If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreement that governs our 2013 Term Facility and the indenture that governs the Notes restricts our ability to dispose of assets and use the proceeds from those dispositions and also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations would materially and adversely affect our financial position and results of operations and our ability to satisfy our debt obligations.

If we cannot make scheduled payments on our debt, we will be in default and holders of the Notes could declare all outstanding principal and interest to be due and payable, the lenders under our 2013 Term Facility could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our 2013 Term Facility will be at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all loans are fully drawn, each quarter point change in interest rates would result in a $1.3 million change in annual interest expense on our indebtedness under our 2013 Term Facility. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

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 principal executive offices are located at 21575 Ridgetop Circle, Sterling, Virginia, 20166, and our telephone number at that address is (571) 434-5400. As of December 31, 2012, we leased approximately 490,000 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 21, 2013, 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:

Leased Property Locations	Approximate Square Footage	General Usage
Sterling, VA, United States	192,000	Corporate headquarters
McLean, VA, United States	44,000	Information Services
California, United States	89,000	Carrier, Enterprise and Information Services
Colorado, United States	13,000	Carrier Services
Kentucky, United States	36,000	Carrier and Enterprise Services customer support
Utah, United States	8,000	Information Services
District of Colombia, United States	13,000	General office and sales
Staines, United Kingdom	3,000	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 2013 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 21, 2013, our Class A common stock was held by 276 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
Fiscal year ended December 31, 2011		
First quarter	$27.89	$24.60
Second quarter	$27.22	$25.18
Third quarter	$27.09	$22.24
Fourth quarter	$34.73	$24.79
Fiscal year ended December 31, 2012		
First quarter	$37.29	$33.84
Second quarter	$37.26	$30.40
Third quarter	$40.25	$32.49
Fourth quarter	$43.20	$36.59

There is no established public trading market for our Class B common stock. As of February 21, 2013, 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 2011 or 2012 and we do not expect to pay any cash dividends on our common stock for the foreseeable future. Our 2013 Term Facility limits our ability to declare or pay dividends to an amount up to $100 million per year. We currently intend to retain any future earnings to finance our operations and growth. We are 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, 2012:

Month	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)(3)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3)(4)
October 1 through October 31, 2012	248,069	$39.82	246,400	$101,683,283
November 1 through November 30, 2012	106,158	39.56	103,800	97,571,878
December 1 through December 31, 2012	263,307	41.74	246,980	87,258,996
Total	617,534	$40.59	597,180	$ 87,258,996

(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 20,354 shares, all of which relate to shares surrendered to us by employees to satisfy the employees' tax withholding obligations arising as a result of vesting of restricted stock grants under our incentive stock plans.

(3) On July 28, 2010, we announced the adoption of a share repurchase program. The program authorizes the repurchase of up to $300 million of Class A common shares through Rule 10b5-1 programs, open market purchases, privately negotiated transactions or otherwise as market conditions warrant, at prices we deem appropriate. The program will expire in July 2013.

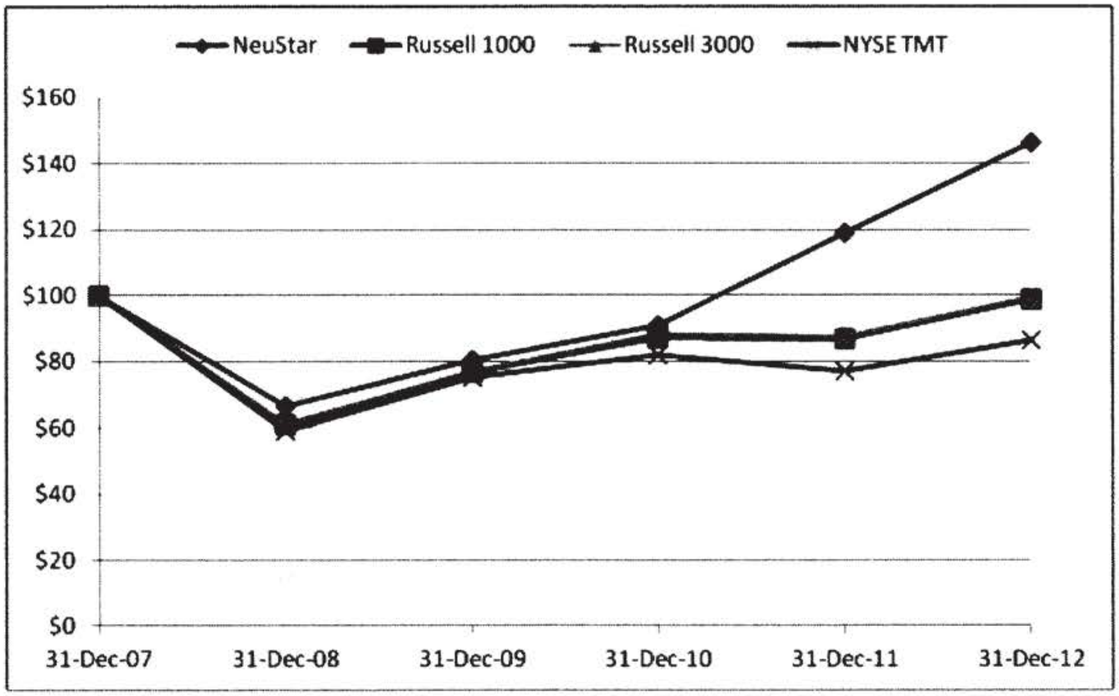
(4) Does not include amounts paid for commissions.

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 1000 Index, (b) Russell 3000 index and (c) NYSE TMT Index, an Index of Technology, Media and Telecommunications companies, each over that same period. We have moved from the Russell 3000 Index, the index used in previous years, to the Russell 1000. For comparative purposes, both the Russell 1000 and Russell 3000 Indices are reflected in the following chart. We will not include the Russell 3000 Index in next year's performance graph.

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, 2012. The selected consolidated statements of operations data for each of the three years ended December 31, 2010, 2011 and 2012, and the selected consolidated balance sheet data as of December 31, 2011 and 2012, 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, 2008 and 2009, and the selected consolidated balance sheet data as of December 31, 2008, 2009 and 2010, 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,				
	2008	2009	2010	2011	2012
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Total revenue	$474,141	$467,253	$520,866	$620,455	$831,388
Operating expense:					
Cost of revenue (excluding depreciation and amortization shown separately below)	89,543	99,436	111,282	137,992	185,965
Sales and marketing	62,769	80,676	86,363	109,855	163,729
Research and development	17,325	14,094	13,780	17,509	29,794
General and administrative	50,809	52,491	65,496	96,317	81,797
Depreciation and amortization	29,978	29,852	32,861	46,209	92,955
Restructuring charges	—	974	5,361	3,549	489
	250,424	277,523	315,143	411,431	554,729
Income from operations	223,717	189,730	205,723	209,024	276,659
Other (expense) income:					
Interest and other expense	(15,489)	(5,213)	(6,995)	(6,279)	(34,155)
Interest and other income	13,109	7,491	7,582	1,966	596
Income from continuing operations before income taxes	221,337	192,008	206,310	204,711	243,100
Provision for income taxes, continuing operations	86,943	76,498	82,282	81,137	87,013
Income from continuing operations	134,394	115,510	124,028	123,574	156,087
(Loss) income from discontinued operations, net of tax	(130,100)	(14,369)	(17,819)	37,249	—
Net income	$ 4,294	$101,141	$106,209	$160,823	$156,087
Basic net income (loss) per common share:					
Continuing operations	$ 1.81	$ 1.55	$ 1.66	$ 1.69	$ 2.34
Discontinued operations	(1.75)	(0.19)	(0.24)	0.51	—
Basic net income per common share	$ 0.06	$ 1.36	$ 1.42	$ 2.20	$ 2.34
Diluted net income (loss) per common share:					
Continuing operations	$ 1.77	$ 1.53	$ 1.63	$ 1.66	$ 2.30
Discontinued operations	(1.71)	(0.19)	(0.23)	0.50	—
Diluted net income per common share	$ 0.06	$ 1.34	$ 1.40	$ 2.16	$ 2.30
Weighted average common shares outstanding:					
Basic	74,350	74,301	74,555	72,974	66,737
Diluted	76,107	75,465	76,065	74,496	67,956

	As of December 31,				
	2008	2009	2010	2011	2012
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$161,653	$342,191	$345,372	$ 132,782	$ 343,921
Working capital	164,636	316,263	345,221	196,442	368,326
Goodwill and intangible assets	134,661	127,206	143,625	910,946	860,665
Total assets	519,166	647,804	733,874	1,382,610	1,526,724
Deferred revenue and customer credits, excluding current portion	11,657	8,923	10,578	10,363	9,922
Long-term note payable and capital lease obligations, excluding current portion	11,933	10,766	4,076	586,727	577,505
Total stockholders' equity	386,653	504,437	596,112	502,634	646,608

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

Revenue growth continued to be strong in 2012. Total revenue for the year increased 34% to $831.4 million as compared to $620.5 million in 2011. Of this 34% increase in revenue, our newly formed Information Services segment contributed 22%, while Carrier Services contributed 9% and Enterprise Services contributed 3%. For the first year in our history, less than 50% of our revenue came from our fixed fee contracts to provide number portability services, demonstrating greater diversity in our revenue sources.

During 2012, we integrated TARGUSinfo's administrative functions with our existing systems and processes. We also made significant progress in the integration of our product development and sales, and sales operations teams across the company. In addition, we began developing a single sales operations platform which we believe will strengthen our ability to cross-sell and up-sell our services to both new and existing customers. Our combined sales force began creating integrated account plans for our top customers, which enabled us to offer a broader suite of services to these customers.

We continued to position ourselves successfully to renew our contracts with NAPM. We believe that the high quality of our services provides us the best opportunity to remain the NPAC administrator of local number portability for the communications industry. During the year, we complied with over 2,200 service level metrics. In addition, we received a record high customer satisfaction score. A final Request for Proposal was published in the first quarter of 2013. We will respond to this final proposal on or before the submission due date, currently in April 2013. In the meantime, we will continue to provide outstanding service in a trusted and neutral manner.

Further, we continued to execute on our capital allocation strategy of returning cash to shareholders through share repurchases. During the year ended December 31, 2012, we repurchased approximately 2.7 million shares of our common stock at an average price of $36.56 per share for a total of $98.0 million. As of December 31, 2012, cash, cash equivalents and investments totaled $343.9 million, an increase of $208.6 million from December 31, 2011.

Our Company

We are a trusted provider of real-time information and analysis using proprietary and hard to replicate data sets. Our customers use our services for commercial insights that help them promote and protect their businesses.

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 database services (telephone number databases, domain names, short-codes and fixed IP addresses), analytics platforms used for Internet security services, caller identification 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. We also operate the user authentication and rights management system, which supports the UltraViolet™ digital content locker that consumers can use to access their entertainment content.
- *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 return the caller name associated with the calling phone number and 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. Using our proprietary databases, 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 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.

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. The aggregate fees for transactions processed under the contracts are determined by an annual fixed-fee pricing model under which the annual fixed fee is subject to an annual price escalator of 6.5%. 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 annual fixed fee may be adjusted up or down, respectively. At each reporting period, we assess the volume of transactions in comparison to the contractually established volume range for that year and determine the probability of an adjustment, either up or down, to the annual fixed fee. If we determine an adjustment is probable and measurable, we record the adjustment to revenue in the reporting period in which our assessment is made. We have not recorded any adjustments to the annual fixed fee since the inception of these contract terms in January 2009.

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

Service Level Standards

Some of our private commercial contracts require us to meet 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 2012 annual goodwill impairment analysis, which we performed for each of our three reporting units as of October 1, 2012, did not result in an impairment charge. We determined the estimated fair value of our reporting units using a discounted cash flow method and the market approach, consistent with the approach we utilized in our analysis performed in 2011. We also considered the estimated fair values of our reporting units relative to our overall market capitalization. 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 discounted cash flow method included assumptions regarding market penetration, estimated future cash flows, risk-adjusted discount rates and long-term growth 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 2012 annual goodwill impairment test to determine the fair value of our reporting units included: (a) cash flow projections through 2017, which include growth and allocation assumptions for forecasted revenue and expenses; (b) cash flow projections beyond 2017, which assume a long-term growth rate of 3.0%, (c) a discount rate of 12.5% to 14.5% applied to the cash flow projections, which rate 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 discounted cash flow method and the market approach valuation techniques.

As of the date of our 2012 annual impairment test, our estimated fair values for each of our Carrier Services, Enterprise Services and Information Services exceeded their respective 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, 2012, we had \$128.8 million, \$16.2 million, and \$427.2 million in goodwill for our Carrier Services, Enterprise Services, and Information Services operating segments, respectively.

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 a Revenue Recovery Collections, or 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.

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.

We file income tax returns in the United States Federal jurisdiction and in many state and foreign jurisdictions. The tax years 2007 through 2011 remain open to examination by the major taxing jurisdictions to which we are subject. The Internal Revenue Service has initiated an examination of our 2009 federal income tax return. While the ultimate outcome of the audit is uncertain, management does not currently believe that the outcome will have a material adverse effect on our financial position, results of operations or cash flows.

American Taxpayer Relief Act of 2012

On January 2, 2013, President Barack Obama signed into law the "American Taxpayer Relief Act of 2012", or the Act. While Congress approved a retroactive extension of certain business tax provisions that expired at the end of 2011 and 2012, under U.S. GAAP, the financial accounting effects of the Act are to be reported in the first quarter of calendar year 2013, the quarter in which the legislation was signed into law by the President. We do not believe the Act will have a material effect on our financial position, results of operations or cash flows.

Stock-Based Compensation

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

See Note 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 years covered in this report.

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

During 2012, we revised our estimate of achievement of the performance target related to the PVRSUs granted during 2012 from 100% of target to 130% of target and further revised our estimate of achievement in the fourth quarter of 2012 to 129% of target. These changes in estimates did not have a material impact on our income from continuing operations and the earnings per diluted share from continuing operations, respectively, for the year ended December 31, 2012.

Consolidated Results of Operations

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2012

The following table presents an overview of our results of operations for the years ended December 31, 2011 and 2012.

	Years Ended December 31,			
	2011	2012	2011 vs. 2012	
	$	$	$ Change	% Change
	(in thousands, except per share data)			
Revenue:				
Carrier Services	$447,894	$502,085	$ 54,191	12.1%
Enterprise Services	151,390	170,440	19,050	12.6%
Information Services	21,171	158,863	137,692	650.4%
Total revenue	620,455	831,388	210,933	34.0%
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	137,992	185,965	47,973	34.8%
Sales and marketing	109,855	163,729	53,874	49.0%
Research and development	17,509	29,794	12,285	70.2%
General and administrative	96,317	81,797	(14,520)	(15.1)%
Depreciation and amortization	46,209	92,955	46,746	101.2%
Restructuring charges	3,549	489	(3,060)	(86.2)%
	411,431	554,729	143,298	34.8%
Income from operations	209,024	276,659	67,635	32.4%
Other (expense) income:				
Interest and other expense	(6,279)	(34,155)	(27,876)	444.0%
Interest and other income	1,966	596	(1,370)	(69.7)%
Income from continuing operations before income taxes	204,711	243,100	38,389	18.8%
Provision for income taxes, continuing operations	81,137	87,013	5,876	7.2%
Income from continuing operations	123,574	156,087	32,513	26.3%
Income from discontinued operations, net of tax	37,249	—	(37,249)	(100.0)%
Net income	$160,823	$156,087	$ (4,736)	(2.9)%
Basic net income per common share:				
Continuing operations	$ 1.69	$ 2.34		
Discontinued operations	0.51	—		
Basic net income per common share	$ 2.20	$ 2.34		
Diluted net income per common share:				
Continuing operations	$ 1.66	$ 2.30		
Discontinued operations	0.50	—		
Diluted net income per common share	$ 2.16	$ 2.30		
Weighted average common shares outstanding:				
Basic	72,974	66,737		
Diluted	74,496	67,956		

Revenue

Total revenue. Total revenue increased $210.9 million due to a $54.2 million increase in revenue from our Carrier Services operating segment, a $19.0 million increase in revenue from our Enterprise Services operating segment, and a $137.7 million increase in revenue from our Information Services operating segment.

Carrier Services. Revenue from our Carrier Services operating segment increased $54.2 million due to an increase of $46.6 million in revenue from Numbering Services. The $46.6 million increase in revenue from Numbering Services was primarily the result of a $45.1 million increase in the fixed fee established under our contracts to provide NPAC Services. In addition, Order Management Services, or OMS, revenue increased $5.7 million primarily due to our acquisition of numbering assets completed in the third quarter of 2011.

Enterprise Services. Revenue from our Enterprise Services operating segment increased $19.0 million due to an increase of $11.3 million in revenue from Registry Services. This increase was due to continued growth in the number of common short codes and domain names under management and revenue from system enhancements. In addition, revenue from Internet Infrastructure Services, or IIS, increased $7.8 million primarily due to increased demand for our DNS solutions to direct and manage Internet traffic.

Information Services. On November 8, 2011, we completed the acquisition of TARGUSinfo and established Information Services as a new operating segment. Revenue from our Information Services operating segment from the acquisition date through December 31, 2011 was $21.2 million, comprised of $13.9 million in Identification Services, $4.5 million in Verification & Analytics Services, and $2.8 million in Local Search & Licensed Data Services. During the year ended December 31, 2012, revenue from our Information Services operating segment was $158.9 million, comprised of $93.2 million in Identification Services, $45.5 million in Verification and Analytics Services, and $20.2 million in Local Search & Licensed Data Services.

Expense

Cost of revenue. Cost of revenue increased $48.0 million, including $26.5 million of operating costs related to acquisitions completed in 2011. The overall increase of $48.0 million was due in part to a $17.9 million increase in personnel and personnel-related expense. This increase in personnel and personnel-related expense was due to increased headcount in our technology teams to support system enhancements for new and existing service offerings. In addition, costs relating to our information technology and systems, including data processing costs, telecommunications, and maintenance costs, increased $19.2 million due to growth in our revenue. Furthermore, royalty expense increased $7.3 million due to revenue growth and contractor costs increased $3.6 million as a result of increased costs incurred to augment our technology teams in connection with new product enhancements.

Sales and marketing. Sales and marketing expense increased $53.9 million, including $40.3 million of operating costs related to acquisitions completed in 2011. The overall increase of $53.9 million in sales and marketing expense was due to a $42.9 million increase in personnel and personnel-related expense related to the expansion of our sales and marketing teams to support our new and expanded service offerings. In addition, advertising and external marketing costs increased $6.2 million to fund efforts to increase brand awareness and costs related to general facilities increased $4.7 million in support of our expanded sales and marketing teams.

Research and development. Research and development expense increased $12.3 million, including $9.9 million of operating costs related to acquisitions completed in 2011. The overall increase of $12.3 million in research and development expense was due to an increase of $9.6 million in personnel and personnel-related to support service and technology development. In addition, general facilities costs increased $1.9 million.

General and administrative. General and administrative expense decreased $14.5 million, including $6.2 million in operating costs related to acquisitions completed in 2011. The overall decrease of $14.5 million was due to $16.3 million in contractor and professional fees primarily due to a decrease of $11.6 million in acquisition and acquisition related costs incurred in 2011 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 costs decreased $1.1 million, comprised of a $5.5 million decrease in stock-based compensation expense, partially offset by an increase of $4.4 million related to headcount additions to support business operations. Of this $5.5 million decrease in stock-based compensation expense, $5.4 million resulted from higher expense recorded during 2011 for the departure of certain senior executives for which there was no corresponding expense in 2012. These decreases were partially offset by an increase of $2.9 million in general facilities costs.

Depreciation and amortization. Depreciation and amortization expense increased $46.7 million, including $47.7 million in expense related to acquisitions completed in 2011. The overall increase of $46.7 million in expense was due to an increase in amortization expense of $38.2 million as a result of the amortization of intangible assets acquired in connection with acquisitions. In addition, depreciation expense increased $8.6 million due to acquisitions of new property and equipment, including furniture and fixtures and leasehold improvements.

Restructuring charges. Restructuring charges decreased $3.1 million due to a decrease in severance and severance-related expense of $2.6 million attributable to our 2011 domestic work-force reduction initiated in the fourth quarter of 2011 and $0.4 million attributable to our 2010 management transition plan.

Interest and other expense. Interest and other expense increased $27.9 million due to a $29.4 million increase in interest expense attributable to our 2011 Credit Facilities, including amortization of related deferred financing costs. This increase was partially offset by a net decrease of $1.0 million in loss on asset disposals and a net decrease of $0.5 million in foreign currency losses.

Interest and other income. Interest and other income decreased $1.4 million due to a decrease of $0.7 million in realized gains for our available-for-sale securities sold during 2011 and a decrease of $0.7 million in interest income resulting from a lower yield related to our investments and lower amount of cash invested.

Provision for income taxes, continuing operations. Our effective tax rate for the year ended December 31, 2012 decreased to 35.8% from 39.6% for the year ended December 31, 2011. This decrease includes $6.8 million of discrete items recorded during 2012 primarily due to a net tax benefit related to our domestic production activities deduction and utilization of foreign tax credits against federal income taxes. During 2012, we completed our analysis of our domestic production activities deduction which resulted in a net tax benefit of $6.1 million for years 2008 through 2011, and a tax benefit of $2.6 million for the year ended December 31, 2012. The decrease in our effective tax rate was partially offset by a current period change in estimate attributed to a worthless stock loss deduction of Neustar NGM Services, Inc., or NGM Services. Decreases in our effective tax rate were also partially offset by benefits recorded in 2011 related to the realizability of net operating losses associated with the acquisition of Quova, Inc. and federal research tax credits. Excluding discrete tax benefits primarily associated with the domestic production activities deduction, our effective tax rate was approximately 38.6% for the year ended December 31, 2012.

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 former Converged Messaging Services business, following the sale in February 2011 of certain assets and liabilities of NGM Services and its subsidiaries. The financial results for the years ended December 31, 2011 and 2012 reflect the results of operations, net of tax, of the Converged Messaging Services business as discontinued operations. We treated 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. We recorded a discrete income tax benefit of $42.7 million in the year ended December 31, 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, 2011 and 2012.

	Year Ended December 31,			
	2011	2012	2011 vs. 2012	
	$	$	$ Change	% Change
	(dollars in thousands)			
Revenue:				
Carrier Services	$447,894	$502,085	$ 54,191	12.1%
Enterprise Services	151,390	170,440	19,050	12.6%
Information Services	21,171	158,863	137,692	650.4%
Total revenue	$620,455	$831,388	$210,933	34.0%
Segment contribution:				
Carrier Services	$391,000	$438,213	$ 47,213	12.1%
Enterprise Services	65,080	73,466	8,386	12.9%
Information Services	12,583	77,291	64,708	514.2%
Total segment contribution	468,663	588,970	120,307	25.7%
Indirect operating expenses:				
Cost of revenue (excluding depreciation and amortization shown separately below)	83,990	98,777	14,787	17.6%
Sales and marketing	17,340	23,632	6,292	36.3%
Research and development	16,234	16,644	410	2.5%
General and administrative	92,317	79,814	(12,503)	(13.5)%
Depreciation and amortization	46,209	92,955	46,746	101.2%
Restructuring charges	3,549	489	(3,060)	(86.2)%
Consolidated income from operations	$209,024	$276,659	$ 67,635	32.4%

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

The following is a discussion of our operating segment results for the years ended December 31, 2011 and 2012:

Carrier Services. Revenue from our Carrier Services operating segment increased $54.2 million due to an increase of $46.6 million in revenue from Numbering Services. The $46.6 million increase in revenue from Numbering Services was primarily the result of a $45.1 million increase in the fixed fee established under our contracts to provide NPAC Services. In addition, OMS revenue increased $5.7 million primarily due to our acquisition of numbering assets completed in the third quarter of 2011. Segment operating costs for Carrier Services totaled $63.9 million, an increase of $7.0 million. This increase in segment operating costs was to support the increased OMS revenue. In particular, personnel and personnel-related expense increased $6.5 million due to increased headcount attributable to the acquisition of numbering assets completed in the third quarter of 2011 and to support revenue growth. Carrier Services segment revenue less its segment operating costs resulted in a segment contribution of $438.2 million, an increase of $47.2 million.

Enterprise Services. Revenue from our Enterprise Services operating segment increased $19.0 million due to an increase of $11.3 million in revenue from Registry Services. This increase was due to continued growth in the number of common short codes and domain names under management and revenue from system enhancements. In addition, revenue from IIS increased $7.8 million primarily due to increased demand for our DNS solutions to direct and manage Internet traffic. Segment operating costs for Enterprise Services totaled $97.0 million, an increase of $10.7 million. This increase in segment operating costs was due to an increase of $3.6 million in personnel and personnel-related expense, an increase of $3.3 million in royalty expense driven by increased revenue from managing a larger number of common short codes, and an increase of $2.1 million in marketing expense to support brand awareness. Enterprise Services segment revenue less its segment operating costs resulted in a segment contribution of $73.5 million, an increase of $8.4 million.

Information Services. On November 8, 2011, we completed the acquisition of TARGUSinfo and established Information Services as a new operating segment. Revenue from our Information Services operating segment from acquisition date through December 31, 2011 was $21.2 million, comprised of $13.9 million in Identification Services, $4.5 million in Verification & Analytics Services, and $2.8 million in Local Search & Licensed Data Services. During the year ended December 31, 2012, revenue from our Information Services operating segment was $158.9 million, comprised of $93.2 million in Identification Services, $45.5 million in Verification and Analytics Services, and $20.2 million in Local Search & Licensed Data Services. Segment operating costs for Information Services totaled $8.6 million from the acquisition date of November 8, 2011 through December 31, 2011, compared to $81.6 million for the year ended December 31, 2012. This increase in segment operating costs was due to a full year of operations as compared to the period of time from the acquisition date through December 31, 2011. In particular, personnel and personnel related expense increased $52.9 million, costs related to our information technology and systems increased $12.2 million, general facilities costs increased $7.0 million and advertising and external marketing costs increased $1.0 million. Information Services segment revenue less its segment operating costs resulted in a segment contribution of $77.3 million, an increase of $64.7 million.

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 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 a $43.5 million increase in the fixed fee established 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 numbering assets completed 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 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 and established Information Services as a new operating segment. Revenue from our Information Services operating segment from acquisition date through December 31, 2011 was $21.2 million, comprised of $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 the 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 decrease in interest and other expense was partially offset by an increase of $4.4 million in interest expense attributed to our 2011 Credit Facilities, 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 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 treated 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. 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	$520,866	$620,455	$99,589	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	411,601	468,663	57,062	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	$205,723	$209,024	$ 3,301	1.6%

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.

The following is a discussion of our operating segment results for the years ended December 31, 2010 and 2011:

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 a $43.5 million increase in the fixed fee established 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 numbering assets completed 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. Segment operating costs for Carrier Services totaled $56.9 million, an increase of

$17.4 million driven by an increase of $13.5 million in personnel and personnel-related expense due to headcount additions related to the acquisition of numbering assets completed in 2011 and expanded sales and marketing teams. Carrier Services segment revenue less its segment operating costs resulted in a segment contribution of $391.0 million, an increase of $38.7 million.

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. Segment operating costs for Enterprise Services totaled $86.3 million, an increase of $16.5 million. This increase in segment operating costs was to support the increased revenue and the acquisition of fixed IP geolocation assets. In particular, personnel and personnel-related expense increased $10.1 million, general facilities costs increased $3.4 million, and royalty expense increased $2.9 million driven by increased revenue from managing a larger number of common short codes. Enterprise Services segment revenue less its segment operating costs resulted in a segment contribution of $65.1 million, an increase of $5.8 million.

Information Services. In the fourth quarter of 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. Segment operating costs for Information Services totaled $8.6 million and included $5.9 million in personnel and personnel-related expense and $2.4 million in costs related to our information technology and systems. Information Services segment revenue less its segment operating costs resulted in a segment contribution of $12.6 million.

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 17 to our Consolidated Financial Statements in Item 8 of Part II of this report.

Liquidity and Capital Resources

Our principal source of liquidity is cash provided by operating activities. Our principal uses of cash have been to fund share repurchases, capital expenditures 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 $343.9 million at December 31, 2012, an increase of $208.6 million from $135.3 million at December 31, 2011. This increase in cash, cash equivalents and investments was primarily due to cash provided by operations.

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