

NEUSTAR INC
Form 10-Q
July 30, 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 June 30, 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 54,398,748 shares of Class A common stock, \$0.001 par value, and 2,270 shares of Class B common stock, \$0.001 par value, outstanding at July 27, 2015.

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EX – 101 CALCULATION LINKBASE DOCUMENT
EX – 101 DEFINITION LINBASE DOCUMENT
EX – 101 LABELS LINKBASE DOCUMENT
EX – 101 PRESENTATION 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 | June 30, 2015 (unaudited) |
|--|----------------------|---------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$326,577 | \$411,975 |
| Restricted cash | 2,191 | 2,531 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,154 and \$3,501, respectively | 155,086 | 162,847 |
| Unbilled receivables | 13,084 | 13,498 |
| Prepaid expenses and other current assets | 24,392 | 31,187 |
| Deferred costs | 6,951 | 7,758 |
| Income taxes receivable | 15,956 | — |
| Deferred income tax assets | 10,380 | 16,513 |
| Total current assets | 554,617 | 646,309 |
| Property and equipment, net | 161,604 | 147,611 |
| Goodwill | 692,269 | 691,033 |
| Intangible assets, net | 302,622 | 271,187 |
| Other assets, long-term | 30,996 | 32,491 |
| Total assets | \$1,742,108 | \$1,788,631 |
| See accompanying notes. | | |

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

| | December 31, 2014 | June 30, 2015 (unaudited) |
|--|----------------------|---------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$8,439 | \$6,455 |
| Accrued expenses | 94,771 | 89,073 |
| Income taxes payable | — | 4,847 |
| Deferred revenue | 73,908 | 74,244 |
| Notes payable | 7,972 | 7,972 |
| Capital lease obligations | 3,702 | 4,175 |
| Other liabilities | 23,125 | 24,116 |
| Total current liabilities | 211,917 | 210,882 |
| Deferred revenue, long-term | 27,017 | 21,872 |
| Notes payable, long-term | 775,318 | 771,331 |
| Capital lease obligations, long-term | 5,579 | 3,928 |
| Deferred income tax liabilities, long-term | 49,111 | 60,372 |
| Other liabilities, long-term | 53,683 | 61,200 |
| Total liabilities | 1,122,625 | 1,129,585 |
| 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 June 30, 2015 | — | — |
| Class A common stock, par value \$0.001; 200,000,000 shares authorized; 80,917,293 and 81,577,247 shares issued; and 55,080,441 and 54,827,260 shares outstanding at December 31, 2014 and June 30, 2015, respectively | 81 | 82 |
| Class B common stock, par value \$0.001; 100,000,000 shares authorized; 3,082 and 2,270 shares issued and outstanding at December 31, 2014 and June 30, 2015, respectively | — | — |
| Additional paid-in capital | 674,385 | 690,433 |
| Treasury stock, 25,836,852 and 26,749,987 shares at December 31, 2014 and June 30, 2015, respectively, at cost | (898,520 |) (921,328) |
| Accumulated other comprehensive loss | (1,645 |) (2,352) |
| Retained earnings | 845,182 | 892,211 |
| Total stockholders' equity | 619,483 | 659,046 |
| Total liabilities and stockholders' equity | \$1,742,108 | \$1,788,631 |
| See accompanying notes. | | |

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2014 | 2015 | 2014 | 2015 |
| Revenue | \$237,457 | \$256,767 | \$467,354 | \$508,155 |
| Operating expense: | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 60,844 | 67,551 | 119,455 | 131,709 |
| Sales and marketing | 48,637 | 50,942 | 98,628 | 97,676 |
| Research and development | 6,932 | 5,997 | 13,991 | 12,451 |
| General and administrative | 26,008 | 24,729 | 52,299 | 49,386 |
| Depreciation and amortization | 30,086 | 29,438 | 57,726 | 59,362 |
| Restructuring charges | 200 | — | 5,166 | — |
| | 172,707 | 178,657 | 347,265 | 350,584 |
| Income from operations | 64,750 | 78,110 | 120,089 | 157,571 |
| Other (expense) income: | | | | |
| Interest and other expense | (7,270) | (6,481) | (13,267) | (13,203) |
| Interest income | 163 | 69 | 258 | 295 |
| Income before income taxes | 57,643 | 71,698 | 107,080 | 144,663 |
| Provision for income taxes | 20,796 | 26,640 | 38,550 | 53,391 |
| Net income | \$36,847 | \$45,058 | \$68,530 | \$91,272 |
| Net income per common share: | | | | |
| Basic | \$0.62 | \$0.81 | \$1.14 | \$1.64 |
| Diluted | \$0.61 | \$0.80 | \$1.11 | \$1.61 |
| Weighted average common shares outstanding: | | | | |
| Basic | 58,973 | 55,377 | 60,100 | 55,676 |
| Diluted | 60,388 | 56,238 | 61,539 | 56,563 |
| See accompanying notes. | | | | |

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NEUSTAR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

| | Three Months Ended | | Six Months Ended | | |
|--|--------------------|----------|------------------|----------|---|
| | June 30, | | June 30, | | |
| | 2014 | 2015 | 2014 | 2015 | |
| Net income | \$36,847 | \$45,058 | \$68,530 | \$91,272 | |
| Other comprehensive loss, net of tax: | | | | | |
| Available for sale investments, net of tax: | | | | | |
| Change in net unrealized gains, net of tax of \$(29), \$(11), \$(19) and \$(20), respectively | 46 | (17 |) 99 | (31 |) |
| Reclassification for gains included in net income, net of tax of \$0, \$0, \$12 and \$(15), respectively | — | — | (19 |) (23 |) |
| Net change in unrealized gains on investments, net of tax | 46 | (17 |) 80 | (54 |) |
| Foreign currency translation adjustment, net of tax: | | | | | |
| Change in foreign currency translation adjustment, net of tax of \$87, \$(353), \$163 and \$(628), respectively | (151 |) (194 |) (205 |) (1,067 |) |
| Reclassification adjustment included in net income, net of tax of \$0, \$112, \$0 and \$266, respectively | — | 175 | — | 414 | |
| Foreign currency translation adjustment, net of tax | (151 |) (19 |) (205 |) (653 |) |
| Other comprehensive loss, net of tax | (105 |) (36 |) (125 |) (707 |) |
| Comprehensive income | \$36,742 | \$45,022 | \$68,405 | \$90,565 | |
| See accompanying notes. | | | | | |

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NEUSTAR, INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Six Months Ended | |
|---|------------------|------------|
| | June 30, | |
| | 2014 | 2015 |
| Operating activities: | | |
| Net income | \$68,530 | \$91,272 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 57,726 | 59,362 |
| Stock-based compensation | 27,285 | 17,697 |
| Amortization of deferred financing costs and original issue discount on debt | 1,671 | 1,696 |
| Tax (benefit) shortfall from equity awards | (2,194) |) 8,809 |
| Deferred income taxes | (20,361) |) 4,618 |
| Provision for doubtful accounts | 3,113 | 3,900 |
| Loss (gain) on disposal of assets | 1,057 | (626) |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (1,722) |) (12,237) |
| Unbilled receivables | 1,950 | (414) |
| Notes receivable | 1,008 | — |
| Prepaid expenses and other current assets | 1,330 | (5,384) |
| Deferred costs | 1,463 | (736) |
| Income taxes | 17,843 | 11,994 |
| Other assets | (279) |) (2,281) |
| Other liabilities | 4,126 | 7,018 |
| Accounts payable and accrued expenses | (25,225) |) (6,259) |
| Deferred revenue | (718) |) (4,477) |
| Net cash provided by operating activities | 136,603 | 173,952 |
| Investing activities: | | |
| Purchases of property and equipment | (25,671) |) (13,395) |
| Business acquired, net of cash acquired | (120,371) |) — |
| Net cash used in investing activities | (146,042) |) (13,395) |
| Financing activities: | | |
| Decrease (increase) in restricted cash | 72 | (340) |
| Proceeds from notes payable | 175,000 | — |
| Payments under notes payable obligations | (4,062) |) (4,062) |
| Principal repayments on capital lease obligations | (1,544) |) (1,862) |
| Proceeds from issuance of stock | 6,156 | 5,373 |
| Tax benefit (shortfall) from equity awards | 2,194 | (8,809) |
| Repurchase of restricted stock awards and common stock | (145,826) |) (64,932) |
| Net cash provided by (used in) financing activities | 31,990 | (74,632) |
| Effect of foreign exchange rates on cash and cash equivalents | (8) |) (527) |
| Net increase in cash and cash equivalents | 22,543 | 85,398 |
| Cash and cash equivalents at beginning of period | 223,309 | 326,577 |
| Cash and cash equivalents at end of period | \$245,852 | \$411,975 |
| See accompanying notes. | | |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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. 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 six months ended June 30, 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.

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

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

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 5). 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 5). 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 5).

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

| | December 31, 2014 | | June 30, 2015 | |
|---|-------------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$326,577 | \$326,577 | \$411,975 | \$411,975 |
| Restricted cash (current assets) | 2,191 | 2,191 | 2,531 | 2,531 |
| 2013 Term Facility (including current portion, net of discount) | 308,290 | 289,794 | 304,303 | 287,187 |
| 2013 Revolving Facility | 175,000 | 175,000 | 175,000 | 175,000 |
| Senior Notes (including current portion) | 300,000 | 255,750 | 300,000 | 269,424 |

Restricted Cash

As of December 31, 2014 and June 30, 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.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Under this standard, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB decided to defer by one year the effective dates of the standard. As a result, the standard will be effective for annual and interim periods beginning after December 15, 2017. Companies may adopt the standard as early as the original effective date (i.e. annual reporting periods beginning after December 15, 2016). Early adoption prior to that date is not permitted. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or a modified retrospective adoption, meaning the standard is applied only to the most current period presented. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The guidance is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. Adoption prior to that date is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-03 on the Company's consolidated financial statements will result in a balance sheet reclassification of net deferred financing costs related to our 2013 Credit Facilities (see Note 5). As of June 30, 2015, the Company's deferred financing costs related to its 2013 Credit Facilities were \$17.6 million.

3. ACQUISITION

On April 14, 2014, the Company acquired .CO Internet S.A.S (.CO Internet) and certain associated assets. .CO Internet is the exclusive operator of the worldwide registry for Internet addresses with the ".co" top-level domain. This acquisition expanded the Company's registry services, which includes the .biz and .us top-level domains. As of December 31, 2014, the preliminary purchase was \$115.1 million and the goodwill balance was \$36.6 million. The allocation of the purchase price was preliminary pending the finalization of acquired deferred income tax assets and

assumed income and non-income-based tax liabilities. During the six months ended June 30, 2015, the Company adjusted its preliminary valuation of its acquired deferred tax assets and assumed income tax liabilities. As of June 30, 2015, the adjusted purchase price was \$118.1 million and the adjusted goodwill balance was \$39.6 million. The consolidated balance sheet as of December 31, 2014 has been retrospectively adjusted to include the effect of the measurement period adjustments.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

4. GOODWILL

Goodwill

The Company's goodwill as of December 31, 2014 and June 30, 2015 is as follows (in thousands):

| | December 31, 2014 ⁽¹⁾ | Adjustments ⁽²⁾ | Disposals ⁽³⁾ | June 30, 2015 | |
|-------------------------|-------------------------------------|----------------------------|--------------------------|------------------|---|
| Gross goodwill | \$782,871 | \$3,000 | \$(1,236 |) \$784,635 | |
| Accumulated impairments | (93,602 |) — | — | (93,602 |) |
| Net goodwill | \$689,269 | \$3,000 | \$(1,236 |) \$691,033 | |

(1) Balance as originally reported at December 31, 2014, prior to the reflection of measurement period adjustments.

(2) During the six months ended June 30, 2015, the Company adjusted its preliminary valuation of acquired deferred tax assets and assumed income and non-income based tax liabilities related to its acquisition of .CO Internet (see Note 3).

(3) Reflects the goodwill associated with the Company's sale of certain Data Services assets and liabilities used to deliver lawful intercept services.

5. NOTES PAYABLE

Notes payable consist of the following (in thousands):

| | December 31, 2014 | June 30, 2015 | |
|--|----------------------|------------------|---|
| 2013 Term Facility (net of discount) | \$308,290 | \$304,303 | |
| 2013 Revolving Facility | 175,000 | 175,000 | |
| Senior Notes | 300,000 | 300,000 | |
| Total | 783,290 | 779,303 | |
| Less: current portion, net of discount | (7,972 |) (7,972 |) |
| Long-term portion | \$775,318 | \$771,331 | |

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 June 30, 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.

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

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

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.

6. STOCKHOLDERS' EQUITY

As of June 30, 2015, a total of 1,554,382 shares were available for grant or award under the Company's stock incentive plans and a total of 336,100 shares were available to be issued under the Company's Employee Stock Purchase Plan (ESPP). On May 27, 2015, at the Company's annual meeting of stockholders, the Company's stockholders approved a proposal to make an additional 3,000,000 shares available for grant under the Company's stock incentive plans.

Stock-based compensation expense recognized for the three months ended June 30, 2014 and 2015 was \$15.6 million and \$9.5 million, respectively, and \$27.3 million and \$17.7 million for the six months ended June 30, 2014 and 2015, respectively. As of June 30, 2015, total unrecognized compensation expense was estimated at \$50.8 million, which the Company expects to recognize over a weighted average period of approximately 1.4 years. Total unrecognized compensation expense as of June 30, 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 | (370,664) |) 25.33 | | |
| Forfeited | (102,046) |) 30.31 | | |
| Outstanding at June 30, 2015 | 1,571,195 | \$24.88 | \$7.1 | 3.4 |
| Exercisable at June 30, 2015 | 1,058,397 | \$24.05 | \$5.5 | 2.2 |

The aggregate intrinsic value of options exercised for the six months ended June 30, 2015 was \$0.7 million.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

Restricted Stock Awards

The following table summarizes the Company's non-vested restricted stock activity for the six months ended June 30, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|----------------------------------|----------|--|---|
| Outstanding at December 31, 2014 | 39,194 | \$27.21 | |
| Granted | — | — | |
| Vested | (32,494) |) 26.46 | |
| Forfeited | (3,175) |) 30.61 | |
| Outstanding at June 30, 2015 | 3,525 | \$31.05 | \$0.1 |

The total aggregate intrinsic value of restricted stock vested during the six months ended June 30, 2015 was \$0.9 million. During the six months ended June 30, 2015, the Company repurchased 12,595 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. In the second quarter of 2015, the Company revised its estimate of the level of achievement of the performance target for the 2015 performance year to greater than 100.0% of target, resulting in an increase in stock-based compensation expense of approximately \$0.8 million. The Company's consolidated net income for the three and six months ended June 30, 2015 was \$45.1 million and \$91.3 million, respectively, and diluted net income per common share was \$0.80 and \$1.61 per share, respectively. If the Company had continued to use the previous estimate of achievement of 100%, the as adjusted net income for the three and six months ended June 30, 2015 would have been approximately \$45.6 million and \$91.8 million, respectively, and the as adjusted diluted net income per common share would have been approximately \$0.81 and \$1.62 per share, respectively.

The following table summarizes the Company's non-vested PVRSU activity for the six months ended June 30, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|---------------------------------|-------------|--|---|
| Non-vested at December 31, 2014 | 1,810,952 | \$37.76 | |
| Granted | 921,912 | 27.12 | |
| Vested | (1,718,280) |) 37.37 | |
| Forfeited | (95,020) |) 30.01 | |
| Non-vested at June 30, 2015 | 919,564 | \$28.62 | \$26.9 |

The total aggregate intrinsic value of PVRSUs vested during the six months ended June 30, 2015 was approximately \$45.8 million. The Company repurchased 683,127 shares of common stock for an aggregate purchase price of \$18.2 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.

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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Restricted Stock Units

The following table summarizes the Company's restricted stock units activity for the six months ended June 30, 2015:

| | Shares | Weighted-Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
|----------------------------------|-----------|--|---|
| Outstanding at December 31, 2014 | 1,071,814 | \$39.60 | |
| Granted | 1,009,142 | 27.40 | |
| Vested | (203,067) |) 41.87 | |
| Forfeited | (105,257) |) 34.87 | |
| Outstanding at June 30, 2015 | 1,772,632 | \$32.67 | \$51.8 |

The total aggregate intrinsic value of restricted stock units vested during the six months ended June 30, 2015 was approximately \$5.6 million. The Company repurchased 77,271 shares of common stock for an aggregate purchase price of \$2.1 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.

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 weighted-average assumptions:

| | Three and Six Months Ended June 30, 2015 | % |
|---|--|---|
| Dividend yield | — | % |
| Expected volatility | 35.41 | % |
| 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 and six months ended June 30, 2015, the Company repurchased 1.4 million and 1.6 million shares, respectively, of its Class A common stock at an average price of \$27.72 and \$27.15 per share, respectively, for a total purchase price of \$38.0 million and \$44.2 million, respectively.

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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

7. 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 | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2014 | 2015 | 2014 | 2015 |
| Computation of basic net income per common share: | | | | |
| Net income | \$36,847 | \$45,058 | \$68,530 | \$91,272 |
| Weighted average common shares and participating securities outstanding – basic | 58,973 | 55,377 | 60,100 | 55,676 |
| Basic net income per common share | \$0.62 | \$0.81 | \$1.14 | \$1.64 |
| Computation of diluted net income per common share: | | | | |
| Weighted average common shares and participating securities outstanding – basic | 58,973 | 55,377 | 60,100 | 55,676 |
| Effect of dilutive securities: | | | | |
| Stock-based awards | 1,415 | 861 | 1,439 | 887 |
| Weighted average common shares outstanding – diluted | 60,388 | 56,238 | 61,539 | 56,563 |
| Diluted net income per common share | \$0.61 | \$0.80 | \$1.11 | \$1.61 |

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 1,090,367 and 751,702 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 June 30, 2014 and 2015, respectively. Common stock options to purchase an aggregate of 934,787 and 1,066,636 shares were excluded from the calculation of the denominator for diluted net income per common share due to their anti-dilutive effect for the six months ended June 30, 2014 and 2015, respectively.

8. INTEREST AND OTHER EXPENSE

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

| | Three Months Ended | | Six Months Ended | | |
|--|--------------------|---------|------------------|----------|---|
| | June 30, | | June 30, | | |
| | 2014 | 2015 | 2014 | 2015 | |
| Interest and other expense: | | | | | |
| Interest expense | \$6,175 | \$6,386 | \$12,260 | \$12,846 | |
| Loss (gain) on asset disposals | 1,057 | (85 |) 1,057 | (254 |) |
| Foreign currency transaction loss (gain) | 18 | 180 | (48 |) 611 | |
| Other | 20 | — | (2 |) — | |
| Total interest and other expense | \$7,270 | \$6,481 | \$13,267 | \$13,203 | |

9. INCOME TAXES

The Company's effective tax rate increased to 36.9% for the six months ended June 30, 2015 from 36.0% for the six months ended June 30, 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 six months ended June 30, 2015.

As of December 31, 2014 and June 30, 2015, the Company had unrecognized tax benefits of \$13.6 million and \$16.5 million, respectively, of which \$12.8 million and \$15.7 million, respectively, would affect the Company's effective tax rate if recognized.

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NEUSTAR, INC.

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FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the three months ended June 30, 2014 and 2015, the Company recognized potential interest and penalties of \$21,000 and \$2.7 million, respectively. During the six months ended June 30, 2014 and 2015, the Company recognized potential interest and penalties of \$55,000 and \$2.8 million, respectively. Interest and penalties are primarily due to uncertain tax positions assumed in acquisitions. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

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 audits 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.

10. 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.

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 and six months ended June 30, 2014 and 2015, and geographic area long-lived assets as of December 31, 2014 and June 30, 2015 are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--------------------------------|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2014 | 2015 | 2014 | 2015 |
| Revenue by geographical areas: | | | | |
| United States | \$221,189 | \$237,490 | \$434,971 | \$473,044 |
| International | 16,268 | 19,277 | 32,383 | 35,111 |
| Total revenue | \$237,457 | \$256,767 | \$467,354 | \$508,155 |
| Revenue by service: | | | | |
| Marketing Services | \$34,972 | \$40,889 | \$67,826 | \$78,116 |
| Security Services | 34,412 | 40,451 | 64,544 | 80,093 |
| Data Services | 49,384 | 49,236 | 97,502 | 97,394 |
| NPAC Services | 118,689 | 126,191 | 237,482 | 252,552 |
| Total revenue | \$237,457 | \$256,767 | \$467,354 | \$508,155 |
| Long-lived assets, net | | | December 31, | June 30, |
| United States | | | 2014 | 2015 |
| Colombia | | | \$385,432 | \$344,477 |
| Other | | | 78,786 | 74,318 |
| Total long-lived assets, net | | | 8 | 3 |
| | | | \$464,226 | \$418,798 |

11. 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

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

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.

12. SUPPLEMENTAL GUARANTOR INFORMATION

The following schedules present condensed consolidating financial information of the Company as of December 31, 2014 and June 30, 2015 and for the three and six months ended June 30, 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 condensed 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 AND SIX MONTHS ENDED JUNE 30, 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 | (2,986) | 15,956 |
| 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 | (27,733) | 554,617 |
| Property and equipment, net | 149,024 | 12,566 | 14 | — | 161,604 |
| Goodwill | 95,388 | 565,425 | 31,456 | — | 692,269 |
| 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 | 1,917 | 20 | — | 30,996 |
| Total assets | \$ 1,599,531 | \$ 963,459 | \$ 48,571 | \$ (869,453) | \$ 1,742,108 |
| 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 | — | 2,986 | — | (2,986) | — |
| 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 | 80,207 | 16,487 | (27,733) | 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 | 45,582 | — | (284) | 49,111 |
| Other liabilities, long-term | 44,246 | 9,437 | — | — | 53,683 |
| Total liabilities | 980,504 | 153,651 | 16,487 | (28,017) | 1,122,625 |
| Total stockholders' equity | 619,027 | 809,808 | 32,084 | (841,436) | 619,483 |
| Total liabilities and stockholders' equity | \$ 1,599,531 | \$ 963,459 | \$ 48,571 | \$ (869,453) | \$ 1,742,108 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED BALANCE SHEET

JUNE 30, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|--------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$387,891 | \$16,822 | \$7,262 | \$— | \$411,975 |
| Restricted cash | 1,260 | 1,271 | — | — | 2,531 |
| Accounts receivable, net | 102,628 | 58,324 | 1,895 | — | 162,847 |
| Unbilled receivables | 1,589 | 10,941 | 968 | — | 13,498 |
| Prepaid expenses and other current assets | 27,191 | 3,351 | 645 | — | 31,187 |
| Deferred costs | 5,315 | 2,443 | — | — | 7,758 |
| Income taxes receivable | — | — | 284 | (284) | — |
| Deferred income tax assets | 7,121 | 3,828 | — | 5,564 | 16,513 |
| Intercompany receivable | 27,804 | — | — | (27,804) | — |
| Total current assets | 560,799 | 96,980 | 11,054 | (22,524) | 646,309 |
| Property and equipment, net | 137,707 | 9,897 | 7 | — | 147,611 |
| Goodwill | 94,152 | 565,425 | 31,456 | — | 691,033 |
| Intangible assets, net | 15,294 | 251,630 | 4,263 | — | 271,187 |
| Net investments in subsidiaries | 811,408 | — | — | (811,408) | — |
| Deferred income tax assets, long-term | — | — | 334 | (334) | — |
| Other assets, long-term | 30,653 | 1,831 | 7 | — | 32,491 |
| Total assets | \$1,650,013 | \$925,763 | \$47,121 | \$(834,266) | \$1,788,631 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$3,995 | \$1,925 | \$535 | \$— | \$6,455 |
| Accrued expenses | 69,146 | 18,347 | 1,580 | — | 89,073 |
| Income taxes payable | 4,457 | 674 | — | (284) | 4,847 |
| Deferred revenue | 31,296 | 41,431 | 1,517 | — | 74,244 |
| Notes payable | 7,972 | — | — | — | 7,972 |
| Capital lease obligations | 4,175 | — | — | — | 4,175 |
| Other liabilities | 23,333 | 742 | 41 | — | 24,116 |
| Deferred income tax liabilities | — | — | 92 | (92) | — |
| Intercompany payable | — | 18,371 | 9,433 | (27,804) | — |
| Total current liabilities | 144,374 | 81,490 | 13,198 | (28,180) | 210,882 |
| Deferred revenue, long-term | 8,441 | 13,431 | — | — | 21,872 |
| Notes payable, long-term | 771,331 | — | — | — | 771,331 |
| Capital lease obligations, long-term | 3,928 | — | — | — | 3,928 |
| Deferred income tax liabilities, long-term | 21,327 | 44,023 | — | (4,978) | 60,372 |
| Other liabilities, long-term | 51,692 | 9,508 | — | — | 61,200 |
| Total liabilities | 1,001,093 | 148,452 | 13,198 | (33,158) | 1,129,585 |
| Total stockholders' equity | 648,920 | 777,311 | 33,923 | (801,108) | 659,046 |

Total liabilities and stockholders' equity \$1,650,013 \$925,763 \$ 47,121 \$(834,266) \$1,788,631

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$ 163,374 | \$ 68,878 | \$ 6,155 | \$(950) |) \$ 237,457 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 41,238 | 18,574 | 1,908 | (876) |) 60,844 |
| Sales and marketing | 35,040 | 11,767 | 1,845 | (15) |) 48,637 |
| Research and development | 6,591 | 324 | 17 | — | 6,932 |
| General and administrative | 23,980 | 2,244 | (157) |) (59) |) 26,008 |
| Depreciation and amortization | 12,152 | 15,720 | 2,214 | — | 30,086 |
| Restructuring charges | — | 202 | (2) |) — | 200 |
| | 119,001 | 48,831 | 5,825 | (950) |) 172,707 |
| Income from operations | 44,373 | 20,047 | 330 | — | 64,750 |
| Other (expense) income: | | | | | |
| Interest and other expense | (7,335) |) — | 65 | — | (7,270) |
| Interest income | 159 | — | 4 | — | 163 |
| Income before income taxes and equity income (loss) in consolidated subsidiaries | 37,197 | 20,047 | 399 | — | 57,643 |
| Provision for income taxes | 10,959 | 8,842 | 995 | — | 20,796 |
| Income before equity income (loss) in consolidated subsidiaries | 26,238 | 11,205 | (596) |) — | 36,847 |
| Equity income (loss) in consolidated subsidiaries | 10,609 | (1,111) |) — | (9,498) |) — |
| Net income (loss) | \$ 36,847 | \$ 10,094 | \$ (596) |) \$(9,498) |) \$ 36,847 |
| Comprehensive income (loss) | \$ 36,790 | \$ 10,033 | \$ (584) |) \$(9,497) |) \$ 36,742 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$ 176,205 | \$ 85,798 | \$ 3,610 | \$(8,846) |) \$ 256,767 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 43,875 | 28,701 | 2,682 | (7,707) |) 67,551 |
| Sales and marketing | 38,844 | 12,988 | 156 | (1,046) |) 50,942 |
| Research and development | 4,951 | 1,039 | 7 | — |) 5,997 |
| General and administrative | 21,996 | 2,710 | 116 | (93) |) 24,729 |
| Depreciation and amortization | 12,954 | 16,200 | 284 | — |) 29,438 |
| | 122,620 | 61,638 | 3,245 | (8,846) |) 178,657 |
| Income from operations | 53,585 | 24,160 | 365 | — |) 78,110 |
| Other (expense) income: | | | | | |
| Interest and other expense | (6,487) |) 8 | (2) |) — | (6,481) |
| Interest income | 63 | 6 | — | — |) 69 |
| Income before income taxes and equity income in consolidated subsidiaries | 47,161 | 24,174 | 363 | — |) 71,698 |
| Provision for income taxes | 11,158 | 15,310 | 172 | — |) 26,640 |
| Income before equity income in consolidated subsidiaries | 36,003 | 8,864 | 191 | — |) 45,058 |
| Equity income in consolidated subsidiaries | 9,055 | 487 | — | (9,542) |) — |
| Net income | \$ 45,058 | \$ 9,351 | \$ 191 | \$(9,542) |) \$ 45,058 |
| Comprehensive income | \$ 45,179 | \$ 9,231 | \$ 154 | \$(9,542) |) \$ 45,022 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$325,430 | \$134,420 | \$9,643 | \$(2,139) |) \$467,354 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 82,983 | 36,148 | 2,335 | (2,011) |) 119,455 |
| Sales and marketing | 72,234 | 23,424 | 2,997 | (27) |) 98,628 |
| Research and development | 13,000 | 967 | 24 | — |) 13,991 |
| General and administrative | 48,224 | 4,088 | 88 | (101) |) 52,299 |
| Depreciation and amortization | 23,930 | 31,332 | 2,464 | — |) 57,726 |
| Restructuring charges | 3,338 | 1,691 | 137 | — |) 5,166 |
| | 243,709 | 97,650 | 8,045 | (2,139) |) 347,265 |
| Income from operations | 81,721 | 36,770 | 1,598 | — |) 120,089 |
| Other (expense) income: | | | | | |
| Interest and other expense | (13,398) |) 5 | 126 | — | (13,267) |
| Interest income | 250 | 1 | 7 | — | 258 |
| Income before income taxes and equity income (loss) in consolidated subsidiaries | 68,573 | 36,776 | 1,731 | — |) 107,080 |
| Provision for income taxes | 21,389 | 16,056 | 1,105 | — |) 38,550 |
| Income before equity income (loss) in consolidated subsidiaries | 47,184 | 20,720 | 626 | — |) 68,530 |
| Equity income (loss) in consolidated subsidiaries | 21,346 | (336) |) — | (21,010) |) — |
| Net income | \$68,530 | \$20,384 | \$626 | \$(21,010) |) \$68,530 |
| Comprehensive income | \$68,442 | \$20,324 | \$648 | \$(21,009) |) \$68,405 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue | \$ 351,586 | \$ 166,479 | \$ 7,520 | \$(17,430) | \$ 508,155 |
| Operating expense: | | | | | |
| Cost of revenue (excluding depreciation and amortization shown separately below) | 88,255 | 53,154 | 5,401 | (15,101) | 131,709 |
| Sales and marketing | 72,846 | 27,040 | (25) | (2,185) | 97,676 |
| Research and development | 10,497 | 1,944 | 10 | — | 12,451 |
| General and administrative | 44,030 | 5,200 | 300 | (144) | 49,386 |
| Depreciation and amortization | 26,201 | 32,594 | 567 | — | 59,362 |
| | 241,829 | 119,932 | 6,253 | (17,430) | 350,584 |
| Income from operations | 109,757 | 46,547 | 1,267 | — | 157,571 |
| Other (expense) income: | | | | | |
| Interest and other expense | (13,285) | 30 | 52 | — | (13,203) |
| Interest income | 283 | 10 | 2 | — | 295 |
| Income before income taxes and equity income in consolidated subsidiaries | 96,755 | 46,587 | 1,321 | — | 144,663 |
| Provision for income taxes | 25,599 | 27,221 | 571 | — | 53,391 |
| Income before equity income in consolidated subsidiaries | 71,156 | 19,366 | 750 | — | 91,272 |
| Equity income in consolidated subsidiaries | 20,116 | 967 | — | (21,083) | — |
| Net income | \$ 91,272 | \$ 20,333 | \$ 750 | \$(21,083) | \$ 91,272 |
| Comprehensive income | \$ 91,195 | \$ 20,039 | \$ 414 | \$(21,083) | \$ 90,565 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2014

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash provided by operating activities | \$124,430 | \$72,284 | \$ 10,914 | \$(71,025) | \$136,603 |
| Investing activities: | | | | | |
| Purchases of property and equipment | (24,352) | (801) | (518) | — | (25,671) |
| Business acquired, net of cash acquired | (120,145) | (226) | — | — | (120,371) |
| Net cash used in investing activities | (144,497) | (1,027) | (518) | — | (146,042) |
| Financing activities: | | | | | |
| (Increase) decrease of restricted cash | (1) | 70 | 3 | — | 72 |
| Proceeds from notes payable | 175,000 | — | — | — | 175,000 |
| Payments under notes payable obligations | (4,062) | — | — | — | (4,062) |
| Principal repayments on capital lease obligations | (1,544) | — | — | — | (1,544) |
| Proceeds from issuance of stock | 6,156 | — | — | — | 6,156 |
| Tax benefit from equity awards | 2,189 | — | 5 | — | 2,194 |
| Repurchase of restricted stock awards and common stock | (145,826) | — | — | — | (145,826) |
| (Distribution to) investment by parent | — | (72,104) | 1,079 | 71,025 | — |
| Net cash provided by (used in) financing activities | 31,912 | (72,034) | 1,087 | 71,025 | 31,990 |
| Effect of foreign exchange rates on cash and cash equivalents | (27) | (2) | 21 | — | (8) |
| Net increase (decrease) in cash and cash equivalents | 11,818 | (779) | 11,504 | — | 22,543 |
| Cash and cash equivalents at beginning of period | 214,959 | 1,075 | 7,275 | — | 223,309 |
| Cash and cash equivalents at end of period | \$226,777 | \$296 | \$ 18,779 | \$— | \$245,852 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2015

(in thousands)

| | NeuStar, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash provided by (used in) operating activities | \$ 175,746 | \$ 78,812 | \$ (3,650) | \$ (76,956) | \$ 173,952 |
| Investing activities: | | | | | |
| Purchases of property and equipment | (11,408) | (1,833) | (154) | — | (13,395) |
| Net cash used in investing activities | (11,408) | (1,833) | (154) | — | (13,395) |
| Financing activities: | | | | | |
| Increase of restricted cash | — | (340) | — | — | (340) |
| Payments under notes payable obligations | (4,062) | — | — | — | (4,062) |
| Principal repayments on capital lease obligations | (1,862) | — | — | — | (1,862) |
| Proceeds from issuance of stock | 5,373 | — | — | — | 5,373 |
| Tax shortfall from equity awards | (8,809) | — | — | — | (8,809) |
| Repurchase of restricted stock awards and common stock | (64,932) | — | — | — | (64,932) |
| (Distribution to) investment by parent | — | (78,952) | 1,996 | 76,956 | — |
| Net cash (used in) provided by financing activities | (74,292) | (79,292) | 1,996 | 76,956 | (74,632) |
| Effect of foreign exchange rates on cash and cash equivalents | 280 | (471) | (336) | — | (527) |
| Net increase (decrease) in cash and cash equivalents | 90,326 | (2,784) | (2,144) | — | 85,398 |
| Cash and cash equivalents at beginning of period | 297,565 | 19,606 | 9,406 | — | 326,577 |
| Cash and cash equivalents at end of period | \$ 387,891 | \$ 16,822 | \$ 7,262 | \$— | \$ 411,975 |

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NEUSTAR, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2015

13. SUBSEQUENT EVENT

On July 30, 2015, the Company completed its acquisition of Bombora Technologies Pty Ltd, the registry services provider for the “.au” top-level domain and many other top-level domains. Total consideration for this purchase, which is subject to certain customary working capital adjustments, includes cash consideration of \$86.9 million, of which \$54.9 million was paid to the sellers at closing and \$32.0 million was deposited into escrow for the satisfaction of potential indemnification and certain performance obligations. The purchase price will be accounted for under the acquisition method of accounting in accordance with Business Combination Topic of the FASB ASC.

The Company serves as the registry operator for the administration of U.S. Common Short Codes through its contract with the CTIA — The Wireless Association (CTIA). This contract expires on December 31, 2015. The CTIA has advised the Company that a competitor will provide these services beginning January 1, 2016. During the last twelve months ended June 30, 2015, the Company recognized revenue of \$37.6 million and associated royalty expense of \$25.6 million related to this contract. The Company will not earn revenue or incur royalty expense associated with this contract after December 31, 2015.

Table of ContentsItem 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 second quarter, we expanded our highly competitive solutions in information services by augmenting our existing capabilities 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.

During the second quarter, revenue increased 8% to \$256.8 million as compared to \$237.5 million in 2014. This increase in revenue was driven by an 18% increase in Security Services revenue to \$40.5 million as compared to \$34.4 million, a 17% increase in Marketing Services revenue to \$40.9 million as compared to \$35.0 million, and a 6% increase in NPAC Services revenue to \$126.2 million as compared to \$118.7 million. Data Services revenue totaled \$49.2 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 Local Number Portability Administrator, or LNPA. 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 of Columbia Circuit to “hold unlawful, vacate, enjoin, and set aside” the FCC’s Order approving the North American Numbering Counsel’s recommendation. On June 19, 2015, the Court of Appeals granted the requests made by third-party petitioners to intervene in the case. On July 21, 2015, the Court of Appeals dismissed the FCC’s motion to hold the case in abeyance pending further FCC action and ruled that the issues raised in the FCC’s motion to dismiss should be addressed in the parties’ briefs on the merits. The Court of Appeals has not yet issued a briefing schedule. On April 7, 2015, we amended our seven regional contracts with North American Portability Management, LLC, or NAPM. Under this amendment, we will provide LNPA services for an annual fixed fee of \$496.1 million through at least September 30, 2016. After September 30, 2016, 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 the then-current term. Once a notice of non-renewal is provided, NAPM must also provide us with at least 180-days advance notice of its intention to terminate the contracts. Further, in addition to LNPA services, we will provide certain transition services on a cost-plus basis. We cannot be certain whether LNPA services or transition services will be extended beyond September 30, 2016.

Prior to this amendment, we provided LNPA services under a fixed fee contract with a 6.5% annual price escalator. This contract was due to expire on June 30, 2015. The 2015 LNPA service fixed fee under the prior contract terms represents the impact of a 6.5% annual escalator on the 2014 LNPA service fixed fee of \$465.8 million, resulting in a fixed fee of \$248.1 million for the first half of 2015, or \$496.1 million on an annualized basis. Under the April 7, 2015 amendment, the LNPA service fixed fee remains at the same annualized rate of \$496.1 million for the duration of the amended term of the contracts which is at least through September 30, 2016. As a result, we do not expect the amendment to have an impact on our revenue growth rate through December 31, 2015. In 2016, our consolidated

revenue and margin may not grow at the same rate as they have historically due to the rescission of the 6.5% annual price escalator. Once this arrangement terminates, our growth and profitability will be dependent upon the success of our remaining services.

During the second quarter, we created a dedicated LNPA Transition Project Management Office to manage our response to the NAPM's transition-related processes and requests, as well as to support other constituents' needs.

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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 June 30, 2015, for certain matters that may bear on our results of operations.

The following discussion of selected critical accounting policies supplements the information relating to our critical accounting policies described in 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.

Stock-Based Compensation

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

See Note 6 to our Financial Statements in Item 1 of Part I of this report for information regarding our assumptions related to stock-based compensation and the amount of stock-based compensation expense we incurred for the periods covered in this report.

We estimate the fair value of our restricted stock unit awards based on the fair value of our common stock on the date of grant. Our outstanding restricted stock unit awards are subject to service-based vesting conditions and performance-based vesting conditions. We recognize the estimated fair value of service-based awards, net of estimated forfeitures, as stock-based compensation expense over the vesting period on a straight-line basis. Awards with performance-based vesting conditions require the achievement of specific financial targets at the end of the specified performance period and are subject to the employee's continued employment over the vesting period. We recognize the estimated fair value of performance-based awards, net of estimated forfeitures, as stock-based compensation expense over the vesting period, which considers each performance period or tranche separately, based upon our determination of the level of achievement of the performance targets. At each reporting period, we reassess the level of achievement of the performance targets for the related performance period. Determining the level of achievement of the performance targets involves judgment, and the estimate of stock-based compensation expense may be revised periodically based on changes in performance. If any performance goals specific to the restricted stock unit awards are not met, we do not recognize any compensation cost for such awards, and we reverse any such compensation costs to the extent previously recognized. In the second quarter of 2015, we revised our estimate of achievement of the performance target for the 2015 performance year to greater than 100% of target, resulting in an increase in stock-based compensation expense of approximately \$0.8 million (see Note 6 to our Financial Statements in Item 1 of Part I of this report.)

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Consolidated Results of Operations

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2015

The following table presents an overview of our results of operations for the three months ended June 30, 2014 and 2015:

| | Three Months Ended June 30, | | | | |
|---|---|-----------|---------------|----------|---|
| | 2014 | 2015 | 2014 vs. 2015 | | |
| | \$ | \$ | \$ Change | % Change | |
| | (unaudited) | | | | |
| | (dollars in thousands, except per share data) | | | | |
| Revenue | \$237,457 | \$256,767 | \$19,310 | 8.1 | % |
| Operating expense: | | | | | |
| Cost of revenue (excludes depreciation and amortization shown separately below) | 60,844 | 67,551 | 6,707 | 11.0 | % |
| Sales and marketing | 48,637 | 50,942 | 2,305 | 4.7 | % |
| Research and development | 6,932 | 5,997 | (935) | (13.5) | % |
| General and administrative | 26,008 | 24,729 | (1,279) | (4.9) | % |
| Depreciation and amortization | 30,086 | 29,438 | (648) | (2.2) | % |
| Restructuring charges | 200 | — | (200) | (100.0) | % |
| | 172,707 | 178,657 | 5,950 | 3.4 | % |
| Income from operations | 64,750 | 78,110 | 13,360 | 20.6 | % |
| Other (expense) income: | | | | | |
| Interest and other expense | (7,270) | (6,481) | 789 | (10.9) | % |
| Interest income | 163 | 69 | (94) | (57.7) | % |
| Income before income taxes | 57,643 | 71,698 | 14,055 | 24.4 | % |
| Provision for income taxes | 20,796 | 26,640 | 5,844 | 28.1 | % |
| Net income | \$36,847 | \$45,058 | \$8,211 | 22.3 | % |
| Net income per common share: | | | | | |
| Basic | \$0.62 | \$0.81 | | | |
| Diluted | \$0.61 | \$0.80 | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic | 58,973 | 55,377 | | | |
| Diluted | 60,388 | 56,238 | | | |

Revenue

Revenue. Revenue increased \$19.3 million driven by strong demand for our Security and Marketing Services and a \$7.5 million increase in revenue from NPAC Services. Security Services revenue increased \$6.0 million driven by an increase in revenue of \$3.6 million resulting from demand for our DNS services and an increase in revenue of \$2.4 million from domain name registries. Revenue from our Marketing Services increased \$5.9 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 that in the second quarter of 2014. In particular, revenue from carrier provisioning services decreased \$1.1 million driven by the completion of a 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 \$6.7 million due to an increase of \$4.0 million in costs related to our information technology and systems, an increase of \$3.1 million in personnel and personnel-related expense and an increase of \$0.3 million in contractor costs incurred to support our business operations, partially offset by a decrease of \$0.8 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 increased \$2.3 million due to an increase of \$1.8 million in advertising and marketing costs and an increase of \$1.4 million in personnel and personnel-related expenses, partially offset by

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a decrease of \$0.9 million in maintenance and general facilities costs. The increase in advertising and marketing costs was due to advertising campaigns to drive brand awareness and NPAC-related costs.

Research and development. Research and development expense decreased \$0.9 million due to a decrease of \$0.7 million in personnel and personnel-related expense and a decrease of \$0.2 million in maintenance and general facilities costs.

General and administrative. General and administrative expense decreased \$1.3 million due to a decrease of \$1.8 million in maintenance and other administrative costs and a decrease of \$0.9 million in personnel and personnel-related costs, partially offset by an increase of \$1.4 million in professional fees. The decrease in maintenance and other administrative costs was driven by a gain of \$2.1 million from the sale of certain assets and liabilities. The increase in professional fees was driven by an increase in costs incurred to pursue new business opportunities and support corporate initiatives.

Depreciation and amortization. Depreciation and amortization expense decreased \$0.6 million due to a decrease of \$0.3 million in amortization expense related to acquired intangible assets. In addition, depreciation expense decreased \$0.3 million.

Restructuring expense. Restructuring expense decreased \$0.2 million. Restructuring charges recorded during the three months ended June 30, 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 decreased \$0.8 million due to a decrease of \$1.1 million in losses recorded in 2014 in connection with asset disposals, partially offset by an increase of \$0.2 million in foreign currency transaction losses and an increase of \$0.2 million in interest expense.

Interest income. Interest income for the three months ended June 30, 2015 was comparable to the income for the three months ended June 30, 2014.

Provision for income taxes. Our effective tax rate for the three months ended June 30, 2015 increased to 37.2% from 36.1% for the three months ended June 30, 2014 primarily due to an increase in our domestic production activities deduction for the three months ended June 30, 2014. Excluding discrete tax items, our effective tax rate was approximately 37.7% and 36.7% for the three months ended June 30, 2014 and 2015, respectively.

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Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2015

The following table presents an overview of our results of operations for the six months ended June 30, 2014 and 2015:

| | Six Months Ended June 30, | | 2014 vs. 2015 | | |
|---|---|-----------|---------------|----------|---|
| | 2014 | 2015 | \$ Change | % Change | |
| | \$ | \$ | \$ | % | |
| | (unaudited) | | | | |
| | (dollars in thousands, except per share data) | | | | |
| Revenue | \$467,354 | \$508,155 | \$40,801 | 8.7 | % |
| Operating expense: | | | | | |
| Cost of revenue (excludes depreciation and amortization shown separately below) | 119,455 | 131,709 | 12,254 | 10.3 | % |
| Sales and marketing | 98,628 | 97,676 | (952) | (1.0) | % |
| Research and development | 13,991 | 12,451 | (1,540) | (11.0) | % |
| General and administrative | 52,299 | 49,386 | (2,913) | (5.6) | % |
| Depreciation and amortization | 57,726 | 59,362 | 1,636 | 2.8 | % |
| Restructuring charges | 5,166 | — | (5,166) | 100.0 | % |
| | 347,265 | 350,584 | 3,319 | 1.0 | % |
| Income from operations | 120,089 | 157,571 | 37,482 | 31.2 | % |
| Other (expense) income: | | | | | |
| Interest and other expense | (13,267) | (13,203) | 64 | (0.5) | % |
| Interest income | 258 | 295 | 37 | 14.3 | % |
| Income before income taxes | 107,080 | 144,663 | 37,583 | 35.1 | % |
| Provision for income taxes | 38,550 | 53,391 | 14,841 | 38.5 | % |
| Net income | \$68,530 | \$91,272 | \$22,742 | 33.2 | % |
| Net income per common share: | | | | | |
| Basic | \$1.14 | \$1.64 | | | |
| Diluted | \$1.11 | \$1.61 | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic | 60,100 | 55,676 | | | |
| Diluted | 61,539 | 56,563 | | | |

Revenue. Revenue increased \$40.8 million driven by strong demand for our Security and Marketing Services and a \$15.1 million increase in revenue from NPAC Services. Security Services revenue increased \$15.5 million driven by an increase in revenue of \$8.5 million from domain name registries and an increase in revenue of \$7.0 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 and the launch of new generic top-level domains. Revenue from our Marketing Services increased \$10.3 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 that in the first quarter of 2014. In particular, revenue from carrier provisioning services decreased \$2.4 million driven by consolidation of the customer base and the completion of client projects. 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 \$12.3 million due to an increase of \$6.8 million in costs related to our information technology and systems, an increase of \$5.4 million in personnel and personnel-related expense, and an increase of \$0.3 million in contractor costs incurred to support our business operations, partially offset by a decrease of \$0.2 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.

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Sales and marketing. Sales and marketing expense decreased \$1.0 million due to a decrease of \$1.3 million in maintenance and general facilities costs and a decrease of \$1.0 million in advertising and marketing costs, partially offset by an increase of \$1.3 million in personnel and personnel-related expense. The decrease in advertising and marketing costs was driven by a decrease of \$1.3 million in costs associated with NPAC-related campaigns, partially offset by an increase in costs associated with other professional fees.

Research and development. Research and development expense decreased \$1.5 million due to a decrease of \$1.2 million in personnel and personnel-related expense and a decrease of \$0.3 million in maintenance and general facilities costs.

General and administrative. General and administrative expense decreased \$2.9 million due to a decrease of \$2.2 million in personnel and personnel-related expense and a decrease of \$1.0 million in maintenance and other administrative costs, partially offset by an increase of \$0.3 million in professional fees. The decrease in maintenance and other administrative costs was driven by a gain of \$2.1 million from the sale of certain assets and liabilities.

Depreciation and amortization. Depreciation and amortization expense increased \$1.6 million due to an increase of \$1.4 million in amortization expense related to acquired intangible assets. In addition, depreciation expense increased \$0.2 million.

Restructuring expense. Restructuring expense decreased \$5.2 million. Restructuring charges recorded during the six months ended June 30, 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 for the six months ended June 30, 2015 was comparable to the interest and other expense for the six months ended June 30, 2014.

Interest income. Interest income for the six months ended June 30, 2015 was comparable to the income for the six months ended June 30, 2014.

Provision for income taxes. Our effective tax rate for the six months ended June 30, 2015 increased to 36.9% from 36.0% for the six months ended June 30, 2014 primarily due to the reversal of unrecognized tax benefits in 2014 upon the completion of an Internal Revenue Service audit for the year ended December 31, 2009 offset by an increase in our domestic production activities deduction for the six months ended June 30, 2015. Excluding discrete tax items, our annual effective tax rate was approximately 37.7% and 36.7% for the six months ended June 30, 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.

Total cash and cash equivalents were \$412.0 million at June 30, 2015, an increase of \$85.4 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 5 to our Financial Statements in Item 1 of Part I of this report.

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Discussion of Cash Flows

Cash flows from operations

Net cash provided by operating activities for the six months ended June 30, 2015 was \$174.0 million, as compared to \$136.6 million for the six months ended June 30, 2014. This \$37.3 million increase in net cash provided by operating activities was the result of an increase in net income of \$22.7 million, an increase in non-cash adjustments of \$27.2 million and a decrease in net changes in operating assets and liabilities of \$12.6 million.

Non-cash adjustments increased \$27.2 million, driven by an increase of \$25.0 million in deferred income taxes, a net increase of \$11.0 million in tax (benefit) shortfall from equity awards, an increase of \$1.6 million in depreciation and amortization expense and an increase of \$0.8 million in the provision for doubtful accounts. These total increases of \$38.4 million in non-cash adjustments were partially offset by a decrease of \$9.6 million in stock-based compensation and a decrease of \$1.7 million in loss on asset disposals.

Net changes in operating assets and liabilities decreased \$12.6 million primarily due to a decrease of \$12.9 million in accounts and unbilled receivables, a decrease of \$6.7 million in prepaid expenses and other current assets, a decrease of \$5.8 million in income taxes, a decrease of \$3.8 million in deferred revenue, a decrease of \$2.2 million in deferred costs, a decrease of \$2.0 million in other assets, and a decrease of \$1.0 million in notes receivable. These total decreases of \$34.4 million in net changes in operating assets and liabilities were partially offset by an increase of \$19.0 million in accounts payable and accrued expenses and \$2.9 million in other liabilities.

Cash flows from investing

Net cash used in investing activities for the six months ended June 30, 2015 was \$13.4 million, as compared to \$146.0 million for six months ended June 30, 2014. This \$132.6 million decrease in net cash used in investing activities was due to a decrease of \$120.4 million in cash used for acquisitions and a decrease of \$12.3 million in cash used for purchases of property and equipment.

Cash flows from financing

Net cash used in financing activities was \$74.6 million for the six months ended June 30, 2015, as compared to net cash provided by financing activities of \$32.0 million for the six months ended June 30, 2014. This \$106.6 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 decrease of \$11.0 million in tax benefit (shortfall) from equity awards, a \$0.8 million decrease in cash proceeds from the issuance of stock, a decrease of \$0.4 million in restricted cash and a decrease of \$0.3 million in cash used in principal repayments on capital lease obligations. These total decreases of \$187.5 million in net cash provided by financing activities were partially offset by a \$80.9 million decrease in cash used for share repurchases and for the net down of employee shares.

Recent Accounting Pronouncements

See Note 2 to our Financial Statements in Item 1 of Part 1 of this report for a discussion of the effects of recent accounting pronouncements.

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 June 30, 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 second 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 of 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 rules 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. On June 19, 2015, the Court of Appeals granted the requests made by third-party petitioners to intervene in the case. On July 21, 2015, the Court of Appeals dismissed the FCC's motion to hold the case in abeyance pending further FCC action and ruled that the issues raised in the FCC's motion to dismiss should be addressed in the parties' briefs on the merits. The Court of Appeals has not yet issued a briefing schedule.

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 June 30, 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) |
|-------|--------------------------------------|------------------------------|---|--|
| | | | | |

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|--------------------------------|-----------|---------|-----------|----------------|
| April 1 through April 30, 2015 | 637,405 | \$26.77 | 635,135 | \$ 126,740,294 |
| May 1 through May 31, 2015 | 156,572 | 27.05 | 153,152 | 122,608,100 |
| June 1 through June 30, 2015 | 594,672 | 29.01 | 582,056 | 105,723,830 |
| Total | 1,388,649 | \$27.76 | 1,370,343 | \$ 105,723,830 |

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 18,306 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.

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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: July 30, 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. |
| 10.1.1 | Amendment No. 98, dated July 13, 2015, to the contractor services agreement by and between NeuStar, Inc. and North American Portability Management, L.L.C. |
| 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 |