

NEUSTAR INC
Form 10-Q
April 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-32548

NeuStar, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

21575 Ridgetop Circle
Sterling, Virginia 20166

(Address of principal executive offices) (zip code)

(571) 434-5400

(Registrant's telephone number, including area code)

52-2141938

(I.R.S. Employer
Identification 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

There were 55,365,007 shares of Class A common stock, \$0.001 par value, and 3,082 shares of Class B common stock, \$0.001 par value, outstanding at April 27, 2015.

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EX – 101 INSTANCE DOCUMENT
EX – 101 SCHEMA DOCUMENT
EX – 101 CALCULATION LINKBASE DOCUMENT
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

NEUSTAR, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

| | December 31, 2014 | March 31, 2015 (unaudited) |
|--|----------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$326,577 | \$347,078 |
| Restricted cash | 2,191 | 2,543 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,154 and \$3,268, respectively | 155,086 | 172,995 |
| Unbilled receivables | 13,084 | 12,001 |
| Prepaid expenses and other current assets | 24,392 | 33,771 |
| Deferred costs | 6,951 | 7,618 |
| Income taxes receivable | 16,309 | 528 |
| Deferred income tax assets | 10,380 | 15,761 |
| Total current assets | 554,970 | 592,295 |
| Property and equipment, net | 161,604 | 153,505 |
| Goodwill | 689,269 | 689,269 |
| Intangible assets, net | 302,622 | 286,904 |
| Other assets, long-term | 30,643 | 33,577 |
| Total assets | \$1,739,108 | \$1,755,550 |
| See accompanying notes. | | |

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

| | December 31, 2014 | March 31, 2015 (unaudited) |
|---|----------------------|----------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$8,439 | \$6,305 |
| Accrued expenses | 94,771 | 73,733 |
| Deferred revenue | 73,908 | 75,366 |
| Notes payable | 7,972 | 7,972 |
| Capital lease obligations | 3,702 | 3,282 |
| Other liabilities | 23,125 | 24,035 |
| Total current liabilities | 211,917 | 190,693 |
| Deferred revenue, long-term | 27,017 | 24,287 |
| Notes payable, long-term | 775,318 | 773,324 |
| Capital lease obligations, long-term | 5,579 | 4,990 |
| Deferred income tax liabilities, long-term | 50,666 | 73,139 |
| Other liabilities, long-term | 49,705 | 51,726 |
| Total liabilities | 1,120,202 | 1,118,159 |
| 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, 2014 and March 31, 2015 | — | — |
| Class A common stock, par value \$0.001; 200,000,000 shares authorized; 80,917,293 and 82,780,338 shares issued; and 55,080,441 and 55,979,575 shares outstanding at December 31, 2014 and March 31, 2015, respectively | 81 | 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, 2014 and March 31, 2015, respectively | — | — |
| Additional paid-in capital | 674,385 | 679,429 |
| Treasury stock, 25,836,852 and 26,800,763 shares at December 31, 2014 and March 31, 2015, respectively, at cost | (898,520 |) (924,142) |
| Accumulated other comprehensive loss | (2,222 |) (3,123) |
| Retained earnings | 845,182 | 885,144 |
| Total stockholders' equity | 618,906 | 637,391 |
| Total liabilities and stockholders' equity | \$1,739,108 | \$1,755,550 |
| See accompanying notes. | | |

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

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2014 | 2015 |
| Revenue | \$229,897 | \$251,388 |
| Operating expense: | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 58,611 | 64,158 |
| Sales and marketing | 49,991 | 46,734 |
| Research and development | 7,059 | 6,454 |
| General and administrative | 26,291 | 24,657 |
| Depreciation and amortization | 27,640 | 29,924 |
| Restructuring charges | 4,966 | — |
| | 174,558 | 171,927 |
| Income from operations | 55,339 | 79,461 |
| Other (expense) income: | | |
| Interest and other expense | (5,997) | (6,722) |
| Interest income | 95 | 226 |
| Income before income taxes | 49,437 | 72,965 |
| Provision for income taxes | 17,754 | 26,751 |
| Net income | \$31,683 | \$46,214 |
| Net income per common share: | | |
| Basic | \$0.52 | \$0.83 |
| Diluted | \$0.50 | \$0.81 |
| Weighted average common shares outstanding: | | |
| Basic | 61,240 | 55,974 |
| Diluted | 62,753 | 56,849 |
| See accompanying notes. | | |

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NEUSTAR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

| | Three Months Ended | |
|---|--------------------|----------|
| | March 31, | |
| | 2014 | 2015 |
| Net income | \$31,683 | \$46,214 |
| Other comprehensive loss, net of tax: | | |
| Available for sale investments, net of tax: | | |
| Change in net unrealized gains, net of tax of \$34 and \$(9), respectively | 53 | (14) |
| Reclassification for gains included in net income, net of tax of \$(12) and \$(15), respectively | (19) | (23) |
| Net change in unrealized gains on investments, net of tax | 34 | (37) |
| Foreign currency translation adjustment, net of tax: | | |
| Change in foreign currency translation adjustment, net of tax of \$(86) and \$(505), respectively | (54) | (1,103) |
| Reclassification adjustment included in net income, net of tax of \$0 and \$153, respectively | — | 239 |
| Foreign currency translation adjustment, net of tax | (54) | (864) |
| Other comprehensive loss, net of tax | (20) | (901) |
| Comprehensive income | \$31,663 | \$45,313 |
| See accompanying notes. | | |

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NEUSTAR, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

| | Three Months Ended March 31, | | |
|---|---------------------------------|-----------|---|
| | 2014 | 2015 | |
| Operating activities: | | | |
| Net income | \$31,683 | \$46,214 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 27,640 | 29,924 | |
| Stock-based compensation | 11,726 | 8,230 | |
| Amortization of deferred financing costs and original issue discount on debt | 857 | 842 | |
| Tax (benefit) shortfall from equity awards | (2,311 |) 8,695 | |
| Deferred income taxes | (2,534 |) 17,322 | |
| Provision for doubtful accounts | 1,528 | 2,100 | |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | (4,553 |) (20,302 |) |
| Unbilled receivables | 1,525 | 1,083 | |
| Notes receivable | 602 | — | |
| Prepaid expenses and other current assets | 1,625 | (9,379 |) |
| Deferred costs | 332 | (484 |) |
| Income taxes | 20,169 | 7,086 | |
| Other assets | 7 | (3,922 |) |
| Other liabilities | 3,040 | 2,931 | |
| Accounts payable and accrued expenses | (32,419 |) (28,521 |) |
| Deferred revenue | 1,974 | (1,272 |) |
| Net cash provided by operating activities | 60,891 | 60,547 | |
| Investing activities: | | | |
| Purchases of property and equipment | (11,584 |) (6,055 |) |
| Business acquired, net of cash acquired | (13,567 |) — | |
| Net cash used in investing activities | (25,151 |) (6,055 |) |
| Financing activities: | | | |
| Decrease (increase) in restricted cash | 73 | (352 |) |
| Proceeds from notes payable | 175,000 | — | |
| Payments under notes payable obligations | (2,031 |) (2,031 |) |
| Principal repayments on capital lease obligations | (715 |) (1,691 |) |
| Proceeds from issuance of stock | 3,337 | 442 | |
| Tax benefit (shortfall) from equity awards | 2,311 | (8,695 |) |
| Repurchase of restricted stock awards and common stock | (50,499 |) (20,387 |) |
| Net cash provided by (used in) financing activities | 127,476 | (32,714 |) |
| Effect of foreign exchange rates on cash and cash equivalents | (72 |) (1,277 |) |
| Net increase in cash and cash equivalents | 163,144 | 20,501 | |
| Cash and cash equivalents at beginning of period | 223,309 | 326,577 | |
| Cash and cash equivalents at end of period | \$386,453 | \$347,078 | |
| See accompanying notes. | | | |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

1. DESCRIPTION OF BUSINESS AND ORGANIZATION

NeuStar, Inc. (the Company or Neustar) is a neutral and trusted provider of real-time information services and analytics. The Company's authoritative, hard-to-replicate data sets and proprietary analytics provide insights to help its clients promote and protect their businesses. The Company primarily serves marketing and security functions in the communications, financial services, media and advertising, retail and eCommerce, Internet, and technology industries. The Company's integrated marketing solution enhances its clients' ability to acquire and retain valuable customers across disparate platforms. The Company operates top-level domain names and provides services to help its clients optimize their web performance. The Company enables the exchange of essential operating information across multiple carriers to provision and manage services. The Company operates the user authentication and rights management system, which supports the digital content locker that consumers use to access their entertainment content. The Company provides the critical infrastructure that enables the dynamic routing of calls and text messages for communications service providers in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet as of December 31, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by U.S. GAAP for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets; the identification and quantification of income tax liabilities due to uncertain tax positions; and recoverability of goodwill. 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

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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

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. Due to their short-term nature, the carrying amounts reported in the accompanying unaudited consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. The Company determines the fair value of its \$325 million senior secured term loan facility (2013 Term Facility) using pricing service quotations as quoted by Bloomberg (Level 2) (see Note 3). The Company believes the carrying value of its revolving credit facility (2013 Revolving Facility) approximates the fair value of the debt as the term and interest rate approximates the market rate (Level 2) (see Note 3). The Company determines the fair value of its \$300 million aggregate principal amount of 4.50% senior notes due 2023 (Senior Notes) using a secondary market price on the last trading day in each period as quoted by Bloomberg (Level 2) (see Note 3).

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

| | December 31, 2014 | | March 31, 2015 | |
|---|-------------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$326,577 | \$326,577 | \$347,078 | \$347,078 |
| Restricted cash (current assets) | 2,191 | 2,191 | 2,543 | 2,543 |
| 2013 Term Facility (including current portion, net of discount) | 308,290 | 289,794 | 306,296 | 292,325 |
| 2013 Revolving Facility | 175,000 | 175,000 | 175,000 | 175,000 |
| Senior Notes (including current portion) | 300,000 | 255,750 | 300,000 | 253,725 |
| Restricted Cash | | | | |

As of December 31, 2014 and March 31, 2015, cash of \$2.2 million and \$2.5 million, respectively, was restricted as collateral for certain of the Company's outstanding letters of credit and for deposits on leased facilities.

3. NOTES PAYABLE

Notes payable consist of the following (in thousands):

| | December 31, 2014 | March 31, 2015 |
|--|----------------------|-------------------|
| 2013 Term Facility (net of discount) | \$308,290 | \$306,296 |
| 2013 Revolving Facility | 175,000 | 175,000 |
| Senior Notes | 300,000 | 300,000 |
| Total | 783,290 | 781,296 |
| Less: current portion, net of discount | (7,972) | (7,972) |
| Long-term portion | \$775,318 | \$773,324 |

2013 Credit Facilities

On January 22, 2013, the Company entered into a credit facility that provided for a \$325 million senior secured term loan facility (2013 Term Facility) and a \$200 million senior secured revolving credit facility (2013 Revolving Facility, and together with the 2013 Term Facility, the 2013 Credit Facilities). The 2013 Revolving Facility and 2013 Term Facility mature on January 22, 2018. As of March 31, 2015, outstanding borrowings under the 2013 Revolving Facility were \$175.0 million and available borrowings under the same facility were \$8.2 million, exclusive of outstanding letters of credit totaling \$16.8 million.

The 2013 Credit Facilities provide for mandatory prepayments with the net cash proceeds of certain debt issuances, insurance receipts, and dispositions. The 2013 Term Facility also contains certain events of default, upon the occurrence of which, and so long as such event of default is continuing, the amounts outstanding may, at the option of the required lenders, accrue interest at an increased rate and payments of such outstanding amounts could be

accelerated, or other remedies undertaken.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

Senior Notes

On January 22, 2013, the Company closed an offering of \$300 million aggregate principal amount of 4.50% senior notes due 2023. The Senior Notes are the general unsecured senior obligations of the Company and are guaranteed on a senior unsecured basis by certain of its domestic subsidiaries, or the Subsidiary Guarantors. Interest is payable on the Senior Notes semi-annually in arrears at an annual rate of 4.50%, on January 15 and July 15 of each year, beginning on July 15, 2013.

If the Company experiences certain changes of control together with a ratings downgrade, it will be required to offer to purchase all of the Senior Notes then outstanding at a purchase price equal to 101.00% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. If the Company sells certain assets and does not repay certain debt or reinvest the proceeds of such sales within certain time periods, it will be required to offer to repurchase the Senior Notes with such proceeds at 100.00% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

The Senior Notes contain customary events of default, including among other things, payment default, failure to provide certain notices and defaults related to bankruptcy events. The Senior Notes also contain customary negative covenants.

4. STOCKHOLDERS' EQUITY

As of March 31, 2015, a total of 4,433,569 shares were available for grant or award under the Company's stock incentive plans and a total of 405,182 shares were available to be issued under the Company's Employee Stock Purchase Plan (ESPP).

Stock-based compensation expense recognized for the three months ended March 31, 2014 and 2015 was \$11.7 million and \$8.2 million, respectively. As of March 31, 2015, total unrecognized compensation expense was estimated at \$33.5 million, which the Company expects to recognize over a weighted average period of approximately 1.3 years. Total unrecognized compensation expense as of March 31, 2015 is estimated based on outstanding non-vested stock options, non-vested restricted stock awards, non-vested restricted stock units and non-vested performance vested restricted stock units (PVRSUs). Stock-based compensation expense may increase or decrease in future periods for subsequent grants or forfeitures, and changes in the estimated fair value of non-vested awards granted to consultants.

Stock Options

The Company utilizes the Black-Scholes option pricing model to estimate the fair value of stock options granted. The following table summarizes the Company's stock option activity:

| | Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value (in millions) | Weighted-Average Remaining Contractual Life (in years) |
|----------------------------------|-----------|---------------------------------|---|--|
| Outstanding at December 31, 2014 | 2,043,905 | \$25.23 | | |
| Granted | — | — | | |
| Exercised | (219,405) |) 25.79 | | |
| Forfeited | (58,058) |) 28.00 | | |
| Outstanding at March 31, 2015 | 1,766,442 | \$25.07 | \$2.3 | 3.53 |
| Exercisable at March 31, 2015 | 1,231,742 | \$24.38 | \$0.3 | 2.43 |

The aggregate intrinsic value of options exercised for the three months ended March 31, 2015 was \$0.1 million.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

Restricted Stock Awards

The following table summarizes the Company's non-vested restricted stock activity for the three months ended March 31, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|----------------------------------|----------|--|---|
| Outstanding at December 31, 2014 | 39,194 | \$27.21 | |
| Granted | — | — | |
| Vested | (32,144) |) 26.46 | |
| Forfeited | (3,175) |) 30.61 | |
| Outstanding at March 31, 2015 | 3,875 | \$30.63 | \$0.1 |

The total aggregate intrinsic value of restricted stock vested during the three months ended March 31, 2015 was \$0.9 million. During the three months ended March 31, 2015, the Company repurchased 12,477 shares of common stock for an aggregate purchase price of approximately \$0.3 million pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their minimum tax withholding obligations.

Performance Vested Restricted Stock Units

The fair value of a PVRSU is measured by reference to the closing market price of the Company's common stock on the date of the grant. The Company recognizes the estimated fair value of PVRSUs, net of estimated forfeitures, as stock-based compensation expense over the vesting period, which considers each performance period or tranche separately, based upon the Company's determination of the level of achievement of the performance target. The estimated level of achievement of the performance target awards for the 2015 performance year is 100.0%.

The following table summarizes the Company's non-vested PVRSU activity for the three months ended March 31, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|------------------------------|-------------|--|---|
| Non-vested December 31, 2014 | 1,810,952 | \$37.76 | |
| Granted | 664,046 | 27.04 | |
| Vested | (1,712,754) |) 37.38 | |
| Forfeited | (73,006) |) 35.56 | |
| Non-vested March 31, 2015 | 689,238 | \$28.61 | \$17.0 |

The total aggregate intrinsic value of PVRSUs vested during the three months ended March 31, 2015 was approximately \$45.6 million. The Company repurchased 681,049 shares of common stock for an aggregate purchase price of \$18.1 million pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their minimum tax withholding obligations.

Restricted Stock Units

The following table summarizes the Company's restricted stock units activity for the three months ended March 31, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|----------------------------------|-----------|--|---|
| Outstanding at December 31, 2014 | 1,071,814 | \$39.60 | |

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| | | | |
|-------------------------------|----------|---------|--------|
| Granted | 800 | 24.60 | |
| Vested | (193,412 |) 41.89 | |
| Forfeited | (11,387 |) 39.00 | |
| Outstanding at March 31, 2015 | 867,815 | \$39.08 | \$21.4 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

The total aggregate intrinsic value of restricted stock units vested during the three months ended March 31, 2015 was approximately \$5.3 million. The Company repurchased 73,349 shares of common stock for an aggregate purchase price of \$2.0 million pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their minimum tax withholding obligations.

Employee Stock Purchase Plan

The Company estimated the fair value of stock-based compensation expense associated with its ESPP using the Black-Scholes option pricing model, with the following assumptions:

| | Three Months Ended March 31, 2015 | |
|---|--------------------------------------|---|
| Dividend yield | — | % |
| Expected volatility | 34.34 | % |
| Risk-free interest rate | 0.05 | % |
| Expected life of employee stock purchase plan options (in months) | 6 | |

Share Repurchase Program

On March 26, 2015, the Company announced that its Board of Directors authorized a \$150 million share repurchase program. The program commenced on March 27, 2015 and will expire on March 25, 2016. Share repurchases under the program will be completed in accordance with guidelines specified under Rule 10b5-1 and Rule 10b-18 of the Securities and Exchange Act of 1934. All repurchased shares are retired. During the three months ended March 31, 2015, the Company repurchased 0.3 million shares of its Class A common stock at an average price of \$24.10 per share, for a total purchase price of \$6.3 million.

5. BASIC AND DILUTED NET INCOME PER COMMON SHARE

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2014 | 2015 |
| Computation of basic net income per common share: | | |
| Net income | \$31,683 | \$46,214 |
| Weighted average common shares and participating securities outstanding – basic | 61,240 | 55,974 |
| Basic net income per common share | \$0.52 | \$0.83 |
| Computation of diluted net income per common share: | | |
| Weighted average common shares and participating securities outstanding – basic | 61,240 | 55,974 |
| Effect of dilutive securities: | | |
| Stock-based awards | 1,513 | 875 |
| Weighted average common shares outstanding – diluted | 62,753 | 56,849 |
| Diluted net income per common share | \$0.50 | \$0.81 |

Diluted net income per common share reflects the potential dilution of common stock equivalents such as options and warrants, to the extent the impact is dilutive. Common stock options to purchase an aggregate of 522,163 and 1,894,657 shares were excluded from the calculation of the denominator for diluted net income per common share due to their anti-dilutive effect for the three months ended March 31, 2014 and 2015, respectively.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

6. INTEREST AND OTHER EXPENSE

Interest and other expense consists of the following (in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2014 | 2015 |
| Interest and other expense: | | |
| Interest expense | \$6,085 | \$6,460 |
| Gain on asset disposals | — | (169) |
| Foreign currency transaction (gain) loss | (66) | 431 |
| Other | (22) | — |
| Total interest and other expense | \$5,997 | \$6,722 |

7. INCOME TAXES

The Company's effective tax rate increased to 36.7% for the three months ended March 31, 2015 from 35.9% for the three months ended March 31, 2014, primarily due to the reversal of the Company's unrecognized tax benefits in the first quarter of 2014 upon the completion of an Internal Revenue Service (IRS) audit for the year ended December 31, 2009, offset by an increase in the Company's domestic production activities deduction for the three months ended March 31, 2015.

As of December 31, 2014 and March 31, 2015, the Company had unrecognized tax benefits of \$13.6 million and \$14.3 million, respectively, of which \$12.8 million and \$13.5 million, respectively, would affect the Company's effective tax rate if recognized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the three months ended March 31, 2014 and 2015, potential interest and penalties were insignificant.

The Company files income tax returns in the United States federal jurisdiction and in many state and foreign jurisdictions. The tax years 2008 through 2013 remain open to examination by the major taxing jurisdictions to which the Company is subject. The IRS has initiated an examination of the Company's federal income tax returns for the years 2009 through 2012 and of the 2010 federal income tax return of Neustar Information Services, Inc. (formerly TARGUS Information Corporation), a subsidiary of the Company. While the ultimate outcome of the audit is uncertain, management does not currently believe that the outcome will have a material adverse effect on the Company's financial position, results of operations or cash flows.

8. SEGMENT INFORMATION

The Company engages in business activities as a single entity and the chief operating decision maker reviews consolidated operating results and allocates resources based on consolidated reports. The Company has a single operating segment.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

Enterprise-Wide Disclosures

Revenue by geographical areas is based on the billing address of the Company's clients. Geographic area revenue and service revenue from external clients for the three months ended March 31, 2014 and 2015, and geographic area long-lived assets as of December 31, 2014 and March 31, 2015 are as follows (in thousands):

| | Three Months Ended | |
|--------------------------------|--------------------|-----------|
| | March 31, | 2015 |
| | 2014 | 2015 |
| Revenue by geographical areas: | | |
| United States | \$213,782 | \$235,554 |
| International | 16,115 | 15,834 |
| Total revenue | \$229,897 | \$251,388 |
| Revenue by service: | | |
| Marketing Services | \$32,854 | \$37,227 |
| Security Services | 30,132 | 39,642 |
| Data Services | 48,118 | 48,158 |
| NPAC Services | 118,793 | 126,361 |
| Total revenue | \$229,897 | \$251,388 |
| | December 31, | March 31, |
| | 2014 | 2015 |
| Long-lived assets, net | | |
| United States | \$385,432 | \$363,855 |
| Colombia | 78,786 | 76,549 |
| Other | 8 | 5 |
| Total long-lived assets, net | \$464,226 | \$440,409 |

9. CONTINGENCIES

On July 15, 2014, the Oklahoma Firefighters Pension and Retirement System, or OFPRS, individually and on behalf of all other similarly situated stockholders, filed a putative class action complaint in the United States District Court for the Eastern District of Virginia, Alexandria Division, or the Alexandria Division, against the Company and certain of its senior executive officers. The OFPRS complaint asserted claims for purported violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf of those who purchased the Company's securities between April 19, 2013 and June 6, 2014, inclusive, and sought unspecified compensatory damages, costs and expenses, including attorneys' and experts' fees, and injunctive relief.

On October 7, 2014, the Alexandria Division issued an order appointing lead counsel and designating The Indiana Public Retirement System, or IPRS, as lead plaintiff. On November 6, 2014, the IPRS filed an amended complaint and on December 8, 2014, the Company moved to dismiss IPRS's amended complaint. On December 22, 2014, IPRS filed its opposition to the Company's motion to dismiss. On December 29, 2014, the Company filed a reply brief to the IPRS opposition. The Alexandria Division heard oral arguments on the motions on January 22, 2015 and on January 27, 2015, and issued an order granting the Company's motion to dismiss IPRS's amended complaint with prejudice. On February 25, 2015, counsel for IPRS filed a notice of appeal. At this stage, the Company is unable to quantify the impact of these claims on its future consolidated financial position or results of operations.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

10. SUPPLEMENTAL GUARANTOR INFORMATION

The following schedules present condensed consolidating financial information of the Company as of December 31, 2014 and March 31, 2015 and for the three months ended March 31, 2014 and 2015 for (a) Neustar, Inc., the parent company; (b) certain of the Company's 100% owned domestic subsidiaries (collectively, the Subsidiary Guarantors); and (c) certain wholly-owned domestic and foreign subsidiaries of the Company (collectively, the Non-Guarantor Subsidiaries). Investments in subsidiaries are accounted for using the equity method; accordingly, entries necessary to consolidate the parent company and all of the guarantor and non-guarantor subsidiaries are reflected in the eliminations column. Intercompany amounts that will not be settled between entities are treated as contributions or distributions for purposes of these consolidated financial statements. The guarantees are full and unconditional and joint and several. A Subsidiary Guarantor will be released from its obligations under the Senior Notes when: (a) the Subsidiary Guarantor is sold or sells substantially all of its assets; (b) the Subsidiary Guarantor is designated as an unrestricted subsidiary as defined by the Senior Notes; (c) the Subsidiary Guarantor's guarantee of indebtedness under the Senior Notes is released (other than discharge through repayment); or (d) the requirements for legal or covenant defeasance or discharge of the indenture have been satisfied.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|----------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 297,565 | \$ 19,606 | \$ 9,406 | \$— | \$ 326,577 |
| Restricted cash | 1,260 | 931 | — | — | 2,191 |
| Accounts receivable, net | 93,519 | 59,868 | 1,699 | — | 155,086 |
| Unbilled receivables | 3,115 | 9,652 | 317 | — | 13,084 |
| Prepaid expenses and other current assets | 20,322 | 3,526 | 544 | — | 24,392 |
| Deferred costs | 4,798 | 2,153 | — | — | 6,951 |
| Income taxes receivable | 18,935 | — | 7 | (2,633 |) 16,309 |
| Deferred income tax assets | 3,600 | 6,853 | — | (73 |) 10,380 |
| Intercompany receivable | 24,674 | — | — | (24,674 |) — |
| Total current assets | 467,788 | 102,589 | 11,973 | (27,380 |) 554,970 |
| Property and equipment, net | 149,024 | 12,566 | 14 | — | 161,604 |
| Goodwill | 95,388 | 562,425 | 31,456 | — | 689,269 |
| Intangible assets, net | 16,836 | 280,962 | 4,824 | — | 302,622 |
| Net investments in subsidiaries | 841,436 | — | — | (841,436 |) — |
| Deferred income tax assets, long-term | — | — | 284 | (284 |) — |
| Other assets, long-term | 29,059 | 1,564 | 20 | — | 30,643 |
| Total assets | \$ 1,599,531 | \$ 960,106 | \$ 48,571 | \$ (869,100 |) \$ 1,739,108 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 7,025 | \$ 1,332 | \$ 82 | \$— | \$ 8,439 |
| Accrued expenses | 72,423 | 20,243 | 2,105 | — | 94,771 |
| Income taxes payable | — | 2,633 | — | (2,633 |) — |
| Deferred revenue | 29,952 | 42,177 | 1,779 | — | 73,908 |
| Notes payable | 7,972 | — | — | — | 7,972 |
| Capital lease obligations | 3,702 | — | — | — | 3,702 |
| Other liabilities | 21,882 | 1,202 | 114 | (73 |) 23,125 |
| Intercompany payable | — | 12,267 | 12,407 | (24,674 |) — |
| Total current liabilities | 142,956 | 79,854 | 16,487 | (27,380 |) 211,917 |
| Deferred revenue, long-term | 8,592 | 18,425 | — | — | 27,017 |
| Notes payable, long-term | 775,318 | — | — | — | 775,318 |
| Capital lease obligations, long-term | 5,579 | — | — | — | 5,579 |
| Deferred income tax liabilities, long-term | 3,813 | 47,137 | — | (284 |) 50,666 |
| Other liabilities, long-term | 44,246 | 5,459 | — | — | 49,705 |
| Total liabilities | 980,504 | 150,875 | 16,487 | (27,664 |) 1,120,202 |
| Total stockholders' equity | 619,027 | 809,231 | 32,084 | (841,436 |) 618,906 |
| Total liabilities and stockholders' equity | \$ 1,599,531 | \$ 960,106 | \$ 48,571 | \$ (869,100 |) \$ 1,739,108 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED BALANCE SHEET

MARCH 31, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|----------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 313,819 | \$ 24,201 | \$ 9,058 | \$— | \$ 347,078 |
| Restricted cash | 1,260 | 1,283 | — | — | 2,543 |
| Accounts receivable, net | 115,378 | 56,037 | 1,580 | — | 172,995 |
| Unbilled receivables | 1,751 | 9,474 | 776 | — | 12,001 |
| Prepaid expenses and other current assets | 29,509 | 3,731 | 531 | — | 33,771 |
| Deferred costs | 5,424 | 2,194 | — | — | 7,618 |
| Income taxes receivable | 4,239 | — | 69 | (3,780) |) 528 |
| Deferred income tax assets | 7,037 | 8,849 | — | (125) |) 15,761 |
| Intercompany receivable | 22,815 | — | — | (22,815) |) — |
| Total current assets | 501,232 | 105,769 | 12,014 | (26,720) |) 592,295 |
| Property and equipment, net | 142,550 | 10,945 | 10 | — | 153,505 |
| Goodwill | 95,388 | 562,425 | 31,456 | — | 689,269 |
| Intangible assets, net | 16,065 | 266,296 | 4,543 | — | 286,904 |
| Net investments in subsidiaries | 842,466 | — | — | (842,466) |) — |
| Deferred income tax assets, long-term | — | — | 309 | (309) |) — |
| Other assets, long-term | 32,087 | 1,483 | 7 | — | 33,577 |
| Total assets | \$ 1,629,788 | \$ 946,918 | \$ 48,339 | \$ (869,495) |) \$ 1,755,550 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 5,248 | \$ 709 | \$ 348 | \$— | \$ 6,305 |
| Accrued expenses | 59,227 | 13,141 | 1,365 | — | 73,733 |
| Income taxes payable | — | 3,780 | — | (3,780) |) — |
| Deferred revenue | 31,589 | 42,183 | 1,594 | — | 75,366 |
| Notes payable | 7,972 | — | — | — | 7,972 |
| Capital lease obligations | 3,282 | — | — | — | 3,282 |
| Other liabilities | 23,222 | 771 | 167 | (125) |) 24,035 |
| Intercompany payable | — | 10,803 | 12,012 | (22,815) |) — |
| Total current liabilities | 130,540 | 71,387 | 15,486 | (26,720) |) 190,693 |
| Deferred revenue, long-term | 8,587 | 15,700 | — | — | 24,287 |
| Notes payable, long-term | 773,324 | — | — | — | 773,324 |
| Capital lease obligations, long-term | 4,990 | — | — | — | 4,990 |
| Deferred income tax liabilities, long-term | 27,712 | 45,736 | — | (309) |) 73,139 |
| Other liabilities, long-term | 46,420 | 5,306 | — | — | 51,726 |
| Total liabilities | 991,573 | 138,129 | 15,486 | (27,029) |) 1,118,159 |
| Total stockholders' equity | 638,215 | 808,789 | 32,853 | (842,466) |) 637,391 |
| Total liabilities and stockholders' equity | \$ 1,629,788 | \$ 946,918 | \$ 48,339 | \$ (869,495) |) \$ 1,755,550 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$ 162,056 | \$ 65,542 | \$ 3,488 | \$(1,189) |) \$ 229,897 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 41,745 | 17,574 | 427 | (1,135) |) 58,611 |
| Sales and marketing | 37,194 | 11,657 | 1,152 | (12) |) 49,991 |
| Research and development | 6,409 | 643 | 7 | — |) 7,059 |
| General and administrative | 24,244 | 1,844 | 245 | (42) |) 26,291 |
| Depreciation and amortization | 11,778 | 15,612 | 250 | — |) 27,640 |
| Restructuring charges | 3,338 | 1,489 | 139 | — |) 4,966 |
| | 124,708 | 48,819 | 2,220 | (1,189) |) 174,558 |
| Income from operations | 37,348 | 16,723 | 1,268 | — |) 55,339 |
| Other (expense) income: | | | | | |
| Interest and other expense | (6,063) |) 5 | 61 | — |) (5,997) |
| Interest income | 91 | 1 | 3 | — |) 95 |
| Income before income taxes and equity income in consolidated subsidiaries | 31,376 | 16,729 | 1,332 | — |) 49,437 |
| Provision for income taxes | 10,430 | 7,214 | 110 | — |) 17,754 |
| Income before equity income in consolidated subsidiaries | 20,946 | 9,515 | 1,222 | — |) 31,683 |
| Equity income in consolidated subsidiaries | 10,737 | 775 | — | (11,512) |) — |
| Net income | \$ 31,683 | \$ 10,290 | \$ 1,222 | \$(11,512) |) \$ 31,683 |
| Comprehensive income | \$ 31,652 | \$ 10,291 | \$ 1,232 | \$(11,512) |) \$ 31,663 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$ 175,381 | \$ 80,681 | \$ 3,910 | \$(8,584) |) \$ 251,388 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 44,380 | 24,453 | 2,719 | (7,394) |) 64,158 |
| Sales and marketing | 34,002 | 14,052 | (181) |) (1,139) |) 46,734 |
| Research and development | 5,546 | 905 | 3 | — | 6,454 |
| General and administrative | 22,034 | 2,490 | 184 | (51) |) 24,657 |
| Depreciation and amortization | 13,247 | 16,394 | 283 | — | 29,924 |
| | 119,209 | 58,294 | 3,008 | (8,584) |) 171,927 |
| Income from operations | 56,172 | 22,387 | 902 | — | 79,461 |
| Other (expense) income: | | | | | |
| Interest and other expense | (6,798) |) 22 | 54 | — | (6,722) |
| Interest income | 220 | 4 | 2 | — | 226 |
| Income before income taxes and equity income in consolidated subsidiaries | 49,594 | 22,413 | 958 | — | 72,965 |
| Provision for income taxes | 14,441 | 11,911 | 399 | — | 26,751 |
| Income before equity income in consolidated subsidiaries | 35,153 | 10,502 | 559 | — | 46,214 |
| Equity income in consolidated subsidiaries | 11,061 | 480 | — | (11,541) |) — |
| Net income | \$ 46,214 | \$ 10,982 | \$ 559 | \$(11,541) |) \$ 46,214 |
| Comprehensive income | \$ 46,016 | \$ 10,578 | \$ 260 | \$(11,541) |) \$ 45,313 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$61,547 | \$28,126 | \$ (783) | \$(27,999) | \$60,891 |
| Investing activities: | | | | | |
| Purchases of property and equipment | (11,013) | (266) | (305) | — | (11,584) |
| Business acquired, net of cash acquired | (13,341) | (226) | — | — | (13,567) |
| Net cash used in investing activities | (24,354) | (492) | (305) | — | (25,151) |
| Financing activities: | | | | | |
| Decrease of restricted cash | — | 70 | 3 | — | 73 |
| Proceeds from notes payable | 175,000 | — | — | — | 175,000 |
| Payments under notes payable obligations | (2,031) | — | — | — | (2,031) |
| Principal repayments on capital lease obligations | (715) | — | — | — | (715) |
| Proceeds from issuance of stock | 3,337 | — | — | — | 3,337 |
| Tax benefit from equity awards | 2,306 | — | 5 | — | 2,311 |
| Repurchase of restricted stock awards and common stock | (50,499) | — | — | — | (50,499) |
| (Distribution to) investment by parent | — | (28,437) | 438 | 27,999 | — |
| Net cash provided by (used in) financing activities | 127,398 | (28,367) | 446 | 27,999 | 127,476 |
| Effect of foreign exchange rates on cash and cash equivalents | (84) | 1 | 11 | — | (72) |
| Net increase (decrease) in cash and cash equivalents | 164,507 | (732) | (631) | — | 163,144 |
| Cash and cash equivalents at beginning of period | 214,959 | 1,075 | 7,275 | — | 223,309 |
| Cash and cash equivalents at end of period | \$379,466 | \$343 | \$ 6,644 | \$— | \$386,453 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$53,257 | \$44,353 | \$ (615) | \$(36,448) | \$60,547 |
| Investing activities: | | | | | |
| Purchases of property and equipment | (4,068) | (1,833) | (154) | — | (6,055) |
| Net cash used in investing activities | (4,068) | (1,833) | (154) | — | (6,055) |
| Financing activities: | | | | | |
| Increase of restricted cash | (1) | (351) | — | — | (352) |
| Payments under notes payable obligations | (2,031) | — | — | — | (2,031) |
| Principal repayments on capital lease obligations | (1,691) | — | — | — | (1,691) |
| Proceeds from issuance of stock | 442 | — | — | — | 442 |
| Tax shortfall from equity awards | (8,695) | — | — | — | (8,695) |
| Repurchase of restricted stock awards and common stock | (20,387) | — | — | — | (20,387) |
| (Distribution to) investment by parent | — | (37,167) | 719 | 36,448 | — |
| Net cash (used in) provided by financing activities | (32,363) | (37,518) | 719 | 36,448 | (32,714) |
| Effect of foreign exchange rates on cash and cash equivalents | (572) | (407) | (298) | — | (1,277) |
| Net increase (decrease) in cash and cash equivalents | 16,254 | 4,595 | (348) | — | 20,501 |
| Cash and cash equivalents at beginning of period | 297,565 | 19,606 | 9,406 | — | 326,577 |
| Cash and cash equivalents at end of period | \$313,819 | \$24,201 | \$ 9,058 | \$— | \$347,078 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2015

11. SUBSEQUENT EVENT

On April 7, 2015, the Company amended its seven regional contracts with North American Portability Management, LLC (NAPM) to establish a transition arrangement under which the Company will provide Local Number Portability Administrator (LNPA) services at the 2015 annual base fee of \$496.1 million. Under this arrangement, the Company will provide these services until September 30, 2016, after which the contracts will automatically renew for additional one-year terms unless NAPM provides a notice of non-renewal at least 90 days prior to the end of any renewal term. Once a notice of non-renewal is provided, NAPM must provide the Company with at least 180 days advance notice of its intention to terminate the contracts. Further, under this amendment, the Company will provide certain transition services on a cost-plus basis.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements

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

Overview

During the first quarter, we expanded our highly competitive solutions in the Information Services and Analytics, or IS&A, market by launching new services and entering into strategic partnerships. We continued to experience strong demand for our DNS Services and we are strategically positioned in the expanding gTLD market.

Revenue increased 9% to \$251.4 million as compared to \$229.9 million in 2014. This increase in revenue was driven by a 32% increase in Security Services revenue, a 13% increase in Marketing Services revenue, and a 6% increase in NPAC Services revenue. Of note, the 32% increase in Security Services revenue included a 17% contribution from .CO Internet, which we acquired in April 2014. Data Services revenue totaled \$48.2 million, comparable to the first quarter of 2014.

On March 26, 2015, the Federal Communications Commission, or FCC, approved a competitor to serve as the next LNPA, or Local Number Portability Administrator. The FCC Order did not award a contract, but rather, authorized contract negotiations to begin. On April 6, 2015, we filed a Petition for Review asking the U.S. Court of Appeals for the District Columbia Circuit to “hold unlawful, vacate, enjoin, and set aside” the FCC’s Order approving the North American Numbering Counsel’s recommendation. On April 7, 2015, we amended our seven regional contracts with North American Portability Management, LLC, or NAPM, to continue to provide LNPA services for a period of fifteen months ending on September 30, 2016.

Critical Accounting Policies and Estimates

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

Although we believe that our judgments and estimates are appropriate and reasonable, actual results may differ from those estimates. In addition, while we have used our best estimates based on the facts and circumstances available to us at the time, we reasonably could have used different estimates in the current period. Changes in the accounting estimates we use are reasonably likely to occur from period to period, which may have a material impact on the presentation of our financial condition and results of operations. If actual results or events differ materially from those

contemplated by us in making these estimates, our reported financial condition and results of operations could be materially affected. See the information in our filings with the SEC from time to time, including Part II, “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, for certain matters that may bear on our results of operations.

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For a discussion of selected critical accounting policies refer to Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2014.

Consolidated Results of Operations

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2015

The following table presents an overview of our results of operations for the three months ended March 31, 2014 and 2015:

| | Three Months Ended March 31, | | 2014 vs. 2015 | | |
|---|---|-----------|---------------|----------|----|
| | 2014 | 2015 | \$ Change | % Change | |
| | \$ | \$ | \$ | % | |
| | (unaudited) | | | | |
| | (dollars in thousands, except per share data) | | | | |
| Revenue | \$229,897 | \$251,388 | \$21,491 | 9.3 | % |
| Operating expense: | | | | | |
| Cost of revenue (excludes depreciation and amortization shown separately below) | 58,611 | 64,158 | 5,547 | 9.5 | % |
| Sales and marketing | 49,991 | 46,734 | (3,257) | (6.5) |)% |
| Research and development | 7,059 | 6,454 | (605) | (8.6) |)% |
| General and administrative | 26,291 | 24,657 | (1,634) | (6.2) |)% |
| Depreciation and amortization | 27,640 | 29,924 | 2,284 | 8.3 | % |
| Restructuring charges | 4,966 | — | (4,966) | 100.0 | % |
| | 174,558 | 171,927 | (2,631) | (1.5) |)% |
| Income from operations | 55,339 | 79,461 | 24,122 | 43.6 | % |
| Other (expense) income: | | | | | |
| Interest and other expense | (5,997) | (6,722) | (725) | 12.1 | % |
| Interest income | 95 | 226 | 131 | 137.9 | % |
| Income before income taxes | 49,437 | 72,965 | 23,528 | 47.6 | % |
| Provision for income taxes | 17,754 | 26,751 | 8,997 | 50.7 | % |
| Net income | \$31,683 | \$46,214 | \$14,531 | 45.9 | % |
| Net income per common share: | | | | | |
| Basic | \$0.52 | \$0.83 | | | |
| Diluted | \$0.50 | \$0.81 | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic | 61,240 | 55,974 | | | |
| Diluted | 62,753 | 56,849 | | | |

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Revenue

Revenue. Revenue increased \$21.5 million driven by strong demand for our Security and Marketing Services and a \$7.6 million increase in revenue from NPAC Services. Security Services revenue increased \$9.5 million driven by an increase in revenue of \$6.1 million from domain name registries and an increase in revenue of \$3.4 million driven by demand for our DNS services. In particular, the increase in revenue from domain name registries was driven by the acquisition of .CO Internet, which contributed \$5.2 million. Revenue from our Marketing Services increased \$4.4 million driven by increased demand for our services that help clients make informed and high impact decisions to promote their products and services. Data Services revenue was comparable to the first quarter of 2014. In particular, revenue from carrier provisioning services decreased \$1.3 million driven by lower transactions due to consolidation of the customer base and the completion of a multi-year client project. This decrease was partially offset by an increase in revenue from caller identification services and user authentication and rights management services.

Expense

Cost of revenue. Cost of revenue increased \$5.5 million due to an increase of \$2.8 million in costs related to our information technology and systems, an increase of \$2.3 million in personnel and personnel-related expense, and an increase of \$0.5 million in royalty costs. The increase in costs related to our information technology and systems was driven by increased data processing, telecommunications, and maintenance costs.

Sales and marketing. Sales and marketing expense decreased \$3.3 million due to a decrease in advertising and marketing costs of \$2.8 million and a decrease in general facilities costs of \$0.4 million. The decrease in advertising and marketing costs was driven by a decrease of \$2.3 million in NPAC-related costs and a decrease of \$0.5 million in costs associated with other professional fees.

Research and development. Research and development expense decreased \$0.6 million due to a decrease in personnel and personnel-related expense.

General and administrative. General and administrative expense decreased \$1.6 million due to a decrease of \$1.3 million in personnel and personnel-related expense and a decrease of \$1.1 million in professional fees, partially offset by an increase of \$0.8 million in maintenance and other administrative costs. The decrease in personnel and personnel-related expense was driven by a decrease of \$2.2 million in stock-based compensation expense, partially offset by an increase in other personnel-related costs. Professional fees decreased by \$1.1 million driven by a decrease of \$1.6 million in professional fees in support of acquisitions, partially offset by an increase of \$0.4 million in costs in support of the NPAC selection process.

Depreciation and amortization. Depreciation and amortization expense increased \$2.3 million due to an increase of \$1.6 million in amortization expense related to acquired intangible assets. In addition, depreciation expense increased \$0.6 million related to an increase in capitalized software development costs and build-out of facilities.

Restructuring expense. Restructuring expense decreased \$5.0 million. Restructuring charges recorded during the three months ended March 31, 2014 related to our 2014 restructuring program, which was implemented to align our resources to serve our clients more effectively. The plan was complete as of December 31, 2014.

Interest and other expense. Interest and other expense increased \$0.7 million due to an increase of \$0.4 million in interest expense and an increase of \$0.3 million in other expense driven by foreign currency transaction losses.

Interest income. Interest income for the three months ended March 31, 2015 was comparable to the income for the three months ended March 31, 2014.

Provision for income taxes. Our effective tax rate for the three months ended March 31, 2015 increased to 36.7% from 35.9% for the three months ended March 31, 2014 primarily due to the reversal of unrecognized tax benefits in the first quarter of 2014 upon the completion of an IRS audit for the year ended December 31, 2009, offset by an increase in our domestic production activities deduction for the three months ended March 31, 2015. Excluding discrete tax items, our effective tax rate was approximately 38.0% and 36.5% for the three months ended March 31, 2014 and 2015, respectively.

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, acquisitions, capital expenditures, and debt service requirements. We anticipate that our principal

uses of cash in the future will be for acquisitions, share repurchases, capital expenditures and debt service requirements.

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Total cash and cash equivalents were \$347.1 million at March 31, 2015, an increase of \$20.5 million from \$326.6 million at December 31, 2014. This increase in cash and cash equivalents was due to cash provided by operations. On March 5, 2015, S&P lowered our corporate credit rating due to an increase in perceived NPAC-related business risk. In particular, our corporate credit rating was lowered from BB to BB-, our 2013 Term Facility rating was lowered from BBB- to BB+, and our Senior Notes rating was lowered from BB- to B+. Downgrades in our credit ratings do not accelerate the scheduled maturity dates of our debt, or affect the interest rates charged on any of our debt, our debt covenant requirements, or cause any other operating issue. We believe this downgrade will not have a significant impact on our operating results; however, if our credit ratings were to be further downgraded, our access to, and cost of, debt financing may be negatively impacted.

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

Credit Facilities

On January 22, 2013, we entered into a credit facility that provided for a \$325 million senior secured term loan facility, or 2013 Term Facility, and a \$200 million senior secured revolving credit facility, or the 2013 Revolving Facility, and together with the 2013 Term Facility, the 2013 Credit Facilities. In addition, we closed an offering of \$300 million aggregate principal amount of senior notes, or Senior Notes. For further discussion of this debt, see Note 3 to our Consolidated Financial Statements in Item 1 of Part I of this report.

Discussion of Cash Flows

Cash flows from operations

Net cash provided by operating activities for the three months ended March 31, 2015 was \$60.5 million, as compared to \$60.9 million for the three months ended March 31, 2014. This \$0.3 million decrease in net cash provided by operating activities was the result of an increase in net income of \$14.5 million, an increase in non-cash adjustments of \$30.2 million and a decrease in net changes in operating assets and liabilities of \$45.1 million.

Non-cash adjustments increased \$30.2 million, driven by an increase of \$19.9 million in deferred income taxes, a net change increase of \$11.0 million in tax (benefit) shortfall from equity awards, an increase of \$2.3 million in depreciation and amortization expense and an increase of \$0.6 million in the provision for doubtful accounts. These total increases of \$33.8 million in non-cash adjustments were partially offset by a decrease of \$3.5 million in stock-based compensation.

Net changes in operating assets and liabilities decreased \$45.1 million primarily due to a decrease of \$16.2 million in accounts and unbilled receivables, a decrease of \$13.1 million in income taxes, a decrease of \$11.0 million in prepaid expenses and other current assets, a decrease of \$3.9 million in other assets, a decrease of \$3.2 million in deferred revenue, a decrease of \$0.8 million in deferred costs, and a decrease of \$0.6 million in notes receivable. These total decreases of \$48.8 million in net changes in operating assets and liabilities were partially offset by an increase of \$3.9 million in accounts payable and accrued expenses.

Cash flows from investing

Net cash used in investing activities for the three months ended March 31, 2015 was \$6.1 million, as compared to \$25.2 million for three months ended March 31, 2014. This \$19.1 million decrease in net cash used in investing activities was due to a decrease of \$13.6 million in cash used for acquisitions and a decrease of \$5.5 million in cash used for purchases of property and equipment.

Cash flows from financing

Net cash used in financing activities was \$32.7 million for the three months ended March 31, 2015, as compared to net cash provided by financing activities of \$127.5 million for the three months ended March 31, 2014. This \$160.2 million decrease in net cash provided by financing activities was due to a decrease in cash of \$175.0 million from borrowings completed in the first quarter of 2014, a net change decrease of \$11.0 million in tax benefit (shortfall) from equity awards, a \$2.9 million decrease in cash proceeds from the issuance of stock, a decrease of \$1.0 million in cash used in principal repayments on capital lease obligations and a decrease of \$0.4 million in restricted cash. These total decreases of \$190.3 million in net cash used in financing activities were partially offset by a \$30.1 million decrease in cash used for share repurchases and for the net down of employee shares.

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Recent Developments

On March 26, 2015, the FCC approved a competitor to serve as the next LNPA. The FCC Order did not award a contract, but rather, authorized contract negotiations to begin. Although we have filed a petition asking the U.S. Court of Appeals for the District of Columbia to set aside the FCC Order, this petition may not be successful.

On April 7, 2015, we amended our seven regional contracts with NAPM to establish a transition arrangement under which we will provide LNPA services at the 2015 annual base fee of \$496.1 million. Under this arrangement, we will provide these services until September 30, 2016, after which the contracts will automatically renew for additional one-year terms unless NAPM provides a notice of non-renewal at least 90 days prior to the end of any renewal term. Once a notice of non-renewal is provided, NAPM must provide us with at least 180 days advance notice of its intention to terminate the contracts. Further, under this amendment, we will provide certain transition services on a cost-plus basis. We cannot be certain whether the transition arrangement with the NAPM will be extended beyond September 30, 2016. Once the transition arrangement terminates, we will be dependent on our other businesses. Our growth and profitability following the termination will be determined by the success of these businesses.

Recent Accounting Pronouncements

None.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about our market risk, see “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Our exposure to market risk has not changed materially since December 31, 2014.

Item 4. Controls and Procedures

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

As of March 31, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective and were operating at the reasonable assurance level.

In addition, there were no changes in our internal control over financial reporting that occurred in the first quarter of 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On July 15, 2014, the Oklahoma Firefighters Pension and Retirement System, or OFPRS, individually and on behalf of all other similarly situated stockholders, filed a putative class action complaint in the United States District Court for the Eastern District of Virginia, Alexandria Division, or the Alexandria Division, against us and certain of our senior executive officers. The OFPRS complaint asserted claims for purported violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 on behalf of those who purchased our securities between April 19, 2013 and June 6, 2014, inclusive, and sought unspecified compensatory damages, costs and expenses, including attorneys’ and experts’ fees, and injunctive relief.

On October 7, 2014, the Alexandria Division issued an order appointing lead counsel and designating The Indiana Public Retirement System, or IPRS, as lead plaintiff. On November 6, 2014, the IPRS filed an amended complaint

and on December 8, 2014, we moved to dismiss IPRS's amended complaint. On December 22, 2014, IPRS filed its opposition to our motion to dismiss. On December 29, 2014, we filed a reply brief to the IPRS opposition. The Alexandria Division heard oral arguments on the motions on January 22, 2015 and on January 27, 2015, and issued an order granting our motion to dismiss IPRS's amended complaint with prejudice. On February 25, 2015, counsel for IPRS filed a notice of appeal.

On April 6, 2015, we filed a Petition for Review asking the U.S. Court of Appeals for the District Columbia Circuit to "hold unlawful, vacate, enjoin, and set aside" the FCC Order issued on March 26, 2015, approving a recommendation by the NANC for a competitor to serve as the next LNPA. Among other things, we believe the FCC Order violates the notice and comment rulemaking requirements of the Administrative Procedure Act, violates the FCC's implementing r

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ules by selecting an entity that is not impartial or neutral to serve as the next LNPA and is arbitrary, capricious, an abuse of discretion or otherwise contrary to law.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014, filed with the SEC on February 13, 2015. The risks discussed in our Annual Report on Form 10-K could materially affect our business, financial condition and future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended March 31, 2015:

| Month | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)(3) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3) |
|--------------------------------------|--------------------------------------|------------------------------|---|--|
| January 1 through January 31, 2015 | 613,734 | \$26.76 | — | \$— |
| February 1 through February 28, 2015 | 209,289 | 26.57 | — | — |
| March 1 through March 31, 2015 | 400,239 | 24.96 | 259,351 | 143,743,706 |
| Total | 1,223,262 | \$26.14 | 259,351 | \$ 143,743,706 |

The number of shares purchased includes shares of common stock tendered by employees to us to satisfy the (1) employees' minimum tax withholding obligations arising as a result of the vesting of restricted stock grants under our stock incentive plan. We purchased these shares for their fair market value on the vesting date.

The difference between the total number of shares purchased and the total number of shares purchased as part of (2) publicly announced plans or programs is 963,911 shares, all of which relate to shares surrendered to us by employees to satisfy the employees' minimum tax withholding obligations arising as a result of the vesting of restricted stock grants under our incentive stock plans.

(3) On March 26, 2015, we announced the adoption of a 2015 share repurchase program, which will expire on March 25, 2016. The 2015 program authorizes the repurchase of up to \$150 million of Class A common shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See exhibits listed under the Exhibit Index below.

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SIGNATURES

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

NeuStar, Inc.

Date: April 29, 2015

By: /s/ Paul S. Lalljie
Paul S. Lalljie
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly
Authorized Officer)

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EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|--|
| (3.1) | Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 7 to NeuStar's Registration Statement on Form S-1, filed June 28, 2005 (File No. 333-123635). |
| (3.2) | Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.2 to our Current Report on Form 8-K, filed June 25, 2012. |
| (10.1) | Amendment No. 97, dated April 7, 2015, to the contractor services agreement by and between NeuStar, Inc. and North American Portability Management, L.L.C., incorporated herein by reference to Exhibit 99.1 to our Current Report on Form 8-K, filed April 8, 2015. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation |
| 101.DEF | XBRL Taxonomy Extension Definition |
| 101.LAB | XBRL Taxonomy Extension Label |
| 101.PRE | XBRL Taxonomy Extension Presentation |