Act of 1996 requires telephone number portability, which is the ability of users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability, or convenience when switching from one telecommunications service provider to another. Through a series of competitive procurements, a consortium of service providers representing the communications industry selected us to develop, build and operate a solution to enable telephone number portability in the United States. We ultimately entered into seven regional contracts to administer the system that we developed, after which the North American Numbering Council recommended to the FCC, and the FCC approved, our selection to serve as a neutral administrator of telephone number portability. The FCC also directed the seven original regional entities, each comprising a consortium of service providers operating in the respective regions, to manage and oversee the administration of telephone number portability in their respective regions, subject to North American Numbering Council oversight. Under the rules and policies adopted by the FCC, NAPM, as successor in interest to the seven regional consortiums, has the power and authority to negotiate master agreements with an administrator of telephone number portability, so long as that administrator is neutral.

On November 3, 2005, BellSouth Corporation, or BellSouth, filed a petition with the FCC seeking changes in the way our customers are billed for services provided by us under our contracts with NAPM. In response to the BellSouth petition, the FCC requested comments from interested parties. As of February 17, 2012, the FCC had not initiated a formal rulemaking process, and the BellSouth petition remains pending. Similarly, on May 20, 2011, Verizon Communications Inc. and Verizon Wireless Inc. filed a joint petition, the Verizon Petition, with the FCC seeking a ruling that certain carrier initiated modifications of NPAC records be excluded from the costs of the shared NPAC database and be paid for instead by the provider that caused such costs to be incurred. In response to the Verizon Petition, the FCC requested comments from interested parties. As of February 17, 2012, the FCC had not initiated a formal rulemaking process and the Verizon Petition remains pending.

After the amendment of our contracts with NAPM in September 2006, Telcordia Technologies, Inc. filed a petition with the FCC requesting an order that would require NAPM to conduct a new bidding process to appoint a provider of telephone number portability services in the United States. In response to our amendment of these contracts in January 2009, Telcordia filed another petition asking that the FCC abrogate these contracts and initiate a government-managed procurement in their place. As of February 17, 2012, the FCC had not initiated a formal rulemaking process on either of these petitions, and the Telcordia petitions are still pending. If a Telcordia petition is successful, we may lose one or more of our contracts with North American Portability LLC or lose a portion of our business in one or more geographic regions where we provide services. Although the FCC has not initiated a formal rulemaking process on either of the Telcordia petitions, the FCC's Wireline Competition Bureau issued orders on March 8, 2011 and May 16, 2011 for NAPM to complete a selection process for the administration of NPAC services at the expiration of the current contracts. A contract award could be soon after the responses to the request for proposal are submitted to NAPM (See "Risk Factors — Risks Related to Our Business — Our seven contracts with North American Portability Management LLC represent in the aggregate a substantial portion of our revenue, are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and we may not win a competitive procurement." in Item 1A of this report).

*North American Numbering Plan Administrator and National Pooling Administrator.* We have contracts with the FCC to act as the North American Numbering Plan Administrator and the National Pooling Administrator, and we must comply with the rules and regulations of the FCC that govern our operations in each capacity. We are charged with administering numbering resources in an efficient and non-discriminatory manner, in accordance with FCC rules and industry guidelines developed primarily by the Industry Numbering Committee. These guidelines provide governing principles and procedures to be followed in the performance of our duties under these contracts. The communications industry regularly reviews and revises these guidelines to adapt to changed circumstances or as a result of the experience of industry participants in applying the guidelines. A committee of the North American Numbering Council evaluates our performance against these rules and guidelines each year and provides an annual review to the North American Numbering Council and the FCC. If we violate these rules and guidelines, or if we fail to perform at required levels, the FCC may reevaluate

our fitness to serve as the North American Numbering Plan Administrator and the National Pooling Administrator and may terminate our contracts or impose fines on us. The division of the North American Numbering Council responsible for reviewing our performance as the North American Numbering Plan Administrator and the National Pooling Administrator has determined that, with respect to our performance in 2010, we “more than met” our performance guidelines under each such respective review. Similar reviews of our performance in 2011 have not yet been completed.

*Neutrality.* Under FCC rules and orders establishing the qualifications and obligations of the North American Numbering Plan Administrator and National Pooling Administrator, and under our contracts with NAPM to provide telephone number portability services, we are required to comply with neutrality regulations and policies. Under these neutrality requirements, we are required to operate our numbering plan, pooling administration and number portability functions in a neutral and impartial manner, which means that we cannot favor any particular telecommunications service provider, telecommunications industry segment or technology or group of telecommunications consumers over any other telecommunications service provider, industry segment, technology or group of consumers in the conduct of those businesses. We are examined periodically on our compliance with these requirements by independent third parties. The combined effect of our contracts and the FCC’s regulations and orders requires that we:

- not be a telecommunications service provider, which is generally defined by the FCC as an entity that offers telecommunications services to the public at large, and is, therefore, providing telecommunications services on a common carrier basis, or an interconnected VoIP provider;
- not be an affiliate of a telecommunications service provider or VoIP provider, which means, among other things, that we:
  - must restrict the beneficial ownership of our capital stock by telecommunications service providers, VoIP providers or affiliates of a telecommunications service provider or VoIP provider; and
  - may not otherwise, directly or indirectly, control, be controlled by, or be under common control with, a telecommunications service provider or VoIP provider;
- not derive a majority of our revenue from any single telecommunications service provider; and
- not be subject to undue influence by parties with a vested interest in the outcome of numbering administration and activities. Notwithstanding our satisfaction of the other neutrality criteria above, the North American Numbering Council or the FCC could determine that we are subject to such undue influence. The North American Numbering Council may conduct an evaluation to determine whether we meet this “undue influence” criterion.

We are required to maintain confidentiality of competitive customer information obtained during the conduct of our business. In addition, as part of our neutrality framework, we are required to comply with a code of conduct that is designed to ensure our continued neutrality. Among other things, our code of conduct, which was approved by the FCC, requires that:

- we never, directly or indirectly, show any preference or provide any special consideration to any telecommunications service provider;
- we prohibit access by our stockholders to user data and proprietary information of telecommunications service providers served by us (other than access of employee stockholders that is incident to the performance of our numbering administration duties);
- our stockholders take steps to ensure that they do not disclose to us any user data or proprietary information of any telecommunications service provider in which they hold an interest, other than the sharing of information in connection with the performance of our numbering administration duties;
- we not share confidential information about our business services and operations with employees of any telecommunications service provider;

- we refrain from simultaneously employing, whether on a full-time or part-time basis, any individual who is an employee of a telecommunications service provider and that none of our employees hold any interest, financial or otherwise, in any company that would violate these neutrality standards;
- we prohibit any individual who serves in the management of any of our stockholders to be involved directly in our day-to-day operations;
- we implement certain requirements regarding the composition of our Board of Directors;
- no member of our Board of Directors simultaneously serves on the Board of Directors of a telecommunications service provider; and
- we hire an independent party to conduct a quarterly neutrality audit to ensure that we and our stockholders comply with all the provisions of our code of conduct.

In connection with the neutrality requirements imposed by our code of conduct and under our contracts, we are subject to a number of neutrality audits that are performed on a quarterly and annual basis. In connection with these audits, all of our employees, directors and officers must sign a neutrality certification that states that they are familiar with our neutrality requirements and have not violated them. Failure to comply with applicable neutrality requirements could result in government fines, corrective measures, curtailment of contracts or even the revocation of contracts. See “Risk Factors — Risks Related to Our Business — Failure to comply with neutrality requirements could result in loss of significant contracts” in Item 1A of this report.

In contemplation of the initial public offering of our securities, we sought and obtained FCC approval for a “safe harbor” from previous orders of the FCC that allowed us to consummate the initial public offering for our securities but required us to seek prior approval from the FCC for any change in our overall ownership structure, corporate structure, bylaws, or distribution of equity interests, as well as certain types of transactions, including the issuance of indebtedness by us. Under the safe harbor order, we are required to maintain provisions in our organizational and other corporate documents that require us to comply with all applicable neutrality rules and orders. However, we are no longer required to seek prior approval from the FCC for many of these changes and transactions, although we are required to provide notice of such changes or transactions. In addition, we are subject to the following requirements:

- we may not issue more than 50% of our debt to any telecommunications service provider;
- we may not acquire any equity interest in a telecommunications service provider or an affiliate of a telecommunications service provider without prior approval of the FCC;
- we must restrict any telecommunications service provider or affiliate of a telecommunications service provider from acquiring or beneficially owning 5% or more of our outstanding capital stock;
- we must report to the FCC the names of any telecommunications service providers or telecommunications service provider affiliates that own a 5% or greater interest in our company;
- we must make beneficial ownership records available to our auditors, and must certify upon request that we have no actual knowledge of any ownership of our outstanding capital stock by a telecommunications service provider or telecommunications service provider affiliate other than as previously disclosed; and
- we must make our debt records available to our auditors and certify that no telecommunications service provider holds more than 50% of our debt.

#### *Internet Domain Name Registrations*

We are also subject to government and industry regulation under our Internet registry contracts with the U.S. government and ICANN, the industry organization responsible for regulation of Internet top-level domains. We are the operator of the .biz Internet domain under a contract with ICANN, as described above under

“Contracts.” Similarly, pursuant to a contract with the U.S. Department of Commerce, we operate the .us Internet domain registry. This contract is also described above under “Contracts.” Under each of these registry service contracts, we are required to:

- provide equal access to all registrars of domain names;
- comply with Internet standards established by the industry;
- implement additional policies as they are adopted by the U.S. government or ICANN; and
- with respect to the .us registry, establish, operate and ensure appropriate content on a kids.us domain to serve as a haven for material that promotes positive experiences for children and families using the Internet.

### **Intellectual Property**

Our success depends in part upon our proprietary technology. We rely principally upon trade secret and copyright law to protect our technology, including our software, network design, and subject matter expertise. We enter into confidentiality or license agreements with our employees, distributors, customers, and potential customers and limit access to and distribution of our software, documentation, and other proprietary information. We believe, however, that because of the rapid pace of technological change, these legal protections for our services are less significant factors in our success than the knowledge, ability, and experience of our employees and the timeliness and quality of services provided by us. In addition, we continue to seek patent protection for our proprietary technology used in our service offerings.

### **Available Information and Exchange Certifications**

We maintain an Internet website at [www.neustar.biz](http://www.neustar.biz). Information contained on, or that may be accessed through, our website is not part of this report. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, on the Investor Relations section of our website under the heading “SEC Filings by NeuStar,” as soon as reasonably practicable after we electronically file such reports with, or furnish those reports to, the Securities and Exchange Commission. Our Principles of Corporate Governance, Board of Directors committee charters (including the charters of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee) and code of ethics entitled “Corporate Code of Business Conduct” also are available on the Investor Relations section of our website. Stockholders may request free copies of these documents, including a copy of our annual report on Form 10-K, by sending a written request to our Corporate Secretary at NeuStar, Inc., 21575 Ridgetop Circle, Sterling, VA 20166. In the event that we make any changes to, or provide any waivers from, the provisions of our Corporate Code of Business Conduct, we intend to disclose these events on our website or in a report on Form 8-K within four business days of such event.

We have filed, as exhibits to this Annual Report on Form 10-K, the certification of our principal executive officer and principal financial officer required under Section 302 of the Sarbanes Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

### **Cautionary Note Regarding Forward-Looking Statements**

This report contains forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue” or the 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 risks and other factors include those listed under "Risk Factors" in Item 1A of this report and elsewhere in this report and include:

- failures or interruptions of our systems and services;
- security or privacy breaches;
- loss of, or damage to, a data center;
- termination, modification or non-renewal of our contracts to provide telephone number portability and other directory services;
- adverse changes in statutes or regulations affecting the communications industry;
- our failure to adapt to rapid technological change in the communications industry;
- competition from our customers' in-house systems or from other providers of carrier, enterprise, or information services;
- our failure to achieve or sustain market acceptance at desired pricing levels;
- a decline in the volume of transactions we handle;
- inability to manage our growth;
- economic, political, regulatory and other risks associated with our further potential expansion into international markets;
- inability to obtain sufficient capital to fund our operations, capital expenditures and expansion; and
- loss of members of senior management, or inability to recruit and retain skilled employees.

## **ITEM 1A. RISK FACTORS**

### **Risks Related to Our Business**

*The loss of, or damage to, a data center or any other failure or interruption to our network infrastructure could materially harm our revenue and impair our ability to conduct our operations.*

Because virtually all of the services we provide require our customers to query a copy of our continuously updated databases and directories to obtain necessary routing, operational and marketing data, the integrity of our data centers, including network elements managed by third parties throughout the world, and the systems through which we deliver our services are essential to our business. Notably, our data centers and related systems are essential to the orderly operation of the U.S. telecommunications system because they enable carriers to ensure that telephone calls are routed to the appropriate destinations.

Our system architecture is integral to our ability to process a high volume of transactions in a timely and effective manner. Moreover, both we and our customers rely on hardware, software and other equipment developed, supported and maintained by third-party providers. We could experience failures or interruptions of our systems and services, or other problems in connection with our operations, as a result of:

- damage to, or failure of, our computer software or hardware or our connections and outsourced service arrangements with third parties;
- failure of, or defects in, the third-party systems, software or equipment on which we or our customers rely to access our data centers and other systems;
- errors in the processing of data by our systems;
- computer viruses, malware or software defects;

- physical or electronic break-ins, sabotage, distributed denial of service, penetration attacks, intentional acts of vandalism and similar events;
- increased capacity demands or changes in systems requirements of our customers;
- virtual hijacking of traffic destined to our systems; or
- power loss, communications failures, pandemics, wars, acts of terrorism, political unrest or other man-made or natural disasters.

We may not have sufficient redundant systems or back-up facilities to allow us to receive and process data if one of the foregoing events occurs. Further, increases in the scope of services that we provide increase the complexity of our network infrastructure. As the scope of services we provide expands or changes in the future, we may be required to make significant expenditures to establish new data centers from which we may provide services. Moreover, as we add customers, expand our service offerings and increase our visibility in the market we may become a more likely target of attacks similar to those listed in the bullets above. The number of electronic attacks and viruses grows significantly every year, as does the sophistication of these attacks. For example, undetected attackers are able to monitor unencrypted Internet traffic anywhere in the world and modify it before it reaches our destination, and these attackers can harm our customers by stealing identity, Internet email or IP addresses. If we are not able to react to threats and stop attackers from exploiting vulnerabilities, the integrity of our systems and our customers and trading partners may be impacted adversely. If we cannot adequately secure and protect the ability of our data centers, offices, and related systems to perform consistently at a high level and without interruptions, or if we otherwise fail to meet our customers' expectations:

- our reputation may be damaged, which may adversely affect our ability to market our services and attract or retain customers;
- we may be subject to significant penalties or damages claims, under our contracts or otherwise, including the requirement to pay substantial penalties related to service level requirements in our contracts;
- we may be required to make significant expenditures to repair or replace equipment, third-party systems or, in some cases, an entire data center, or to establish new data centers and systems from which we may provide services;
- our operating expenses or capital expenditures may increase as a result of corrective efforts that we must perform; or
- one or more of our significant contracts may be terminated early, or may not be renewed.

Any of these consequences would adversely affect our revenue, performance and business prospects.

***If our security measures are breached and personally identifiable information is obtained by an unauthorized person, our service may be perceived as not being secure and customers may curtail or stop using our services.***

As a number of our products and services are Internet or DNS based, the amount of data we store for our users on our servers (including personal information) has increased. For example, our registry, UltraViolet™, mobile and information service offerings may involve the storage and transmission of consumer information, such as names, addresses, email addresses and other personally identifiable information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached or our systems fail in the future as a result of third-party action, employee error, malfeasance or otherwise, and as a result, someone obtains unauthorized access to consumers' data, our reputation and brands will be damaged, the adoption of our products and services could be severely limited, and we could incur significant liability, any of which may cause our business to suffer. Accordingly, we may need to expend significant resources to protect against security breaches, including encrypting personal information, or remedy

breaches after they occur, including notifying each person whose personal data may have been compromised. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of Internet or DNS-based products and services we offer as well as increase the number of countries where we operate. If an actual or perceived breach of our security measures occurs, the market perception of the effectiveness of our security measures and our reputation could be harmed and we could lose sales, existing and future business opportunities and customers, and potentially face costly litigation.

*Our seven contracts with North American Portability Management LLC represent in the aggregate a substantial portion of our revenue, are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and we may not win a competitive procurement.*

Our seven contracts with North American Portability Management LLC, or NAPM, an industry group that represents all carriers in the United States, to provide NPAC Services are not exclusive and could be terminated or modified in ways unfavorable to us. These seven separate contracts, each of which represented between 6.0% and 11.5% of our total revenue in 2011, represented in the aggregate approximately 60.4% of our total revenue in 2011. These contracts have finite terms and are currently scheduled to expire in June 2015. NAPM has initiated a selection process for the administration of NPAC services at the expiration of the current contract. We expect that there will be significant competition as a result of this process. A contract award could be announced soon after the responses to the requests for proposal are submitted to NAPM. We may not win such a competitive procurement if another provider offers to provide the same or similar services at a lower cost. The failure to win the competitive procurement would have a material adverse effect on our business, prospects, financial condition and results of operations. Even if we win the competitive procurement, the new contracts may have different pricing structures or performance requirements than are currently in effect, which could negatively affect our operating performance and may result in additional costs and expenses and possibly lower revenues.

In addition, under the current contracts, NAPM could, at any time, solicit or receive proposals from other providers to provide services that are the same as or similar to ours. These contracts can be terminated or modified in advance of their scheduled expiration date in limited circumstances, most notably if we are in default of these agreements. Although these contracts do not contain cross-default provisions, conditions leading to a default by us under one of our contracts could lead to a default under others, or all seven. If these contracts are terminated or modified in a manner that is adverse to us, it would have a material adverse effect on our business, prospects, financial condition and results of operations.

*A significant decline in the volume of transactions we handle could have a material adverse effect on our results of operations.*

Under our contracts with NAPM, we earn revenue for NPAC Services on an annual, fixed-fee basis. However, 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 fixed-fee may be adjusted up or down, respectively, with any such adjustment being applied to the following year's invoices. In addition, under our contract with the Canadian LNP Consortium Inc., we earn revenue on a per transaction basis. As a result, if industry participants in the United States reduce their usage of our services in a particular year to levels below the established volume range for that year or if industry participants in Canada reduce their usage of our services from their current levels, our revenue and results of operations may suffer. For example, consolidation in the industry could result in a decline in transactions if the remaining carriers decide to handle changes to their networks internally rather than use the services that we provide. Moreover, if customer turnover among carriers in the industry stabilizes or declines, or if carriers do not compete vigorously to lure customers away from their competitors, use of our telephone number portability and other services may decline. If carriers develop internal systems to address their infrastructure needs, or if the cost of such transactions makes it impractical for a given carrier to use our services for these purposes, we may experience a reduction in transaction volumes. Finally, the trends that we believe will drive the future demand for our services, such as the emergence of IP services, growth of wireless services, consolidation

in the industry, and pressure on carriers to reduce costs, may not actually result in increased demand for our existing services or for the ancillary directory services that we expect to offer, which would harm our future revenue and growth prospects.

***Certain of our other contracts may be terminated or modified at any time prior to their completion, which could lead to an unexpected loss of revenue and damage our reputation.***

In addition to our contracts with NAPM, we provide other carrier services that generate significant revenue and bolster our reputation as a premier solutions provider to communication service providers. Under various contracts, we serve as the provider of NPAC Services in Canada; operator of the .biz registry; and operator of the registry of U.S. Common Short Codes. Each of these contracts provides for early termination in limited circumstances, most notably if we are in default. In addition, our contracts to serve as the North American Numbering Plan Administrator and as the National Pooling Administrator and to operate the .us registry, each of which is with the U.S. government, may be terminated by the government at will. If we fail to meet the expectations of the FCC, the U.S. Department of Commerce or our customers, as the case may be, for any reason, including for performance-related or other reasons, the customer may unilaterally terminate or modify the contracts. A termination arising out of our default could expose us to liability, adversely affect our operating performance and lead to an unexpected loss of revenue. Further, each of the contracts discussed above establishes us as the sole provider of the particular services covered by that contract during its term. If one of these contracts was terminated, we would no longer be able to provide the services covered by that contract and could suffer a loss of prestige that would make it more difficult for us to compete for contracts to provide similar services in the future.

***Failure to comply with neutrality requirements could result in loss of significant contracts.***

Pursuant to orders and regulations of the U.S. government and provisions contained in our material contracts, we must continue to comply with certain neutrality requirements, meaning generally that we cannot favor any particular telecommunications service provider, telecommunications industry segment or technology or group of telecommunications consumers over any other telecommunications service provider, industry segment, technology or group of consumers in the conduct of our business. The FCC oversees our compliance with the neutrality requirements applicable to us in connection with some of the services we provide. We provide to the FCC and the North American Numbering Council, a federal advisory committee established by the FCC to advise and make recommendations on telephone numbering issues, regular certifications relating to our compliance with these requirements. Our ability to comply with the neutrality requirements to which we are subject may be affected by the activities of our stockholders or lenders. For example, if the ownership of our capital stock subjects us to undue influence by parties with a vested interest in the outcome of numbering administration, the FCC could determine that we are not in compliance with our neutrality obligations. Our failure to continue to comply with the neutrality requirements to which we are subject under applicable orders and regulations of the U.S. government and commercial contracts may result in fines, corrective measures or termination of our contracts, any one of which could have a material adverse effect on our results of operations.

***Regulatory and statutory changes that affect us or the communications industry in general may increase our costs or otherwise adversely affect our business.***

Our domestic operations and those of many of our customers are subject to regulation by the FCC and other federal, state and local agencies. As communications technologies and the communications industry continue to evolve, the statutes governing the communications industry or the regulatory policies of the FCC may change. If this were to occur, the demand for many of our services could change in ways that we cannot predict and our revenue could decline. These risks include the ability of the federal government, most notably the FCC, to:

- increase or change regulatory oversight over the services we provide;

- adopt or modify statutes, regulations, policies, procedures or programs that are disadvantageous to the services we provide, or that are inconsistent with our current or future plans, or that require modification of the terms of our existing contracts, including the manner in which we charge for certain of our services. For example,
  - in November 2005, BellSouth Corporation filed a petition with the FCC seeking changes in the way our customers are billed for services provided by us under our contracts with North American Portability Management LLC; and
  - after the amendment of our contracts with North American Portability Management LLC in September 2006, Telcordia Technologies, Inc. filed a petition with the FCC requesting an order that would require North American Portability Management LLC to conduct a new bidding process to appoint a provider of telephone number portability services in the United States. In response to our amendment of these contracts in January 2009, Telcordia filed another petition asking that the FCC abrogate these contracts and initiate a government managed procurement in their place. If successful, either of these petitions could result in the loss of one or more of our contracts with North American Portability Management LLC or otherwise frustrate our strategic plans. Although the FCC has not initiated a formal rulemaking process on either of the Telcordia petitions, the FCC's Wireline Competition Bureau issued orders on March 8, 2011 and May 16, 2011 for NAPM to complete a selection process for the administration of NPAC Services at the expiration of the current contract. See "*— Our seven contracts with North American Portability Management LLC represent in the aggregate a substantial portion of our revenue, are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and we may not win a competitive procurement*";
- prohibit us from entering into new contracts or extending existing contracts to provide services to the communications industry based on actual or suspected violations of our neutrality requirements, business performance concerns, or other reasons;
- adopt or modify statutes, regulations, policies, procedures or programs in a way that could cause changes to our operations or costs or the operations of our customers;
- appoint, or cause others to appoint, substitute or add additional parties to perform the services that we currently provide; and
- prohibit or restrict the provision or export of new or expanded services under our contracts, or prevent the introduction of other services not under the contracts based upon restrictions within the contracts or in FCC policies.

In addition, we are subject to risks arising out of the delegation of the Department of Commerce's responsibilities for the domain name system to ICANN. Changes in the regulations or statutes to which our customers are subject could cause our customers to alter or decrease the services they purchase from us. We cannot predict when, or upon what terms and conditions, further regulation or deregulation might occur or the effect future regulation or deregulation may have on our business.

*If we are unable to protect our intellectual property rights adequately, the value of our services and solutions could be diminished.*

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, we cannot assure that the precautionary steps we have taken will completely protect our intellectual property rights. Effectively policing our intellectual property is time consuming and costly, and the steps taken by us may not prevent infringement of our intellectual property or proprietary rights in our products, technology and trademarks, particularly in foreign countries where in many instances the local laws or legal systems do not offer the same level of protection as in the United States. Further, because patent applications in

the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our services and solutions that may block our use of our intellectual property or may be used by third-parties who compete with our services and solutions.

As we expand our business and introduce new services and solutions, there may be an increased risk of infringement and other intellectual property claims by third-parties. From time to time, we and our customers may receive claims alleging infringement of intellectual property rights, or may become aware of certain third-party patents that may relate to our services and solutions.

Additionally, some of our customer agreements require that we indemnify our customers for infringement claims resulting from their use of our intellectual property embedded in their products. Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved, and the number of parties holding intellectual property within the communications industry, increase the risks associated with intellectual property litigation. Moreover, the commercial success of our services and solutions may increase the risk that an infringement claim may be made against us. Royalty or licensing arrangements, if required, may not be available on terms acceptable to us, if at all. Any infringement claim successfully asserted against us or against a customer for which we have an obligation to defend could result in costly litigation, the payment of substantial damages, and an injunction that prohibits us from continuing to offer the service or solution in question, any of which could have a material adverse effect on our business, operating results and financial condition.

*The market for certain of our carrier, enterprise and information services is competitive, and if we do not adapt to rapid technological change, we could lose customers or market share.*

We compete against well-funded providers of carrier, enterprise and information services, communications software companies and system integrators that provide systems and services used by carriers and enterprises to manage their networks and internal operations in connection with telephone number portability and other communications transactions. In addition, our industry is characterized by rapid technological change and frequent new service offerings. Significant technological changes could make our technology and services obsolete. We must adapt to our rapidly changing market by continually improving the features, functionality, reliability and responsiveness of our services, and by developing new features, services and applications to meet changing customer needs. Our ability to take advantage of opportunities in the market may require us to invest in development and incur other expenses well in advance of our ability to generate revenue from these services. We cannot guarantee that we will be able to adapt to these challenges or respond successfully or in a cost-effective way, particularly in the early stages of launching a new service. Further, we may experience delays in the development of one or more features of our solutions, which could materially reduce the potential benefits to us for providing these services. In addition, there can be no assurance that our solutions will be adopted by potential customers, or that we will be able to reach acceptable contract terms with customers to provide these services. Our failure to adapt to meet market demand in a cost-effective manner could adversely affect our ability to compete and retain customers or market share.

*Data suppliers might withdraw data from us, leading to our inability to provide products and services to our clients which could lead to decreases in our operating results.*

Much of the data that Information Services uses is either purchased or licensed from third parties. We compile the remainder of the data that we use from public record sources. We could suffer a material adverse effect if owners of the data we use were to withdraw the data from us. Data providers could withdraw their data from us if there is a competitive reason to do so, or if legislation is passed restricting the use of the data, or if judicial interpretations are issued restricting use of data. If a substantial number of data providers were to withdraw their data, our ability to provide products and services to our clients could be materially adversely impacted, which could result in decreased revenues, net income and earnings per share.

***Regulatory and statutory requirements or changes in such requirements regarding privacy and data protection may increase our costs or otherwise adversely affect our business.***

We are subject to a variety of laws and regulations in the United States and in other jurisdictions relating to privacy and data protection. These statutory and regulatory requirements are evolving and may change significantly. Judicial and regulatory application and interpretation of these statutory and regulatory requirements are often uncertain. We may need to incur significant costs or modify our business practices and/or our services in order to comply with these laws and regulations in the future. Any such costs or changes could have a material adverse effect on our results of operations or prospects. If we are not able to comply with applicable laws, we may be subject to significant monetary penalties and/or orders demanding that we cease alleged noncompliant activities. These or other remedies could have a material adverse effect on our results of operation or financial condition. Our failure or alleged failure to comply with privacy and data protection laws could harm our reputation, result in legal actions against us by governmental authorities or private claimants or cause us to lose customers, any of which could have a material adverse effect on our results of operations or prospects.

***If we are unable to manage our costs, our profits could be adversely affected.***

Historically, sustaining our growth has placed significant demands on our management as well as on our administrative, operational and financial resources. For example, in 2010, our profits were negatively affected by our business realignment, including a restructuring charge of \$3.8 million related to the reduction of employee headcount, CEO severance costs of \$2.2 million and a long-lived asset impairment charge of \$8.5 million related to our Converged Messaging Services. For us to continue to manage our expanded operations, as well as any future growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If our quality of service is compromised because we are unable to successfully manage our costs, or if new systems that we implement to assist in managing our operations do not produce the expected benefits, we may experience higher turnover in our customer base and our revenue and profits could be adversely affected.

***Changes in our tax rates or exposure to additional income tax liabilities could affect our profitability. In addition, audits by tax authorities could result in additional tax payments for prior periods.***

We are subject to income taxes in the U.S. and in various non-U.S. jurisdictions. The Company's effective tax rate can be affected by changes in the mix of earnings in countries with differing statutory tax rates (including as a result of business acquisitions and dispositions), changes in the valuation of deferred tax assets and liabilities, accruals related to contingent tax liabilities and period-to-period changes in such accruals, the expiration of statutes of limitations, the implementation of tax planning strategies and changes in tax laws. In addition, the amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. tax authorities. Due to the ambiguity of tax laws and the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. The impact of these factors may be substantially different from period to period. If these audits result in payments or assessments different from our reserves, our future results may include unfavorable adjustments to our tax liabilities, which may negatively affect our results of operations.

***We must recruit and retain skilled employees to succeed in our business, and our failure to recruit and retain qualified employees could harm our ability to maintain and grow our business.***

We believe that an integral part of our success is our ability to recruit and retain employees who have advanced skills in the services and solutions that we provide and who work well with our customers. In particular, we must hire and retain employees with the technical expertise and industry knowledge necessary to maintain and continue to develop our operations and must effectively manage our growing sales and marketing organization to ensure the growth of our operations. Our future success depends on the ability of our sales and marketing organization to establish direct sales channels and to develop multiple distribution channels. The

employees with the skills we require are in great demand and are likely to remain a limited resource in the foreseeable future. If we are unable to recruit and retain a sufficient number of these employees at all levels, our ability to maintain and grow our business could be negatively impacted.

***Our failure to achieve or sustain market acceptance at desired pricing levels could impact our ability to maintain profitability or positive cash flow.***

Our competitors and customers may cause us to reduce the prices we charge for our services and solutions. The primary sources of pricing pressure include:

- competitors offering our customers services at reduced prices, or bundling and pricing services in a manner that makes it difficult for us to compete. For example, a competing provider of Internet infrastructure services might offer its services at lower rates than we do, a competing domain name registry provider may reduce its prices for domain name registration;
- customers with a significant volume of transactions may have enhanced leverage in pricing negotiations with us; and
- if our prices are too high, potential customers may find it economically advantageous to handle certain functions internally instead of using our services.

We may not be able to offset the effects of any price reductions by increasing the number of transactions we handle or the number of customers we serve, by generating higher revenue from enhanced services or by reducing our costs.

***Our expansion into international markets may be subject to uncertainties that could increase our costs to comply with regulatory requirements in foreign jurisdictions, disrupt our operations, and require increased focus from our management.***

We currently provide services to customers located in various international locations such as Brazil, Taiwan and China. We intend to pursue additional international business opportunities. International operations and business expansion plans are subject to numerous additional risks, including:

- economic and political risks in foreign jurisdictions in which we operate or seek to operate;
- difficulties in enforcing contracts and collecting receivables through some foreign legal systems;
- differences in foreign laws and regulations, including foreign tax, intellectual property, labor and contract law, as well as unexpected changes in legal and regulatory requirements;
- differing technology standards and pace of adoption;
- export restrictions on encryption and other technologies;
- fluctuations in currency exchange rates and any imposition of currency exchange controls;
- increased competition by local, regional, or global companies; and
- difficulties associated with managing a large organization spread throughout various countries.

If we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. However, any of these factors could adversely affect our international operations and, consequently, our operating results.

*We may be unable to complete acquisitions, or we may undertake acquisitions that could increase our costs or liabilities or be disruptive to our business.*

We have made a number of acquisitions in the past, and one of our strategies is to pursue acquisitions selectively in the future. We may not be able to locate acquisition candidates at prices that we consider appropriate or on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of the acquisition or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require additional debt or equity financing, resulting in additional leverage or dilution to our stockholders. Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. For example, we may have difficulties in modifying TARGUSinfo's existing accounting and internal control systems to comply with Section 404 of the Sarbanes-Oxley Act of 2002, to which TARGUSinfo was not subject, which could adversely impact the effectiveness of internal control over financial reporting for the combined company. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. It is also possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with customers, suppliers, distributors, creditors, or lessors, or to achieve the anticipated benefits of the acquisition. We also may not realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates, and we may be required to invest significant capital and resources after acquisition to maintain or grow the businesses that we acquire. In addition, we may need to record write-downs from impairments of goodwill, intangible assets, or long-lived assets, or record adjustments to the purchase price that occur after the closing of the transaction, which could reduce our future reported earnings. For example, in the fourth quarter of 2010 we recognized an \$8.5 million non-cash long-lived asset impairment charge related to our Converged Messaging business. If we fail to successfully integrate and support the operations of the businesses we acquire, or if anticipated revenue enhancements and cost savings are not realized from these acquired businesses, our business, results of operations and financial condition would be materially adversely affected. Further, at times, acquisition candidates may have liabilities, neutrality-related risks or adverse operating issues that we fail to discover through due diligence prior to the acquisition. The failure to discover such issues prior to such acquisition could have a material adverse effect on our business and results of operations.

#### **Risks Related to the Financial Market Conditions**

*We may be unable to raise additional capital, if needed, or to raise capital on favorable terms.*

The general economic and capital market conditions in the United States and other parts of the world have deteriorated significantly and have adversely affected access to capital and increased the cost of capital. If funds available under our Revolving Facility are insufficient to fund our future activities, including acquisitions, organic business ventures, or capital expenditures, we may need to raise additional funds through public or private equity or debt financing. If unfavorable capital market conditions exist when we seek additional financing, we may not be able to raise sufficient capital on favorable terms or at all. Failure to obtain capital on a timely basis could have a material adverse effect on our results of operations including an inability to fund new organic and inorganic growth.

#### **Risks Related to Our Common Stock**

*Our common stock price may be volatile.*

The market price of our Class A common stock may fluctuate widely. Fluctuations in the market price of our Class A common stock could be caused by many things, including:

- our perceived prospects and the prospects of the telephone, Internet and data analytics industries in general;

- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts' recommendations or projections;
- changes in general valuations for communications companies;
- adoption or modification of regulations, policies, procedures or programs applicable to our business;
- sales of our Class A common stock by our officers, directors or principal stockholders;
- sales of significant amounts of our Class A common stock in the public market, or the perception that such sales may occur;
- sales of our Class A common stock due to a required divestiture under the terms of our certificate of incorporation; and
- changes in general economic or market conditions and broad market fluctuations.

Each of these factors, among others, could have a material adverse effect on the market price of our Class A common stock. Recently, the stock market in general has experienced extreme price fluctuations. This volatility has had a substantial effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of the specific companies. Some companies that have had volatile market prices for their securities have had securities class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

*Delaware law and provisions in our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest difficult, and the market price of our Class A common stock may be lower as a result.*

We are a Delaware corporation, and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our certificate of incorporation and bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our certificate of incorporation and bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our Board of Directors to thwart a takeover attempt;
- prohibit cumulative voting in the election of directors, which would otherwise enable holders of less than a majority of our voting securities to elect some of our directors;
- establish a classified Board of Directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following election;
- require that directors only be removed from office for cause;
- provide that vacancies on the Board of Directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;
- disqualify any individual from serving on our board if such individual's service as a director would cause us to violate our neutrality requirements;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- establish advance notice requirements for nominating candidates for election to the Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

*In order to comply with our neutrality requirements, our certificate of incorporation contains ownership and transfer restrictions relating to telecommunications service providers and their affiliates, which may inhibit potential acquisition bids that our stockholders may consider favorable, and the market price of our Class A common stock may be lower as a result.*

In order to comply with neutrality requirements imposed by the FCC in its orders and rules, no entity that qualifies as a “telecommunications service provider” or affiliate of a telecommunications service provider, as defined under the Communications Act of 1934 and FCC rules and orders, may beneficially own 5% or more of our capital stock. In general, a telecommunications service provider is an entity that offers telecommunications services to the public at large, and is, therefore, providing telecommunications services on a common carrier basis. Moreover, a party will be deemed to be an affiliate of a telecommunications service provider if that party controls, is controlled by, or is under common control with, a telecommunications service provider. A party is deemed to control another if that party, directly or indirectly:

- owns 10% or more of the total outstanding equity of the other party;
- has the power to vote 10% or more of the securities having ordinary voting power for the election of the directors or management of the other party; or
- has the power to direct or cause the direction of the management and policies of the other party.

As a result of this regulation, subject to limited exceptions, our certificate of incorporation (a) prohibits any telecommunications service provider or affiliate of a telecommunications service provider from beneficially owning, directly or indirectly, 5% or more of our outstanding capital stock and (b) empowers our Board of Directors to determine whether any particular holder of our capital stock is a telecommunications service provider or an affiliate of a telecommunications service provider. Among other things, our certificate of incorporation provides that:

- if one of our stockholders experiences a change in status or other event that results in the stockholder violating this restriction, or if any transfer of our stock occurs that, if effective, would violate the 5% restriction, we may elect to purchase the excess shares (i.e., the shares that cause the violation of the restriction) or require that the excess shares be sold to a third-party whose ownership will not violate the restriction;
- pending a required divestiture of these excess shares, the holder whose beneficial ownership violates the 5% restriction may not vote the shares in excess of the 5% threshold; and
- if our Board of Directors, or its permitted designee, determines that a transfer, attempted transfer or other event violating this restriction has taken place, we must take whatever action we deem advisable to prevent or refuse to give effect to the transfer, including refusal to register the transfer, disregard of any vote of the shares by the prohibited owner, or the institution of proceedings to enjoin the transfer.

Any person who acquires, or attempts or intends to acquire, beneficial ownership of our stock that will or may violate this restriction must notify us as provided in our certificate of incorporation. In addition, any person who becomes the beneficial owner of 5% or more of our stock must notify us and certify that such person is not a telecommunications service provider or an affiliate of a telecommunications service provider. If a 5% stockholder fails to supply the required certification, we are authorized to treat that stockholder as a prohibited owner — meaning, among other things, that we may elect to require that the excess shares be sold. We may request additional information from our stockholders to ensure compliance with this restriction. Our board will treat any “group,” as that term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as a single person for purposes of applying the ownership and transfer restrictions in our certificate of incorporation.

Nothing in our certificate of incorporation restricts our ability to purchase shares of our capital stock. If a purchase by us of shares of our capital stock results in a stockholder’s percentage interest in our outstanding capital stock increasing to over the 5% threshold, such stockholder must deliver the required certification

regarding such stockholder's status as a telecommunications service provider or affiliate of a telecommunications service provider. In addition, to the extent that a repurchase by us of shares of our capital stock causes any stockholder to violate the restrictions on ownership and transfer contained in our certificate of incorporation, that stockholder will be subject to all of the provisions applicable to prohibited owners, including required divestiture and loss of voting rights.

These restrictions and requirements may:

- discourage industry participants that might have otherwise been interested in acquiring us from making a tender offer or proposing some other form of transaction that could involve a premium price for our shares or otherwise be in the best interests of our stockholders; and
- discourage investment in us by other investors who are telecommunications service providers or who may be deemed to be affiliates of a telecommunications service provider, which may decrease the demand for our Class A common stock and cause the market price of our Class A common stock to be lower.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our corporate headquarters complex is located in Sterling, Virginia. As of December 31, 2011, we leased approximately 420,000 square feet of space, primarily in the United States, and to a lesser extent in Europe and Costa Rica, in support of general office and sales operations. We do not own any real property. As of February 17, 2012, we believe that our leased facilities have sufficient capacity to meet the current and projected needs of our business. The following table lists our major locations and primary use, by operating segment, where applicable, for continuing operations:

<b>Leased Property Locations</b>	<b>Approximate Square Footage</b>	<b>General Usage</b>
Sterling, VA, United States	237,000	Corporate headquarters
McLean, VA, United States	49,000	Information Services
California, United States	57,000	Carrier and Enterprise Services
Colorado, United States	14,000	Carrier Services
Kentucky, United States	18,000	Carrier and Enterprise Services customer support
Utah, United States	8,000	Information Services
District of Columbia, United States	13,000	General office and sales
Staines, United Kingdom	6,000	Carrier and Enterprise Services
Heredia, Costa Rica	13,000	Information Services

Upon expiration of the property leases, we expect to obtain renewals or to lease alternative space. Lease expiration dates range from 2012 through 2022.

#### **ITEM 3. 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

#### Market for Our Common Stock

Since June 29, 2005, our Class A common stock has traded on the New York Stock Exchange under the symbol "NSR." As of February 17, 2012, our Class A common stock was held by 326 stockholders of record. The following table sets forth the per-share range of the high and low sales prices of our Class A common stock as reported on the New York Stock Exchange for the periods indicated:

	High	Low
<b>Fiscal year ended December 31, 2010</b>		
First quarter	\$26.10	\$21.87
Second quarter	\$26.73	\$20.23
Third quarter	\$25.12	\$20.20
Fourth quarter	\$27.07	\$23.89
<b>Fiscal year ended December 31, 2011</b>		
First quarter	\$27.89	\$24.60
Second quarter	\$27.22	\$25.18
Third quarter	\$27.09	\$22.24
Fourth quarter	\$34.73	\$24.79

There is no established public trading market for our Class B common stock. As of February 17, 2012, our Class B common stock was held by 5 stockholders of record.

#### Dividends

We did not pay any cash dividends on our Class A or Class B common stock in 2010 or 2011 and we do not expect to pay any cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance our operations and growth. Our revolving credit facility limits our ability to declare or pay dividends. We are also limited by Delaware law in the amount of dividends we can pay. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will depend on earnings, financial condition, operating results, capital requirements, any contractual restrictions and other factors that our Board of Directors deems relevant.

#### Purchases of Equity Securities

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended December 31, 2011:

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)
October 1 through October 31, 2011	481,139	\$29.17	479,556	\$185,299,019
November 1 through November 30, 2011	2,023	31.40	—	435,299,019
December 1 through December 31, 2011	7,247,288	34.50	7,246,376	185,299,019
Total	7,730,450	\$34.17	7,725,932	\$185,299,019

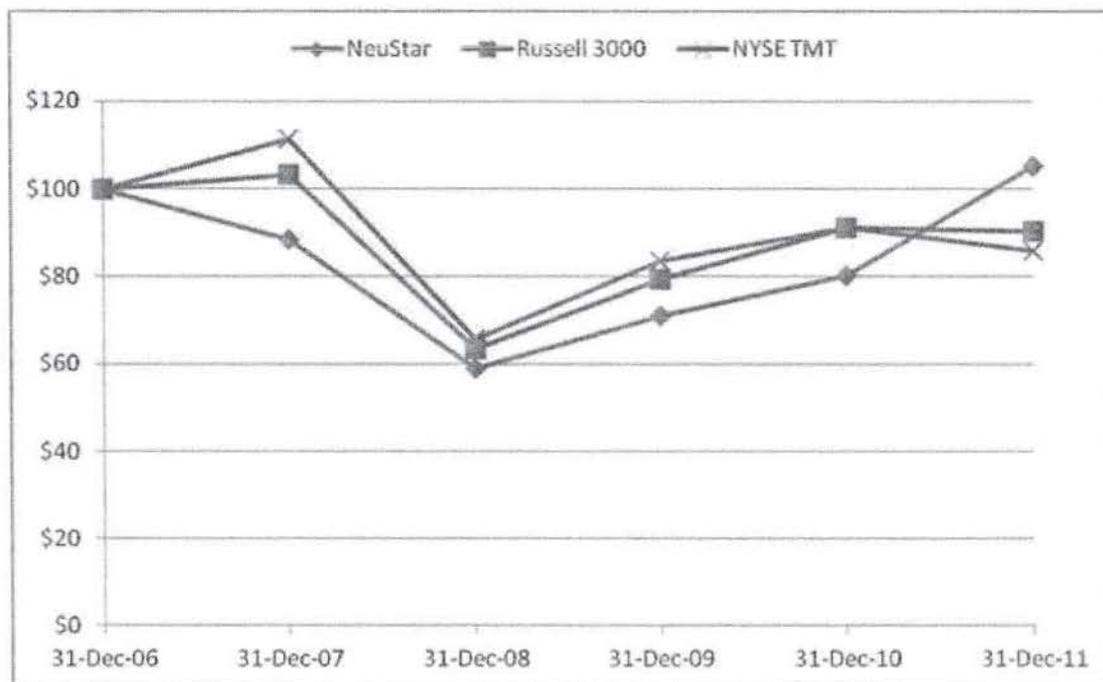
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- (1) The number of shares purchased includes shares of common stock tendered by employees to us to satisfy the employees' tax withholding obligations arising as a result of vesting of restricted stock grants under our stock incentive plan. We purchased 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 4,518 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 authorized the repurchase of up to \$300 million of Class A common shares through a Rule 10b5-1 plan, open market purchases, privately negotiated transactions or otherwise as market conditions warrant, at prices we deemed appropriate. This Rule 10b5-1 plan was terminated on November 3, 2011, upon the commencement of our modified Dutch auction tender offer. On November 3, 2011, we announced the commencement of a modified Dutch auction tender offer to purchase up to \$250 million of our Class A common stock. The modified Dutch auction tender offer expired at 12:00 midnight, New York City time, on the night of Friday, December 2, 2011. We purchased 7,246,376 shares of our Class A common stock at the final purchase price of \$34.50 per share, for an aggregate cost of approximately \$250 million.

### Performance Graph

The following chart compares Neustar's cumulative stockholder return on its common stock over the last five fiscal years compared with \$100 invested in the: (a) Russell 3000 Index and (b) NYSE TMT Index, an Index of Technology, Media and Telecommunications companies, each over that same period.

The comparison assumes reinvestment of dividends. The stock performance in the graph is included to satisfy our SEC disclosure requirements, and is not intended to forecast or to be indicative of future performance.

This Performance Graph shall not be deemed to be incorporated by reference into our SEC filings and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.



## ITEM 6. SELECTED FINANCIAL DATA

The tables below present selected consolidated statements of operations data and selected consolidated balance sheet data for each year in the five year period ended December 31, 2011. The selected consolidated statements of operations data for each of the three years ended December 31, 2009, 2010 and 2011, and the selected consolidated balance sheet data as of December 31, 2010 and 2011, have been derived from, and should be read together with, our audited consolidated financial statements and related notes appearing in this report. The selected consolidated statements of operations data for each of the two years ended December 31, 2007 and 2008, and the selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009, have been derived from our audited consolidated financial statements and related notes not included in this report.

The following information should be read together with, and is qualified in its entirety by reference to, the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report and our consolidated financial statements and related notes in Item 8 of this report.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Total revenue	\$421,062	\$ 474,141	\$467,253	\$520,866	\$620,455
Operating expense:					
Cost of revenue (excluding depreciation and amortization shown separately below)	87,650	89,543	99,436	111,282	137,992
Sales and marketing	60,760	62,769	80,676	86,363	109,855
Research and development	19,766	17,325	14,094	13,780	17,509
General and administrative	41,504	50,809	52,491	65,496	96,317
Depreciation and amortization	28,241	29,978	29,852	32,861	46,209
Restructuring charges	—	—	974	5,361	3,549
	<u>237,921</u>	<u>250,424</u>	<u>277,523</u>	<u>315,143</u>	<u>411,431</u>
Income from operations	183,141	223,717	189,730	205,723	209,024
Other (expense) income:					
Interest and other expense	(1,378)	(15,489)	(5,213)	(6,995)	(6,279)
Interest and other income	4,599	13,109	7,491	7,582	1,966
Income from continuing operations before income taxes	186,362	221,337	192,008	206,310	204,711
Provision for income taxes, continuing operations	75,098	86,943	76,498	82,282	81,137
Income from continuing operations	111,264	134,394	115,510	124,028	123,574
(Loss) income from discontinued operations, net of tax	(18,929)	(130,100)	(14,369)	(17,819)	37,249
Net income	<u>\$ 92,335</u>	<u>\$ 4,294</u>	<u>\$101,141</u>	<u>\$106,209</u>	<u>\$160,823</u>
Basic net income (loss) per common share:					
Continuing operations	\$ 1.46	\$ 1.81	\$ 1.55	\$ 1.66	\$ 1.69
Discontinued operations	(0.25)	(1.75)	(0.19)	(0.24)	0.51
Basic net income per common share	<u>\$ 1.21</u>	<u>\$ 0.06</u>	<u>\$ 1.36</u>	<u>\$ 1.42</u>	<u>\$ 2.20</u>
Diluted net income (loss) per common share:					
Continuing operations	\$ 1.40	\$ 1.77	\$ 1.53	\$ 1.63	\$ 1.66
Discontinued operations	(0.24)	(1.71)	(0.19)	(0.23)	0.50
Diluted net income per common share	<u>\$ 1.16</u>	<u>\$ 0.06</u>	<u>\$ 1.34</u>	<u>\$ 1.40</u>	<u>\$ 2.16</u>
Weighted average common shares outstanding:					
Basic	76,038	74,350	74,301	74,555	72,974
Diluted	<u>79,300</u>	<u>76,107</u>	<u>75,465</u>	<u>76,065</u>	<u>74,496</u>

	As of December 31,				
	2007	2008	2009	2010	2011
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and short-term investments	\$198,678	\$161,653	\$342,191	\$345,372	\$ 132,782
Working capital	210,870	164,636	316,263	345,221	193,997
Goodwill and intangible assets	240,944	134,661	127,206	143,625	913,419
Total assets	616,661	519,166	647,804	733,874	1,382,638
Deferred revenue and customer credits, excluding current portion	18,063	11,657	8,923	10,578	10,363
Long-term note payable and capital lease obligations, excluding current portion	10,923	11,933	10,766	4,076	586,727
Total stockholders' equity	480,535	386,653	504,437	596,112	502,634

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis in conjunction with the information set forth under "Selected Financial Data" in Item 6 of this report and our consolidated financial statements and related notes in Item 8 of this report. The statements in this discussion related to our expectations regarding our future performance, liquidity and capital resources, and other non-historical statements in this discussion, are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors" in Item 1A of this report and "Business — Cautionary Note Regarding Forward-Looking Statements" in Item 1 of this report. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

### **Overview**

Consolidated revenue growth continued to be strong in 2011. Our consolidated revenue for the year grew 19.1% to \$620.5 million as compared to \$520.9 million in 2010. Operating expense for the year ended December 31, 2011 was \$411.4 million, an increase of \$96.3 million from \$315.1 million in the prior year.

Our revenue increase of \$99.6 million was driven primarily by an increase in the revenue under our contracts with the North American Portability Management LLC, or NAPM, for our number portability administration center services, or NPAC Services. We continued to see strong demand for our other Carrier Services and Enterprise Services. Our OMS revenue increased primarily due to greater usage from existing customers and the 2011 acquisition of our licensed order management services. Demand for our IIS solutions continued to be strong, both from new and current customers, and Registry Services grew as a result of an increased number of common short codes and domain names under management. In addition, our acquisition of TARGUSinfo, our new Information Services segment, contributed \$21.2 million of revenue in the fourth quarter and will help us diversify our revenue base in the future. The increase in operating expense was driven by personnel and personnel-related expense primarily from headcount additions to our teams in support of business operations and from acquisitions we completed in 2011.

We plan to build on our 2011 successes by leveraging our core competencies with our newly acquired assets. Our acquisition of TARGUSinfo expanded our services and solutions, leading our customers and investors to view us not just as a telecommunications company but as a real-time information analytics company. This acquisition provides us with the opportunity to leverage our authoritative databases that are processing trillions of transactions in a new way and enables us to provide new solutions to our customers based on real time analytics derived from our addressing capabilities. We will continue to offer innovative services to our existing and new customers as we evolve into a global leader in real-time analytics. We believe this will provide a foundation for our long-term strategy to deliver significant shareholder value.

### **Our Company**

We are a trusted, neutral provider of real-time information and analytics to the Internet, communications, entertainment, advertising and marketing industries around the world. Our advanced, secure technologies provide addressing, routing, policy management and authentication services that enable our customers to find their end users, route network traffic to the optimal location and verify end-user identity. With our expertise in database management and analysis, we also provide cyber security, marketing and advertising information and analytics to our customers.

We were founded to meet the technical and operational challenges of the communications industry when the U.S. government mandated local number portability in 1996. We provide the authoritative solution that the communications industry relies upon to meet this mandate. Since then, we have grown to offer a broad range of innovative services, including registry services, managed DNS services, IP services, fixed IP geolocation services, Internet security services, caller ID services, web performance monitoring services, and real-time information and analytics services.

We operate in three segments:

- *Carrier Services.* Our carrier services include numbering services, order management services and IP services. Through our set of unique databases and system infrastructure in geographically dispersed data centers, we manage the increasing complexity in the communications industry and ensure the seamless connection of our carrier customers' numerous networks, while also enhancing the capabilities and performance of their infrastructure. We operate the authoritative databases that manage virtually all telephone area codes and numbers, and enable 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 our unique database to properly route their customers' calls and text messages. We also facilitate order management and work-flow processing among carriers, and allow operators to manage and optimize the addressing and routing of IP communications.
- *Enterprise Services.* Our enterprise services include Internet infrastructure services and registry services. Through our global directory platform, we provide a suite of DNS services to our enterprise customers. We manage 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. We are the authoritative provider of essential registry services and manage directories of similar resources, or addresses, that our customers use for reliable, fair and secure access and connectivity. In addition, enterprise customers rely on our services to monitor and load-test websites to help identify issues and optimize performance. We also provide 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, we provide 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.* Our information services include on-demand solutions that help carriers and enterprises identify, verify, score and locate customers and prospective customers. Our authoritative databases and solutions enable our 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 our customers to offer consumers more relevant services and products, and leads to higher client conversion rates. Our business listings identity management services help local businesses and national brands improve the visibility of their online business listings on local search engines. Using our proprietary database, our 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.

Our costs and expenses consist of cost of revenue, sales and marketing, research and development, general and administrative, depreciation and amortization, and restructuring charges.

Cost of revenue includes all direct materials costs, direct labor costs, and indirect costs related to the generation of revenue such as indirect labor, outsourced services, materials and supplies, payment processing fees, and general facilities cost. Our primary cost of revenue is personnel costs associated with service implementation, product maintenance, customer deployment and customer care, including salaries, stock-based compensation and other personnel-related expense. In addition, cost of revenue includes costs relating to developing modifications and enhancements of our existing technology and services, as well as royalties paid related to our U.S. Common Short Code services and registry gateway services. Cost of revenue also includes costs relating to our information technology and systems department, including network costs, data center maintenance, database management, data processing costs and general facilities costs.

Sales and marketing expense consists of personnel costs, such as salaries, sales commissions, travel, stock-based compensation, and other personnel-related expense; costs associated with attending and sponsoring trade

shows; facilities costs; professional fees; costs of marketing programs, such as Internet and print marketing programs, as well as costs for product branding, market analysis and forecasting; and customer relationship management.

Research and development expense consists primarily of personnel costs, including salaries, stock-based compensation and other personnel-related expense; contractor costs; and the costs of facilities, computer and support services used in service and technology development.

General and administrative expense consists primarily of personnel costs, including salaries, stock-based compensation, and other personnel-related expense, for our executive, administrative, legal, finance and human resources functions. General and administrative expense also includes facilities, support services and professional services fees.

Depreciation and amortization relates to amortization of identifiable intangibles, and the depreciation of our property and equipment, including our network infrastructure and facilities related to our services.

Restructuring charges relate to the termination of certain employees and reduction in or closure of leased facilities in some of our international locations.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our 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 and Item 1A of this report, "Risk Factors," for certain matters that may bear on our results of operations.

### ***Acquisitions***

We record acquisitions using the acquisition method of accounting. We recognize all of the assets acquired, liabilities assumed, contractual contingencies and contingent consideration, when applicable, at their fair value as of the acquisition date. We record the excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired as goodwill. 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 assets acquired and liabilities assumed in order to properly allocate purchase price consideration. These assumptions and estimates reflect our expected use of the asset and the appropriate discount

rates from a market participant perspective. Our estimates are based on historical experience and information obtained from the management of the acquired companies, and are determined with assistance from an independent third-party appraisal firm. Our significant assumptions and estimates can include, but are not limited to, the cash flows that an acquired asset is expected to generate in the future, the weighted-average cost of capital, long-term projected revenues and growth rates, and the estimated royalty rate in the application of the relief from royalty valuation method. These estimates are inherently uncertain. In addition, unanticipated events and circumstances may occur which may affect the accuracy or validity of such estimates. During the third quarter of 2011, we acquired the assets and assumed certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. and recorded \$20.3 million of goodwill and \$21.7 million of definite-lived intangible assets. During the fourth quarter of 2011, we acquired the capital stock of TARGUSinfo for approximately \$658.0 million. In connection with this acquisition, we assumed unvested options with an estimated total fair value of \$5.7 million. Of the total \$5.7 million, approximately \$5.0 million will be expensed for post-combination services and approximately \$0.7 million has been included in the purchase price. The estimated fair value of the assumed unvested options was determined utilizing the Hull-White lattice model which required us to apply judgment and use subjective assumptions, including volatility of stock prices and an employee forfeiture rate based on our historical experience. We recorded \$429.7 million of goodwill and \$310.2 million of definite-lived intangible assets. See Note 3 to our audited Consolidated Financial Statements in Item 8 of Part II of this report.

### ***Revenue Recognition***

As part of our carrier services, 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. In January 2009, we amended our seven regional contracts with NAPM. The aggregate fees for transactions processed under the amended contracts are determined by an annual fixed-fee pricing model under which the annual fixed fee, or Base Fee, was set at \$340.0 million, \$362.1 million and \$385.6 million in 2009, 2010 and 2011, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. These amended contracts also provide for a fixed credit of \$40.0 million in 2009, \$25.0 million in 2010 and \$5.0 million in 2011, which are applied to reduce the Base Fee for the applicable year. Additional credits of up to \$15.0 million annually in each of 2009, 2010 and 2011 may be earned if the customers reach certain levels of aggregate telephone number inventories and adopt and implement 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. We determine the fixed and determinable fee under these amended contracts on an annual basis at the beginning of each year and recognize this fee in our Carrier Services operating segment on a straight-line basis over twelve months.

For 2009, we concluded that the fixed and determinable fee equaled \$285.0 million, which represented the Base Fee of \$340.0 million reduced by the \$40.0 million fixed credit and \$15.0 million of additional credits. During 2009, our customers adopted and implemented the requisite IP fields and functionality, and as a result earned \$7.5 million of credits for each of 2009, 2010 and 2011. However, the customers did not reach the levels of aggregate telephone number inventories required to earn additional credits in 2009 and as a result; we recognized \$7.5 million of revenue in the fourth quarter of 2009. Our total revenue recognized under our seven regional contracts with NAPM to provide NPAC Services was \$292.5 million for the year ended December 31, 2009.

For 2010, we concluded that the fixed and determinable fee equaled \$322.1 million, which represented the Base Fee of \$362.1 million, reduced by the \$25.0 million fixed credit and \$15.0 million of additional credits. During 2010, our carrier customers earned all of the available additional credits of \$15.0 million for the adoption and implementation of the requisite IP fields and functionality and the achievement of specific levels of aggregate telephone number inventories.

For 2011, we concluded that the fixed and determinable fee equaled \$365.6 million, which represented the Base Fee of \$385.6 million, reduced by the \$5.0 million fixed credit and \$15.0 million of additional credits. During 2011, our carrier customers earned all of the available additional credits of \$15.0 million for the adoption and implementation of the requisite IP fields and functionality and the achievement of specific levels of aggregate telephone number inventories.

Fees under our 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 provider's share of the aggregate end-user services revenues of all U.S. telecommunications service providers, as determined by the FCC. Under our contracts with NAPM, we also bill a Revenue Recovery Collections, or RRC, fee of a percentage of monthly billings to our customers, which is available to us if any telecommunications service provider fails to pay its allocable share of total transactions charges. If the RRC fee is insufficient for that purpose, these contracts also provide for the recovery of such differences from the remaining telecommunications service providers.

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 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.

Our 2011 annual goodwill impairment analysis, which we performed for each of our two reporting units as of October 1, 2011, did not result in an impairment charge. We determined the estimated fair value of our reporting units using the income approach and the market approach, consistent with the approach we utilized in our analysis performed in 2010. To assist in the process of determining fair value, we performed internal valuation analyses, considered other publicly available market information and obtained appraisals from external advisors. Significant assumptions used in the determination of fair value under the income approach included assumptions regarding market penetration, anticipated growth rates, and risk-adjusted discount rates. Significant assumptions used in the determination of fair value under the market approach included the selection of comparable companies.

The key assumptions used in our 2011 annual goodwill impairment test to determine the fair value of our reporting units included: (a) cash flow projections, which include growth and allocation assumptions for forecasted revenue and expenses; (b) a residual growth rate of 3.0% to 5.0%; (c) a discount rate of 14.5% to 16.0%, which was based upon each respective reporting unit's weighted-average cost of capital adjusted for the risks associated with the operations at the time of the assessment; (d) selection of comparable companies used in the market approach; and (e) assumptions in weighting the results of the income approach and the market approach valuation techniques.

As of the date of our 2011 annual impairment test, our estimated fair values for each of our reporting units substantially exceeded each of our reporting units' carrying value. We believe that the assumptions and estimates used to determine the estimated fair values of each of our reporting units are reasonable; however, these estimates are inherently subjective, and there are a number of factors, including factors outside of our control that could cause actual results to differ from our estimates. Changes in estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge.

Any changes to our key assumptions about our businesses and our prospects, or changes in market conditions, could cause the fair value of one of our reporting units 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 segments or reporting units, 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, 2011, we had \$128.8 million, \$16.2 million, and \$429.7 million in goodwill for our Carrier Services, Enterprise Services, and Information Services operating segments, respectively, the latter of which is attributable to our acquisition of TARGUSinfo on November 8, 2011 and was not included in our 2011 annual impairment test.

#### *Accounts Receivable, Revenue Recovery Collections, and Allowance for Doubtful Accounts*

Accounts receivable are recorded at the invoiced amount and do not bear interest. In accordance with our contracts with NAPM, we bill an RRC fee of a percentage of monthly billings to our customers. The aggregate RRC fees collected may be used to offset uncollectible receivables from an individual customer. Beginning July 1, 2005, the RRC fee was 1% of monthly billings. On July 1, 2008, the RRC fee was reduced to 0.75% and further reduced to 0.65% on July 1, 2010. Any accrued RRC fees in excess of uncollectible receivables are paid back to the customers annually on a pro rata basis. All other receivables related to services not covered by the RRC fees are evaluated and, if deemed not collectible, are appropriately reserved.

#### *Investments*

As of December 31, 2011, we have approximately \$13.1 million of investments in pre-refunded municipal bonds. These investments are accounted for as available-for-sale securities and unrealized gains or losses on these investments are recorded in other comprehensive income. We are exposed to investment risk as it relates to changes in the market value of our investments. We determine the fair value of our 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). We corroborate consensus prices provided by third party pricing sources using reported trade activity, benchmark yield curves, binding broker/dealer quotes or other relevant price information. As of December 31, 2011, we determined that declines in the fair value of our investments are considered to be not other-than-temporary. Given the significance of these investments to our consolidated balance sheet, declines in the fair value that are considered to be other-than-temporary could have a material effect on our consolidated financial statements.

#### *Income Taxes*

We recognize deferred tax assets and liabilities based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to reverse or be utilized. The realization of deferred tax assets is contingent upon the generation of future taxable income. When

appropriate, we recognize a valuation allowance to reduce such deferred tax assets to amounts that are more likely than not to be ultimately realized. The calculation of deferred tax assets, including valuation allowances, and liabilities requires us to apply significant judgment related to such factors as the application of complex tax laws, changes in tax laws and our future operations. We review our deferred tax assets on a quarterly basis to determine if a valuation allowance is required based upon these factors. Changes in our assessment of the need for a valuation allowance could give rise to a change in such allowance, potentially resulting in additional expense or benefit in the period of change.

Our income tax provision includes U.S. federal, state, local and foreign income taxes and is based on pre-tax income or loss. In determining the annual effective income tax rate, we analyzed various factors, including our annual earnings and taxing jurisdictions in which the earnings were generated, the impact of state and local income taxes and our ability to use tax credits and net operating loss carryforwards.

We assess uncertain tax positions and recognize income tax benefits when, based on the technical merits of a tax position, we believe that if a dispute arose with the taxing authority and was taken to a court of last resort, it is more likely than not (i.e., a probability of greater than 50 percent) that the tax position would be sustained as filed. If a position is determined to be more likely than not of being sustained, the reporting enterprise should recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. Our practice is to recognize interest and penalties related to income tax matters in income tax expense.

Tax years 2007 through 2010 remain open to examination by the major taxing jurisdictions to which we are subject. The Internal Revenue Service, or IRS, has completed an examination of our federal income tax returns for the years 2007 and 2008. The audit resulted in no material adjustments. We also settled a withholding tax audit with the Israeli Taxing Authority for the years 2007 to 2009. The audit resulted in no material adjustments.

### ***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. The estimated fair values of non-vested stock-based awards granted to consultants are measured and recognized each reporting period through each vesting date. We estimate the fair value of each option-based award using the Black-Scholes option-pricing model. This option pricing model requires that we make several estimates, including the option's expected life and the price volatility of the underlying stock.

Because stock-based compensation expense is based on awards that are ultimately expected to vest, the amount of expense takes into account estimated forfeitures at the time of grant, which estimate may be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Changes in these estimates and assumptions can materially affect the estimated fair value of our stock-based compensation. See Note 14 to our Consolidated Financial Statements in Item 8 of Part II 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. As of December 31, 2011, total unrecognized compensation expense was \$43.5 million, which relates to non-vested stock options, non-vested restricted stock units, non-vested restricted stock awards and non-vested performance vested restricted stock units, or PVRsUs, and is expected to be recognized over a weighted-average period of 1.48 years.

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/or 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 December 31, 2011, the level of achievement of the performance target awards for PVRsUs granted during 2009, 2010 and 2011 was 133%, 116% and 134%, respectively.

Changes in our assumptions regarding the achievement of specific financial targets could have a material effect on our consolidated financial statements. During 2011, we revised our estimate of achievement of the performance target related to the PVRsUs granted during 2010 from 100% of target to 105% of target, and further revised our estimate of achievement in the fourth quarter of 2011 to 116% of target. In addition, we revised our estimate of achievement of the performance target related to the PVRsUs granted during 2011 from 100% of target to 131% of target, and further revised our estimate of achievement in the fourth quarter of 2011 to 134% of target. These changes in estimates did not have a material impact on our income from continuing operations and our earnings per diluted share from continuing operations, respectively, for the year ended December 31, 2011.

## Consolidated Results of Operations

### Year Ended December 31, 2010 Compared to the Year Ended December 31, 2011

The following table presents an overview of our results of operations for the years ended December 31, 2010 and 2011.

	Years Ended December 31,			
	2010	2011	2010 vs. 2011	
	\$	\$	\$ Change	% Change
(in thousands, except per share data)				
Revenue:				
Carrier Services	\$391,762	\$447,894	\$56,132	14.3 %
Enterprise Services	129,104	151,390	22,286	17.3 %
Information Services	—	21,171	21,171	100.0 %
Total revenue	520,866	620,455	99,589	19.1 %
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	111,282	137,992	26,710	24.0 %
Sales and marketing	86,363	109,855	23,492	27.2 %
Research and development	13,780	17,509	3,729	27.1 %
General and administrative	65,496	96,317	30,821	47.1 %
Depreciation and amortization	32,861	46,209	13,348	40.6 %
Restructuring charges	5,361	3,549	(1,812)	(33.8)%
	315,143	411,431	96,288	30.6 %
Income from operations	205,723	209,024	3,301	1.6 %
Other (expense) income:				
Interest and other expense	(6,995)	(6,279)	716	(10.2)%
Interest and other income	7,582	1,966	(5,616)	(74.1)%
Income from continuing operations before income taxes	206,310	204,711	(1,599)	(0.8)%
Provision for income taxes, continuing operations	82,282	81,137	(1,145)	(1.4)%
Income from continuing operations	124,028	123,574	(454)	(0.4)%
(Loss) income from discontinued operations, net of tax	(17,819)	37,249	55,068	(309.0)%
Net income	\$106,209	\$160,823	\$54,614	51.4 %
Basic net income (loss) per common share:				
Continuing operations	\$ 1.66	\$ 1.69		
Discontinued operations	(0.24)	0.51		
Basic net income per common share	\$ 1.42	\$ 2.20		
Diluted net income (loss) per common share:				
Continuing operations	\$ 1.63	\$ 1.66		
Discontinued operations	(0.23)	0.50		
Diluted net income per common share	\$ 1.40	\$ 2.16		
Weighted average common shares outstanding:				
Basic	74,555	72,974		
Diluted	76,065	74,496		

## *Revenue*

*Total revenue.* Total revenue increased \$99.6 million due to a \$56.1 million increase in revenue from our Carrier Services operating segment, a \$22.3 million increase in revenue from our Enterprise Services operating segment, and revenue of \$21.2 million from our new Information Services operating segment.

*Carrier Services.* Revenue from our Carrier Services operating segment increased \$56.1 million due to an increase of \$36.1 million in revenue from our Numbering Services, an increase of \$16.0 million in OMS revenue, and an increase of \$4.0 million from our IP Services. The \$36.1 million increase in revenue from our Numbering Services was primarily the result of an established increase of \$43.5 million in the fixed fee under our contracts to provide NPAC services, partially offset by a decrease of \$6.2 million in system enhancements and functionality requested by our Numbering Services customers and a decrease of \$2.0 million in revenue from our international LNP solutions. The increase in our OMS revenue was due to greater usage from existing customers and the acquisition of our licensed order management services in the third quarter of 2011. The increase in IP Services revenue was primarily due to an increase of \$2.0 million in revenue from our GSMA PathFinder services, and transition services revenue of \$0.8 million pursuant to the sale of certain assets and liabilities of our Converged Messaging Services business. These transition services were completed as of June 30, 2011. There was no corresponding transition services revenue in 2010.

*Enterprise Services.* Revenue from our Enterprise Services operating segment increased \$22.3 million primarily due to an increase of \$13.9 million in revenue from our IIS. This was primarily driven by increased demand from existing and new customers for our expanded service offerings, such as fixed IP geolocation database services. In addition, Registry Services revenue increased \$8.4 million due to an increase in the number of common short codes and domain names under management.

*Information Services.* On November 8, 2011, we completed the acquisition of TARGUSinfo. Revenue from this acquisition is included in Information Services, a new operating segment, since the date of acquisition. Revenue from our Information Services operating segment included \$13.9 million in Identification Services, \$4.5 million in Verification & Analytics Services, and \$2.8 million in Local Search & Licensed Data Services.

## *Expense*

*Cost of revenue.* Cost of revenue increased \$26.7 million primarily due to an increase in personnel and personnel-related expense of \$12.5 million due to headcount additions related to our licensed order management services, fixed IP geolocation services and Information Services. In addition, cost of revenue increased \$5.8 million in general facility costs primarily due to additional telecommunications and maintenance costs resulting from the addition of our fixed IP geolocation services, as well as increased costs for our customer support operations. Contractor costs increased \$5.2 million primarily due to increased costs incurred for customer deployment and customer support. Royalty expense increased \$4.2 million for our Registry Services related to the increase in revenue from managing a larger number of common short codes. These increases were partially offset by a decrease of \$1.1 million in other direct costs related to setup and implementation services.

*Sales and marketing.* Sales and marketing expense increased \$23.5 million primarily due to an increase of \$21.9 million in personnel and personnel-related expense for our expanded sales and marketing teams for our Information Services, fixed IP geolocation services, and other new services. In addition, contractor costs increased \$2.7 million to support our growth as we increased our brand awareness and increased our portfolio of services, such as the addition of our fixed IP geolocation services. These increases were partially offset by a decrease of \$1.2 million in general facility costs.

*Research and development.* Research and development expense increased \$3.7 million due to an increase of \$4.6 million in personnel and personnel-related expense related to the expansion and development of new network services and our new Information Services operating segment, partially offset by a decrease of \$0.7 million in contractor costs.

*General and administrative.* General and administrative expense increased \$30.8 million primarily due to an increase of \$15.3 million in contractor and professional fees attributable to an increase of \$6.4 million in acquisition and acquisition related costs and \$2.4 million in direct costs incurred in connection with the modified Dutch auction tender offer we announced and completed in the fourth quarter of 2011. In addition, personnel and personnel-related expense increased \$12.2 million, primarily as a result of headcount additions to our teams from acquisitions and to support business operations and an increase of \$6.0 million in stock-based compensation expense resulting from the fair value measurement of stock-based awards attributable to the change in employment status of former executives. Furthermore, general facility costs increased \$3.3 million primarily due to office expansions related to the relocation of our corporate headquarters and the acquisition of fixed IP geolocation assets and our Information Services business.

*Depreciation and amortization.* Depreciation and amortization expense increased \$13.3 million due to an increase in amortization expense of \$7.4 million as a result of the amortization of intangible assets acquired in connection with acquisitions of our Information Service business, licensed order management assets and fixed IP geolocation assets. In addition, depreciation expense increased \$6.0 million due to the acquisition of new property and equipment, including furniture and fixtures and leasehold improvements related to the relocation of our corporate headquarters and acquisitions.

*Restructuring charges.* Restructuring charges decreased \$1.8 million due to a decrease of \$3.3 million in severance and severance-related expense attributed to our 2010 management transition plan and a decrease of \$1.6 million in severance and severance-related expense attributed to our 2009 restructuring plan to relocate certain operations and support functions to Kentucky. These decreases in restructuring charges were partially offset by severance and severance-related expense of \$3.1 million attributed to our domestic work-force reduction initiated in the fourth quarter of 2011.

*Interest and other expense.* Interest and other expense decreased \$0.7 million primarily due to a decrease in trading losses of \$6.9 million recorded in connection with our auction rate securities rights in 2010. As a result of the settlement of our auction rate securities and associated rights in 2010, there were no associated trading losses recorded in 2011. The interest and other expense decrease was partially offset by an increase of \$4.4 million in interest expense attributed to our 2011 credit facility, including amortization of related deferred financing costs. In addition, losses recorded in connection with asset disposals increased \$1.1 million and foreign currency losses increased \$0.6 million.

*Interest and other income.* Interest and other income decreased \$5.6 million primarily due to a decrease in trading gains of \$7.0 million recorded in connection with our auction rate securities settled in 2010, partially offset by an increase of \$0.7 million in interest income and \$0.7 million in realized gains for our available-for-sale securities sold during 2011.

*Provision for income taxes, continuing operations.* Our annual effective tax rate from continuing operations decreased to 39.6% for the year ended December 31, 2011 from 39.9% for the year ended December 31, 2010 primarily due to a benefit resulting from federal research tax credits and a change in estimate of the realizability of acquired Quova, Inc. net operating losses, partially offset by settlement of our IRS examination and TARGUSinfo acquisition-related costs and stock repurchase costs that are nondeductible for tax purposes.

*(Loss) 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 years ended December 31, 2010 and 2011 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 year ended December 31, 2011. In addition, our loss from discontinued operations before taxes significantly declined from prior year due to the wind down of operations during 2011. See Note 3 to our accompanying consolidated financial statements for more information regarding these discontinued operations.

### Summary of Operating Segments

The following table presents a summary of our operating segments' revenue, contribution and the reconciliation to consolidated income from continuing operations for the years ended December 31, 2010 and 2011.

	Year Ended December 31,			
	2010	2011	2010 vs. 2011	
	\$	\$	\$ Change	% Change
	(dollars in thousands)			
Revenue:				
Carrier Services	\$391,762	\$447,894	\$56,132	14.3 %
Enterprise Services	129,104	151,390	22,286	17.3 %
Information Services	—	21,171	21,171	100.0 %
Total revenue	<u>\$520,866</u>	<u>\$620,455</u>	<u>\$99,589</u>	19.1 %
Segment contribution:				
Carrier Services	\$352,317	\$391,000	\$38,683	11.0 %
Enterprise Services	59,284	65,080	5,796	9.8 %
Information Services	—	12,583	12,583	100.0 %
Total segment contribution	<u>411,601</u>	<u>468,663</u>	<u>57,062</u>	13.9 %
Indirect operating expenses:				
Cost of revenue (excluding depreciation and amortization shown separately below)	75,690	83,990	8,300	11.0 %
Sales and marketing	16,345	17,340	995	6.1 %
Research and development	11,871	16,234	4,363	36.8 %
General and administrative	63,750	92,317	28,567	44.8 %
Depreciation and amortization	32,861	46,209	13,348	40.6 %
Restructuring charges	5,361	3,549	(1,812)	(33.8)%
Consolidated income from operations	<u>\$205,723</u>	<u>\$209,024</u>	<u>\$ 3,301</u>	1.6 %

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.

*Year Ended December 31, 2009 Compared to the Year Ended December 31, 2010*

The following table presents an overview of our results of operations for the years ended December 31, 2009 and 2010.

	Years Ended December 31,			
	2009	2010	2009 vs. 2010	
	\$	\$	\$ Change	% Change
(in thousands, except per share data)				
Revenue:				
Carrier Services	\$357,339	\$391,762	\$34,423	9.6 %
Enterprise Services	109,914	129,104	19,190	17.5 %
Information Services	—	—	—	— %
Total revenue	467,253	520,866	53,613	11.5 %
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	99,436	111,282	11,846	11.9 %
Sales and marketing	80,676	86,363	5,687	7.0 %
Research and development	14,094	13,780	(314)	(2.2)%
General and administrative	52,491	65,496	13,005	24.8 %
Depreciation and amortization	29,852	32,861	3,009	10.1 %
Restructuring charges	974	5,361	4,387	450.4 %
	277,523	315,143	37,620	13.6 %
Income from operations	189,730	205,723	15,993	8.4 %
Other (expense) income:				
Interest and other expense	(5,213)	(6,995)	(1,782)	34.2 %
Interest and other income	7,491	7,582	91	1.2 %
Income from continuing operations before income taxes	192,008	206,310	14,302	7.4 %
Provision for income taxes, continuing operations	76,498	82,282	5,784	7.6 %
Income from continuing operations	115,510	124,028	8,518	7.4 %
Loss from discontinued operations, net of tax	(14,369)	(17,819)	(3,450)	24.0 %
Net income	\$101,141	\$106,209	\$ 5,068	5.0 %
Basic net income (loss) per common share:				
Continuing operations	\$ 1.55	\$ 1.66		
Discontinued operations	(0.19)	(0.24)		
Basic net income per common share	\$ 1.36	\$ 1.42		
Diluted net income (loss) per common share:				
Continuing operations	\$ 1.53	\$ 1.63		
Discontinued operations	(0.19)	(0.23)		
Diluted net income per common share	\$ 1.34	\$ 1.40		
Weighted average common shares outstanding:				
Basic	74,301	74,555		
Diluted	75,465	76,065		

## **Revenue**

*Total revenue.* Total revenue increased \$53.6 million due to a \$34.4 million increase in revenue from our Carrier Services operating segment and a \$19.2 million increase in revenue from our Enterprise Services operating segment.

Revenue from our Carrier Services operating segment increased \$34.4 million primarily due to an increase of \$32.3 million in revenue from our Numbering Services. Of this \$32.3 million increase, \$29.6 million resulted from an established increase in the fixed fee under our contracts to provide NPAC Services and \$2.0 million was primarily due to system enhancements and additional functionality requested by our Numbering Services customers. These revenue increases were partially offset by a decrease of \$3.3 million in revenue from IP Services and a decrease of \$1.2 million in revenue from our OMS.

Revenue from our Enterprise Services operating segment increased \$19.2 million primarily due to an increase of \$13.5 million in revenue from IIS. This was primarily driven by increased demand from existing and new customers for expanded service offerings, such as fixed IP geolocation database services. In addition, Registry Services revenue increased \$5.7 million due to an increase in the number of common short codes and domain names under management.

## **Expense**

*Cost of revenue.* Cost of revenue increased \$11.8 million primarily due to a \$5.9 million increase in general facility costs that include data center and database management costs, computer rental and maintenance costs and payment processing fees to support business growth and ongoing operations. Cost of revenue also increased by \$4.9 million in personnel and personnel-related expense to support expanded service offerings, including new directory services, and system enhancements for functionality improvements requested by our customers. Royalty expense in our Registry Services increased \$3.1 million due to more common short codes under management. These increases were offset by a decrease of \$1.2 million in other direct costs primarily related to setup and implementation costs and a decrease of \$0.9 million in contractor costs.

*Sales and marketing.* Sales and marketing expense increased \$5.7 million primarily due to an increase of \$5.3 million in personnel and personnel-related expense for expanded sales and marketing teams, primarily in our Enterprise Services. This increased headcount supports our growth as we broaden our portfolio of services, geographic presence and brand awareness through product initiatives, as well as, customer and industry events.

*Research and development.* Research and development expense decreased \$0.3 million primarily due to a decrease of \$1.8 million in personnel and personnel-related expense, partially offset by an increase of \$1.5 million in contractor costs. The decrease in personnel and personnel-related expense resulted from a decrease in average headcount for the period, while the increase in contractor costs related to the development of new directory services.

*General and administrative.* General and administrative expense increased \$13.0 million primarily due to costs incurred to support business growth and new business initiatives including further investments in our core teams to support business operations. Personnel and personnel-related expense increased \$6.6 million, primarily as a result of headcount additions, an increase of \$2.7 million in stock-based compensation expense and severance-related costs of \$2.2 million primarily related to the departure of our former Chairman and Chief Executive Officer. In addition, contractor costs and professional fees, including legal and finance related fees, increased \$5.5 million, and general facilities costs increased \$0.9 million.

*Depreciation and amortization.* Depreciation and amortization expense increased \$3.0 million due to an increase of \$4.1 million in depreciation due to an increase in capital assets to build out our infrastructure. This increase was partially offset by a decrease of \$1.1 million in amortization of intangible assets related to acquisitions.

*Restructuring charges.* Restructuring charges increased \$4.4 million due to an increase of \$3.8 million in severance and severance-related charges attributable to our 2010 management transition – restructuring plan and to an increase of \$0.6 million attributable to our 2009 restructuring plan to relocate certain operations and support functions to Louisville, Kentucky.

*Interest and other expense.* Interest and other expense increased \$1.8 million primarily due to a \$3.1 million net increase in losses recorded in connection with our auction rate securities, or ARS, and a settlement offer in the form of a rights offering from the investment firm that brokered the original purchases of the ARS, or ARS Rights, and a decrease of \$0.6 million in gains on asset disposals. This increase in other expense and decrease in gains on asset disposals are partially offset by a decrease of \$1.9 million in interest expense primarily due to a reduction in accrued interest related to a sales tax liability.

*Interest and other income.* Interest and other income increased \$0.1 million primarily due to a net increase of \$2.1 million in gains recorded in connection with our ARS and ARS Rights. This net increase was partially offset by the receipt in the first quarter of 2009 of a \$1.2 million payment for indemnification claims made in connection with our 2006 acquisition of Followap, Inc. as no indemnification payments were received in 2010, and a decrease in realized gains of \$0.5 million on our investment in a cash reserve fund that was completely liquidated as of December 31, 2009.

*Provision for income taxes, continuing operations.* Our annual effective tax rate from continuing operations increased to 39.9% for the year ended December 31, 2010 from 39.8% for the year ended December 31, 2009 primarily due to an increase in foreign withholding taxes.

*Loss from discontinued operations, net of tax.* During the three months ended June 30, 2011, we completed our plan to exit our Converged Messaging Services business. The financial results for the years ended December 31, 2009 and 2010 reflect the results of operations of the Converged Messaging Services business, net of tax, as discontinued operations. Loss from discontinued operations, net of tax increased \$3.5 million primarily due to an impairment charge of \$8.5 million recorded in the fourth quarter of 2010 to write down the long-lived assets used in this business. This increase in loss is partially offset by a decrease in restructuring charges of \$3.1 million attributable to the Converged Messaging Services restructuring plan we initiated in 2008.

### Summary of Operating Segments

The following table presents a summary of our operating segments' revenue, contribution and the reconciliation to consolidated income from continuing operations for the years ended December 31, 2009 and 2010.

	Year Ended December 31,			
	2009	2010	2009 vs. 2010	
	\$	\$	\$ Change	% Change
	(dollars in thousands)			
Revenue:				
Carrier Services	\$357,339	\$391,762	\$34,423	9.6 %
Enterprise Services	109,914	129,104	19,190	17.5 %
Total revenue	<u>\$467,253</u>	<u>\$520,866</u>	<u>\$53,613</u>	11.5 %
Segment contribution:				
Carrier Services	\$317,070	\$352,317	\$35,247	11.1 %
Enterprise Services	46,130	59,284	13,154	28.5 %
Total segment contribution	363,200	411,601	48,401	13.3 %
Indirect operating expenses:				
Cost of revenue (excluding depreciation and amortization shown separately below)	66,080	75,690	9,610	14.5 %
Sales and marketing	15,269	16,345	1,076	7.0 %
Research and development	10,644	11,871	1,227	11.5 %
General and administrative	50,651	63,750	13,099	25.9 %
Depreciation and amortization	29,852	32,861	3,009	10.1 %
Restructuring charges	974	5,361	4,387	450.4 %
Consolidated income from operations	<u>\$189,730</u>	<u>\$205,723</u>	<u>\$15,993</u>	8.4 %

Segment contribution is determined based on internal performance measures used by the 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.

### Consolidated Results of Operations

We operate in three operating segments — Carrier Services, Enterprise Services and Information Services. We have provided consolidated results of operations for our Carrier Services operating segment, our Enterprise Services operating segment and our Information Services operating segment. For further discussion of the operating results of our operating segments, including revenue, segment contribution, consolidated income from continuing operations, and enterprise-wide related disclosures, see Note 16 to our Consolidated Financial Statements in Item 8 of Part II of this report.

### Liquidity and Capital Resources

Our principal sources of liquidity are cash provided by financing and operating activities. Our principal uses of cash have been to fund acquisitions, share repurchases, capital expenditures, facility expansions and debt service requirements. 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 \$135.3 million at December 31, 2011, a decrease of \$247.1 million from \$382.4 million at December 31, 2010. This decrease in cash, cash equivalents and investments was primarily due to our repurchase of \$324.3 million of shares of our Class A common stock, our acquisition of the numbering solutions assets for cash consideration of approximately \$39.0 million, and our acquisition of TARGUSinfo for cash consideration of approximately \$657.3 million. We funded our acquisition of TARGUSinfo with a combination of cash on hand and borrowings under our new \$600 million senior secured term loan facility. These decreases were offset by an increase of \$81.6 million in 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.

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 December 31, 2011, the interest rate on the Term Facility was 5% per year. The accrued interest under the Revolving Facility is due on the last day of the quarter starting on December 31, 2011.

We may voluntarily prepay the loans at any time in whole or in part without premium or penalty, provided that any such prepayment made on or prior to November 7, 2012 in connection with a re-pricing event should be accompanied by a premium equal to 1.00% of the principal amount prepaid. 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 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.

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 period from inception of the 2011 Facilities to December 31, 2011, we were in compliance with these covenants. Further, we believe these covenants will not restrict our ability to execute our business plan.

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

## **Discussion of Cash Flows**

### *2011 compared to 2010*

#### *Cash flows from operations*

Net cash provided by operating activities for the year ended December 31, 2011 was \$226.4 million, as compared to \$144.8 million for the year ended December 31, 2010. This \$81.6 million increase in net cash provided by operating activities was the result of an increase in net income of \$54.6 million, an increase in non-cash adjustments of \$29.4 million, and a decrease in net changes in operating assets and liabilities of \$2.4 million.

Net income increased \$54.6 million primarily due to a change of \$55.1 million in the income tax benefit from discontinued operations. In the first quarter of 2011, we recorded a tax benefit of \$42.7 million related to a worthless stock deduction for the common stock of Neustar NGM Services, Inc.

Non-cash adjustments increased \$29.4 million due to an increase of \$19.5 million in deferred income taxes, an increase of \$9.8 million in stock-based compensation, an increase of \$6.7 million in depreciation and amortization expense, an increase of \$3.0 million in amortization of bond premiums, and a \$1.9 million loss-on-sale attributable to the sale of certain assets and liabilities of our Converged Messaging Services business in the first quarter of 2011. These increases in non-cash adjustments were partially offset by a decrease of \$8.5 million attributed to an impairment of long-lived assets of our Converged Messaging Services business recorded in 2010, and a decrease of \$2.9 million in excess tax benefits from stock option exercises.

Net changes in operating assets and liabilities decreased \$2.4 million primarily due to an increase of \$18.8 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 \$10.0 million in other liabilities, and an increase of \$7.7 million in prepaid expenses and other current assets. In addition, deferred costs increased \$3.7 million and notes receivable increased \$3.4 million. These decreases in net changes in operating assets and liabilities were partially offset by a net change of \$25.2 million attributable to net increases in accounts payable and accrued expenses during 2011 as compared to decreases in 2010, and a net change of \$20.2 million attributable to net decreases in accounts and unbilled receivables during 2011 as compared to increases in 2010.

#### *Cash flows from investing*

Net cash used in investing activities for the year ended December 31, 2011 was \$706.4 million, as compared to \$72.8 million for the year ended December 31, 2010. This \$633.6 million increase in net cash used in investing activities was primarily due to an increase of \$673.9 million in cash used for acquisitions, an increase of \$30.5 million in investment purchases, and an increase \$7.7 million in cash used for purchases of property and equipment. These increases in net cash used in investing activities were partially offset by the increase of \$78.4 million in cash received from the sales of investments.

#### *Cash flows from financing*

Net cash provided by financing activities was \$270.9 million for the year ended December 31, 2011, as compared to net cash used in financing activities of \$45.0 million for the year ended December 31, 2010. This \$315.9 million increase in net cash provided by financing activities was primarily the result of net proceeds of \$591.0 million from our senior secured term loan facility, and an increase of \$31.5 million in proceeds from the exercise of stock options and a reduction of \$5.0 million in cash used in principal repayments on capital lease

obligations. These increases in cash provided by financing activities were partially offset by an increase of \$283.9 million in cash used to repurchase shares of our Class A common stock under our share repurchase programs, an increase of \$20.4 million in debt issuance costs, and a net increase of \$8.8 million in restricted cash primarily used to collateralize our outstanding letters of credit.

### *2010 compared to 2009*

#### *Cash flows from operations*

Net cash provided by operating activities for the year ended December 31, 2010 was \$144.8 million, as compared to \$175.3 million for the year ended December 31, 2009. This \$30.5 million decrease in net cash provided by operating activities was principally the result of a decrease in accounts payable and accrued expenses of \$23.0 million and an increase in accounts receivable of \$21.1 million. These decreases in net cash provided by operating activities were partially offset by a decrease in deferred revenue of \$10.9 million.

#### *Cash flows from investing*

Net cash used investing activities for the year ended December 31, 2010 was \$72.8 million, as compared to \$10.6 million for the year ended December 31, 2009. This \$62.2 million increase in net cash used in investing activities was principally due to our use of cash for the purchases of the pre-refunded municipal bonds of \$50.8 million in 2010, an increase of \$21.3 million in cash paid for acquisitions, and an increase of \$12.6 million in purchases of property and equipment. These uses of cash were partially offset by an increase in cash provided by sales of short-term investments of \$22.5 million attributable to our ARS and ARS Rights.

#### *Cash flows from financing*

Net cash used in financing activities was \$45.0 million for the year ended December 31, 2010, as compared to \$11.1 million for the year ended December 31, 2009. The \$33.9 million increase in net cash used in financing activities was primarily driven by \$40.4 million in repurchases of our Class A common stock under a share repurchase program announced in July 2010, and this use was partially offset by an increase of \$6.1 million in proceeds from the exercise of stock options.

### **Contractual Obligations**

Our principal commitments consist of obligations under our 2011 Credit Facilities, leases for office space, computer equipment and furniture and fixtures, and deferred tax liabilities. The following table summarizes our long-term contractual obligations as of December 31, 2011.

	Payments Due by Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Capital lease obligations	\$ 5,332	\$ 3,313	\$ 2,019	\$ —	\$ —
Operating lease obligations	86,050	11,954	21,542	18,219	34,335
Term Facility (1)	799,671	36,309	71,539	70,402	621,421
Deferred tax liabilities	121,237	28,348	48,610	33,912	10,367
<b>Total</b>	<b>\$1,012,290</b>	<b>\$79,924</b>	<b>\$143,710</b>	<b>\$122,533</b>	<b>\$666,123</b>

- (1) Includes interest expense calculated using the interest rate at December 31, 2011 of 5% per year. Under our Term Facility and Revolving Facility, we may be required to make mandatory prepayments with the net cash proceeds of certain debt issuances, equity issuances, insurance receipts, dispositions and excess cash flows. The amounts presented in the tables above do not reflect the acceleration of mandatory prepayments that we may be required to pay.

Some of our commercial commitments are secured by standby letters of credit. The following is a summary of our commercial commitments secured by standby letters of credit by commitment date as of December 31, 2011:

	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>More Than 5 Years</u>
	(in thousands)				
Standby letters of credit	<u>\$8,760</u>	<u>\$8,760</u>	<u>\$—</u>	<u>\$—</u>	<u>\$—</u>

The amounts presented in the tables above may not necessarily reflect our actual future cash funding requirements because the actual timing of the future payments made may vary from the stated contractual obligation. In addition, due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2011, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, we have not included \$1.6 million of unrecognized tax benefits and interest thereon, in the contractual obligations table above. See Note 13 to the consolidated financial statements in Item 8 of Part II of this report for a discussion on income taxes.

#### **Effect of Inflation**

Inflation generally affects us by increasing our cost of labor and equipment. We do not believe that inflation had any material effect on our results of operations during the years ended December 31, 2009, 2010 and 2011.

#### **Recent Accounting Pronouncements**

See Note 2 to our Consolidated Financial Statements in Item 8 of Part II of this report for a discussion of the effects of recent accounting pronouncements.

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

We had no off-balance sheet arrangements as of December 31, 2010 and 2011.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our Term Facility, investments, and foreign currency fluctuations.

Borrowings outstanding under our Term 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. As of December 31, 2011, the LIBOR rate on our Term Facility was below the applicable margin, or floor, and a hypothetical increase or decrease of 10% in the LIBOR rate would not impact our interest rate.

Exposure to market rate risk for changes in interest rates affects the value of our investment portfolio. We have not used derivative financial instruments to hedge against such risk in our investment portfolio. We invest in securities of highly-rated issuers and follow investment policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. We do not actively manage the risk of interest rate fluctuations on our short-term investments; however, our

exposure to this risk is mitigated by the relatively short-term nature of these investments. Based on a hypothetical 10% adverse movement in interest rates, the impact on our interest income for our short-term investments for the year ended December 31, 2011 would have been insignificant.

We have accounts on our foreign subsidiaries' ledgers which are maintained in the respective subsidiary's local foreign currency and remeasured into the United States dollar. As a result, we are exposed to movements in the exchange rates of various currencies against the United States dollar and against the currencies of other countries in which we sell services. As of December 31, 2011, our assets and liabilities related to non-dollar denominated currencies were primarily related to intercompany payables and receivables. An increase or decrease of 10% in foreign exchange rate would not have a material impact on our financial position.

Because our sales and expense are primarily denominated in local currency, the impact of foreign currency fluctuations on sales and expenses has not been material, and we do not employ measures intended to manage foreign exchange rate risk.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
NeuStar, Inc.

We have audited the accompanying consolidated balance sheets of NeuStar, Inc. as of December 31, 2010 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NeuStar, Inc. at December 31, 2010 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NeuStar, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia  
February 29, 2012

**NEUSTAR, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	December 31,	
	2010	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$331,570	\$ 122,237
Restricted cash	556	10,251
Short-term investments	13,802	10,545
Accounts receivable, net of allowance for doubtful accounts of \$1,435 and \$1,942, respectively	82,250	106,274
Unbilled receivables	7,188	5,551
Notes receivable	567	2,786
Prepaid expenses and other current assets	12,797	29,714
Deferred costs	5,849	8,174
Income taxes receivable	—	37,599
Deferred tax assets	6,146	6,264
Total current assets	460,725	339,395
Long-term investments	37,009	2,506
Property and equipment, net	74,296	100,102
Goodwill	124,651	574,651
Intangible assets, net	18,974	338,768
Notes receivable, long-term	1,023	3,748
Deferred costs, long-term	1,052	701
Deferred tax assets, long-term	10,137	—
Other assets, long-term	6,007	22,767
Total assets	\$733,874	\$1,382,638

*See accompanying notes.*

**NEUSTAR, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	December 31,	
	2010	2011
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,882	\$ 7,385
Accrued expenses	57,808	79,334
Income taxes payable	1,590	—
Deferred revenue	31,751	41,080
Note payable	—	4,856
Capital lease obligations	6,325	3,065
Accrued restructuring reserve	4,703	4,361
Other liabilities	9,445	5,317
Total current liabilities	115,504	145,398
Deferred revenue, long-term	10,578	10,363
Note payable, long-term	—	584,809
Capital lease obligations, long-term	4,076	1,918
Accrued restructuring reserve, long-term	315	—
Deferred tax liability, long-term	—	121,237
Other liabilities, long-term	7,289	16,279
Total liabilities	137,762	880,004
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, 2010 and 2011	—	—
Class A common stock, par value \$0.001; 200,000,000 shares authorized; 80,294,573 and 82,959,411 shares issued and outstanding at December 31, 2010 and 2011, respectively	80	83
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, 2010 and 2011, respectively	—	—
Additional paid-in capital	364,346	436,598
Treasury stock, 6,665,228 and 16,807,932 shares at December 31, 2010 and 2011, respectively, at cost	(169,848)	(495,790)
Accumulated other comprehensive loss	(144)	(758)
Retained earnings	401,678	562,501
Total stockholders' equity	596,112	502,634
Total liabilities and stockholders' equity	\$ 733,874	\$1,382,638

*See accompanying notes.*

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

	Year Ended December 31,		
	2009	2010	2011
Revenue:			
Carrier Services	\$357,339	\$391,762	\$447,894
Enterprise Services	109,914	129,104	151,390
Information Services	—	—	21,171
Total revenue	467,253	520,866	620,455
Operating expense:			
Cost of revenue (excluding depreciation and amortization shown separately below)	99,436	111,282	137,992
Sales and marketing	80,676	86,363	109,855
Research and development	14,094	13,780	17,509
General and administrative	52,491	65,496	96,317
Depreciation and amortization	29,852	32,861	46,209
Restructuring charges	974	5,361	3,549
	277,523	315,143	411,431
Income from operations	189,730	205,723	209,024
Other (expense) income:			
Interest and other expense	(5,213)	(6,995)	(6,279)
Interest and other income	7,491	7,582	1,966
Income from continuing operations before income taxes	192,008	206,310	204,711
Provision for income taxes, continuing operations	76,498	82,282	81,137
Income from continuing operations	115,510	124,028	123,574
(Loss) income from discontinued operations, net of tax	(14,369)	(17,819)	37,249
Net income	\$101,141	\$106,209	\$160,823
Basic net income (loss) per common share:			
Continuing operations	\$ 1.55	\$ 1.66	\$ 1.69
Discontinued operations	(0.19)	(0.24)	0.51
Basic net income per common share	\$ 1.36	\$ 1.42	\$ 2.20
Diluted net income (loss) per common share:			
Continuing operations	\$ 1.53	\$ 1.63	\$ 1.66
Discontinued operations	(0.19)	(0.23)	0.50
Diluted net income per common share	\$ 1.34	\$ 1.40	\$ 2.16
Weighted average common shares outstanding:			
Basic	74,301	74,555	72,974
Diluted	75,465	76,065	74,496

*See accompanying notes.*

NEUSTAR, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2008	78,925	\$ 79	4	\$—	\$321,528	\$(128,403)	\$(879)	\$194,328	\$ 386,653
Common stock options exercised	344	—	—	—	1,706	—	—	—	1,706
Stock-based compensation expense	—	—	—	—	14,279	—	—	—	14,279
Conversion of Class B common stock to Class A common stock	1	—	(1)	—	—	—	—	—	—
Restricted stock granted, net	155	—	—	—	—	—	—	—	—
Common stock received for tax withholding	—	—	—	—	—	(354)	—	—	(354)
Excess tax benefit from stock option exercises	—	—	—	—	596	—	—	—	596
Net income	—	—	—	—	—	—	—	101,141	101,141
Other comprehensive income									
Unrealized gain on investments, net of tax of \$170	—	—	—	—	—	—	141	—	141
Foreign currency translation adjustment, net of tax of \$114	—	—	—	—	—	—	275	—	275
Comprehensive income	—	—	—	—	—	—	—	—	101,557
Balance at December 31, 2009	79,425	79	3	—	338,109	(128,757)	(463)	295,469	504,437
Common stock options exercised	596	1	—	—	7,765	—	—	—	7,766
Stock-based compensation expense	—	—	—	—	18,252	—	—	—	18,252
Restricted stock granted, net	274	—	—	—	—	—	—	—	—
Common stock repurchase	—	—	—	—	—	(40,400)	—	—	(40,400)
Common stock received for tax withholding	—	—	—	—	—	(691)	—	—	(691)
Net excess tax benefit from stock option exercises	—	—	—	—	220	—	—	—	220
Net income	—	—	—	—	—	—	—	106,209	106,209
Other comprehensive income									
Unrealized gain on investments, net of tax of \$140	—	—	—	—	—	—	277	—	277
Foreign currency translation adjustment, net of tax of \$109	—	—	—	—	—	—	42	—	42
Comprehensive income	—	—	—	—	—	—	—	—	106,528
Balance at December 31, 2010	80,295	80	3	—	364,346	(169,848)	(144)	401,678	596,112
Common stock options exercised	2,340	3	—	—	39,275	—	—	—	39,278
Stock-based compensation expense	—	—	—	—	28,088	—	—	—	28,088
Equity awards assumed in TARGUSinfo acquisition	—	—	—	—	677	—	—	—	677
Restricted stock granted, net	324	—	—	—	—	—	—	—	—
Common stock repurchase	—	—	—	—	—	(324,301)	—	—	(324,301)
Common stock received for tax withholding	—	—	—	—	—	(1,641)	—	—	(1,641)
Net excess tax benefit from stock option exercises	—	—	—	—	4,212	—	—	—	4,212
Net income	—	—	—	—	—	—	—	160,823	160,823
Other comprehensive income									
Unrealized loss on investments, net of tax of \$214	—	—	—	—	—	—	(451)	—	(451)
Foreign currency translation adjustment, net of tax of \$46	—	—	—	—	—	—	(163)	—	(163)
Comprehensive income	—	—	—	—	—	—	—	—	160,209
Balance at December 31, 2011	82,959	\$ 83	3	\$—	\$436,598	\$(495,790)	\$(758)	\$562,501	\$ 502,634

See accompanying notes.

NEUSTAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	Year Ended December 31,		
	2009	2010	2011
Operating activities:			
Net income	\$101,141	\$106,209	\$ 160,823
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38,040	40,167	46,837
Stock-based compensation	14,279	18,252	28,088
Amortization of deferred financing costs and original issue discount on debt	169	170	764
Excess tax benefits from stock option exercises	(596)	(1,613)	(4,541)
Deferred income taxes	3,248	(4,430)	15,025
Impairment of long-lived assets	—	8,495	—
Provision for doubtful accounts	3,045	2,600	2,596
Gains on available-for-sale investments and trading securities	(4,078)	(7,007)	(701)
Loss on auction rate securities rights	2,524	6,892	—
Amortization of bond premium	—	12	2,975
Loss on asset sale	—	—	1,933
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	3,621	(17,515)	(3,624)
Unbilled receivables	(2,156)	(4,202)	2,111
Notes receivable	759	(1,590)	(4,944)
Prepaid expenses and other current assets	(1,060)	(640)	(8,329)
Deferred costs	3,204	1,746	(1,974)
Income taxes receivable	5,217	—	(18,795)
Other assets	(383)	(520)	—
Other liabilities	4,242	6,774	(3,180)
Accounts payable and accrued expenses	10,397	(12,615)	12,602
Income taxes payable	2,764	439	(1,590)
Accrued restructuring reserve	114	1,448	(657)
Deferred revenue	(9,147)	1,705	994
Net cash provided by operating activities	175,344	144,777	226,413
Investing activities:			
Purchases of property and equipment	(25,497)	(38,077)	(45,785)
Sales and maturities of investments	15,274	37,725	116,128
Purchases of investments	—	(50,762)	(81,239)
Businesses acquired, net of cash acquired	(350)	(21,658)	(695,547)
Net cash used in investing activities	(10,573)	(72,772)	(706,443)
Financing activities:			
Increase in restricted cash	(16)	(44)	(8,852)
Proceeds from note payable	—	—	591,000
Principal repayments on notes payable	(3,377)	(987)	(1,500)
Principal repayments on capital lease obligations	(9,657)	(12,208)	(7,171)
Debt issuance costs	—	—	(20,418)
Proceeds from exercise of common stock options	1,706	7,766	39,278
Excess tax benefits from stock-based compensation	596	1,613	4,541
Repurchase of restricted stock awards	(354)	(691)	(1,641)
Repurchase of common stock	—	(40,400)	(324,301)
Net cash (used in) provided by financing activities	(11,102)	(44,951)	270,936
Effect of foreign exchange rates on cash and cash equivalents	83	(65)	(239)
Net increase (decrease) in cash and cash equivalents	153,752	26,989	(209,333)
Cash and cash equivalents at beginning of year	150,829	304,581	331,570
Cash and cash equivalents at end of year	\$304,581	\$331,570	\$ 122,237
Supplemental cash flow information:			
Cash paid for interest	\$ 1,413	\$ 1,247	\$ 762
Cash paid for income taxes	\$ 56,996	\$ 72,726	\$ 40,715
Non-cash investing activities:			
Property and equipment acquired under capital leases	\$ 10,787	\$ 1,414	\$ 1,141
Accounts payable incurred to purchase property and equipment	\$ 3,672	\$ 1,104	\$ 2,733
Equity awards assumed in TARGU Sinfo acquisition	\$ —	\$ —	\$ 677

See accompanying notes.

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

**1. DESCRIPTION OF BUSINESS AND ORGANIZATION**

NeuStar, Inc. (the Company or Neustar) is a trusted, neutral provider of real-time information and analytics to the Internet, communications, 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 analytics 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 workflow 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 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

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

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 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 database, 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation and Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany transactions and accounts have been eliminated in consolidation. The Company consolidates investments where it has a controlling financial interest. The usual condition for controlling financial interest is ownership of a majority of the voting interest and, therefore, as a general rule, ownership, directly or indirectly, of more than 50% of the outstanding voting shares is a condition indicating consolidation. The Company does not have any variable interest entities or investments accounted for under the equity method of accounting.

### **Discontinued Operations**

A business is classified as discontinued operations when (1) the operations and cash flows of the business can be clearly distinguished and have been or will be eliminated from the Company's ongoing operations; (2) the business has either been disposed of or is classified as held for sale; and (3) the Company will not have any significant continuing involvement in the operations of the business after the disposal transaction. The results of discontinued operations (as well as the gain or loss on the disposal) are aggregated and separately presented in the Company's consolidated statement of operations, net of income taxes.

### **Acquisition of Targus Information Corporation**

On November 8, 2011, the Company completed its acquisition of Targus Information Corporation (TARGUSinfo). Additional details regarding this acquisition are included in Note 3 below.

### **Reclassification**

In the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business, a component previously presented within the Company's Carrier Services operating segment. The results of operations of its Converged Messaging Services business have been reclassified as discontinued operations for all periods presented (see Note 3).

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

income tax liabilities due to uncertain tax positions; restructuring liabilities; valuation of investments; recoverability of intangible assets, other long-lived assets and goodwill; and the determination of the allowance for doubtful accounts. 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. The carrying amounts reported in the accompanying consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses due to their short-term nature. 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 rates approximate market rates.

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

	December 31,			
	2010		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$331,570	\$331,570	\$122,237	\$122,237
Restricted cash (current assets)	\$ 556	\$ 556	\$ 10,251	\$ 10,251
Short-term investments	\$ 13,802	\$ 13,802	\$ 10,545	\$ 10,545
Notes receivable (including current portion)	\$ 1,590	\$ 1,590	\$ 6,534	\$ 6,534
Marketable securities (other assets, long-term)	\$ 3,681	\$ 3,681	\$ 4,008	\$ 4,008
Long-term investments	\$ 37,009	\$ 37,009	\$ 2,506	\$ 2,506
Deferred compensation (other liabilities long-term)	\$ 3,621	\$ 3,621	\$ 4,028	\$ 4,028
Note payable (including current portion)	\$ —	\$ —	\$589,665	\$589,665

**Cash and Cash Equivalents**

The Company considers all highly liquid investments, which are investments that are readily convertible into cash and have original maturities of three months or less at the time of purchase, to be cash equivalents.

**Restricted Cash**

As of December 31, 2010 and 2011, restricted cash was \$0.6 million and \$10.3 million, respectively. As of December 31, 2011, cash of \$9.2 million was restricted as collateral for the Company's outstanding letters of credit (see Note 9). As of December 31, 2010 and December 31, 2011, cash of \$0.6 million and \$1.1 million, respectively, was restricted for deposits on leased facilities.

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**Concentrations of Credit Risk**

Financial instruments that are potentially subject to a concentration of credit risk consist principally of cash, cash equivalents, investments, and accounts receivable. The Company's cash management and investment policies are in place to restrict placement of these instruments with only financial institutions evaluated as highly creditworthy.

With respect to accounts receivable, the Company performs ongoing evaluations of its customers, generally granting uncollateralized credit terms to its customers, and maintains an allowance for doubtful accounts based on historical experience and management's expectations of future losses. Customers under the Company's contracts with North American Portability Management LLC (NAPM) are charged a Revenue Recovery Collection (RRC) fee (see "Accounts Receivable, Revenue Recovery Collection and Allowance for Doubtful Accounts" below).

**Investments**

The Company's investments classified as available-for-sale are carried at estimated fair value with unrealized gains and losses reported as a separate component of accumulated other comprehensive loss. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other (expense) income. The cost at time of sale of available-for-sale investments is based upon the specific identification method. Interest and dividends on these securities is included in interest and other income.

The Company periodically evaluates whether any declines in the fair value of its investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near-term prospects for recovery of the market value of a security; the Company's intent to sell an impaired security; and the probability that the Company will be required to sell the security before the market value recovers. If an investment which the Company does not intend to sell prior to recovery declines in value below its amortized cost basis and it is not more likely than not that the Company will be required to sell the related security before the recovery of its amortized cost basis, the Company recognizes the difference between the present value of the cash flows expected to be collected and the amortized cost basis, or credit loss, as an other-than-temporary charge in interest and other expense. The difference between the estimated fair value and the security's amortized cost basis at the measurement date related to all other factors is reported as a separate component of accumulated other comprehensive loss.

The Company's investments classified as trading are carried at estimated fair value with unrealized gains and losses reported in other (expense) income. During 2010, the Company classified its auction rate securities as trading pursuant to the Investments — Debt and Equity Securities Topic of the FASB ASC, with changes in the fair value of these securities recorded in earnings (see Note 4 and Note 5). Interest and dividends on these securities are included in interest and other income.

**Accounts Receivable, Revenue Recovery Collections and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount and do not bear interest. In accordance with the Company's contracts with NAPM, the Company bills a RRC fee to offset uncollectible receivables from any individual customer. The RRC fee is based on a percentage of monthly billings. During 2009, the RRC fee was 0.75%. On July 1, 2010, the RRC fee was reduced to 0.65% and remained at that level through December 31, 2011. The RRC fees are recorded as an accrued liability when collected. If the RRC fee is insufficient, the

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

amounts can be recovered from the customers. Any accrued RRC fees in excess of uncollectible receivables are paid back to the customers annually on a pro rata basis. RRC fees of \$2.6 million and \$2.4 million are included in accrued expenses as of December 31, 2010 and 2011, respectively. All other receivables related to services not covered by the RRC fees are evaluated and, if deemed not collectible, are reserved. The Company recorded an allowance for doubtful accounts of \$1.4 million and \$1.9 million as of December 31, 2010 and 2011, respectively. Bad debt expense amounted to \$3.0 million, \$2.6 million and \$2.6 million for the years ended December 31, 2009, 2010 and 2011, respectively.

**Deferred Financing Costs**

The Company amortizes deferred financing costs using the effective-interest method and records such amortization as interest expense. Amortization of debt discount and annual commitment fees for unused portions of available borrowings are also recorded as interest expense. Direct and incremental costs related to the issuance of debt are capitalized as deferred financing costs and are reported in other assets on the Company's consolidated balance sheets.

**Property and Equipment**

Property and equipment, including leasehold improvements and assets acquired through capital leases, are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization of property and equipment are determined using the straight-line method over the estimated useful lives of the assets, as follows:

Computer hardware	3 – 5 years
Equipment	5 years
Furniture and fixtures	5 – 7 years
Leasehold improvements	Lesser of related lease term or useful life

Amortization expense of assets acquired through capital leases is included in depreciation and amortization expense in the consolidated statements of operations. Replacements and major improvements are capitalized; maintenance and repairs are charged to expense as incurred. Impairments of long-lived assets are determined in accordance with the Property, Plant and Equipment Topic of the FASB ASC. In the fourth quarter of 2010, the Company recorded an impairment charge of \$7.9 million related to property and equipment, including capitalized technology, used by its Converged Messaging asset group (see "Impairment of Long-Lived Assets" below).

The Company capitalizes software development and acquisition costs in accordance with the Intangibles — Goodwill and Other, Internal-Use Software Topic of the FASB ASC, which requires the capitalization of costs incurred in connection with developing or obtaining software for internal use. Costs incurred to develop the application are capitalized, while costs incurred for planning the project and for post-implementation training and maintenance are expensed as incurred. The capitalized costs of purchased technology and software development are amortized using the straight-line method over the estimated useful life of three to five years. During the years ended December 31, 2010 and 2011, the Company capitalized costs related to internal use software of \$28.8 million and \$28.6 million, respectively. Amortization expense related to internal use software for the years ended December 31, 2009, 2010 and 2011 was \$12.4 million, \$15.2 million and \$17.3 million, respectively, and is included in depreciation and amortization expense in the consolidated statements of operations.

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

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of assets acquired, as well as other identifiable intangible assets. In accordance with the Intangibles — Goodwill and Other Topic of the FASB ASC, goodwill and indefinite-lived intangible assets are not amortized, but are reviewed for impairment at least annually and upon the occurrence of events or changes in circumstances that would reduce the fair value of such assets below their carrying amount. For purposes of the Company's annual impairment test completed on October 1, 2009, the Company identified and assigned goodwill to two reporting units, Clearinghouse and Next Generation Messaging (NGM). For purposes of the Company's annual impairment test completed on October 1, 2010, the Company identified and assigned goodwill to three reporting units, Carrier Services, Internet Infrastructure Services and Registry Services. For purposes of the Company's annual impairment test completed on October 1, 2011, the Company identified and assigned goodwill to two reporting units, Carrier Services and Enterprise Services. The Company's third reporting unit, Information Services, was established as a result of the acquisition of TARGUSinfo on November 8, 2011, and was not included in the Company's annual impairment test completed on October 1, 2011.

Goodwill is tested for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of a reporting unit's net assets, including assigned goodwill, to the book value of its net assets, including assigned goodwill. Fair value of the reporting unit is determined using both an income and a market approach. To assist in the process of determining if a goodwill impairment exists, the Company performs internal valuation analyses and considers other market information that is publicly available, and the Company may obtain valuations from external advisors. If the fair value of the reporting unit is greater than its net book value, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's net book value, the Company performs a second step to measure the amount of the impairment, if any. The second step is to compare the book value of the reporting unit's assigned goodwill to the implied fair value of the reporting unit's goodwill, using a theoretical purchase price allocation. If the carrying value of goodwill exceeds the implied fair value, an impairment has occurred and the Company is required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. There were no goodwill impairment charges recognized during the years ended December 31, 2009, 2010 and 2011.

**Segment Reporting**

Operating segments are components of an enterprise about which discrete financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. As of December 31, 2011, the Company's CODM evaluates performance and allocates resources based on multiple factors, including segment contribution for the following service categories: Carrier Services, Enterprise Services and Information Services. The Company's operating segments are the same as its reportable segments.

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

**Identifiable Intangible Assets**

Identifiable intangible assets are amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used and are periodically reviewed for impairment. There were no impairment charges recognized during the years ended December 31, 2009 and 2011. In the fourth quarter of 2010, the Company recorded an intangible asset impairment charge of \$0.6 million related to its Converged Messaging asset group (see "Impairment of Long-Lived Assets" below).

The Company's identifiable intangible assets are amortized as follows:

	<u>Years</u>	<u>Method</u>
Acquired technologies	3 – 5	Straight-line
Customer lists and relationships	3 – 10	Various
Trade names and trademarks	3	Straight-line

Amortization expense related to identifiable intangible assets is included in depreciation and amortization expense in the consolidated statements of operations.

**Impairment of Long-Lived Assets**

In accordance with Property, Plant and Equipment Topic of the FASB ASC, the Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company measures recoverability of assets to be held and used by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Recoverability measurement and estimating undiscounted cash flows is performed at the lowest possible level for which there are identifiable cash flows. If the carrying amount of the assets exceeds the future undiscounted cash flows expected to be generated by those assets, such assets fail the recoverability test and an impairment charge would be recognized, measured as the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are recorded at the lower of the carrying amount or fair value less costs to sell.

In the first quarter of 2010, the Company realigned its organizational structure, and its NGM business was included with other IP-related services in the Company's Carrier Services operating segment. The services, technology and customer base of the NGM business was renamed Converged Messaging Services while the sales and marketing functions were transitioned to the broader Carrier Services operating segment. In the fourth quarter of 2010, the Company decided to exit the Converged Messaging Services business. The Company believes that its decision to exit this business was an indicator of impairment for long-lived assets in its Converged Messaging Services asset group. As a result, in the fourth quarter of 2010, the Company performed a recoverability test and determined that the future undiscounted cash flows of the asset group was less than the carrying value. The Company recorded an \$8.5 million charge for impairment of long-lived assets, the largest component of which was capitalized technology. In determining fair value, the Company utilized estimates from external advisors and valuation models that involved assumptions about replacement cost, obsolescence factors, future cash flows, discount rates and, as appropriate, review of market comparables. During the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business and all corresponding prior period results of this business presented in the Company's consolidated statements of operations have been reclassified to reflect the operations of the Converged Messaging Services business as discontinued operations (see Note 3).

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

**Revenue Recognition**

The Company provides essential technology and directory services to customers pursuant to various private commercial and government contracts. The Company's revenue recognition policies are in accordance with the Revenue Recognition Topic of the FASB ASC.

*Significant Contracts*

As part of its carrier services, 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 \$340.0 million, \$362.1 million and \$385.6 million in 2009, 2010 and 2011, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. These contracts also provide for fixed credits to customers of \$40.0 million in 2009, \$25.0 million in 2010 and \$5.0 million in 2011, which are applied to reduce the Base Fee for the applicable year. Customers under these contracts may earn additional credits of up to \$15.0 million annually in each of 2009, 2010 and 2011 if the customers reach specific levels of aggregate telephone number inventories and adopt and implement 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 in its Carrier Services operating segment on a straight-line basis over twelve months.

For 2009, the Company concluded that the fixed and determinable fee equaled \$285.0 million, which represented the Base Fee of \$340.0 million reduced by the \$40.0 million fixed credit and \$15.0 million of available additional credits. During 2009, the Company's carrier customers adopted and implemented the requisite IP fields and functionality, and as a result earned \$7.5 million of the additional credits for each of 2009, 2010 and 2011. However, the customers did not reach the levels of aggregate telephone number inventories required to earn additional credits and as a result, the Company recognized \$7.5 million of additional revenue in the fourth quarter of 2009.

For 2010, the Company concluded that the fixed and determinable fee equaled \$322.1 million, which represented the Base Fee of \$362.1 million, reduced by the \$25.0 million fixed credit and \$15.0 million of additional credits. 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 2010 and 2011, the Company determined that its carrier customers have 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.

The total amount of revenue derived under the Company's contracts with NAPM, comprised of NPAC Services, connection service fees related to the Company's NPAC Services and system enhancements, was approximately \$306.1 million, \$337.1 million, and \$374.4 million for the years ended December 31, 2009, 2010 and 2011, 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

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telecommunications service provider's share of the aggregate end-user services revenues of all U.S. telecommunications service providers, as determined by the Federal Communications Commission. The Company also bills an RRC fee equal to a percentage of monthly billings to its customers, which is available to the Company if any customer under the contracts to provide NPAC services fails to pay its allocable share of total transactions charges.

*Carrier Services*

Under its seven contracts with NAPM, the Company provides NPAC Services. As discussed above under the heading "Revenue Recognition — Significant Contracts," the Company determines the fixed and determinable fee on an annual basis and recognizes such fee on a straight-line basis over twelve months.

The Company provides NPAC Services in Canada under its long-term contract with the Canadian LNP Consortium Inc. The Company recognizes revenue on a per-transaction fee basis as the services are performed.

The Company generates revenue from its telephone number administration services under two government contracts: North American Numbering Plan Administrator (NANPA) and National Pooling Administrator (NPA). Under its NANPA contract, the Company earns a fixed annual fee and recognizes this fee as revenue on a straight-line basis as services are provided. Under its NPA contract, the Company earns a fixed fee associated with administration of the pooling system. The Company recognizes revenue for this contract on a straight-line basis over the term of the contract. In the event the Company estimates losses on these fixed price contracts, the Company recognizes these losses in the period in which a loss becomes apparent.

The Company generates revenue from connection fees and system enhancements provided under its contracts with NAPM. The Company recognizes connection fee revenue as the service is performed. System enhancements are provided under contracts in which the Company is reimbursed for costs incurred plus a fixed fee, and revenue is recognized based on costs incurred plus a pro rata amount of the fee.

The Company provides hosted Order Management Services, consisting of customer set-up and implementation followed by transaction processing, under contracts with terms ranging from one to three years. Customer set-up and implementation is not considered a separate deliverable; accordingly, the fees for these services are deferred and recognized as revenue on a straight-line basis over the term of the contract. Per-transaction fees are recognized as the transactions are processed.

The Company generates revenue from its licensed Order Management Services under contracts with terms ranging from three months to two years. The Company generates revenue under these contracts for software licenses, implementation and customization services and post-contract support services (PCS). Under these contracts, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, collectability is probable and, if applicable, when vendor-specific objective evidence (VSOE) of fair value exists to allocate the arrangement fee to the undelivered elements of a multiple element arrangement. Revenue is allocated to delivered elements of an arrangement using the residual method. Under the residual method, revenue is allocated to the undelivered elements using VSOE of fair value with the remaining contract fee 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

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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.

***Enterprise Services***

The Company generates revenue from the management of internal and external DNS services. The Company's revenue from these services consists of customer set-up fees, monthly recurring fees and per-transaction fees for transactions in excess of pre-established monthly minimums under contracts with terms ranging from one to three years. Customer set-up fees are not considered a separate deliverable and are deferred and recognized on a straight-line basis over the term of the contract. Under the Company's contracts to provide DNS services, customers have contractually established monthly transaction volumes for which they are charged a recurring monthly fee. Transactions processed in excess of the pre-established monthly volume are billed at a contractual per-transaction rate. Each month, the Company recognizes the recurring monthly fee and usage in excess of the established monthly volume on a per-transaction basis as services are provided.

The Company generates revenue related to its Internet domain name registry services under contracts with terms generally between one and ten years. The Company recognizes revenue on a straight-line basis over the term of the related customer contracts.

The Company generates revenue from its U.S. Common Short Code services under short-term contracts ranging from three to twelve months, and the Company recognizes revenue on a straight-line basis over the term of the related customer contracts.

***Information Services***

The Company generates revenue from a broad portfolio of real-time information and analytics services. The Company recognizes revenue when persuasive evidence of an agreement exists, the terms are fixed or determinable, services are performed, and collection is reasonably assured. The Company's contracts provide for a guaranteed monthly minimum fee supplemented by fees for transactions above specified minimum amounts. The minimum fee is recognized monthly, and the transaction fees in excess of the monthly minimums are recognized as the services are performed. The Company also receives annual technology fees from certain customers in exchange for access to intellectual property, standard technical support, emergency 24-hour support, and system upgrades on a when-and-if-available basis. Services are not considered a separate deliverable. As a result, technology fees are deferred and recognized on a straight-line basis over the service period, which is usually twelve months.

Revenue derived from the online delivery of data for direct marketing purposes is recorded upon delivery of such data to the customer. Revenue associated with engagements requiring periodic updates of data over the course of the service period, where cash is received or collectible in advance, are recorded as deferred revenues, and recognized on a straight-line basis over the service period, which is usually twelve months.

***Accounting for Multiple Element Arrangements Entered Into or Materially Modified After January 1, 2011***

In September 2009, the FASB ratified Accounting Standard Update (ASU) 2009-13, Revenue Recognition Topic 605 - Multiple-Deliverable Revenue Arrangements (ASU 2009-13). Under this guidance, when vendor-

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specific objective evidence or third party evidence for deliverables in a multiple-element arrangement cannot be determined, the Company is required to develop a best estimate of the selling price for separate deliverables and allocate arrangement consideration using the relative selling price method. The Company adopted ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or after January 1, 2011.

During 2009, 2010 and 2011, certain of the Company's arrangements included customer set-up, implementation and technology support services, combined with ongoing transaction processing. These customer set-up, implementation and technology support services were not considered a separate deliverable that provides stand-alone value to the customer and such fees were deferred and recognized as revenue on a straight-line basis over the term of the contract. Accordingly, the adoption of ASU 2009-13 did not have a material effect on the Company's revenue recognized in 2011. Assuming the Company's adoption of ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or after January 1, 2009, revenue recognized by the Company for the years ended December 31, 2009 and 2010 would not have been materially different.

*Service Level Standards*

Some of the Company's private commercial contracts require the Company to meet service level standards and impose corresponding penalties on the Company if the Company fails to meet those standards. The Company records a provision for these performance-related penalties in the period in which it becomes aware that it has failed to meet required service levels, triggering the requirement to pay a penalty, which results in a corresponding reduction to revenue.

**Cost of Revenue and Deferred Costs**

Cost of revenue includes all direct materials costs, direct labor costs, and indirect costs related to the generation of revenue such as indirect labor, outsourced services, materials and supplies, payment processing fees, and general facilities cost. The Company's primary cost of revenue is personnel costs associated with service implementation, product maintenance, customer deployment and customer care, including salaries, stock-based compensation and other personnel-related expense. In addition, cost of revenue includes costs relating to developing modifications and enhancements of the Company's existing technology and services, as well as royalties paid related to U.S. Common Short Code services and registry gateway services. Cost of revenue also includes costs relating to the Company's information technology and systems department, including network costs, data center maintenance, database management, data processing costs and general facilities costs.

Deferred costs represent direct labor related to professional services incurred for the setup and implementation of contracts. These costs are recognized in cost of revenue on a straight-line basis over the contract term. Deferred costs also include royalties paid related to the Company's U.S. Common Short Code services, which are recognized in cost of revenue on a straight-line basis over the contract term. Deferred costs are classified as such on the consolidated balance sheets.

**Research and Development**

The Company expenses its research and development costs as they are incurred. Research and development expense consists primarily of personnel costs, including salaries, stock-based compensation and other personnel-related expense, consulting fees, and the costs of facilities, computer and support services used in service and technology development.

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**Advertising**

The Company expenses advertising costs as they are incurred. Advertising expense was approximately \$5.3 million, \$6.7 million and \$6.6 million for the years ended December 31, 2009, 2010 and 2011, respectively.

**Stock-Based Compensation**

The Company accounts for its stock-based compensation plans under the recognition and measurement provisions of the Compensation — Stock Compensation Topic of the FASB ASC. The Company estimates the value of stock-based awards on the date of grant using the Black-Scholes option-pricing model. For stock-based awards subject to graded vesting, the Company has utilized the “straight-line” method for allocating compensation cost by period.

The Company presents benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing cash inflow with a corresponding operating cash outflow. For the years ended December 31, 2009, 2010 and 2011, the Company included \$0.6 million, \$1.6 million and \$4.5 million, respectively, of excess tax benefits as a financing cash inflow with a corresponding operating cash outflow.

**Basic and Diluted Net Income per Common Share**

In accordance with the Earnings Per Share Topic of the FASB ASC, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities that should be included in the computation of earnings per share under the two-class method. The Company’s restricted stock awards are considered to be participating securities because they contain non-forfeitable rights to cash dividends, if declared and paid. In lieu of presenting earnings per share pursuant to the two-class method, the Company has included shares of unvested restricted stock awards in the computation of basic net income per common share as the resulting earnings per share would be the same under both methods.

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares and participating securities outstanding during the period. Unvested restricted stock units and performance vested restricted stock units (PVRSU) are excluded from the computation of basic net income per common share because the underlying shares have not yet been earned by the stockholder and are not participating securities. Shares underlying stock options are also excluded because they are not considered outstanding shares. Diluted net income per common share assumes dilution and is computed based on the weighted-average number of common shares outstanding after consideration of the dilutive effect of stock options, unvested restricted stock units and PVRSU. The effect of dilutive securities is computed using the treasury stock method and average market prices during the period. Dilutive securities with performance conditions are excluded from the computation until the performance conditions are met.

**Income Taxes**

The Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB ASC. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to be reversed or utilized. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

The income tax provision includes U.S. federal, state, local and foreign income taxes and is based on pre-tax income or loss. In determining the annual effective income tax rate, the Company analyzes various factors,

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including the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes and the ability of the Company to use tax credits and net operating loss carryforwards.

The Company assesses uncertain tax positions in accordance with income tax accounting standards. Under these standards, income tax benefits should be recognized when, based on the technical merits of a tax position, the Company believes that if a dispute arose with the taxing authority and were taken to a court of last resort, it is more likely than not (*i.e.*, a probability of greater than 50 percent) that the tax position would be sustained as filed. If a position is determined to be more likely than not of being sustained, the reporting enterprise should recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense.

#### **Foreign Currency**

Assets and liabilities of consolidated foreign subsidiaries, whose functional currency is the local currency, are translated to U.S. dollars at fiscal year-end exchange rates. Revenue and expense items are translated to U.S. dollars at the average rates of exchange prevailing during the fiscal year. The adjustment resulting from translating the financial statements of such foreign subsidiaries to U.S. dollars is reflected as a foreign currency translation adjustment and reported as a component of accumulated other comprehensive loss in the consolidated statements of stockholders' equity.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains or losses, which are reflected within interest and other expense in the consolidated statements of operations.

#### **Comprehensive Income**

Comprehensive income is comprised of net earnings and other comprehensive income (loss), which includes certain changes in equity that are excluded from income. The Company includes unrealized holding gains and losses on available-for-sale securities, if any, and foreign currency translation adjustments in other comprehensive income (loss) in the consolidated statements of stockholders' equity. Comprehensive income was approximately \$101.6 million, \$106.5 million and \$160.2 million for the years ended December 31, 2009, 2010 and 2011, respectively.

#### **Recent Accounting Pronouncements**

In June 2011, the FASB issued Auditing Standards Update (ASU) 2011-05 (ASU 2011-05), Presentation of Comprehensive Income, to improve the comparability, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income (OCI). 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. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. 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 (ASU 2011-12), which defers the effective

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date of only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively, with early adoption permitted. The Company does expect the adoption of this standard to have a material impact on its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company adopted this update for its annual goodwill impairment test performed as of October 1, 2011. The adoption of this standard did not have a material impact on the Company's consolidated results of operations.

### **3. ACQUISITIONS AND DISCONTINUED OPERATIONS**

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.

#### ***BrowserMob LLC Acquisition***

On July 7, 2010, the Company acquired BrowserMob LLC (BrowserMob) for cash consideration of \$2.2 million. The acquisition of BrowserMob, a provider of on-demand load testing and website monitoring services, expanded the Company's Internet Infrastructure Services. 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 of BrowserMob have been included within the Enterprise Services segment in the Company's consolidated statement of operations since the date of acquisition. Of the total purchase price, the Company recorded \$1.1 million of goodwill and \$1.0 million of definite-lived intangible assets. Definite-lived intangible assets consist of customer relationships and acquired technology. The Company is amortizing customer relationships and acquired technology on a straight-line basis over an estimated useful life of 3 years and 5 years, respectively.

#### ***Quova, Inc. Acquisition***

On October 27, 2010, the Company acquired Quova, Inc. (Quova) for cash consideration of \$21.7 million, which price was subject to certain purchase price adjustments. Quova expanded the Company's Internet Infrastructure Services by providing internet geography data services that enable online businesses to detect and prevent fraud, ensure regulatory compliance, manage digital content rights distribution and localize ads and web content. 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 of Quova have been included

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within the Enterprise Services segment in the Company's consolidated statement of operations since the date of acquisition. Of the total purchase price, the Company recorded \$5.1 million of goodwill and \$15.0 million of definite-lived intangible assets. Definite-lived intangible assets consist of customer relationships, acquired technology and trade name and trademarks. The Company is amortizing customer relationships on a straight-line basis over an estimated useful life of 7 years. Acquired technology and trade names and trademarks are being amortized on a straight-line basis over an estimated useful life of 3 years.

***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. During 2011, the Company recorded \$0.6 million of acquisition costs in general and administrative expense related to this transaction.

***TARGUSinfo Acquisition***

On November 8, 2011, the Company completed its acquisition of 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 revenue of \$21.2 million and operating expense of \$19.5 million has 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 will be available to satisfy indemnification claims for 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 will be available to fund purchase price adjustments required

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under the merger agreement and to reimburse certain costs and expenses of the stockholder representative, respectively. 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. During the year ended December 31, 2011, the Company recorded \$10.5 million of acquisition costs in general and administrative expense related to this acquisition.

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. The following table summarizes the preliminary purchase price allocation based on the estimated fair value of the acquired assets and assumed liabilities (in thousands):

Cash and cash equivalents	\$ 1,601
Accounts receivable	23,844
Income tax receivable	14,263
Other assets	14,406
Accounts payable and accrued expenses	(9,689)
Deferred tax liability	(119,012)
Deferred revenue	(3,604)
Other liabilities	<u>(3,727)</u>
Net tangible liabilities assumed	(81,918)
Customer relationships	256,700
Acquired identified technology	46,500
Trade names and trademarks	7,000
Goodwill	<u>429,700</u>
Total purchase price allocation	<u><u>\$ 657,982</u></u>

The Company utilized a third-party valuation in determining the fair value of the definite-lived intangible assets. The income approach, which includes the application of the relief from royalty valuation method or the discounted cash flow method, was the primary technique utilized in valuing the identifiable intangible assets. The relief from royalty valuation method estimates the benefit of ownership of the intangible asset as the "relief" from the royalty expense that would need to be incurred in absence of ownership. The discounted cash flow method estimates the present value of the intangible asset's future economic benefit, utilizing the estimated available cash flow that the intangible asset is expected to generate in the future. The Company's assumptions and estimates utilized in its valuations were based on historical experience, information obtained from management of TARGUSinfo, and were determined with assistance from a third-party appraisal firm.

The Company allocated \$310.2 million of the total purchase price to definite-lived intangible assets acquired, consisting of customer relationships, technology and trade names and trademarks. Customer relationships represent agreements with existing customers. The Company utilized the discounted cash flow method to value the acquired customer relationships. Under this method, the Company's significant assumptions and estimates included expected future cash flows and the weighted-average cost of capital. The value of customer relationships will be amortized on a straight-line basis over the estimated useful life of 8 years.

Acquired technology represents technology that had reached technological feasibility and for which development had been completed as of the date of the acquisition. Trade names and trademarks represent established TARGUSinfo trade names and trademarks acquired. The Company utilized the relief from royalty

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valuation method to value the acquired technology and trade names and trademarks. Under this method, the Company's significant assumptions and estimates included an estimated market royalty rate, estimated remaining useful life of the intangible asset, estimated future revenue of the intangible asset, and an estimated rate of return utilized in the determination of a discounted present value. The value of developed technology and trade names and trademarks will be amortized on a straight-line basis over their estimated useful life of 5 years and 3 years, respectively.

Goodwill represents the excess of the TARGUSinfo purchase price over the fair value of the net tangible liabilities assumed. The TARGUSinfo acquisition significantly expanded the Company's position in the information services market. This acquisition provides the Company with the opportunity to leverage its authoritative databases that are processing trillions of transactions in a new way and to provide new solutions to its customers based on real time analytics derived from the Company's existing addressing capabilities. These new capabilities, among other factors were the reasons for the establishment of the purchase price, resulting in the recognition of a significant amount of goodwill. The goodwill balance of \$429.7 million is not expected to be deductible for tax purposes.

In connection with this acquisition, the Company assumed unvested options with the estimated total fair value of \$5.7 million. Of the total \$5.7 million, approximately \$5.0 million will be expensed for post-combination services and approximately \$0.7 million has been included in the purchase price. The Company determined the estimated fair value of the assumed unvested options by utilizing the Hull-White lattice model and the following assumptions: an expected volatility range of 36.24% to 36.53%, a risk-free interest rate of 1.35% to 2.15%, a dividend yield of 0%, and Neustar's last reported sale price of shares on the New York Stock Exchange on November 8, 2011 of \$33.07 per share.

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. 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.

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

The following unaudited pro forma financial information summarizes the Company's results of operations for the period indicated as if Neustar's acquisition of TARGUSinfo had been completed as of the beginning of the earliest period presented. 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 the beginning of the periods presented 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 for all periods presented also includes the effect of the related financing, amortization expense from acquired intangible assets, adjustments to interest expense and related tax effects.

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
Pro forma revenue	<u>\$650,250</u>	<u>\$743,324</u>
Pro forma income from continuing operations	<u>\$201,965</u>	<u>\$202,650</u>
Pro forma net income from continuing operations	<u>\$101,203</u>	<u>\$121,853</u>

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***Discontinued Operations***

During the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business. The results of operations of the Converged Messaging Services business are reflected in the Company's consolidated statements of operations as "(Loss) income from discontinued operations, net of tax". All corresponding prior period operating results presented in the Company's consolidated statements of operations and the accompanying notes have been reclassified to reflect the operations of the Converged Messaging Services business as discontinued operations.

Summaries of the results of discontinued operations for the years ended December 31, 2009, 2010, and 2011 are as follows (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Revenue from discontinued operations	\$ 13,132	\$ 5,946	\$ 454
Loss from discontinued operations before tax	\$(23,001)	\$(31,374)	\$ (8,174)
Benefit for income taxes	(8,632)	(13,555)	(45,423)
(Loss) income from discontinued operations, net of tax	\$(14,369)	\$(17,819)	\$ 37,249

The amounts presented as discontinued operations represent direct revenue and operating expense of the Converged Messaging Services business, which include the pre-tax loss on the sale of certain assets and liabilities of this business of \$1.9 million and an income tax benefit of \$42.7 million attributed to a deduction for the loss on worthless stock of a Converged Messaging Services business entity, recorded during the first quarter of 2011. The Company has determined direct costs consistent with the manner in which the Converged Messaging Services business was structured and managed during the respective periods. Indirect costs such as corporate overhead costs that are not directly attributable to the Converged Messaging business have not been allocated to the discontinued operations.

As of December 31, 2010 and 2011, the assets and liabilities of the Converged Messaging Services business are included in their respective balance sheet categories in the Company's consolidated balance sheets. As of December 31, 2010, these assets and liabilities were \$5.8 million and \$6.7 million, respectively. As of December 31, 2011, these assets and liabilities were \$1.3 million and \$2.2 million, respectively. As of December 31, 2011, these assets primarily included cash to fund the residual liabilities of the Converged Messaging Services business. All significant revenue generating and cost producing activities of the discontinued operations have ceased as of June 30, 2011.

**4. INVESTMENTS**

***Auction Rate Securities and Rights***

In November 2008, the Company accepted a settlement offer in the form of a rights offering (ARS Rights) by the investment firm that brokered the Company's original purchases of auction rate securities (ARS). The ARS Rights provided the Company with rights to sell its ARS at par value to the investment firm during a two year period beginning June 30, 2010. Under the ARS Rights, the investments were completely liquidated on July 1, 2010.

The Company elected to measure the ARS Rights at their fair value pursuant to the Financial Instruments Topic of the FASB ASC and to classify the associated ARS as trading securities. During the years ended December 31, 2009 and 2010, the Company recorded losses of \$2.5 million and \$6.9 million, respectively, related to the change in estimated fair value of the ARS Rights.

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Under the terms of the ARS Rights, if the investment firm was successful in selling any ARS prior to June 30, 2010, the investment firm was obligated to pay the Company par value for the ARS sold. During the year ended December 31, 2009, the investment firm sold ARS with an original par value of \$4.0 million; the Company received these amounts in cash from the investment firm and recognized realized gains of \$1.2 million. During 2010, prior to the Company's exercise of the ARS Rights on June 30, 2010, the investment firm sold ARS with an original par value of \$16.5 million, and the Company received this amount in cash from the investment firm and recognized realized gains of \$2.1 million.

During the years ended December 31, 2009 and 2010, the Company recorded gains of \$2.4 million and \$4.9 million, respectively, related to the change in estimated fair value of the ARS.

***Pre-refunded Municipal Bonds***

As of December 31, 2010 and 2011, the Company held approximately \$50.8 million and \$13.1 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 pursuant to the Investments — Debt and Equity Securities Topic of the FASB ASC. The Company did not sell any of these investments during 2010. During the year ended December 31, 2011, the Company sold approximately \$116.1 million of available-for-sale securities and recognized net gains of \$0.2 million. The Company did not record any impairment charges related to these investments during the years ended December 31, 2010 and 2011. The following table summarizes the Company's investment in these municipal bonds as of December 31, 2010 and 2011 (in thousands):

	December 31, 2010			Estimated Fair Value
	Amortized Cost	Gross Unrealized		
		Gains	Losses	
Due within one year	\$13,782	\$23	\$ (3)	\$13,802
Due after one year through three years	36,968	61	(20)	37,009
Total	<u>\$50,750</u>	<u>\$84</u>	<u>\$(23)</u>	<u>\$50,811</u>
		December 31, 2011		
	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
Due within one year	\$10,538	\$10	\$ (3)	\$10,545
Due after one year through two years	2,500	6	—	2,506
Total	<u>\$13,038</u>	<u>\$16</u>	<u>\$(3)</u>	<u>\$13,051</u>

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

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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 multiple 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.

The fair value of the pre-refunded municipal bonds was incorrectly disclosed as a Level 1 fair value measurement in the previously issued 2010 financial statements. The 2010 disclosure below has been corrected to classify these investments, of approximately \$50.8 million, as Level 2 fair value measurements as fair value is based on observable inputs other than quoted prices in active markets. The Company does not believe that this disclosure error was material to the previously issued 2010 consolidated financial statements. The following table sets forth, as of December 31, 2010 and 2011, 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, 2010			
	Level 1	Level 2	Level 3	Total
Municipal bonds (maturities less than one year)	\$ —	\$13,802	\$—	\$13,802
Municipal bonds (maturities one to three years)	\$ —	\$37,009	\$—	\$37,009
Marketable securities (1)	\$3,681	\$ —	\$—	\$ 3,681
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Municipal bonds (maturities less than one year)	\$ —	\$10,545	\$—	\$10,545
Municipal bonds (maturities one to two years)	\$ —	\$ 2,506	\$—	\$ 2,506
Marketable securities (1)	\$4,008	\$ —	\$—	\$ 4,008

- (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. During the years ended December 31, 2009 and 2010, there were no sales of securities from the Rabbi Trust. During the year ended December 31, 2011, the Company recognized gains of \$0.5 million attributed to the sale of securities from the Rabbi Trust.

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**6. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

The Company's goodwill by operating segment as of December 31, 2010 and 2011 is as follows (in thousands):

	December 31, 2009	Acquisitions	December 31, 2010	Acquisitions	Adjustments	December 31, 2011
Carrier Services						
Gross goodwill	\$202,055	\$ —	\$202,055	\$ 20,602	\$(302)	\$222,355
Accumulated impairments	(93,602)	—	(93,602)	—	—	(93,602)
Net goodwill	<u>108,453</u>	<u>—</u>	<u>108,453</u>	<u>20,602</u>	<u>(302)</u>	<u>128,753</u>
Enterprise Services						
Gross goodwill	9,964	6,234	16,198	—	—	16,198
Accumulated impairments	—	—	—	—	—	—
Net goodwill	<u>9,964</u>	<u>6,234</u>	<u>16,198</u>	<u>—</u>	<u>—</u>	<u>16,198</u>
Information Services						
Gross goodwill	—	—	—	429,700	—	429,700
Accumulated impairments	—	—	—	—	—	—
Net goodwill	<u>—</u>	<u>—</u>	<u>—</u>	<u>429,700</u>	<u>—</u>	<u>429,700</u>
Total						
Gross goodwill	212,019	6,234	218,253	450,302	(302)	668,253
Accumulated impairments	(93,602)	—	(93,602)	—	—	(93,602)
Net goodwill	<u>\$118,417</u>	<u>\$6,234</u>	<u>\$124,651</u>	<u>\$450,302</u>	<u>\$(302)</u>	<u>\$574,651</u>

During the third quarter of 2011, the Company completed its acquisition of assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. and recorded \$20.3 million of goodwill, net of adjustments, (see Note 3). In addition, during the fourth quarter of 2011, the Company acquired TARGUSinfo and recorded \$429.7 million of goodwill in the Company's Information Services operating segment (see Note 3).

The Company's 2010 and 2011 annual goodwill impairment analysis, which was performed for each of its reporting units as of October 1 in each respective year, did not result in an impairment charge.

The key assumptions used in the Company's 2011 annual goodwill impairment test to determine the fair value of its reporting units included: (a) cash flow projections, which include growth and allocation assumptions for forecasted revenue and expenses; (b) a residual growth rate of 3.0% to 5.0%; (c) a discount rate of 14.5% to 16.0%, which was based upon each respective reporting unit's weighted-average cost of capital adjusted for the risks associated with the operations at the time of the assessment; (d) selection of comparable companies used in the market approach; and (e) assumptions in weighting the results of the income approach and the market approach valuation techniques.

As of the date of the Company's 2011 annual impairment test, the estimated fair values for each of the Company's reporting units substantially exceeded each of its reporting units' carrying value. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable; however, these estimates are inherently subjective, and there are a number of factors, including factors outside of the Company's control that could cause actual results to differ from the Company's estimates. Changes in estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge.

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Any changes to the Company's key assumptions about its businesses and its prospects, or changes in market conditions, could cause the fair value of one of its reporting units to fall below its carrying value, resulting in a potential impairment charge. In addition, changes in the Company's organizational structure or how the Company's management allocates resources and assesses performance could result in a change of its operating segments or reporting units, requiring a reallocation and impairment analysis of goodwill. A goodwill impairment charge could have a material effect on the Company's consolidated financial statements because of the significance of goodwill to its consolidated balance sheet. As of December 31, 2011, the Company had \$128.8 million, \$16.2 million, and \$429.7 million, respectively, in goodwill for its Carrier Services, Enterprise Services, and Information Services operating segments.

**Intangible Assets**

In the first quarter of 2010, the Company realigned its organizational structure, and its NGM business was included with other IP-related services in the Company's Carrier Services operating segment. In the fourth quarter of 2010, the Company decided to exit a portion of its IP Services business, specifically its Converged Messaging Services business. The Company believes that its decision to exit this business was an indicator of impairment for long-lived assets in its Converged Messaging Services asset group. As a result, in the fourth quarter of 2010, the Company performed a recoverability test and determined that the future undiscounted cash flows of the Converged Messaging Services asset group was less than the carrying value. The Company recorded an \$8.5 million charge for impairment of long-lived assets, consisting of a \$7.9 million charge to write down the carrying value of the Converged Messaging Services property and equipment (see Note 7) and a \$0.6 million charge to write down the carrying value of the Converged Messaging Services intangible assets related to customer lists and relationships. The valuation technique utilized by the Company in its fair value estimates included the discounted cash flow method. During the second quarter of 2011, the Company ceased operations of its Converged Messaging Services business and all corresponding prior period results presented in the Company's consolidated statements of operations have been reclassified to discontinued operations (see Note 3).

Intangible assets consist of the following (in thousands):

	December 31,		Weighted-Average Amortization Period (in years)
	2010	2011	
Intangible assets:			
Customer lists and relationships	\$ 49,881	\$315,098	7.9
Accumulated amortization	(34,062)	(32,615)	
Customer lists and relationships, net	<u>15,819</u>	<u>282,483</u>	
Acquired technology	19,554	58,859	4.8
Accumulated amortization	(16,805)	(9,493)	
Acquired technology, net	<u>2,749</u>	<u>49,366</u>	
Trade name	630	7,630	3.0
Accumulated amortization	(224)	(711)	
Trade name, net	<u>406</u>	<u>6,919</u>	
Intangible assets, net	<u>\$ 18,974</u>	<u>\$338,768</u>	

In July 2010, the Company recorded \$1.0 million of definite-lived intangible assets in connection with its acquisition of BrowserMob, consisting of \$0.8 million related to acquired technology and \$0.2 million related to customer relationships (see Note 3).

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In October 2010, the Company recorded \$15.0 million of definite-lived intangible assets in connection with its acquisition of Quova, consisting of \$13.6 million related to customer relationships, \$1.0 million related to acquired technology and \$0.4 million related to trade names (see Note 3).

In July 2011, the Company recorded \$21.7 million of definite-lived intangible assets, consisting of \$18.9 million of customer relationships and \$2.8 million of acquired technology related to its acquisition of assets and certain liabilities of the Numbering Solutions business of Evolving Systems, Inc. (see Note 3).

In November 2011, the Company recorded \$310.2 million of definite-lived intangible assets in connection with its acquisition of TARGUSinfo, consisting of \$256.7 million related to customer relationships, \$46.5 million related to acquired technology and \$7.0 million related to trade names and trademarks (see Note 3).

Amortization expense related to intangible assets for the years ended December 31, 2009, 2010 and 2011 of approximately \$5.9 million, \$4.8 million and \$12.1 million, respectively, is included in depreciation and amortization expense. 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 December 31, 2011 will be fully amortized during the year ended December 31, 2021.

**7. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following (in thousands):

	December 31,	
	2010	2011
Computer hardware	\$ 86,990	\$ 91,918
Equipment	1,800	2,688
Furniture and fixtures	4,485	6,764
Leasehold improvements	22,233	23,357
Construction in-progress	17,731	18,292
Capitalized software	81,076	101,973
	214,315	244,992
Accumulated depreciation and amortization	(140,019)	(144,890)
Property and equipment, net	\$ 74,296	\$ 100,102

The Company entered into capital lease obligations of \$1.6 million and \$1.8 million for the years ended December 31, 2010 and 2011, respectively, primarily for computer hardware.

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2009, 2010 and 2011 was \$24.0 million, \$28.1 million and \$34.1 million, respectively.

In the fourth quarter of 2010, the Company recorded a \$7.9 million impairment charge to write down the carrying value of property and equipment of the Converged Messaging Services asset group (see Note 6). The Converged Messaging property and equipment impairment charge of \$7.9 million includes a \$5.3 million impairment charge related to internally developed technology and a \$1.3 million impairment charge related to capitalized software. The valuation techniques utilized by the Company in its fair value estimates included the replacement cost method.

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**8. ACCRUED EXPENSES**

Accrued expenses consist of the following (in thousands):

	December 31,	
	2010	2011
Accrued compensation	\$35,675	\$52,028
RRC reserve	2,581	2,441
Accrued interest	546	4,648
Other	19,006	20,217
Total	\$57,808	\$79,334

**9. CREDIT FACILITIES**

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.

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 December 31, 2011 and for the period from the effective date of the 2011 Facilities to December 31, 2011, the Company was in compliance with these covenants.

The Company's obligations pursuant to the 2011 Facilities are guaranteed by certain of the Company's domestic subsidiaries, or the guarantors, and secured, with certain exceptions, by: (i) (a) a first priority security interest in all equity interests of the Company's direct and indirect domestic subsidiaries; (b) 65% of the outstanding voting equity interests and 100% of the non-voting equity interests of NeuStar NGM Services Limited, an indirect subsidiary of the Company, and first-tier foreign subsidiaries that are controlled foreign corporations; and (c) 65% of the outstanding voting equity interests of any domestic subsidiary of the Company, the sole assets of which consist of stock of controlled foreign corporations; (ii) all present and future tangible and intangible assets of the Company and the guarantors; and (iii) all proceeds and products of the property and assets described in (i) and (ii) above.

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. The loans outstanding under the credit facility bear interest, at the Company's 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

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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 December 31, 2011, the interest rate on the Term Facility was 5% per year. The accrued interest under the Revolving Facility is due on the last day of the quarter starting on December 31, 2011.

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 \$0.6 million for the year ended December 31, 2011 and is reported as interest expense in the consolidated statements of operations. As of December 31, 2011, the balance of unamortized loan origination fees and deferred financing costs was \$28.8 million.

As of December 31, 2011, the remaining principal payments under the Term Facility are as follows (in thousands):

2012	\$ 6,000
2013	6,000
2014	6,000
2015	6,000
2016	6,000
Thereafter	<u>568,500</u>
Total principal payments	598,500
Less: unamortized original issue discount	<u>(8,835)</u>
Present value of principal payments	589,665
Less: current portion	<u>(4,856)</u>
Long-term note payable	<u><u>\$584,809</u></u>

The Company may voluntarily prepay the loans at any time. 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. In the event actual results or changes in estimates trigger the mandatory prepayment, such prepayment amount will be reclassified from long-term note payable to current note payable in the Company's accompanying consolidated balance sheets.

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

**2007 Credit Facility**

On February 6, 2007, the Company entered into a credit agreement which provided for a revolving credit facility in an aggregate principal amount of up to \$100 million (the 2007 Credit Facility). Borrowings under the 2007 Credit Facility bore interest, at the Company's option, at either a Eurodollar rate plus a spread ranging from