

NEUSTAR INC
Form 8-K
January 07, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) January 7, 2013

NeuStar, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction)

001-32548
(Commission)

52-2141938
(IRS Employer)

Of incorporation)

File Number)

Identification No.)

21575 Ridgetop Circle

Sterling, Virginia
(Address of principal executive offices)
(571) 434-5400

20166
(Zip Code)

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

(Former name and former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

Pursuant to this Item 7.01, the Company is supplementing and updating certain business and financial information and the Risk Factors contained in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed by the Company with the Securities and Exchange Commission (the "SEC") on February 29, 2012. Unless otherwise indicated, the terms the Company, we, us and our refer to Neustar and its subsidiaries, unless the context requires otherwise.

Disclosure of Non-GAAP financial measures

We refer to the terms adjusted EBITDA, adjusted net income from continuing operations, ratio of adjusted EBITDA to interest expense and free cash flow in various places in this disclosure. Each of these is a supplemental measure (a non-GAAP financial measure) that is not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP. You should be aware that our measurement of adjusted EBITDA, adjusted net income from continuing operations, ratio of adjusted EBITDA to interest expense and free cash flow may not be comparable to those of other companies. See the section of this disclosure entitled "Appendix A" for a reconciliation of these non-GAAP financial measures to their GAAP counterparts.

Overview

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 combine proprietary, third party and customer data sets to develop unique algorithms, models, point solutions and complete work flow solutions. Among other things, chief marketing, security, information and operating officers use these real-time insights to identify who or what is at the other end of a transaction, the geographic-context of a transaction and the most appropriate response. We provide our services in a trusted and neutral manner. Our customers access our databases through standard connections, which we believe is the most efficient and cost effective way to exchange operationally essential data in a secured environment that does not favor any particular customer or technology. Today we serve customers in the communications, information services, financial services, retail, media and advertising verticals.

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 provide the North American communications industry with real-time information that is used to complete virtually every telephone call and text message. Our internet and eCommerce customers use our broad array of domain name systems, or DNS, solutions to resolve internet queries in a timely manner and to protect their businesses from malicious attacks. We also provide a broad suite of solutions that allow our customers to generate marketing leads, offer more relevant services and improve client conversion rates.

Our services

We categorize our services into three reportable segments: Carrier Services, Enterprise Services and Information Services:

Carrier Services

Our Carrier Services include numbering services, order management services and IP services. Our numbering services enable the dynamic routing of calls and text messages among all competing communications service providers in the United States and Canada. Our services, which include unique geographically dispersed databases, are relied upon for the intelligence that allows networks to connect seamlessly. In particular, we provide near real-time updates to the North American telephone numbering system that is essential for the accurate routing of telephone calls and text messages. Our customers also use these services to improve network performance and functionalities across diverse and complex networks. In addition, we also facilitate order management and work-flow processing among carriers, including telephone number inventory management, and allow carriers to manage and optimize the addressing and routing of IP communications. Through our Carrier Services operating segment, we provide a range of services to our carrier customers, including:

Numbering Services. We operate and maintain authoritative databases that help manage the increased complexity in the communications industry. The numbering services we provide to our carrier customers using these databases include number portability administration center services, or NPAC Services, NPAC Services in Canada and local number portability, or LNP, services in Taiwan and Brazil, or international LNP solutions, and number inventory and allocation management. 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. Additionally, we enable carriers to manage their networks more efficiently by centrally processing essential changes they use to route communications.

Order Management Services. Our order management services permit our carrier customers to exchange essential operating information with multiple carriers in order to provision and manage services. We provide these services through a single interface or on-premise installations. In addition, we offer inventory management services that allow our carrier customers to efficiently manage their assigned telephone numbers and associated resources.

IP Services. We provide scalable IP services to global carriers and service providers that allow them to manage access for the routing of IP communications, such as multimedia messaging service. Our solutions also provide accurate and reliable routing of text messages and voice calls by identifying terminating service provider networks. In addition, we provide a solution for carriers to migrate from the public switched telephone network to IP Interconnect through mapping a phone number to an IP address for accurate and reliable routing to a carrier's network.

Enterprise Services

Our Enterprise Services include Internet infrastructure services and registry services. We provide Internet infrastructure services that our customers use in order to direct, prioritize and manage Internet traffic. In addition, enterprise customers rely on our services to optimize their website performance, including protecting against malicious traffic. Enterprises use our broad infrastructure and our unique datasets to identify the location of their online customers for a variety of purposes, including fraud prevention and marketing. We believe our registry services provide reliable, fair and secured access used for resolving top-level domain name Internet queries. We also operate the authoritative Common Short Codes registry on behalf of the U.S. wireless industry. The range of services we offer to our enterprise customers includes:

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

Registry Services. We operate the authoritative registries of Internet domain names for the .biz, .us, .co, .tel and .travel top-level domains. We also provide international registry gateways for China's .cn and Taiwan's .tw country-code top-level domains. All Internet communications routed to any of these domains must query a copy of our directory to ensure that the communication is

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routed to the appropriate destination. Additionally, we provide directory services for the 5- and 6-digit number strings used for all U.S. Common Short Codes.

Information Services

Our Information Services include identification services, verification and analytics services, and local search and licensed data services. We utilize proprietary databases and solutions to inform real-time decisions on customer initiated interactions over the telephone, Internet and at points of sale. Our services correlate unique attributes, such as demographic information, buying behaviors and location. This allows our customers to offer consumers more relevant services and products, and leads to higher client conversion rates. Our business listings identity management services manage the placement of our customers' online local business listings on search engines, improving brand awareness and targeted advertising.

Identification Services. We provide caller identification services to communications service providers. In addition, we also provide real-time identification and location services to businesses across multiple industries. Our location services utilize the match of a 10-digit telephone number and a geographic location to provide intelligent site planning, market scoring and web-based location lookups for our customers.

Verification & Analytics Services. We provide lead verification services to marketing organizations within our enterprise customers. Our services validate customer data against marketing inquiries and evaluate the most appropriate marketing lead response. Specifically, our solutions empower marketers to verify and provide customized responses to prospects and customers at the crucial moment they make contact on the phone, on the Web, in an online form or at the point of sale. We also provide rich demographics-based data to online marketers and websites to help them improve their ability to deliver more relevant content and advertising to consumers.

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

Demand drivers for our services

We believe companies require an increasing amount of data and analytics to promote their brands, protect their businesses and direct operations. This has resulted in higher market demand for commercial insights, which we believe will continue to grow. In particular, our customers are interested in identifying, locating and evaluating commercial activities. We believe that the current economic, technological, demographic and competitive trends in the market will continue to drive demand for commercial insights. In addition, our carrier customers are seeking information and insights that improve the efficiency and profitability of their networks and services, including migration to hosted services and new technologies. The following are important demand drivers for our business in the near term:

Changes in consumer behavior drive demand for commercial insights. In today's global marketplace, the number of points of sale is increasing (store, online, mobile, telesales) and consumers' buying behavior is more complex. Accordingly, brand marketers require more insights into the demographic and behavioral attributes of their audience to successfully identify and attract customers. As a result, digital advertising is expected to grow nearly 50% over the next four years according to eMarketers.

Demographic shifts and changes in spending behavior are altering the consumer landscape. Consumer demographics and related trends are constantly evolving, leading to changes in consumer preferences and their relative size and buying power. Shifts in population size, age, racial composition, family size and relative wealth are causing marketers to reprioritize continuously their consumer marketing strategies. The growing availability of the Internet, and the proliferation of new formats and channels such as mobile devices, social networks and other forms of user-generated media have led to an increasingly fragmented consumer base that is more difficult to identify, locate and evaluate.

Emergence of IP services. VoIP service providers are rapidly expanding their operations. According to the International Data Corporation (the IDC), VoIP access lines are expected to constitute 56% of all facilities-based service provider access lines by 2016, up from 40% in 2012. Additionally, the IDC expects that web-based VoIP users will grow from 61.6 million in 2012 to 170.3 million by 2016, at a compound annual growth rate of 28.9%. The need of VoIP service providers to have access to an inventory of telephone numbers, manage their network architecture and route traffic between traditional voice networks and new IP networks drives the need for an authoritative directory service.

Greater need for online protection. The Internet powers almost every aspect of business operations today, from websites, email and ecommerce to behind-the-scenes data exchanges. This increases the vulnerability to malicious attacks and security breaches. According to industry reports there are over seven thousand DDoS attacks per day and these attacks can cost businesses millions of dollars per attack. In addition, these attacks are increasing in size and sophistication. This is significant because very few companies have the necessary network infrastructure to manage such attacks. This increases the need for services that identify, locate and evaluate the Internet interaction to help protect from malicious interactions.

Our strengths

We believe that we are well positioned to address the market demand for better commercial insights and analysis. Our competitive strengths include:

Proprietary, hard to replicate data updated simultaneously in real-time to thousands of global end points. Our services are provided from a number of unique data assets. For example, we manage the local number portability database, which is responsible for routing all the telephone calls and text messages in North America. We also manage the Numbering Plan for the assignment of telephone numbers in North America and 17 plus countries around the world. We have 170 global Internet nodes that are responsible for routing Internet queries and our topography database has all working IP addresses. We operate six top-level domain name registries worldwide. We have more than 200 data sources used to capture behavioral attributes of every household in North America. In addition, we manage more than 3.6 billion mobile telephone numbers.

High degree of integration with our customers. Communications service providers in North America are connected directly or indirectly to our service directory in order to obtain near real-time broadcasts of changes to the database. We are integrated into the network operations and service delivery functions of virtually all these communications service providers resulting in an unmatched ability to deliver services to the entire communications industry. We also have the ability to introduce new services to our customers in a cost-effective manner because of the existing interface with our service directory.

Strong customer relationships. We believe we have excellent relationships with our customers. We strive to maintain a position of trust with our customers by delivering high quality and reliable service; neutral application of all operational methods and procedures; open, honest and timely communications at all levels; and a clear understanding of, and responsiveness to, our customers' business and needs.

Long-term contracts. We provide most of our services under long-term contracts and in many cases, there are no other providers of these services. Under our contracts, we provide number portability services, serve as the North American Numbering Plan Administrator and National Pooling Administrator, and maintain the authoritative directory for Common Short Codes and the .us and .biz Internet domains.

Industry leadership and innovation. We have demonstrated our ability to innovate and create new business opportunities. We led the industry effort to design the architecture that enables local number portability, and we worked with the industry, the FCC and state regulators to establish standards and implement this solution. Through our broad expertise and leadership of industry forums, we have been instrumental in the establishment of standards and technologies in our industry.

Predictable revenue, profitability and strong cash flows. As the provider of essential services, we enjoy predictable revenue supported by strong operating cash flows.

Our strategy

We intend to enhance our position as a provider of real-time information and analytics, and to continue our growth by pursuing the following strategies:

Continuing our superior execution. Continue delivering our services to our clients in a highly-reliable, neutral and trusted manner.

Capitalizing on our leading market position. Create new opportunities by broadening our services to take advantage of emerging trends and technologies. For example, we continue to expand our numbering services to incorporate IP, wireless and advanced communication services.

Cross-selling services across our client base. Cross-sell our carrier services, enterprise services and information services across their respective client bases.

Strategic acquisitions. Focus on acquisitions that expand and leverage our capabilities, technology and datasets and allow us to broaden the scope of our services or expand our existing services into new verticals.

New senior secured credit facility

We expect that we will enter into a new credit facility (the New Senior Secured Credit Facility) with a syndicate of banks, consisting of a 5-year \$200 million revolving credit facility, a 5-year \$325 million term loan and an incremental facility with availability dependent in part on our secured leverage ratio. The interest rate on both the revolving and term loan portions of the New Senior Secured Credit Facility will be a floating rate.

Summary historical consolidated financial information

The following tables present the summary historical consolidated financial data of NeuStar and its subsidiaries at the dates and for the periods indicated. We derived the following summary historical consolidated financial data for the years ended December 31, 2009, 2010 and 2011 and as of December 31, 2010 and 2011 from the audited consolidated financial statements of NeuStar and its subsidiaries included in our Annual Report on Form 10-K for the year ended December 31, 2011, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.

We derived our summary consolidated historical financial data as of September 30, 2012 and other data for the nine months ended September 30, 2011 and September 30, 2012 from our unaudited consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012. The unaudited statement of operations data for the twelve months ended September 30, 2012 was calculated by subtracting the data for the nine months ended September 30, 2011 from the audited consolidated data for the year ended December 31, 2011, and then adding the corresponding data for the nine months ended September 30, 2012. The unaudited consolidated financial statements were prepared on a basis consistent with our annual audited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, necessary for a fair statement of the results for those periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

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You should read this data in conjunction with, and it is qualified by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of NeuStar and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.

Consolidated statements of operations data:

(in thousands)	Year ended December 31			Nine months ended September 30		Last twelve months ended September 30
	2009	2010	2011	2011 (unaudited)	2012 (unaudited)	2012 (unaudited)
Total revenue	\$ 467,253	\$ 520,866	\$ 620,455	\$ 446,275	\$ 617,216	\$ 791,396
Cost of revenue (excluding depreciation and amortization shown separately below)	99,436	111,282	137,992	96,663	137,364	178,693
Sales and marketing	80,676	86,363	109,855	76,275	117,466	151,046
Research and development	14,094	13,780	17,509	11,183	23,483	29,809
General and administrative	52,491	65,496	96,317	63,124	61,999	95,192
Depreciation and amortization	29,852	32,861	46,209	29,018	69,041	86,232
Restructuring charges	974	5,361	3,549	387	492	3,654
Total operating expense	277,523	315,143	411,431	276,650	409,845	544,626
Income from operations	189,730	205,723	209,024	169,625	207,371	246,770
Net income	\$ 101,141	\$ 106,209	\$ 160,823	\$ 142,103	\$ 118,307	\$ 137,027

Consolidated balance sheet data:

(in thousands)

	As of December 31			As of September 30	
	2009	2010	2011	2011	2012
				(unaudited)	
Cash, cash equivalents and short-term investments	\$ 342,191	\$ 345,372	\$ 132,782	\$ 391,825	\$ 269,196
Working capital	316,263	345,221	195,537	423,675	288,102
Goodwill and intangible assets	127,206	143,625	912,075	181,973	874,363
Total assets	647,804	733,874	1,382,834	843,371	1,477,734
Deferred revenue and customer credits, excluding current portion	8,923	10,578	10,363	10,733	10,115
Long-term note payable and capital lease obligations, excluding current portion	10,766	4,076	586,727	2,459	527,507
Total stockholders' equity	504,437	596,112	502,634	709,900	617,410

Consolidated statements of cash flows data:

	Year ended December 31			Nine months ended		Last twelve months ended
	2009	2010	2011	2011	2012	September 30
				(unaudited)		2012
				(unaudited)		(unaudited)
Net cash provided by operating activities	\$ 175,344	\$ 144,777	\$ 226,413	\$ 165,987	\$ 201,369	\$ 261,795
Net cash used in investing activities	(10,573)	(72,772)	(706,443)	(78,643)	(31,156)	(658,956)
Net cash (used in) provided by financing activities	(11,102)	(44,951)	270,936	(61,057)	(31,044)	300,949

Other financial data:

	Year ended December 31			Nine months ended		Last twelve months ended
	2009	2010	2011	2011	2012	September 30
				(unaudited)		2012
				(unaudited)		(unaudited)
Adjusted EBITDA ⁽¹⁾	\$ 235,699	\$ 260,990	\$ 298,702	\$ 220,230	\$ 296,891	\$ 375,363
Adjusted net income from continuing operations ⁽²⁾	127,160	137,132	159,014	120,737	155,662	193,836
Ratio of adjusted EBITDA to interest expense ⁽³⁾	102x	673x	62x	556x	12x	13x
Free cash flow ⁽⁴⁾	149,847	106,700	180,628	130,438	165,739	215,929

(1) Adjusted EBITDA is a non-GAAP financial measure. See Appendix A for a reconciliation.

(2) Adjusted net income from continuing operations is a non-GAAP financial measure. See Appendix A for a reconciliation.

(3) Ratio of adjusted EBITDA to interest expense is a non-GAAP financial measure. See Appendix A for a reconciliation.

(4) Free cash flow is a non-GAAP financial measure. See Appendix A for a reconciliation.

Risk factors

The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we are not aware of, that we currently believe are immaterial or that, in our judgment, do not reach the level of materiality that merits disclosure may also impair our business operations. Any of the following risks, if they were to occur, could materially and adversely affect our business, results of operations, prospects or financial condition. The information below also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks described below.

Risks related to our business

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

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

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

damage to, or failure of, our computer software or hardware or our connections to, and outsourced service arrangements with, third parties;

failure of, or defects in, the third-party systems, software or equipment on which we or our customers rely to access our data centers and other systems;

errors in the processing of data by our systems;

computer viruses, malware or software defects;