NEUSTAR INC
Form 10-Q
July 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
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	52-2141938
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

21575 Ridgetop Circle
Sterling, Virginia 20166
(Address of principal executive offices) (zip code)
(571) 434-5400
(Registrant’s telephone number, including area code)

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

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

There were 54,511,660 shares of Class A common stock, $0.001 par value, and 1,864 shares of Class B common stock, $0.001 par value, outstanding at July 25, 2016.

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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, 2015	June 30, 2016 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,097	$ 50,657
Restricted cash	2,363	2,290
Accounts receivable, net of allowance for doubtful accounts of $4,512 and $5,528, respectively	167,593	175,701
Unbilled receivables	17,712	14,700
Prepaid expenses and other current assets	30,216	37,848
Deferred costs	6,676	8,707
Income taxes receivable	5,883	—
Total current assets	319,540	289,903
Property and equipment, net	147,764	138,329
Goodwill	1,186,983	1,187,995
Intangible assets, net	529,279	481,687
Other assets, long-term	18,681	18,098
Total assets	$ 2,202,247	$ 2,116,012

See accompanying notes.

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

	December 31, 2015	June 30, 2016 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 28,392	$ 19,731
Accrued expenses	134,632	94,421
Deferred revenue	91,006	89,507
Notes payable	131,272	129,491
Capital lease obligations	4,791	3,621
Income taxes payable	—	5,297
Other liabilities	10,875	10,688
Total current liabilities	400,968	352,756
Deferred revenue, long-term	22,998	22,495
Notes payable, long-term	957,509	841,449
Capital lease obligations, long-term	1,831	235
Deferred income tax liabilities, long-term	38,701	40,929
Other liabilities, long-term	56,741	56,386
Total liabilities	1,478,748	1,314,250
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, 2015 and June 30, 2016	—	—
Class A common stock, par value $0.001; 200,000,000 shares authorized; 80,233,896 and 81,716,259 shares issued; and 53,516,287 and 54,508,259 shares outstanding at December 31, 2015 and June 30, 2016, respectively	80	82
Class B common stock, par value $0.001; 100,000,000 shares authorized; 2,270 and 1,864 shares issued and outstanding at December 31, 2015 and June 30, 2016, respectively	—	—
Additional paid-in capital	729,273	748,467
Treasury stock, 26,717,609 and 27,208,000 shares at December 31, 2015 and June 30, 2016, respectively, at cost	(920,439)	(932,250)
Accumulated other comprehensive loss	(1,904)	(522)
Retained earnings	916,489	985,985
Total stockholders' equity	723,499	801,762
Total liabilities and stockholders' equity	$ 2,202,247	$ 2,116,012

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue	$256,767	$297,565	$508,155	$584,863
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	67,551	90,237	131,709	181,588
Sales and marketing	50,942	54,288	97,676	109,611
Research and development	5,997	5,260	12,451	12,809
General and administrative	24,729	27,238	49,386	54,756
Depreciation and amortization	29,438	38,829	59,362	77,311
Restructuring charges	—	6,129	—	8,793
Separation costs	—	4,218	—	4,218
	178,657	226,199	350,584	449,086
Income from operations	78,110	71,366	157,571	135,777
Other (expense) income:				
Interest and other expense	(6,481)	(15,691)	(13,203)	(32,802)
Interest income	69	67	295	241
Income before income taxes	71,698	55,742	144,663	103,216
Provision for income taxes	26,640	17,621	53,391	33,720
Net income	$45,058	$38,121	$91,272	$69,496
Net income per common share:				
Basic	$0.81	$0.70	$1.64	$1.28
Diluted	$0.80	$0.69	$1.61	$1.26
Weighted average common shares outstanding:				
Basic	55,377	54,458	55,676	54,205
Diluted	56,238	55,082	56,563	54,980

See accompanying notes.

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NEUSTAR, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Net income	$45,058	$38,121	$91,272	$69,496
Other comprehensive (loss) income, net of tax:				
Available for sale investments, net of tax:				
Change in net unrealized gains, net of tax	(17)	76	(31)	19
Reclassification for gains included in net income, net of tax	—	—	(23)	—
Net change in unrealized gains on investments, net of tax	(17)	76	(54)	19
Foreign currency translation adjustment, net of tax:				
Change in foreign currency translation adjustment, net of tax	(194)	(1,435)	(1,067)	1,363
Reclassification adjustment included in net income, net of tax	175	—	414	—
Foreign currency translation adjustment, net of tax	(19)	(1,435)	(653)	1,363
Other comprehensive (loss) income, net of tax	(36)	(1,359)	(707)	1,382
Comprehensive income	$45,022	$36,762	$90,565	$70,878

See accompanying notes.

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

	Six Months Ended June 30, 2015		2016	
Operating activities:				
Net income	$ 91,272		$ 69,496	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	59,362		77,311	
Stock-based compensation	17,697		20,474	
Amortization of deferred financing costs and original issue discount on debt	1,696		8,890	
Tax benefit from equity awards	(48	)	(260	)
Deferred income taxes	4,618		1,237	
Provision for doubtful accounts	3,900		3,600	
Gain on disposal of assets	(626	)	—	
Changes in operating assets and liabilities:				
Accounts receivable	(12,237	)	(12,459	)
Unbilled receivables	(414	)	3,012	
Prepaid expenses and other current assets	(5,384	)	(7,630	)
Deferred costs	(736	)	(3,018	)
Income taxes	11,994		8,526	
Other assets	(2,281	)	3,051	
Other liabilities	7,018		(842	)
Accounts payable and accrued expenses	(6,259	)	(44,538	)
Deferred revenue	(4,477	)	(2,545	)
Net cash provided by operating activities	165,095		124,305	
Investing activities:				
Purchases of property and equipment	(13,395	)	(23,366	)
Businesses acquired, net of cash acquired	—		12	
	(13,395	)	(23,354	)

Net cash used in investing activities		
Financing activities:		
(Increase) decrease in restricted cash	(340)	73
Payments under notes payable obligations	(4,062)	(126,731)
Principal repayments on capital lease obligations	(1,862)	(2,774)
Proceeds from issuance of stock	5,373	432
Tax benefit from equity awards	48	260
Repurchase of restricted stock awards and common stock	(64,932)	(10,762)
Net cash used in financing activities	(65,775)	(139,502)
Effect of foreign exchange rates on cash and cash equivalents	(527)	111
Net increase (decrease) in cash and cash equivalents	85,398	(38,440)
Cash and cash equivalents at beginning of period	326,577	89,097
Cash and cash equivalents at end of period	$ 411,975	$ 50,657

See accompanying notes.

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NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2016

1. DESCRIPTION OF BUSINESS AND ORGANIZATION

NeuStar, Inc. (the Company or Neustar) offers authoritative, hard-to-replicate data sets and proprietary analytics that provide insights to help clients promote and protect their businesses. The Company’s proprietary, cloud-based platforms and differentiated data sets offer informative, real-time analytics, which enable clients to make actionable, data-driven decisions. The Company provides chief marketing officers a comprehensive suite of services to plan their media spend, identify and locate desired customers, invest effectively in marketing campaigns, deliver relevant offers and measure the performance of these activities. Security professionals use the Company’s solutions to maximize web performance and protect against malicious attacks. The Company enables the exchange of essential operating information across multiple carriers to provision and manage services, assisting clients with fast and accurate order processing and immediate routing of customer inquiries. The Company provides communications service providers in the United States critical infrastructure that enables the dynamic routing of calls and text messages.

On June 21, 2016, the Company announced its intention to separate into two independent and publicly traded companies. One company will consist of the majority of the Company's Information Services, while the other will focus on providing Order Management and Numbering Services. Information Services includes Marketing Services, Security Services and Data Services. Order Management and Numbering Services will provide Local Number Portability Administration, number administration and ancillary numbering services as well as order and inventory management solutions. The Company intends to accomplish the separation through a tax-free spin-off, which the Company expects to occur over the next twelve months. The separation is subject to final approval by the Company's Board of Directors, as well as a number of market and regulatory conditions, including, among others, effectiveness of the Form 10 to be filed with the Securities and Exchange Commission.

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, 2016 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet as of December 31, 2015 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, 2015 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; identification and valuation of acquired intangible assets; 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.

Separation Costs

In the second quarter of 2016 the Company announced its intention to separate into two independent and publicly traded companies. Separation costs are expensed as incurred and include professional fees for outside advisory services including legal, finance, accounting and related services.

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Reclassifications

Within the consolidated statement of cash flows for the six months ended June 30, 2015, the Company reclassified $8.9 million from cash provided by operating activities to cash used in financing activities related to the exercise of equity awards and presentation of tax benefits to conform with current period presentation.

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 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) and $350 million incremental term loan facility (2015 Incremental 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, 2015		June 30, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2013 Term Facility (including current portion, net of discount)	300,328	296,013	223,370	222,949
2013 Revolving Facility	175,000	175,000	175,000	175,000
2015 Incremental Term Facility (including current portion, net of discount)	337,947	341,326	292,364	291,050
Senior Notes (including current portion)	300,000	249,000	300,000	264,750

Restricted Cash

As of December 31, 2015 and June 30, 2016, cash of $2.4 million and $2.3 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 - Effective

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (Topic 805): Business Combinations, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The standard is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The guidance is to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the standard, with earlier application permitted for financial statements that have not been issued. The Company’s adoption of this ASU did not impact its consolidated financial statements.

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Recent Accounting Pronouncements - Not Yet Effective

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718). This standard makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted. The Company currently intends to adopt this standard on January 1, 2017 and is currently evaluating the impact of adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires that long-term lease arrangements be recognized on the balance sheet. The standard is effective for interim and annual periods beginning after December 31, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In May 2014, the FASB issued 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.

3. ACQUISITIONS

Bombora Acquisition

On July 30, 2015, the Company acquired Bombora Technologies Pty Ltd (Bombora) and expanded the Company's registry services. As of June 30, 2016, the estimated preliminary purchase price was $87.7 million, which is subject to the finalization of the acquisition date fair value of acquired deferred income tax assets and assumed income and non-income based tax liabilities. Pro forma financial information for this acquisition has not been presented because the financial impact is not material.

MarketShare Acquisition

On December 9, 2015, the Company completed its acquisition of MarketShare Partners, LLC (MarketShare), a marketing analytics technology provider to major brands. The acquisition of MarketShare expanded the Company's marketing services by creating a complete data-driven solution for Chief Marking Officers as they plan, optimize and allocate their entire marketing budget and resources across all channels.

The transaction was accounted for under the acquisition method of accounting in accordance with the Business Combination Topic of the FASB ASC. The total preliminary purchase price was $442.4 million, consisting of cash consideration of $429.1 million and non-cash consideration of $13.3 million paid in shares of NeuStar Class A Common Stock, which shares are subject to certain transfer restrictions. During the six months ended June 30, 2016, the Company recorded working capital and escrow adjustments of $1.3 million, reducing the preliminary purchase price to $441.1 million. In addition, the Company adjusted its preliminary valuation of acquired assets and assumed liabilities based upon new information that was received pertaining to acquisition date fair values.

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The allocation of the preliminary purchase price is pending the finalization of the fair value of acquired deferred income tax assets and assumed income and non-income based tax liabilities. The following table summarizes the current preliminary purchase price allocation based on the estimated fair value of the acquired assets and assumed liabilities and reflects the measurement period adjustments recorded during the six months ended June 30, 2016 (in thousands):

Cash and cash equivalents	$7,504
Accounts receivable	8,954
Prepaids and other assets	6,344
Accounts payable and accrued expenses	(8,857)
Deferred revenue	(2,062)
Deferred tax liability	(10,862)
Net tangible assets acquired	1,021
Customer relationships	30,000
Acquired identified technology	100,000
Goodwill	310,065
Total preliminary purchase price allocation	$441,086

As of June 30, 2016, of the total goodwill balance of $310.1 million, approximately $200.2 million is expected to be deductible for tax purposes.

Pro Forma Financial Information for the MarketShare Acquisition

The following unaudited pro forma financial information summarizes the Company’s results of operations for the period indicated as if the Company’s acquisition of MarketShare had been completed as of the beginning of the earliest period presented. These pro forma amounts (unaudited and in thousands) are not indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity. The pro forma financial information for all periods presented also includes the effect of the related 2015 acquisition financing, amortization expense from the acquired intangible assets, adjustments to interest expense and related tax effects.

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Pro forma revenue	$ 270,652	$ 532,465
Pro forma income from operations	$ 68,415	$ 135,464
Pro forma net income	$ 31,847	$ 61,949

Caller Authentication Assets Acquisition

On December 18, 2015, the Company acquired caller authentication assets from Transaction Network Services, Inc., enhancing its position in the caller authentication market that includes subscriber data storage, database management, caller identification and verification services. As of June 30, 2016, the estimated preliminary purchase price was $220.0 million, of which $22.0 million was deposited into escrow to satisfy post-closing indemnification claims. The preliminary purchase price is subject to the finalization of the acquisition date fair value of acquired deferred income tax assets and assumed non-income based tax liabilities. Pro forma financial information for this acquisition has not been presented because the financial impact is not material.

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NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2016

4. GOODWILL

Goodwill

The Company's goodwill as of December 31, 2015 and June 30, 2016 is as follows (in thousands):

	December 31, 2015	Acquisitions	Adjustments (1)	Foreign Currency Translation	June 30, 2016
Gross goodwill	$1,280,585	$ —	$ (565)	$ 1,577	$1,281,597
Accumulated impairments	(93,602)	—	—	—	(93,602)
Net goodwill	$1,186,983	$ —	$ (565)	$ 1,577	$1,187,995

(1) During the six months ended June 30, 2016, the Company adjusted the preliminary purchase price paid based on adjustments to its preliminary valuation of assets acquired and liabilities assumed in the 2015 acquisitions (see Note 3).

5. NOTES PAYABLE

Notes payable consist of the following (in thousands):

	December 31, 2015	June 30, 2016
2013 Term Facility (net of discount)	$ 300,328	$223,370
2013 Term Facility deferred financing fees	(1,683)	(1,283)
2013 Revolving Facility	175,000	175,000
2013 Revolving Facility deferred financing fees	(2,162)	(1,639)
Senior Notes	300,000	300,000
Senior Notes deferred financing fees	(11,637)	(10,937)
2015 Incremental Term Facility (net of discount)	337,947	292,364
2015 Incremental Term Facility deferred financing fees	(9,012)	(5,935)
Total	1,088,781	970,940
Less: current portion, net of discount	(131,272)	(129,491)
Long-term portion	$ 957,509	$841,449

Credit Facilities and Senior Notes

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). In addition, the Company closed an offering of $300 million aggregate principal amount of senior notes (Senior Notes).

On December 9, 2015, the Company amended its 2013 Credit Facilities to provide for (i) the permissibility of an incremental term facility under the 2013 Credit Agreement (the 2013 Credit Agreement), (ii) the addition of a senior secured leverage financial measurement covenant; (iii) streamlined conditions for the incurrence of an incremental term facility to be used for a permitted acquisition; (iv) a required escrow and prepayment (such prepayment to be for the benefit of the incremental facility lenders) by the Company under certain specified circumstances; and (v) certain tax related changes favorable to the Company to the terms of the 2013 Credit Agreement and related security agreement.

On December 9, 2015, the Company borrowed $350 million under its incremental term facility (the 2015 Incremental Term Facility, and together with the 2013 Term Facility and the 2013 Revolving Facility, the Amended 2013 Credit Facilities). The proceeds of the 2015 Incremental Term Facility were used to consummate the acquisition of MarketShare and to pay related fees and expenses.

The Company may voluntarily prepay the borrowings under the Amended 2013 Credit Facilities at any time in minimum amounts of $1 million or an integral multiple of $500,000 in excess thereof. The Amended 2013 Credit

Facilities provide for

mandatory prepayments with the net cash proceeds of certain debt issuances, insurance receipts, and dispositions. The Amended 2013 Credit Facilities also contain 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.

As of June 30, 2016, outstanding borrowings under the 2013 Revolving Facility were $175.0 million and available borrowings under the same facility were $7.9 million, exclusive of outstanding letters of credit totaling $17.1 million.

Senior Notes

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

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

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

6. STOCKHOLDERS’ EQUITY

As of June 30, 2016, a total of 2,682,711 shares were available for grant or award under the Company’s stock incentive plans and a total of 176,474 shares were available to be issued under the Company’s Employee Stock Purchase Plan (ESPP). On June 15, 2016, 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, 2015 and 2016 was $9.5 million and $10.6 million, respectively, and $17.7 million and $20.5 million for the six months ended June 30, 2015 and 2016, respectively. As of June 30, 2016, total unrecognized compensation expense was estimated at $61.4 million, which the Company expects to recognize over a weighted average period of approximately 1.5 years. Total unrecognized compensation expense as of June 30, 2016 is estimated based on outstanding non-vested stock options, 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.

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, 2015	1,356,904	$ 24.70		
Granted	—	—		
Exercised	(126,356)	16.20		

Forfeited	(116,209)	26.50		
Outstanding at June 30, 2016	1,114,339	$ 25.48	$ 0.6	2.5
Exercisable at June 30, 2016	901,669	$ 25.26	$ 0.6	1.9

The aggregate intrinsic value of options exercised for the six months ended June 30, 2016 was $0.9 million.

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.

During the three months ended June 30, 2016, the Company revised its estimate of the level of achievement of the performance target for the 2016 performance year to below target, resulting in a decrease in stock-based compensation expense. The Company's consolidated net income for the three and six months ended June 30, 2016 was $38.1 million and $69.5 million, respectively, and diluted net income per common share was $0.69 and $1.26 per share, respectively. If the Company had continued to use the previous estimate of achievement for each respective period, the as adjusted net income for the three and six months ended June 30, 2016 would have been approximately $37.3 million and $68.7 million, respectively, and the as adjusted diluted net income per common share would have been approximately $0.68 and $1.25 per share, respectively.

The following table summarizes the Company's non-vested PVRSU activity for the six months ended June 30, 2016:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Non-vested at December 31, 2015	1,366,572	$ 26.78	
Granted	1,107,221	24.08	
Vested	(882,243)	28.29	
Forfeited	(159,263)	27.35	
Non-vested at June 30, 2016	1,432,287	$ 23.70	$ 33.7

The aggregate intrinsic value of PVRSUs vested during the six months ended June 30, 2016 was approximately $21.8 million. The Company repurchased 339,783 shares of common stock for an aggregate purchase price of $8.4 million pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their minimum tax withholding obligations.

Restricted Stock Units

The following table summarizes the Company's restricted stock units activity for the six months ended June 30, 2016:

	Shares	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2015	2,074,120	$ 30.42	
Granted	1,081,824	23.97	
Vested	(473,358)	33.12	
Forfeited	(172,034)	29.26	
Outstanding at June 30, 2016	2,510,552	$ 27.21	$ 59.0

The aggregate intrinsic value of restricted stock units vested during the six months ended June 30, 2016 was approximately $11.5 million. The Company repurchased 183,840 shares of common stock for an aggregate purchase price of $4.5 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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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 June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Computation of basic net income per common share:				
Net income	$45,058	$38,121	$91,272	$69,496
Weighted average common shares and participating securities outstanding – basic	55,377	54,458	55,676	54,205
Basic net income per common share	$0.81	$0.70	$1.64	$1.28
Computation of diluted net income per common share:				
Weighted average common shares outstanding – basic	55,377	54,458	55,676	54,205
Effect of dilutive securities:				
Stock-based awards	861	624	887	775
Weighted average common shares outstanding – diluted	56,238	55,082	56,563	54,980
Diluted net income per common share	$0.80	$0.69	$1.61	$1.26

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 751,702 and 2,002,992 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, 2015 and 2016, respectively. Common stock options to purchase an aggregate of 1,066,636 and 1,877,467 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, 2015 and 2016, respectively.

8. RESTRUCTURING CHARGES

2016 Restructuring

During the three and six months ended June 30, 2016, the Company recorded restructuring charges of $6.1 million and $8.8 million, respectively, related to estimated severance and severance-related costs.

9. INTEREST AND OTHER EXPENSE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Interest and other expense:				
Interest expense	$6,386	$15,961	$12,846	$32,527
(Gain) loss on asset disposals	(85)	8	(254)	8
Foreign currency transaction loss (gain)	180	(278)	611	267
Total interest and other expense	$6,481	$15,691	$13,203	$32,802

10. INCOME TAXES

The Company’s effective tax rate, including discrete tax benefits of $2.0 million, decreased to 32.7% for the six months ended June 30, 2016 from 36.9% for the six months ended June 30, 2015, primarily due to the Company’s federal research and development credit which was not available in the first half of 2015 and the reversal of certain of the Company's unrecognized tax benefits in the first half of 2016 upon the completion of an Internal Revenue Service (IRS) audit of Neustar Information

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Services, Inc. (formerly TARGUSInformation Corporation), a subsidiary of the Company, for the year ended December 31, 2010 and the expiration of certain statutes of limitations.

As of December 31, 2015 and June 30, 2016, the Company had unrecognized tax benefits of $7.5 million and $6.7 million, respectively, of which $6.9 million and $6.1 million, respectively, would affect the Company’s effective tax rate if recognized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the three and six months ended June 30, 2015 and 2016, potential interest and penalties were insignificant. 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 2009 through 2014 remain open to examination by the major taxing jurisdictions to which the Company is subject. During the first quarter of 2016, the IRS completed an examination of the 2010 federal income tax return of Neustar Information Services, Inc. No adjustments were made as a result of the audit.

The Company anticipates that the amount of reasonably possible unrecognized tax benefits that could decrease over the next 12 months due to the expiration of certain statutes of limitations and settlement of tax audits is not material to the Company's consolidated financial statements.

11. 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, 2015 and 2016, and geographic area property and equipment as of December 31, 2015 and June 30, 2016 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue by geographical areas:				
United States	$237,490	$271,752	$473,044	$536,444
International	19,277	25,813	35,111	48,419
Total revenue	$256,767	$297,565	$508,155	$584,863
Revenue by service:				
Marketing Services	$40,889	$63,923	$78,116	$121,594
Security Services	40,451	49,323	80,093	97,970
Data Services	49,236	55,808	97,394	108,964
NPAC Services	126,191	128,511	252,552	256,335
Total revenue	$256,767	$297,565	$508,155	$584,863

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	December 31, 2015	June 30, 2016
Property and equipment, net		
United States	$ 145,077	$136,257
Australia	2,171	1,550
Other	516	522
Total property and equipment, net	$ 147,764	$138,329

12. SUPPLEMENTAL GUARANTOR INFORMATION

The following schedules present condensed consolidating financial information of the Company as of December 31, 2015 and June 30, 2016 and for the three and six months ended June 30, 2015 and 2016 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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CONDENSED CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2015
(in thousands)

	NeuStar, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$48,061	$27,092	$ 13,944	$—	$ 89,097
Restricted cash	1,260	1,103	—	—	2,363
Accounts receivable, net	91,899	71,062	4,632	—	167,593
Unbilled receivables	2,357	14,694	661	—	17,712
Prepaid expenses and other current assets	23,080	8,551	1,868	(3,283)	30,216
Deferred costs	1,119	2,876	2,681	—	6,676
Income taxes receivable	10,661	—	—	(4,778)	5,883
Intercompany receivable	26,030	—	—	(26,030)	—
Total current assets	204,467	125,378	23,786	(34,091)	319,540
Property and equipment, net	135,445	9,302	3,017	—	147,764
Goodwill	94,153	984,017	108,813	—	1,186,983
Intangible assets, net	13,751	462,848	52,680	—	529,279
Net investments in subsidiaries	1,545,227	—	—	(1,545,227)	—
Other assets, long-term	16,071	1,283	2,635	(1,308)	18,681
Total assets	$2,009,114	$1,582,828	$ 190,931	$(1,580,626)	$2,202,247
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$18,945	$7,522	$ 1,925	$—	$ 28,392
Accrued expenses	98,761	29,262	6,609	—	134,632
Income taxes payable	—	3,068	1,496	(4,564)	—
Deferred revenue	24,929	46,153	19,924	—	91,006
Notes payable	131,272	—	3,283	(3,283)	131,272
Capital lease obligations	3,927	—	864	—	4,791
Other liabilities	9,937	279	659	—	10,875
Intercompany payable	—	18,199	7,831	(26,030)	—
Total current liabilities	287,771	104,483	42,591	(33,877)	400,968
Deferred revenue, long-term	8,239	9,734	5,025	—	22,998
Notes payable, long-term	957,509	—	—	—	957,509
Capital lease obligations, long-term	1,825	—	6	—	1,831
Deferred income tax liabilities, long-term	—	42,865	7,658	(11,822)	38,701
Other liabilities, long-term	41,978	8,652	6,111	—	56,741
Total liabilities	1,297,322	165,734	61,391	(45,699)	1,478,748
Total stockholders' equity	711,792	1,417,094	129,540	(1,534,927)	723,499
Total liabilities and stockholders' equity	$2,009,114	$1,582,828	$ 190,931	$(1,580,626)	$2,202,247

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CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2016
(in thousands)

	NeuStar, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$38,584	$5,747	$ 6,326	$—	$ 50,657
Restricted cash	1,260	1,030	—	—	2,290
Accounts receivable, net	90,181	80,007	5,513	—	175,701
Unbilled receivables	2,395	11,841	464	—	14,700
Prepaid expenses and other current assets	30,130	5,736	1,982	—	37,848
Deferred costs	1,455	4,158	3,094	—	8,707
Income taxes receivable	—	—	236	(236)	—
Intercompany receivable	13,361	—	—	(13,361)	—
Total current assets	177,366	108,519	17,615	(13,597)	289,903
Property and equipment, net	126,775	9,261	2,293	—	138,329
Goodwill	94,153	983,554	110,288	—	1,187,995
Intangible assets, net	12,214	419,556	49,917	—	481,687
Net investments in subsidiaries	1,509,153	—	—	(1,509,153)	—
Other assets, long-term	13,166	1,977	2,955	—	18,098
Total assets	$1,932,827	$1,522,867	$ 183,068	$(1,522,750)	$ 2,116,012
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$10,184	$9,345	$ 202	$—	$ 19,731
Accrued expenses	63,502	24,486	6,433	—	94,421
Deferred revenue	23,943	46,900	18,664	—	89,507
Notes payable	129,491	—	—	—	129,491
Capital lease obligations	3,399	—	222	—	3,621
Income taxes payable	5,387	146	—	(236)	5,297
Other liabilities	7,403	2,482	803	—	10,688
Intercompany payable	—	7,835	5,526	(13,361)	—
Total current liabilities	243,309	91,194	31,850	(13,597)	352,756
Deferred revenue, long-term	8,286	8,170	6,039	—	22,495
Notes payable, long-term	841,449	—	—	—	841,449
Capital lease obligations, long-term	235	—	—	—	235
Deferred income tax liabilities, long-term	10,216	33,872	7,141	(10,300)	40,929
Other liabilities, long-term	44,323	5,629	6,434	—	56,386
Total liabilities	1,147,818	138,865	51,464	(23,897)	1,314,250
Total stockholders' equity	785,009	1,384,002	131,604	(1,498,853)	801,762
Total liabilities and stockholders' equity	$1,932,827	$1,522,867	$ 183,068	$(1,522,750)	$ 2,116,012

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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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CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2016
(in thousands)

	NeuStar, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 168,591	$ 123,831	$ 16,192	$ (11,049)	$ 297,565
Operating expense:					
Cost of revenue (excluding depreciation and amortization shown separately below)	41,795	52,161	6,171	(9,890)	90,237
Sales and marketing	30,899	21,336	3,139	(1,086)	54,288
Research and development	5,103	(231)	388	—	5,260
General and administrative	22,672	3,665	974	(73)	27,238
Depreciation and amortization	13,615	22,798	2,416	—	38,829
Restructuring charges	3,705	1,968	456	—	6,129
Separation costs	4,218	—	—	—	4,218
	122,007	101,697	13,544	(11,049)	226,199
Income from operations	46,584	22,134	2,648	—	71,366
Other (expense) income:					
Interest and other expense	(16,025)	(816)	1,150	—	(15,691)
Interest income	982	100	(1,015)	—	67
Income before income taxes and equity income in consolidated subsidiaries	31,541	21,418	2,783	—	55,742
Provision for income taxes	11,011	6,334	276	—	17,621
Income before equity income in consolidated subsidiaries	20,530	15,084	2,507	—	38,121
Equity income in consolidated subsidiaries	17,591	164	—	(17,755)	—
Net income	$ 38,121	$ 15,248	$ 2,507	$ (17,755)	$ 38,121
Comprehensive income	$ 39,199	$ 15,237	$ 81	$ (17,755)	$ 36,762

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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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CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2016
(in thousands)

	NeuStar, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenue	$ 335,530	$ 242,238	$ 28,752	$ (21,657)	$ 584,863
Operating expense:					
Cost of revenue (excluding depreciation and amortization shown separately below)	83,471	103,088	13,448	(18,419)	181,588
Sales and marketing	61,712	43,871	6,318	(2,290)	109,611
Research and development	10,574	1,392	843	—	12,809
General and administrative	45,006	9,537	1,161	(948)	54,756
Depreciation and amortization	26,939	45,594	4,778	—	77,311
Restructuring charges	6,369	1,968	456	—	8,793
Separation costs	4,218	—	—	—	4,218
	238,289	205,450	27,004	(21,657)	449,086
Income from operations	97,241	36,788	1,748	—	135,777
Other (expense) income:					
Interest and other expense	(32,305)	(970)	473	—	(32,802)
Interest income	1,095	170	(1,024)	—	241
Income before income taxes and equity income in consolidated subsidiaries	66,031	35,988	1,197	—	103,216
Provision (benefit) for income taxes	22,622	11,546	(448)	—	33,720
Income before equity income in consolidated subsidiaries	43,409	24,442	1,645	—	69,496
Equity income in consolidated subsidiaries	26,087	311	—	(26,398)	—
Net income	$ 69,496	$ 24,753	$ 1,645	$ (26,398)	$ 69,496
Comprehensive income	$ 68,716	$ 24,732	$ 3,828	$ (26,398)	$ 70,878

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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	$ 166,889	$ 78,812	$ (3,650)	$ (76,956)	$ 165,095
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 benefit from equity awards	48	—	—	—	48
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	(65,435)	(79,292)	1,996	76,956	(65,775)
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2016
(in thousands)

	NeuStar, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 151,200	$ 76,028	$ (9,505)	$ (93,418)	$ 124,305
Investing activities:					
Purchases of property and equipment	(21,533)	(1,833)	—	—	(23,366)
Businesses acquired, net of cash acquired	12	—	—	—	12
Net cash used in investing activities	(21,521)	(1,833)	—	—	(23,354)
Financing activities:					
Decrease of restricted cash	—	73	—	—	73
Payments under notes payable obligations	(126,731)	—	—	—	(126,731)
Principal repayments on capital lease obligations	(2,774)	—	—	—	(2,774)
Proceeds from issuance of stock	432	—	—	—	432
Tax benefit from equity awards	259	—	1	—	260
Repurchase of restricted stock awards and common stock	(10,762)	—	—	—	(10,762)
(Distribution to) investment by parent	—	(95,596)	2,178	93,418	—
Net cash (used in) provided by financing activities	(139,576)	(95,523)	2,179	93,418	(139,502)
Effect of foreign exchange rates on cash and cash equivalents	420	(17)	(292)	—	111
Net decrease in cash and cash equivalents	(9,477)	(21,345)	(7,618)	—	(38,440)
Cash and cash equivalents at beginning of period	48,061	27,092	13,944	—	89,097
Cash and cash equivalents at end of period	$ 38,584	$ 5,747	$ 6,326	$ —	$ 50,657

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements, including, without limitation, statements concerning the conditions in our industries, 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

Planned Company Separation

On June 21, 2016, we announced our intention to separate into two independent and publicly traded companies. One company will consist of the majority of our Information Services, while the other will focus on providing Order Management and Numbering Services. Information Services includes Marketing Services, Security Services and Data Services. Order Management and Numbering Services will provide Local Number Portability Administration, number administration and ancillary numbering services as well as order and inventory management solutions. We intend to accomplish the separation through a tax-free spin-off, which we expect to occur over the next twelve months. The separation is subject to final approval by our Board of Directors, as well as a number of market and regulatory conditions, including, among others, effectiveness of the Form 10 to be filed with the Securities and Exchange Commission.

Second Quarter 2016 Activity

During the second quarter, we expanded our highly competitive solutions by entering into new strategic partnerships. In particular, we entered into a partnership with Limelight Networks to create the world's largest and most distributed DDoS mitigation network by increasing our protection capability from 1.2 to 10.0 Terabits per second across 27 global locations. In addition, we partnered with Experian to enhance our clients' ability to onboard offline data with greater addressable coverage and expanded activation options across direct match partners in addressable TV, mobile, display and email channels. Marketers can also integrate the enhanced offering with Neustar's PlatformOne. Marketers will be able to use this best-in-class solution to target and deliver audience data wherever they need to without any data loss, extra costs or inefficiencies that come from a disjointed multi-partner approach. In addition, during the second quarter, we continued to provide NPAC Services of outstanding quality to our customers.

During the second quarter, we generated revenue of $297.6 million, an increase of 16% from $256.8 million in the second quarter of 2015. This increase was driven by 2015 acquisitions and the continuation of strong demand for our solutions in Marketing Services. Our Marketing Services revenue for the quarter increased 56% to $63.9 million from $40.9 million in the second quarter of 2015. Our Security Services revenue increased 22% to $49.3 million from $40.5 million in the second quarter of 2015, driven by the acquisition of Bombora Technologies. Our Data Services increased 13% to $55.8 million from $49.2 million, this increase was driven by the caller authentication assets acquired from TNS. Our NPAC Services revenue increased 2% to $128.5 million from $126.2 million due to revenue from the transition statement of work under our contracts to provide LNPA services.

On March 26, 2015, the Federal Communications Commission, or FCC, approved a competitor to serve as the next Local Number Portability Administrator, or LNPA, and authorized the North American Portability Management LLC, or NAPM, to begin contract negotiations with that competitor. 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

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addressed in the parties' briefs on the merits. We filed our initial brief on September 21, 2015; the briefing schedule concluded on December 17, 2015. Oral arguments before the Court of Appeals have been scheduled for September 13, 2016.

On April 7, 2015, we amended our seven regional contracts with the NAPM. Under this amendment, we will provide LNPA services for an annual fixed fee of $496.1 million until the termination of these contracts. In addition to LNPA services, we are providing certain transition services under this amendment on a cost-plus basis. On July 1, 2016, we received a notice of non-renewal from the NAPM informing us of its election not to renew the master agreements that expire on September 30, 2016. NAPM may require us to continue to provide LNPA services under the current contract terms. In order to continue to receive the pricing terms under the current contracts, NAPM must provide us with at least one termination notice during the current term, which must establish a termination date that is 180 days after the date of notice. Based on the published timeline to transition LNPA services to another vendor, we do not expect that the NAPM will provide a termination notice that results in the termination of our services during the next twelve months. We cannot be certain how long we will provide LNPA services; however, we will continue to provide services under the current terms of the NAPM contracts for as long as required by NAPM. On April 20, 2016, the NAPM Transition Oversight Manager, or the TOM, published a preliminary transition timeline which extends through the third quarter of 2017. During its webinar on June 21, 2016, the TOM subsequently stated that the preliminary transition timeline would likely be revised to account for delays in the transition process. On July 25, 2016 the FCC issued an Order approving the proposed contract between the NAPM and a competitor.

Prior to this amendment, we provided LNPA services under our contracts with NAPM for a fixed fee with a 6.5% annual price escalator. These contracts were 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 2015 LNPA service fixed fee of $496.1 million. Under the April 7, 2015 amendment, the annual LNPA service fixed fee remains the same at $496.1 million for the duration of the amended term of the contracts. As a result, the amendment will not have an impact on our revenue growth rate for the year ended December 31, 2016.

Loss of the NPAC contracts will have a material adverse impact on our future operating results when compared to our current financial profile. We expect to lose approximately $500 million of annual revenue and this loss will adversely impact our income from operations and operating margin. Additionally, this loss may have a disproportionate material negative impact on our operating margin because of the largely fixed and shared cost structure that is designed to support all of our services. As a result of the uncertain contract end date and due to our cost structure, which is organized by function, we are currently analyzing the impact of the termination of the contracts on our income from operations in an effort to quantify such impacts. Our disclosure will expand as we evaluate the cost structure that will be in place to support our ongoing business or as we learn more about the timing of the contract termination.

Given the facts and circumstances described above, we determined that the structure of our organization is appropriate at this time.

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, 2016, for certain matters that may bear on our results of operations.

For a discussion of selected critical accounting policies refer 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, 2015.

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Consolidated Results of Operations

Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2016

The following table presents an overview of our results of operations for the three months ended June 30, 2015 and 2016:

	Three Months Ended June 30,			
	2015	2016	2015 vs. 2016	
	$	$	$ Change	% Change
	(unaudited)			
	(dollars in thousands, except per share data)			
Revenue	$256,767	$297,565	$40,798	15.9 %
Operating expense:				
Cost of revenue (excludes depreciation and amortization shown separately below)	67,551	90,237	22,686	33.6 %
Sales and marketing	50,942	54,288	3,346	6.6 %
Research and development	5,997	5,260	(737)	(12.3)%
General and administrative	24,729	27,238	2,509	10.1 %
Depreciation and amortization	29,438	38,829	9,391	31.9 %
Restructuring charges	—	6,129	6,129	100.0 %
Separation costs	—	4,218	4,218	100.0 %
	178,657	226,199	47,542	26.6 %
Income from operations	78,110	71,366	(6,744)	(8.6)%
Other (expense) income:				
Interest and other expense	(6,481)	(15,691)	(9,210)	142.1 %
Interest income	69	67	(2)	(2.9)%
Income before income taxes	71,698	55,742	(15,956)	(22.3)%
Provision for income taxes	26,640	17,621	(9,019)	(33.9)%
Net income	$45,058	$38,121	$(6,937)	(15.4)%
Net income per common share:				
Basic	$0.81	$0.70		
Diluted	$0.80	$0.69		
Weighted average common shares outstanding:				
Basic	55,377	54,458		
Diluted	56,238	55,082		

Revenue

Revenue. Revenue increased $40.8 million driven by revenue from acquisitions closed in 2015 and strong demand for our Marketing Services. Revenue from our Marketing Services increased $23.0 million driven by a $14.4 million contribution from MarketShare, acquired in the fourth quarter of 2015, and increased demand for our services that our clients use to make informed and high impact decisions to promote their products and services.

Security Services revenue increased $8.9 million driven by an increase in revenue of $10.5 million from domain name registries, partially offset by a decrease in revenue of $1.7 million from DNS services. The increase in revenue from domain name registries was driven by an $8.5 million contribution from the acquisition of Bombora Technologies, which included $3.3 million in revenue resulting from the consolidation of the customer base. The remaining increase in domain name registries was driven by continued growth in the number of domain names under management.

Data Services revenue increased $6.6 million. Revenue from caller identification services increased $19.1 million driven by a $15.4 million contribution from the caller authentication assets we acquired from TNS. This increase was partially offset by a $9.7 million decrease in revenue from the expiration of our contract to serve as the registry operator for U.S. Common Short Codes in 2015. In addition, revenue from carrier provisioning services decreased $1.5 million due to the completion of client projects and revenue from user authentication and rights managements services decreased $1.3 million.

Revenue from our NPAC Services increased $2.3 million driven by the transition statement of work under our contracts to provide LNPA services.

Expense

Cost of revenue. Cost of revenue increased $22.7 million, including $20.2 million of operating expense related to acquisitions. This increase of $22.7 million was due to an increase of $9.9 million in costs related to our information technology and systems and an increase of $8.9 million in personnel and personnel-related expense. The increase in costs related to our information technology and systems was driven by increased data processing, telecommunications, maintenance and hardware costs. The increase of $8.9 million in personnel and personnel-related expense was due to a $7.9 million increase in personnel costs driven by headcount growth from acquisitions and a $1.0 million increase in stock-based compensation. In addition, cost of revenue increased due to a $2.7 million increase in royalty costs and a $1.1 million increase in contractor costs.

Sales and marketing. Sales and marketing expense increased $3.3 million, including $9.2 million of operating expense related to acquisitions. This increase of $3.3 million was due to an increase of $4.6 million in personnel and personnel-related expense and an increase of $0.4 million in maintenance and general facilities costs. The increase of $4.6 million in personnel and personnel-related expense was due to a $3.8 million increase in personnel costs and a $0.8 million increase in stock-based compensation. These increases were partially offset by a $1.7 million decrease in advertising and marketing costs.

Research and development. Research and development expense decreased $0.7 million, including $0.3 million of operating expense related to acquisitions. This decrease of $0.7 million was due to personnel and personnel-related expense.

General and administrative. General and administrative expense increased $2.5 million, including $2.2 million of operating expense related to acquisitions. This increase of $2.5 million was due to a $2.1 million gain from the sale of certain assets and liabilities in the second quarter of 2015 with no comparable benefit in the second quarter of 2016. In addition, general facilities costs increased $1.0 million, and personnel and personnel-related costs increased $0.3 million due to a $1.0 million increase in personnel costs, partially offset by a $0.7 million decrease in stock-based compensation. These increases were partially offset by a $0.9 million decrease in professional fees.

Depreciation and amortization. Depreciation and amortization expense increased $9.4 million, including $8.9 million in expense related to acquisitions. Amortization expense increased $8.6 million related to acquired intangible assets.

Restructuring charges. Restructuring charges increased $6.1 million due to a plan initiated in the first quarter of 2016 to achieve efficiencies in connection with the integration of our recent acquisitions and the review of our go-to-market strategy.

Separation costs. During the three months ended June 30, 2016, we incurred separation costs of $4.2 million. We announced our intention to separate into two independent and publicly traded companies through a tax-free spin-off. Separation costs recorded in the second quarter related to activities supporting the decision to separate and the commencement of planning for the separation. These costs include professional fees for outside advisory services including legal, finance, accounting and related services.

Interest and other expense. Interest and other expense increased $9.2 million due to an increase of $9.6 million in interest expense, partially offset by a net increase of $0.5 million in foreign currency transaction gains. The increase in interest expense was driven by borrowings under the 2015 Incremental Term Facility and an increase in the interest rate under our 2013 Term Facility.

Interest income. Interest income for the three months ended June 30, 2016 was comparable to the interest income for the three months ended June 30, 2015.

Provision for income taxes. Our effective tax rate, including discrete items, for the three months ended June 30, 2016 decreased to 31.6% from 37.2% for the three months ended June 30, 2015 primarily due to our federal research and development credit, which was not available to us in the first half of 2015, and the reversal of certain unrecognized tax benefits upon the expiration of certain statutes of limitations. Excluding discrete tax items, our effective tax rate was approximately 34.5% and 36.7% for the three months ended June 30, 2016 and 2015, respectively.

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Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2016

The following table presents an overview of our results of operations for the six months ended June 30, 2015 and 2016:

	Six Months Ended June 30,			
	2015	2016	2015 vs. 2016	
	$	$	$ Change	% Change
	(unaudited)			
	(dollars in thousands, except per share data)			
Revenue	$508,155	$584,863	$76,708	15.1 %
Operating expense:				
Cost of revenue (excludes depreciation and amortization shown separately below)	131,709	181,588	49,879	37.9 %
Sales and marketing	97,676	109,611	11,935	12.2 %
Research and development	12,451	12,809	358	2.9 %
General and administrative	49,386	54,756	5,370	10.9 %
Depreciation and amortization	59,362	77,311	17,949	30.2 %
Restructuring charges	—	8,793	8,793	100.0 %
Separation costs	—	4,218	4,218	100.0 %
	350,584	449,086	98,502	28.1 %
Income from operations	157,571	135,777	(21,794)	(13.8)%
Other (expense) income:				
Interest and other expense	(13,203)	(32,802)	(19,599)	148.4 %
Interest income	295	241	(54)	(18.3)%
Income before income taxes	144,663	103,216	(41,447)	(28.7)%
Provision for income taxes	53,391	33,720	(19,671)	(36.8)%
Net income	$91,272	$69,496	$(21,776)	(23.9)%
Net income per common share:				
Basic	$1.64	$1.28		
Diluted	$1.61	$1.26		
Weighted average common shares outstanding:				
Basic	55,676	54,205		
Diluted	56,563	54,980		

Revenue

Revenue. Revenue increased $76.7 million driven by revenue from acquisitions closed in 2015 and strong demand for our Marketing Services. Revenue from our Marketing Services increased $43.5 million driven by a $25.7 million contribution from MarketShare, acquired in the fourth quarter of 2015, and increased demand for our services that help clients make informed and high impact decisions to promote their products and services.

Security Services revenue increased $17.9 million driven by an increase in revenue of $17.0 million from domain name registries and an increase in revenue of $0.9 million resulting from demand for our DNS services. The increase in revenue from domain name registries was driven by a $13.1 million contribution from the acquisition of Bombora Technologies, which included $3.3 million in revenue resulting from the consolidation of the customer base. The remaining increase in domain name registries was driven by continued growth in the number of domain names under management.

Data Services revenue increased $11.6 million. Revenue from caller identification services increased $36.2 million driven by a $32.3 million contribution from the caller authentication assets we acquired from TNS. This increase was partially offset by a $18.9 million decrease in revenue from the expiration of our contract to serve as the registry operator for U.S. Common Short Codes in 2015. In addition, revenue from user authentication and rights managements services decreased $3.0 million, and revenue from carrier provisioning services decreased $2.8 million due to the completion of client projects.

Revenue from our NPAC Services increased $3.8 million driven by the transition statement of work under our contracts to provide LNPA services.

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Expense

Cost of revenue. Cost of revenue increased $49.9 million, including $42.5 million of operating expense related to acquisitions. This increase of $49.9 million was due to an increase of $23.8 million in costs related to our information technology and systems and an increase of $19.6 million in personnel and personnel-related expense. The increase in costs related to our information technology and systems was driven by increased data processing, telecommunications, maintenance and hardware costs. The increase of $19.6 million in personnel and personnel-related expense was due to a $18.3 million increase in personnel costs driven by headcount growth from acquisitions and a $1.3 million increase in stock-based compensation. In addition, cost of revenue increased due to a $3.9 million increase in royalty costs and a $2.5 million increase in contractor costs.

Sales and marketing. Sales and marketing expense increased $11.9 million, including $20.0 million of operating expense related to acquisitions. This increase of $11.9 million was due to an increase of $12.0 million in personnel and personnel-related expense and an increase of $0.9 million in maintenance and general facilities costs. The increase of $12.0 million in personnel and personnel-related expense was due to a $10.9 million increase in personnel costs and a $1.1 million increase in stock-based compensation. These increases were partially offset by a $1.0 million decrease in advertising and marketing costs

Research and development. Research and development expense increased $0.4 million, including $1.6 million of operating expense related to acquisitions. This increase of $0.4 million was due to personnel and personnel-related expense.

General and administrative. General and administrative expense increased $5.4 million, including $4.9 million of operating expense related to acquisitions. This increase of $5.4 million was due to an increase of $2.6 million in personnel and personnel-related costs, a $2.1 million gain from the sale of certain and assets and liabilities in the second quarter of 2015 with no comparable benefit in the second quarter of 2016, and an increase of $0.7 million in general facilities costs. The increase of $2.6 million in personnel and personnel-related expense was due to a $2.4 million increase in personnel costs and a $0.2 million increase in stock-based compensation.

Depreciation and amortization. Depreciation and amortization expense increased $17.9 million, including $17.8 million in expense related to acquisitions. Amortization expense increased $17.2 million related to acquired intangible assets.

Restructuring expense. Restructuring charges increased $8.8 million due to a plan initiated in the first quarter of 2016 to achieve efficiencies in connection with the integration of our recent acquisitions and the review of our go-to-market strategy.

Separation costs. During the six months ended June 30, 2016, we incurred separation costs of $4.2 million. We announced our intention to separate into two independent and publicly traded companies through a tax-free spin-off. Separation costs recorded in the second quarter related to activities supporting the decision to separate and the commencement of planning for the separation. These costs include professional fees for outside advisory services including legal, finance, accounting and related services.

Interest and other expense. Interest and other expense increased $19.6 million due an increase of $19.7 million in interest expense driven by borrowings under the 2015 Incremental Term Facility and an increase in the interest rate under our 2013 Term Facility.

Interest income. Interest income for the six months ended June 30, 2016 was comparable to the interest income for the six months ended June 30, 2015.

Provision for income taxes. Our effective tax rate, including discrete items, for the six months ended June 30, 2016 decreased to 32.7% from 36.9% for the six months ended June 30, 2015, primarily due to the reversal of certain unrecognized tax benefits upon the completion of an IRS audit and expiration of certain statutes of limitations. Excluding discrete tax items, our effective tax rate was approximately 34.5% and 36.7% for the six months ended June 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

Our principal source of liquidity has been cash provided by our operating and financing activities. Our principal uses of cash have been to fund acquisitions, share repurchases, debt service requirements and capital expenditures. We

anticipate that our principal uses of cash in the future will be for debt service requirements and capital expenditures. Total cash and cash equivalents were $50.7 million at June 30, 2016, a decrease of $38.4 million from $89.1 million at December 31, 2015. This decrease in cash and cash equivalents was driven by cash used to reduce the outstanding principal under the 2013 Credit Facilities, partially offset by cash provided by operating activities.
We believe that our existing cash and cash equivalents and cash from operations will be sufficient to fund our operations for at least the next twelve months.

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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. On December 9, 2015, we amended our 2013 Credit Facilities to provide for a $350 million incremental term loan, or the 2015 Incremental Term Facility. For further discussion of this debt, refer to Note 7 to our Consolidated Financial Statements in Item 8 of Part II in our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 5 to our Financial Statements in Item 1 of Part I of this report.

In anticipation of the scheduled maturity of our indebtedness, we intend to seek to refinance all or a portion of the 2013 Credit Facilities prior to their maturity. There can be no assurance that we will be able to refinance these credit facilities on terms more favorable to us or at all. See "Risks related to the notes and our other indebtedness" in Part II, Item IA of this Quarterly Report.

Discussion of Cash Flows

Cash flows from operations

Net cash provided by operating activities for the six months ended June 30, 2016 was $124.3 million, as compared to $165.1 million for the six months ended June 30, 2015. This $40.8 million decrease in net cash provided by operating activities was the result of a decrease in net income of $21.8 million, an increase in non-cash adjustments of $24.7 million and a decrease in net changes in operating assets and liabilities of $43.7 million.

Non-cash adjustments increased $24.7 million, driven by an increase of $17.9 million in depreciation and amortization expense, an increase of $7.2 million in amortization of deferred financing costs and original issue discount on debt, an increase of $2.8 million in stock-based compensation, and a decrease of $0.6 million in gain on asset disposals. These total increases of $28.5 million in non-cash adjustments were partially offset by a decrease of $3.4 million in deferred income taxes, a decrease of $0.3 million in the provision for doubtful accounts, and an increase of $0.2 million in tax benefit from equity awards.

Cash provided by net changes in operating assets and liabilities decreased $43.7 million primarily due to a decrease of $38.3 million in accounts payable and accrued expenses, a decrease of $7.9 million in other liabilities, a decrease of $3.5 million in income taxes, a decrease of $2.3 million in deferred costs and a decrease of $2.2 million in prepaid expenses and other current assets. These total decreases of $54.2 million in net changes in operating assets and liabilities were partially offset by an increase of $5.3 million in other assets, a net increase of $3.2 million in accounts and unbilled receivables and an increase of $1.9 million in deferred revenue.

Cash flows from investing

Net cash used in investing activities for the six months ended June 30, 2016 was $23.4 million, as compared to $13.4 million for six months ended June 30, 2015. This $10.0 million increase in net cash used in investing activities was due to an increase in cash used for purchases of property and equipment.

Cash flows from financing

Net cash used in financing activities was $139.5 million for the six months ended June 30, 2016, as compared to $65.8 million for the six months ended June 30, 2015. This $73.7 million increase in net cash used in financing activities was due to an increase of $122.7 million in principal payments under our 2013 Credit Facilities, a decrease of $4.9 million in cash proceeds from the issuance of stock and an increase of $0.9 million in cash used in principal repayments on capital lease obligations. These total increases of $128.5 million in cash used in financing activities was partially offset by a decrease of $54.2 million in cash used for share repurchases and for the net down of employee shares, cash provided of $0.4 million due to a net change in restricted cash and an increase of $0.2 million in tax benefit from equity awards.

Recent Accounting Pronouncements

See Note 2 to our Financial Statements in Item 1 of Part I 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, 2015. Our exposure to market risk has not changed materially since December 31, 2015.

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, 2016, 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 2016 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 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 27, 2015, approving a recommendation by the North American Numbering Council 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. We filed our initial brief on September 21, 2015; the briefing schedule concluded on December 17, 2015. Oral arguments before the Court of Appeals have been scheduled for September 13, 2016.

Item 1A. Risk Factors

The following sets forth risk factors associated with our business. The risk factors marked with an asterisk (*) contain changes to the description of the risk factors associated with our business previously disclosed in Part 1, Item 1A “Risk Factors” in our Annual Report on Form 10-K for our fiscal year ended December 31, 2015, filed with the SEC on February 29, 2016. The risks set forth below could materially affect our business, financial condition and future results and 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.

Risks related to our business

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

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

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

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- damage to, or failure of, our computer software or hardware or our connections to, and outsourced service arrangements with, third parties;
- failure of, or defects in, the third-party systems, software or equipment on which we or our clients rely to access our data centers and other systems;
- errors in the processing of data by our systems;
- computer viruses, malware or software defects;
- physical or electronic break-ins, sabotage, distributed denial of service, or DDoS, penetration attacks, intentional acts of vandalism and similar events;
- increased capacity demands or changes in systems requirements of our clients;
- virtual hijacking of traffic destined to our systems; and
- power loss, communications failures, pandemics, wars, acts of terrorism, political unrest or other man-made or natural disasters.

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

- our reputation may be damaged, which may adversely affect our ability to market our services and attract or retain clients;
- we may be subject to significant penalties or damages claims, under our contracts or otherwise, including the requirement to pay substantial penalties related to service level requirements in our contracts;
- we may be required to make significant expenditures to repair or replace equipment, third-party systems or an entire data center, to establish new data centers and systems from which we may provide services or to take other required corrective action; or
- one or more of our significant contracts may be terminated early, or may not be renewed.

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

When our seven contracts with North American Portability Management LLC are terminated, the timing of which is uncertain, our revenue and profitability will be materially adversely affected. *

We cannot be certain when our contracts to provide local number portability services will be terminated. On July 1, 2016, we received a notice of non-renewal from the NAPM informing us of its election not to renew the master agreements that expire on September 30, 2016. The NAPM may require us to continue to provide LNPA services under the current contract terms. In order to continue to receive the pricing terms under the current contracts, NAPM must provide us with at least one termination notice during the current term, which must establish a termination date that is 180 days after the date of notice. Based on the published timeline to transition the LNPA services to another vendor, we do not expect that the NAPM will provide a termination notice that results in the termination of our services during the next twelve months. We cannot be certain how long we will provide LNPA services; however, we will continue to provide services to the NAPM for as long as it requires us. On April 20, 2016, the NAPM Transition Oversight Manager, or TOM, published a preliminary overall transition timeline that showed the transition period extending through the third quarter of 2017. Further, during its webinar on June 21, 2016, the

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TOM stated that the preliminary transition timeline would likely be revised to account for delays in the transition process. On July 25, 2016 the FCC issued an Order approving the proposed contract between the NAPM and a competitor.

Once the contracts terminate, our annual revenue will decrease by approximately $500 million. As a result of the uncertain contract end date and due to our cost structure, which is organized by function, the impact of the termination of the contracts on our income from operations is not currently quantifiable. At the time of termination, our revenue and profitability will depend on the success of our remaining business. If we are not able to replace this lost revenue and adjust our operating plans to support our remaining business, our total revenue and profitability may be materially adversely affected.

We are exposed to risks related to cybersecurity and protection of confidential information.

Our operations rely on the secure processing, storage and transmission of confidential, sensitive, proprietary and other types of information relating to our products and services and confidential and sensitive information about our clients and others. We expend significant resources on security measures to protect our data and infrastructure against security breaches and cyber attacks and use a complex system of internal processes and software controls along with policies, procedures and training to protect the confidentiality of client data and sensitive information. The cyber risks we face range from cyber attacks common to most industries, to more advanced threats that target us due to our sales of security-related solutions. Breaches of our technology and systems or those of our third party service providers and vendors, whether from circumvention of security systems, denial of service attacks or other cyber-attacks, hacking, computer viruses or malware, technical malfunction, employee error, malfeasance, physical breaches, system disruptions or other actions could cause material interruptions or malfunctions of our products and services or those of third party service providers and may compromise the confidentiality and integrity of confidential or sensitive information regarding our business or clients. Any material incidents or even a perceived breach of our security measures could cause us to experience reputational harm, loss of clients, regulatory actions, sanctions or other statutory penalties, litigation, liability for failure to safeguard our clients' information or financial losses that are either not insured against or not fully covered through any insurance we maintain. As a global company, we could also be impacted by existing and proposed U.S. and foreign laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection. Any of the foregoing could materially impact our business, operating results or financial condition.

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

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

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

In addition to our contracts with NAPM, we provide other revenue-generating services to clients in the communications sector and a wide variety of other sectors, trade associations, and government agencies. For example, we serve as the provider of NPAC Services in Canada; as operator of the .biz registry under contract with ICANN; as operator of the .co registry under a contract with the government of Colombia; as the operator of the .au registry; and as the provider of information services to a wide variety of major corporations, major retailers and marketers. Each of these contracts provides for early termination in limited circumstances, most notably if we are in default. In addition, our contracts to serve as the North American Numbering

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Plan Administrator and as the National Pooling Administrator, each of which is with the U.S. government, may be terminated by the government at will.

If we fail to meet the expectations of the FCC, the U.S. Department of Commerce or any of our other clients that has the right to unilaterally terminate their contracts with us for any reason, including for performance-related or other reasons, the clients may unilaterally terminate the contracts or require us to modify the contracts in ways unfavorable to us, either of which could lead to an unexpected loss of revenue and adversely affect our operating performance. The loss or significant modification of a major contract also could cause us to suffer a loss of reputation that would make it more difficult for us to compete for contracts to provide similar services in the future. Further, a termination arising out of our default under a contract could expose us to liability for breach of contract.

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

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

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

Certain of our domestic operations and many of our clients' operations are subject to regulation by the FCC and other federal, state and local agencies. As communications technologies and the communications industry continue to evolve, the statutes governing the communications industry or the regulatory policies of the FCC may change. If such statutory or regulatory changes were to occur, the demand for many of our services could change in ways that we cannot predict and our revenue could decline, or our costs could increase due to such changes. These risks include the ability of the federal government, most notably the FCC, the Department of Commerce and the Federal Trade Commission, to:

- increase or change regulatory oversight over services we provide;
- prohibit us from entering into new contracts or extending existing contracts to provide services to the communications industry based on actual or suspected violations of our neutrality requirements, business performance concerns, or other reasons;
- adopt or modify statutes, regulations, policies, procedures or programs in a way that could cause changes to our operations or costs or the operations of our clients (e.g., regulatory changes to support IP Transition);
- appoint, or cause others to appoint, substitute or add additional parties to perform the services that we currently provide; and
- prohibit or restrict the provision or export of new or expanded services under our contracts, or prevent the introduction of other services not under the contracts based upon restrictions within the contracts or in FCC policies.

In addition, we are subject to risks arising out of the delegation of the Department of Commerce's responsibilities for the domain name system to ICANN. Changes in the regulations or statutes to which our clients are subject could cause our clients to alter or decrease the services they purchase from us. We cannot predict when, or upon what terms and conditions, further regulation, deregulation or litigation designed to delay or prevent the introduction of new top-level

domains might occur or the effect future regulation or deregulation may have on our business.
Further, the current regulatory environment for Internet communications, products and services generally is uncertain and various laws and governmental regulations, both in the U.S. and abroad, governing Internet related services, related

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communications services and information technologies remain largely unsettled. It may take several years to determine whether and how existing and future laws, such as those governing intellectual property, privacy, libel, telecommunications services and taxation, apply to the Internet and to related products and services such as ours, and substantial resources may be required to comply with regulations or bring any non-compliant business practices into compliance with such regulations. For example, on March 31, 2016, the FCC adopted a Notice of Proposed Rulemaking seeking comment on updated rules to govern the use and disclosure of Customer Proprietary Network Information in the context of broadband Internet access services, as well as associated customer privacy and data security rules. Until the FCC adopts final rules in this area, it is difficult for us to assess the cost of compliance or the extent to which these proposals may otherwise affect our business. Our failure or the failure of our clients and others with whom we transact business to comply with existing or future regulatory or other legal requirements could materially adversely affect our business, financial condition and results of operations.

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

Our success is dependent in part on obtaining, maintaining and enforcing our proprietary rights and our ability to avoid infringing on the proprietary rights of others. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret and copyright laws, the precautionary steps we have taken may not completely protect our intellectual property rights. Effectively policing our intellectual property is time consuming and costly, and the steps taken by us may not prevent infringement of our intellectual property or proprietary rights in our products, technology and trademarks, particularly in foreign countries where in many instances the local laws or legal systems do not offer the same level of protection as in the United States. Further, because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications and other intellectual property relevant to our services and solutions that may block our use of our intellectual property or may be used by third-parties who compete with our services and solutions. As we expand our business and introduce new services and solutions, there may be an increased risk of infringement and other intellectual property claims by third-parties. From time to time, we and our clients may receive claims alleging infringement of intellectual property rights, or may become aware of certain third-party patents that may relate to our services and solutions. Additionally, we monitor our use of open source software to avoid uses that would require us to disclose our proprietary source code or violate applicable open source licenses, but if we engaged in such uses inadvertently, we could be required to take remedial action or release certain of our proprietary source code. These scenarios could have a material adverse effect on our business, financial condition and operating results.

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

The markets for our services are competitive, and if we do not adapt our organization and services to meet rapid technological and market change, we could lose clients or market share.

Our future growth is largely dependent upon our ability to continue to adapt our products, services, and organization to meet the demands of rapidly evolving markets and industry standards. We compete against well-funded providers of data registry, information services, as well as communications software companies and system integrators. In addition, our industry is characterized by rapid technological change, evolving industry standards, and frequent new service offerings. Significant technological changes could make our technology and services obsolete. Accordingly, our future success depends on our ability to: (i) adapt our products, services, organization, workforce, and sales strategies to fit the rapidly changing needs of current and future clients; (ii) identify emerging technological and other trends in our target markets; and (iii) develop or acquire and bring to market competitive products and services quickly and cost-effectively by continually improving the features, functionality, reliability and responsiveness of our services, and by developing new features, services and applications to meet changing client needs. Our ability to take advantage of opportunities in the market may require us to invest considerable resources adapting our organization and capabilities to support development of products and systems that can support new services or be integrated with new technologies and incur other expenses well in advance of our ability to generate revenue from these services. These development efforts may divert

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resources from other potential investments in our businesses, management time and attention from other matters, and may not lead to the development of new products or services on a timely basis.

We cannot guarantee that we will be able to adapt to these challenges or respond successfully or in a cost-effective way, particularly in the early stages of launching a new service. Further, we may experience delays in the development of one or more features of our solutions, which could materially reduce the potential benefits to us for providing these services. Potential clients may not adopt our solutions and we may not be able to reach acceptable contract terms with clients to provide these services.

As a result, the failure to effectively adapt our organization, products and services to the needs of our markets or the failure of our offerings to gain market acceptance, could significantly reduce our revenues, increase our operating costs or otherwise materially and adversely affect our business, financial condition, results of operations and cash flows. Our failure to adapt to meet market demand in a cost-effective manner could adversely affect our ability to compete and retain clients or market share.

If we are not able to obtain the data required to provide our information services, or we obtain inaccurate data, our operating results could be adversely affected.

Much of the data that we use in connection with our information services is purchased or licensed from third parties, obtained from public record sources or provided to us as part of a broader business relationship with a client. Our contracts with third party data providers contain service level requirements, but do not guarantee, nor can we ensure, that the data provided under such contracts will be accurate. If we are not able to obtain this data on favorable economic terms or otherwise, or link to this data, or if the data we obtain is inaccurate, our ability to provide information services to our clients could be materially adversely impacted, which could result in decreased revenue, net income and earnings per share.

Regulatory and statutory requirements, changes in requirements regarding privacy and data protection or public perceptions of data usage may increase our costs or otherwise adversely affect our business.*

Our business operations are subject to a variety of complex privacy and data protection laws and regulations in the United States at both the state and federal levels, and in other jurisdictions. These statutory and regulatory requirements are evolving, increasing in complexity and number, and may change significantly. How companies collect, process, use, store, share or transmit personal data is subject to increasing scrutiny by governments as well as the public, which could influence the adoption of legislation or regulation. Certain collection and use of personal data may engender distrust of businesses based on such activities, which may lead to additional governmental restrictions on and reduced demand for our information services. New statutory or regulatory developments could restrict how we collect, manage, aggregate and use information. There may be conflicts among the privacy and data protections laws adopted by the various countries in which we operate. Judicial and regulatory application and interpretation of these statutory and regulatory requirements are often uncertain and could be interpreted in ways that could restrict our use of data to provide information services to our clients or otherwise harm our business. We may need to incur significant costs or modify our business practices and/or our services in order to comply with existing or revised laws and regulations, or to adapt to changing public attitudes about data usage. For example, we previously relied on a common European Union - United States “safe harbor” framework for the transfer of certain personal information from the European Union to the United States. In October 2015, the European Court of Justice ruled that the safe harbor framework was invalid. As a result, regulators in individual European Union member states will retain control over data privacy requirements and we may be subject to additional obligations that could require us to change our business practices and/or incur additional costs. In addition, on March 31, 2016, the FCC adopted a Notice of Proposed Rulemaking seeking comment on updated rules to govern the use and disclosure of Customer Proprietary Network Information in the context of broadband Internet access services, as well as associated customer privacy and data security rules. Until the FCC adopts final rules in this area, it is difficult for us to assess the cost of compliance or the extent to which these proposals may otherwise affect our business. Any restrictions on our ability to provide services to clients or costs to modify our business practices and/or services could have a material adverse effect on our results of operations or prospects. If we are not able to comply with applicable laws, we may be subject to significant monetary penalties, orders demanding that we cease alleged noncompliant activities, fines and/or criminal prosecution in one or more jurisdictions. These or other remedies could have a material adverse effect on our results of operation or financial condition. Our failure or alleged failure to comply with privacy and data protection laws, or with public attitudes about data usage, including any perception of our practices as an invasion of privacy, could harm our reputation, result in legal actions against us by governmental authorities or private claimants or cause us to lose clients, any of which could have a material adverse effect on our results of operations or prospects.

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Reorganization activities could disrupt our business and affect our results of operations.*

We have previously taken steps, including reductions in force, office closures, and internal reorganizations to reduce the size and cost of our operations, improve efficiencies, and align our organization and staffing to better match our market opportunities and our technology development initiatives. We may take similar steps in the future as we seek to realize additional operating synergies and profitability objectives, or better reflect changes in the strategic direction of our business such as the intended separation of our Company into two independent publicly-traded companies. These changes could be disruptive to our business, including our research and development efforts, and may result in significant expense, including accounting charges for technology-related write-offs, workforce reduction costs and charges relating to consolidation of facilities. Substantial expense or charges resulting from reorganization activities could adversely affect our results of operations and use of cash in those periods in which we undertake such actions.

If we are unable to manage our costs and maintain our quality of service, our profits could be adversely affected.

Historically, sustaining our growth has placed significant demands on our management as well as on our administrative, operational and financial resources. For us to continue to manage our expanded operations, as well as any future growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. If our quality of service is compromised because we are unable to successfully manage our costs, or if new systems that we implement in connection with any future restructuring to assist in managing our operations do not produce the expected benefits, we may experience higher turnover in our client base and our revenue and profits could be adversely affected.

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

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

Our operating results and margins could fluctuate due to factors relating to stock-based compensation.

Similar to many other companies, we use stock awards as a form of compensation for certain employees and non-employee directors. We must recognize the fair value of all stock-based awards, including grants of employee stock options, in our financial statements. The valuation model we use to estimate the fair value of our stock-based awards requires us to make several estimates and assumptions, such as the expected holding period of the awards and expected price volatility of our common stock. The amount we recognize for stock-based compensation expense could vary materially depending on changes in these estimates and assumptions. Other factors that could impact the amount of stock-based compensation expense we recognize include changes in the mix and type of stock-based awards we grant, changes in our compensation plans or tax rate, changes in the award forfeiture rate and differences in our company’s actual operating results compared to management’s estimates for performance-based awards.

Changes in accounting principles and guidance, or their interpretation, could result in unfavorable accounting charges or effects, including changes to previously filed financial statements.

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a significant effect on our reported results and may retroactively affect previously reported results.

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

We believe that our success depends upon the continued contributions of our management team and other key employees, including our engineering, product, sales and marketing and operations personnel. Our success is also contingent upon our continuing ability to recruit, hire, develop, motivate and retain highly skilled employees for all areas of our organization. Any of the following factors may affect our ability to motivate and retain our existing employees and recruit new employees:

- competition for employees with the skills we require to operate and grow our business is intense, and, as a result, our competitors may seek to hire our key employees;
- despite our comprehensive compensation packages, we may not be successful in attracting new employees and retaining and motivating our existing employees; and
- any adverse change in reputation, whether as a result of an unfavorable outcome of our petition for review of the FCC Order, decrease in revenue due to the termination of our contracts with NAPM, or a decline in the market price of our common stock.

Our ability to maintain and grow our business and to compete effectively could be impaired if we are unable to retain and motivate our existing employees and recruit new employees. If we are unable to retain existing employees, we may incur additional costs to recruit and train new employees, which may decrease our profits.

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

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

- competitors offering our clients services at reduced prices, or bundling and pricing services in a manner that makes it difficult for us to compete;
- clients with a significant volume of transactions may have enhanced leverage in pricing negotiations with us; and
- potential clients may find it economically advantageous to handle certain functions internally instead of using our services.

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

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

We currently provide services to clients located in various international locations and, with our recent acquisitions of Bombora Technologies Pty Ltd. and MarketShare Partners, LLC, we intend to pursue additional international business opportunities. International operations and business expansion plans are subject to numerous additional risks, including:

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

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

If we are not successful in growing our information services at the rate that we anticipate, our operating results could be negatively impacted.

Our ability to successfully grow our information services depends on a number of different factors, including market acceptance of our information services, the expansion of our information services capabilities and geographic coverage, and continued public and regulatory acceptance of data usage for the provision of our information services solutions, among others. If we are not successful in growing our information services business at the rate that we anticipate, we may not meet expected growth and gross margin projections or expectations, and our operating results, prospects and the market price of our securities could be adversely affected.

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

We have made a number of acquisitions in the past, and will continue to pursue acquisitions selectively in the future. We may not be able to locate acquisition candidates at prices that we consider appropriate or on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of the acquisition or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require additional debt or equity financing, resulting in additional leverage or dilution to our stockholders.

We may not be able to successfully integrate the operations of businesses that we acquired or realize the anticipated benefits of the acquisitions, which could have a material adverse effect on our business and results of operations.

Integration of acquired business operations, including our recent acquisitions of Bombora Technologies Pty Ltd, MarketShare Partners, LLC, and the acquisition of caller authentication assets from Transaction Network Services, Inc., is a time consuming process that could disrupt our business by diverting significant management attention and resources away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. It is also possible that the integration process could result in the loss of key employees, the disruption of each company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, suppliers, distributors, creditors, or lessors, or to achieve the anticipated benefits of the acquisition. Further, if we cannot successfully integrate an acquired company’s internal control over financial reporting, the reliability of our financial statements may be impaired and we may not be able to meet our reporting obligations under applicable law. Any such impairment or failure could cause investor confidence and, in turn, the market price of our common stock, to be materially adversely affected.

Even if we are able to integrate acquired businesses successfully, we may not realize the full benefits of the cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates or that these benefits will be achieved within a reasonable period of time. In addition, businesses we acquire may not be able to retain their existing business relationships, customers and/or key employees. We may be required to invest significant capital and resources after the acquisition to maintain or grow the businesses that we acquire. In addition, we may need to record write-downs from impairments of goodwill, intangible assets, or long-lived assets, or record adjustments to the purchase price that occur after the closing of the transaction, which could reduce our future reported earnings. If we fail to successfully integrate and support the operations of the businesses we acquire, or if anticipated revenue enhancements and cost savings are not realized from these acquired businesses, our business, results of operations and financial condition would be materially adversely affected. Further, acquired businesses may have liabilities, neutrality-related risks or adverse operating issues that we fail to discover through due diligence prior to the acquisition. These liabilities could include employment, retirement or severance-related obligations under applicable law, other benefits arrangements, legal claims, warranty or similar liabilities to clients, claims by or amounts owed to vendors, tax liabilities or other amounts owed by the acquired companies. The failure to discover such issues prior to such acquisition, should they be significant, could have a material adverse effect on our business and results of operations.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results and stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report a report containing management's assessment of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Compliance with these requirements has resulted in, and is likely to continue to result in, significant costs and the commitment of time and operational resources. Changes in our

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business, including certain initiatives to transform business processes, to invest in information systems or to transition certain functions to third party resources or providers, will necessitate modifications to our internal control systems, processes and information systems as we optimize our business and operations. We cannot be certain that our current design for internal control over financial reporting, or any additional changes to be made, will be sufficient to enable management to determine that our internal controls are effective for any period, or on an ongoing basis. If we are unable to assert that our internal controls over financial reporting are effective, market perception of our financial condition and the trading price of our stock may be adversely affected, and client perception of our business may suffer.

Risks related to financial market conditions

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

The general economic and capital market conditions in the United States and other parts of the world deteriorated significantly in 2008, adversely affecting access to capital and increasing the cost of capital. Although conditions have improved, a large degree of uncertainty remains both domestically and abroad, which continues to adversely impact access to, and the cost of, capital. If funds generated by our operations or available under our Amended 2013 Credit Facilities are insufficient to fund our future activities, including acquisitions, organic business ventures, or capital expenditures, we may need to raise additional funds through public or private equity or debt financing.

In anticipation the scheduled maturity of our indebtedness, we may seek to refinance all or a portion of the 2013 Credit Facilities. If unfavorable capital market conditions exist when we seek additional financing, we may not be able to raise sufficient capital on favorable terms or at all. In addition, we cannot be certain when our contracts to provide NPAC Services will terminate. On July 1, 2016, we received a notice of non-renewal from the NAPM informing us of its election not to renew the master agreements that expire on September 30, 2016. NAPM may require us to continue to provide LNPA services under the current contract terms. In order to continue to receive the pricing terms under the current contracts, NAPM must provide us with at least one termination notice during the current term, which must establish a termination date that is 180 days after the date of notice. Based on the published timeline to transition LNPA services to another vendor, we do not expect that the NAPM will provide a termination notice that results in the termination of our services during the next twelve months. We cannot be certain how long we will provide LNPA services; however, we will continue to provide services under the current terms of the NAPM contracts for as long as required by NAPM. On April 20, 2016, the NAPM Transition Oversight Manager, or the TOM, published a preliminary transition timeline which extends through the third quarter of 2017. During its webinar on June 21, 2016, the TOM subsequently stated that the preliminary transition timeline would likely be revised to account for delays in the transition process. On July 25, 2016 the FCC issued an Order approving the proposed contract between the NAPM and a competitor.

After these contracts terminate, our annual revenue will decrease by approximately $500 million. Furthermore, we significantly increased our indebtedness for borrowed money in 2015 from $783.3 million as of December 31, 2014 to $998.9 million as of June 30, 2016. The loss of revenue when our contracts to provide NPAC Services terminate and/or our additional indebtedness for borrowed money may adversely affect our ability to raise sufficient capital on favorable terms or at all. In addition, the increased outstanding debt balance under our credit facilities and the corresponding increase in our leverage ratio may also make it more difficult or more expensive for us to obtain additional debt financing or other sources of capital. Failure to obtain capital on a timely basis could have a material adverse effect on our results of operations and we may not be able to fund further organic and inorganic growth of our business.

Risks related to the notes and our other indebtedness

Our indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the notes.

As of June 30, 2016, borrowings under our 2013 Credit Facilities, Senior Notes and 2015 Incremental Term Facility were approximately $998.9 million, and we had unused revolving commitments of $7.9 million (after giving effect to borrowings of $175.0 million and $17.1 million of outstanding letters of credit). In addition, our 2013 Term Facility allows us to request one or more increases to the available term commitments under such facility. We are entitled to request such increases in an amount such that, after giving effect to such increases, either (a) the aggregate amount of increases does not exceed $400 million or (b) our consolidated secured leverage ratio on a pro forma basis after giving effect to any such increase is below 2.50 to 1.00. As of June 30, 2016, the total amount of such potential incremental increases we could request was approximately $482.1 million.

Subject to the limits contained in the credit agreement that governs our 2013 Term Facility and 2015 Incremental Term Facility, the indenture that governs the Senior Notes and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance investments or acquisitions, or for other general corporate purposes. If we do so,

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the risks related to our level of debt could intensify. Our level of debt could have important consequences to the holders of our securities, including the following:

- making it more difficult for us to satisfy our obligations with respect to the Senior Notes and our other debt;
- limiting our ability to obtain additional financing to fund future acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our 2013 Term Facility and 2015 Incremental Term Facility, are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the indenture that governs the Senior Notes and the credit agreement that governs our 2013 Term Facility and 2015 Incremental Term Facility contains restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of the repayment of all our debt.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control, including the uncertainty regarding future extensions of our contracts with NAPM. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The credit agreements that govern our 2013 Term Facility and 2015 Incremental Term Facility and the indenture that governs the Senior Notes restrict our ability to dispose of assets and use the proceeds from those dispositions and also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

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

If we cannot make scheduled payments on our debt, we will be in default and holders of the Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under our 2013 Term Facility and 2015 Incremental Term Facility could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

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

Borrowings under our credit facilities are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. Assuming all loans are fully drawn, each quarter point change in interest rates would result in a $0.8 million change in annual interest expense on our indebtedness under our credit facilities. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate

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volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our debt currently has a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Any downgrade by either Standard & Poor's or Moody's could increase the interest rate on our credit facilities, result in higher borrowing costs and decrease earnings. Any future adverse changes to our ratings likely would make it more difficult or more expensive for us to obtain additional debt financing.

Risk Related to the Company's Planned Separation*

Our plan to separate into two independent publicly-traded companies may not be completed as expected, on the anticipated timeline, or at all, and will involve significant time and expense, which could disrupt or adversely affect our business.*

On June 21, 2016, we announced our intention to separate into two independent publicly traded companies through a tax-free spin-off. Completion of the spin-off will be contingent upon a number of factors, including the effectiveness of a Registration Statement on Form 10 to be filed by the company to be spun off, final approval of our Board of Directors, receipt of an opinion from tax counsel and satisfaction of other customary conditions. Unanticipated developments, including changes in the competitive conditions of our markets, delays in obtaining any required regulatory or third party approvals, difficulties in refinancing our existing credit facilities and challenges in executing the separation, could delay or prevent the completion of the proposed separation, or cause the proposed separation to occur on terms or conditions that are different or less favorable than expected.

We expect that completing the proposed separation will be time-consuming and require significant effort and expense; these costs may be significantly higher than anticipated and may not yield a discernible benefit if the separation is not completed.

The proposed separation will require significant time and attention from our management and employees, which could disrupt or adversely affect our business.*

The proposed separation will require significant time and attention from our management and employees, including, in particular, employees in our finance, human resources and legal departments. Preparing for the proposed separation may distract our management and employees' attention away from running our day-to-day operations or developing and implementing other business initiatives. Such diversion of management and employee time and focus could adversely affect our business, financial results and results of operations.

The proposed separation may make it more difficult to attract and retain qualified employees.*

Uncertainty related to the proposed separation of our company into two independent publicly traded companies, including the prospects of such companies following the separation, may make it more difficult for us to attract, retain and motivate qualified employees. Our employees' attention may also be distracted due to uncertainty about their future roles with either of the separate companies. These difficulties could have a material and adverse effect on our business, financial condition, results of operations, and prospects.

The separation may not achieve some or all of the anticipated benefits.*

We may not realize, or may not achieve when expected, some or all of the anticipated strategic, financial, operational, marketing or other benefits from the proposed separation. The two independent publicly-traded companies will be smaller, less diversified companies with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect their respective businesses, financial condition and results of operations. Separating the businesses may also eliminate or reduce synergies that existed prior to the separation. Further, we cannot assure you that the combined value of the common stock of the two publicly-traded companies will be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

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The proposed separation may result in disruptions to, and negatively impact our relationships with, our customers and other business partners.*

Uncertainty related to the proposed separation may lead customers and other parties with which we currently do business or may do business in the future to terminate or attempt to negotiate changes in existing business relationships, or consider entering into business relationships with our competitors. These disruptions could have a material and adverse effect on our businesses, financial condition, results of operations and prospects. The effect of such disruptions could be exacerbated by any delays in the completion of the separation.

The separation could result in substantial tax liability.*

We intend to obtain an opinion of outside tax counsel that the separation should not result in recognition, for U.S. federal income tax purposes, of income, gain or loss by us or our stockholders (except with respect to cash received in lieu of fractional shares of the new publicly traded company). In addition, we may elect to seek a private letter ruling from the IRS regarding certain specific U.S. federal income tax matters relating to the proposed separation and certain related transactions. The opinions of outside tax counsel and any IRS private letter ruling will be subject to the continuing validity of various factual assumptions and representations reflected therein. If any of these assumptions or representations are, or become, inaccurate or incomplete, we may not be able to rely on the opinions and/or IRS private letter ruling. In addition, an opinion of outside counsel is not binding on the IRS or any court. Accordingly, even if we receive a private letter ruling and a tax opinion, the IRS could determine that the distribution of the common stock of the new publicly traded company is a taxable transaction and a court could agree with the IRS. If the distribution of such common stock is a taxable transaction, we and our stockholders could have significant tax liabilities. In addition, we may incur certain tax costs in connection with the separation, including non-U.S. tax expense resulting from separations in multiple non-U.S. jurisdictions that do not legally provide for tax-free separations, which may be material.

If the proposed spin-off is completed, there may be substantial changes in our stockholder base, which may cause the price of our common stock to fluctuate following the spin-off.*

Our current stockholders may hold Neustar common stock because of a decision to invest in a diversified company with both information services and numbering and order management markets exposure. If the proposed spin-off is completed, our business profile and market capitalization may not match some of our stockholders' investment strategies, which could cause these investors to sell their shares of Neustar common stock. Excessive selling pressure could cause the market price of Neustar common stock to decrease following the completion of the proposed spin-off.

Risks Related to Our Common Stock

Our common stock price may be volatile.*

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

- our perceived prospects and the prospects of the Telecom, Internet and data analytics industries in general;
- differences between our actual financial and operating results and those expected by investors and analysts;
- changes in analysts' recommendations or projections;
- uncertainty about the length of the remaining term under our contracts with NAPM;
- an unfavorable outcome, or uncertainty about the outcome, of our legal challenge to the FCC Order approving a new LNPA;
- uncertainty regarding the timing or terms of our separation, or the prospects of the two companies into which we plan to separate;
- changes in general valuations for communications and data analytics companies;
- adoption or modification of regulations, policies, procedures or programs applicable to our business;
- sales of our Class A common stock by our officers, directors or principal stockholders;
- sales of significant amounts of our Class A common stock in the public market, or the perception that such sales may occur;

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- sales of our Class A common stock due to a required divestiture under the terms of our certificate of incorporation; and
- changes in general economic or market conditions and broad market fluctuations.

Each of these factors, among others, could have a material adverse effect on the market price of our Class A common stock. Recently, the stock market in general has experienced extreme price fluctuations. This volatility has had a substantial effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of the specific companies. Some companies that have had volatile market prices for their securities have had securities class action suits filed against them. Such a lawsuit was filed against us in July 2014. While this lawsuit was dismissed, if another class action lawsuit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management's attention and resources. This could have a material adverse effect on our business, prospects, financial condition and results of operations.

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

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

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

In addition, our certificate of incorporation and bylaws used to provide for a classified Board of Directors, which will be phased out beginning with the annual meeting of stockholders in 2017 and will no longer be in effect at the time of our annual meeting of stockholders in 2019.

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

In order to comply with neutrality requirements imposed by the FCC in its orders and rules, no entity that qualifies as a "telecommunications service provider," "VoIP provider" or an affiliate of a telecommunications service provider or VoIP provider, as defined under the Communications Act of 1934 and FCC rules and orders, may beneficially own 5% or more of our capital stock. In general, a telecommunications service provider is an entity that offers telecommunications services to the public at large, and is, therefore, providing telecommunications services on a common carrier basis. In general, a VoIP provider is an entity that provides two-way voice communications over a broadband connection and interconnects with the public switched telephone network.

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Moreover, a party will be deemed to be an affiliate of a telecommunications service provider or a VoIP provider if that party controls, is controlled by, or is under common control with, a telecommunications service provider or a VoIP provider, respectively. A party is deemed to control another if that party, directly or indirectly:

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

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

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

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

Nothing in our certificate of incorporation restricts our ability to purchase shares of our capital stock. If a purchase by us of shares of our capital stock results in a stockholder’s percentage interest in our outstanding capital stock increasing to over the 5% threshold, such stockholder must deliver the required certification regarding such stockholder’s status as a telecommunications service provider, VoIP provider or affiliate of a telecommunications service provider or VoIP provider. In addition, to the extent that a repurchase by us of shares of our capital stock causes any stockholder to violate the restrictions on ownership and transfer contained in our certificate of incorporation, that stockholder will be subject to all of the provisions applicable to prohibited owners, including required divestiture and loss of voting rights.

These restrictions and requirements may:

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

Item 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, 2016:

Month	Total Number of Shares Purchased (1)	Average Price Paid per Share
April 1 through April 30, 2016	3,036	$ 24.38
May 1 through May 31, 2016	5,306	23.15
June 1 through June 30, 2016	8,015	24.55
Total	16,357	$ 24.06

(1) The number of shares purchased includes shares of common stock tendered by employees to us to satisfy the 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.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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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 28, 2016	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

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

Exhibit No.	Description
(3.1)	Third Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1.2 to our Quarterly Report on Form 10-Q, filed October 29, 2015.
(3.2)	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q, filed October 29, 2015.
(10.36)	Amended and Restated NeuStar. Inc. 2009 Stock Incentive Plan, incorporated herein by reference to Annex B to our Definitive Proxy Statement on Schedule 14A, filed on April 29, 2016.†
10.48	Form of Performance-Vested Restricted Stock Unit Award Agreement. †
10.49	Form of Restricted Stock Unit Award Agreement. †
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

† Compensation arrangement.