

NEUSTAR INC  
Form 10-Q  
November 10, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2008**

**OR**

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

**For the transition period from to**

**Commission file number 001-32548**

**NeuStar, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**52-2141938**

(I.R.S. Employer  
Identification No.)

**46000 Center Oak Plaza  
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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

There were 78,851,141 shares of Class A common stock, \$0.001 par value, and 4,538 shares of Class B common stock, \$0.001 par value, outstanding at November 3, 2008.

**NeuStar, Inc.**  
**Index**

**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements	3
Consolidated Balance Sheets as of December 31, 2007 and September 30, 2008 (unaudited)	3
Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2008	5
Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2008	6
Notes to Unaudited Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures	35

**PART II OTHER INFORMATION**

Item 1. Legal Proceedings	36
Item 1A. Risk Factors	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults upon Senior Securities	37
Item 4. Submission of Matters to a Vote of Security Holders	37
Item 5. Other Information	37
Item 6. Exhibits	38
Signatures	39

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>December 31, 2007</b>	<b>September 30, 2008 (unaudited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 98,630	\$ 102,625
Restricted cash	488	543
Short-term investments	100,048	17,559
Accounts receivable, net of allowance for doubtful accounts of \$1,654 and \$2,504 respectively	76,632	65,773
Unbilled receivable	383	1,914
Notes receivable	2,159	1,315
Prepaid expenses and other current assets	9,608	11,458
Deferred costs	8,281	9,933
Deferred tax asset	13,907	12,053
<b>Total current assets</b>	<b>310,136</b>	<b>223,173</b>
Investments, long-term		37,255
Property and equipment, net	56,191	68,531
Goodwill	204,093	182,298
Intangible assets, net	36,851	31,945
Notes receivable, long-term	759	
Deferred costs, long-term	3,575	2,300
Deferred tax asset, long-term		901
Other assets	5,056	4,016
<b>Total assets</b>	<b>\$ 616,661</b>	<b>\$ 550,419</b>

*See accompanying notes.*

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

	<b>December 31, 2007</b>	<b>September 30, 2008 (unaudited)</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 9,742	\$ 7,371
Accrued expenses	47,501	45,032
Deferred revenue	32,236	32,309
Notes payable	2,501	2,556
Capital lease obligations	3,511	7,416
Accrued restructuring reserve	413	453
Income tax payable	3,254	35
Other liabilities	108	80
 Total current liabilities	 99,266	 95,252
 Deferred revenue, long-term	 18,063	 13,222
Notes payable, long-term	5,206	2,650
Capital lease obligations, long-term	5,717	11,518
Accrued restructuring reserve, long-term	1,793	1,445
Other liabilities, long-term	3,866	3,409
Deferred tax liability	2,215	
 Total liabilities	 136,126	 127,496
 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, 2007 and September 30, 2008		
Class A common stock, par value \$0.001; 200,000,000 shares authorized; 77,082,161 and 78,830,867 shares issued and outstanding at December 31, 2007 and September 30, 2008, respectively	77	79
Class B common stock, par value \$0.001; 100,000,000 shares authorized; 4,538 shares issued and outstanding at December 31, 2007 and September 30, 2008		
Additional paid-in capital	293,785	315,430
Treasury stock, 99,286 and 4,942,565 shares at December 31, 2007 and September 30, 2008, respectively, at cost	(3,221)	(128,268)
Accumulated other comprehensive loss	(140)	(1,122)
Retained earnings	190,034	236,804
 Total stockholders equity	 480,535	 422,923

Total liabilities and stockholders equity	\$	616,661	\$	550,419
---	----	---------	----	---------

*See accompanying notes.*

4

---

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Revenue:				
Addressing	\$ 28,451	\$ 32,470	\$ 82,311	\$ 94,899
Interoperability	15,191	16,237	43,153	49,228
Infrastructure and other	67,115	75,103	182,434	217,305
<b>Total revenue</b>	<b>110,757</b>	<b>123,810</b>	<b>307,898</b>	<b>361,432</b>
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	24,093	27,683	70,417	78,983
Sales and marketing	16,317	17,865	52,602	56,808
Research and development	5,977	7,140	19,297	22,442
General and administrative	12,978	15,407	35,018	47,040
Depreciation and amortization	9,498	10,552	27,937	30,958
Impairment of goodwill				29,021
	68,863	78,647	205,271	265,252
<b>Income from operations</b>	<b>41,894</b>	<b>45,163</b>	<b>102,627</b>	<b>96,180</b>
Other (expense) income:				
Interest and other expense	(529)	(1,110)	(851)	(4,434)
Interest income	1,148	359	2,829	3,200
<b>Income before income taxes</b>	<b>42,513</b>	<b>44,412</b>	<b>104,605</b>	<b>94,946</b>
Provision for income taxes	16,811	16,038	41,786	48,176
<b>Net income</b>	<b>\$ 25,702</b>	<b>\$ 28,374</b>	<b>\$ 62,819</b>	<b>\$ 46,770</b>
Net income per common share:				
Basic	\$ 0.34	\$ 0.39	\$ 0.83	\$ 0.63
Diluted	\$ 0.32	\$ 0.38	\$ 0.79	\$ 0.61
Weighted average common shares outstanding:				
Basic	76,461	73,581	75,664	74,293
Diluted	79,272	75,017	79,120	76,361

*See accompanying notes.*



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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2008</b>
Operating activities:		
Net income	\$ 62,819	\$ 46,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,937	30,958
Stock-based compensation	11,589	13,339
Amortization of deferred financing costs	115	129
Excess tax benefits from stock-based compensation	(17,997)	(2,291)
Deferred income taxes	1,737	(560)
Provision for doubtful accounts	1,876	1,906
Other-than-temporary loss on investments		2,637
Impairment of goodwill		29,021
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(22,490)	9,242
Unbilled receivables	563	(1,531)
Notes and securitized notes receivable	1,481	1,603
Prepaid expenses and other current assets	(519)	(1,653)
Deferred costs	(1,475)	(377)
Income tax receivable	16,581	
Other assets	(57)	919
Other liabilities	48	(864)
Accounts payable and accrued expenses	(1,774)	(4,156)
Income taxes payable		(774)
Accrued restructuring reserve	(274)	(308)
Deferred revenue	8,889	(5,674)
Net cash provided by operating activities	89,049	118,336
Investing activities:		
Purchases of property and equipment	(20,718)	(18,528)
Sales of investments, net	(8,615)	40,380
Business acquired, net of cash	(1,569)	(13,762)
Net cash (used in) provided by investing activities	(30,902)	8,090
Financing activities:		
Disbursement of restricted cash	(139)	(55)
Principal repayments on notes payable	(2,522)	(2,501)
Principal repayments on capital lease obligations	(3,705)	(3,670)
Proceeds from exercise of common stock options	12,533	6,018
Excess tax benefits from stock-based compensation	17,997	2,291
Repurchase of restricted stock awards	(3,172)	(192)
Repurchase of common stock		(124,855)



Edgar Filing: NEUSTAR INC - Form 10-Q

Net cash provided by (used in) financing activities	20,992	(122,964)
Effect of foreign exchange rates on cash and cash equivalents		533
Net increase in cash and cash equivalents	79,139	3,995
Cash and cash equivalents at beginning of period	39,242	98,630
Cash and cash equivalents at end of period	\$ 118,381	\$ 102,625

*See accompanying notes.*

6

---

**NEUSTAR, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2008**

**1. DESCRIPTION OF BUSINESS AND ORGANIZATION**

NeuStar, Inc. (the Company) was incorporated as a Delaware corporation in 1998. The Company provides the communications industry with essential clearinghouse services. Its customers use the databases the Company contractually maintains in its clearinghouse to obtain data required to successfully route telephone calls in North America, to exchange information with other communications service providers and to manage technological changes in their own networks. The Company operates the authoritative directories that manage virtually all telephone area codes and numbers, and it enables the dynamic routing of calls among thousands of competing communications service providers, or CSPs, in the United States and Canada. All CSPs that offer telecommunications services to the public at large, or telecommunications service providers, must access the Company's clearinghouse to properly route virtually all of their customers' calls. The Company also provides clearinghouse services to emerging CSPs, including Internet service providers, mobile network operators, cable television operators, and voice over Internet Protocol, or VoIP, service providers. In addition, the Company provides domain name services, including internal and external managed DNS solutions that play a key role in directing and managing traffic on the Internet, and it also manages the authoritative directories for the .us and .biz Internet domains. The Company operates the authoritative directory for U.S. Common Short Codes, part of the short messaging service relied upon by the U.S. wireless industry, and provides solutions used by mobile network operators throughout Europe to enable mobile instant messaging for their end users.

The Company was founded to meet the technical and operational challenges of the communications industry when the U.S. government mandated local number portability in 1996. While the Company remains the provider of the authoritative solution that the communications industry relies upon to meet this mandate, the Company has developed a broad range of innovative services to meet an expanded range of customer needs. The Company provides the communications industry with critical technology services that solve the addressing, interoperability and infrastructure needs of CSPs. These services are now used by CSPs to manage a range of their technical and operating requirements, including:

*Addressing.* The Company enables CSPs to use critical, shared addressing resources, such as telephone numbers, Internet top-level domain names, and U.S. Common Short Codes.

*Interoperability.* The Company enables CSPs to exchange and share critical operating data so that communications originating on one provider's network can be delivered and received on the network of another CSP. The Company also facilitates order management and work flow processing among CSPs.

*Infrastructure and Other.* The Company enables CSPs to manage their networks more efficiently by centrally managing certain critical data they use to route communications over their own networks.

**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 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. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet as of December 31, 2007 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. generally accepted accounting principles for complete financial statements.

Edgar Filing: NEUSTAR INC - Form 10-Q

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, 2007 filed with the Securities and Exchange Commission (SEC).

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Significant estimates and assumptions are inherent in the analysis and the measurement of deferred tax assets, the identification and quantification of income tax liabilities due to uncertain tax positions, the determination of goodwill and intangible assets impairment (as further described below) and the determination of the allowance for estimated uncollectible accounts. Actual results could differ from those estimates.

The annual goodwill impairment test, any required interim goodwill impairment test and the related determination of the fair value of reporting units and intangible assets each involve the use of significant estimates and assumptions by management, and are inherently subjective. In particular, for each of the Company's reporting units, the significant assumptions used include market penetration, anticipated growth rates, and risk-adjusted discount rates for the income approach, as well as the selection of comparable companies and comparable transactions for the market approach. Changes in estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Specifically, for the Company's Next Generation Messaging (NGM) reporting unit, due to the early stage of its operations and the emerging nature of mobile instant messaging technology, the assumptions and estimates used by management that are incorporated within the NGM valuation have a high degree of subjectivity, and are thus more likely to change over time. In addition, because relatively few carriers control a substantial portion of the end users who will drive the success of mobile instant messaging, the activities of NGM's largest customers can have a significant impact on these assumptions and estimates. For example, the Company changed certain of its key assumptions, most notably assumptions relating to end-user adoption rates, to reflect changes in the market and identified customer-related events that occurred late in the first quarter of 2008. The effect of these changes on the Company's projections of future cash flows resulted in a \$29.0 million impairment charge in March 2008. The Company believes that the assumptions and estimates used to determine the estimated fair values of each of its reporting units are reasonable; however, there are a number of factors, including factors outside of the Company's control, that could cause actual results to differ from the Company's estimates, including further delays from changes in strategy by participants in the mobile instant messaging market, lack of effective marketing efforts to promote mobile instant messaging to end users and unforeseen changes in the market. Any changes in key assumptions about the Company's businesses and their prospects, or changes in market conditions, could result in an additional impairment charge. Such a charge could have a material effect on the Company's consolidated financial statements because of the significance of goodwill and intangible assets to the Company's consolidated balance sheet. As of September 30, 2008, the Company had \$95.4 million and \$86.9 million, respectively, in goodwill for its Clearinghouse reporting unit and its NGM reporting unit, subject to future impairment tests.

**Reclassification**

Certain prior period amounts have been reclassified for comparative purposes.

**Investments**

The Company's short-term and long-term investments are classified as available-for-sale and are carried at estimated fair value, as determined by quoted market prices or other valuation methods, with unrealized gains and losses reported in a separate component of accumulated other comprehensive loss. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in interest and other expense. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale is included in interest income.

The Company periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including but not limited to: the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near-term prospects for recovery of the market value of a security; and the

intent and ability of the Company to hold the security until the market value recovers. Declines in value below cost for investments when it is considered probable that all contractual terms of the investment will be satisfied, which are due primarily to changes in market demand and not because of increased credit risk, and which the Company intends and has the ability to hold for a period of time sufficient to allow a market recovery, are not realized as an other-than-temporary charge in earnings.

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Goodwill**

Goodwill represents the excess of the purchase price over the fair value of assets acquired, as well as other definite-lived intangible assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill and indefinite-lived intangible assets are not amortized, but are reviewed for impairment upon the occurrence of events or changes in circumstances that would reduce the fair value of such assets below their carrying amount. Goodwill is required to be tested for impairment at least annually, or on an interim basis if circumstances change that would indicate the possibility of impairment. For purposes of the Company's annual impairment test, the Company has identified and assigned goodwill to two reporting units, Clearinghouse Services and NGM Services.

Goodwill is tested for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of a reporting unit's net assets, including assigned goodwill, to the book value of its net assets, including assigned goodwill. Fair value of the reporting unit is determined using both an income and market approach. To assist in the process of determining if goodwill impairment exists, the Company performs internal valuation analyses and considers other market information that is publicly available, and the Company may obtain appraisals from external advisors. If the fair value of the reporting unit is greater than its net book value, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's net book value, the Company performs a second step to measure the amount of the impairment, if any. The second step is to compare the book value of the reporting unit's assigned goodwill to the implied fair value of the reporting unit's goodwill, using a theoretical purchase price allocation based on the estimated fair value of the reporting unit to determine the magnitude of the impairment. If the Company determines that an impairment has occurred, the Company is required to write down the carrying value and charge the impairment as an operating expense in the period the determination is made. During the nine months ended September 30, 2008, the Company recorded a goodwill impairment charge of \$29.0 million related to its NGM reporting unit (see Note 6). There was no goodwill impairment charge during the three and nine months ended September 30, 2007.

**Identifiable Intangible Assets**

Identifiable intangible assets are amortized over their respective estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS No. 144).

The Company's identifiable intangible assets are amortized as follows:

	<b>Years</b>	<b>Method</b>
Acquired technologies	3 to 5	Straight-line
Customer lists and relationships	3 to 7	Various
Trade name	3	Straight-line

Amortization expense related to acquired technologies and customer lists and relationships is included in depreciation and amortization expense in the consolidated statements of operations.

**Impairment of Long-Lived Assets**

In accordance with SFAS No. 144, the Company reviews long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. Recoverability measurement and estimating of undiscounted cash flows is done at the lowest possible level for which there are identifiable assets. If such assets are considered impaired, the amount of impairment recognized is equal to the amount by which the carrying amount of assets exceeds the fair value of the assets. Assets to be disposed of are recorded at the lower of the carrying amount or fair value less costs to sell. In connection with the interim goodwill impairment test of the NGM reporting unit in March 2008, the Company performed a recoverability test of the long-lived assets of its NGM

reporting unit. The Company concluded that the future undiscounted cash flows of the NGM asset group exceeded its carrying value. There were no asset impairment charges recognized during the three and nine months ended September 30, 2008.

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Revenue Recognition**

The Company provides the North American communications industry with essential clearinghouse services that address the industry's addressing, interoperability, and infrastructure needs. The Company's revenue recognition policies are in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition*. The Company provides the following services pursuant to various private commercial and government contracts.

***Addressing***

The Company's addressing services include telephone number administration, implementing the allocation of pooled blocks of telephone numbers, directory services for Internet domain names and U.S. Common Short Codes, and internal and external managed domain name services. The Company generates revenue from its telephone number administration services under two government contracts. Under its contract to serve as the North American Numbering Plan Administrator, the Company earns a fixed annual fee and recognizes this fee as revenue on a straight-line basis as services are provided. Under the Company's contract to serve as the National Pooling Administrator, the Company earns a fixed fee associated with administration of the pooling system plus reimbursement for costs incurred. The Company recognizes revenue for this contract based on costs incurred plus a pro rata amount of the fixed fee. In the event the Company estimates losses on its fixed fee contracts, the Company recognizes these losses in the period in which a loss becomes apparent.

In addition to the administrative functions associated with its role as the National Pooling Administrator, the Company also generates revenue from implementing the allocation of pooled blocks of telephone numbers under its long-term contracts with North American Portability Management LLC, and the Company recognizes revenue on a per transaction fee basis as the services are performed. For its Internet domain name services, the Company generates revenue for Internet domain registrations, which generally have contract terms between one and ten years. The Company recognizes revenue on a straight-line basis over the lives of the related customer contracts.

The Company generates revenue through internal and external managed domain name services. The Company's revenue consists of customer set-up fees, monthly recurring fees and per transaction fees for transactions in excess of pre-established monthly minimums under contracts with terms ranging from one to three years. Customer set-up fees are not considered a separate deliverable and are deferred and recognized on a straight-line basis over the term of the contract. Under the Company's contracts to provide its managed domain name services, customers have contractually established monthly transaction volumes for which they are charged a recurring monthly fee. Transactions processed in excess of the pre-established monthly volume are billed at a contractual per transaction rate. Each month the Company recognizes the recurring monthly fee and usage in excess of the established monthly volume on a per transaction basis as services are provided. The Company generates revenue from its U.S. Common Short Code services under short-term contracts ranging from three to twelve months, and the Company recognizes revenue on a straight-line basis over the term of the customer contracts.

***Interoperability***

The Company's interoperability services consist primarily of wireline and wireless number portability and order management services. The Company generates revenue from number portability under its long-term contracts with North American Portability Management LLC and Canadian LNP Consortium, Inc. The Company recognizes revenue on a per transaction fee basis as the services are performed. The Company provides order management services (OMS), consisting of customer set-up and implementation followed by transaction processing, under contracts with terms ranging from one to three years. Customer set-up and implementation is not considered a separate deliverable; accordingly, the fees are deferred and recognized as revenue on a straight-line basis over the term of the contract. Per transaction fees are recognized as the transactions are processed. The Company generates revenue from its inter-carrier mobile instant messaging services under contracts with mobile operators that range from one to three years. These contracts consist of license fees based on the number of subscribers that use mobile instant messaging services, as well as fees for set-up and implementation. The Company recognizes license fee revenue ratably over the term of the contract after completion of customer set-up and implementation. Customer set-up and implementation is



not considered a separate deliverable; accordingly, the fees are deferred and recognized as revenue on a straight line basis over the remaining term of the contract following delivery of the set-up and implementation services.

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Infrastructure and Other***

The Company's infrastructure services consist primarily of network management and connection services. The Company generates revenue from network management services under its long-term contracts with North American Portability Management LLC. The Company recognizes revenue on a per transaction fee basis as the services are performed. In addition, the Company generates revenue from connection fees and system enhancements under its contracts with North American Portability Management LLC. The Company recognizes connection fee revenue as the service is performed. System enhancements are provided under contracts in which the Company is reimbursed for costs incurred plus a fixed fee, and revenue is recognized based on costs incurred plus a pro rata amount of the fee. The Company generates revenue from its intra-carrier mobile instant messaging services under contracts with mobile operators that range from one to three years. These contracts consist of license fees based on the number of subscribers that use mobile instant messaging services, as well as fees for set-up and implementation. The Company recognizes license fee revenue ratably over the term of the contract after completion of customer set-up and implementation. Customer set-up and implementation is not considered a separate deliverable; accordingly, the fees are deferred and recognized as revenue on a straight line basis over the remaining term of the contract following delivery of the set-up and implementation services.

***Significant Contracts***

The Company provides wireline and wireless number portability, implements the allocation of pooled blocks of telephone numbers and provides network management services pursuant to seven contracts with North American Portability Management LLC, an industry group that represents all telecommunications service providers in the United States. The Company recognizes revenue under its contracts with North American Portability Management LLC primarily on a per transaction basis. The aggregate fees for transactions processed under these contracts are determined by the total number of transactions, and these fees are billed to telecommunications service providers based on their allocable share of the total transaction charges. This allocable share is based on each respective telecommunications service provider's share of the aggregate end-user services revenues of all U.S. telecommunications service providers, as determined by the Federal Communications Commission (FCC). Under the Company's contracts, the Company also bills a Revenue Recovery Collections (RRC) fee equal to a percentage of monthly billings to its customers, which is available to the Company if any telecommunications service provider fails to pay its allocable share of total transactions charges.

For 2007, pricing was \$0.91 per transaction regardless of transaction volume. Beginning January 1, 2008, per transaction pricing is derived on a straight-line basis using an effective rate calculation formula based on annualized transaction volume between 200 million and 587.5 million. For annualized transaction volumes less than or equal to 200 million, the per transaction price is equal to a flat rate of \$0.95 per transaction. For annualized volumes greater than or equal to 587.5 million, the per transaction price is equal to a flat rate of \$0.75 per transaction. For the three and nine months ended September 30, 2008, the weighted average per transaction price was \$0.86 and \$0.87, respectively. The applicable per transaction price is subject to change during the course of the year if the annualized transaction volume, as calculated under the terms of the contracts, changes.

***Service Level Standards***

Pursuant to certain of the Company's private commercial contracts, the Company is subject to service level standards and to corresponding penalties for failure to meet those standards. The Company records a provision for these performance-related penalties when it becomes aware that required service levels have not been met, triggering the requirement to pay a penalty, which results in a corresponding reduction to revenue.

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Cost of Revenue and Deferred Costs**

Cost of revenue includes all direct materials, direct labor, and those indirect costs related to generation of revenue such as indirect labor, materials and supplies and facilities cost. The Company's primary cost of revenue is related to personnel costs associated with service implementation, product maintenance, customer deployment and customer care, including salaries, stock-based compensation and other personnel-related expense. In addition, cost of revenue includes costs relating to maintaining the Company's existing technology and services, as well as royalties paid related to the Company's U.S. Common Short Code services. Cost of revenue also includes the costs incurred by the Company's information technology and systems department, including network costs, data center maintenance, database management, data processing costs, and facilities costs.

Deferred costs represent direct labor related to professional services incurred for the setup and implementation of contracts. These costs are recognized in cost of revenue on a straight-line basis over the contract term. Deferred costs also include royalties paid related to the Company's U.S. Common Short Code services, which are recognized in cost of revenue on a straight-line basis over the contract term. Deferred costs are classified as such on the consolidated balance sheets.

**Stock-Based Compensation**

The Company accounts for its stock-based compensation plans under the recognition and measurement provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). Stock-based compensation expense includes: (a) compensation cost for all stock-based awards granted prior to but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock-based awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R).

**Basic and Diluted Net Income per Common Share**

Basic net income per common share excludes dilution for potential common stock issuances and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

**Income Taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under SFAS No. 109, the liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial reporting bases and the tax bases of assets and liabilities. Deferred tax assets are also recognized for tax net operating loss carryforwards. These deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when such amounts are expected to be reversed or utilized. The realization of total deferred tax assets is contingent upon the generation of future taxable income. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

Income tax provision includes U.S. federal, state, local and foreign income taxes and is based on pre-tax income or loss. The interim period provision or benefit for income taxes is based upon the Company's estimate of its annual effective income tax rate. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings and taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes and the ability of the Company to use tax credits and net operating loss carryforwards.

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 provides a two-step approach to recognize and measure tax benefits when the realization of the benefits is uncertain. The first step is to determine whether the benefit is to be recognized; the second step is to determine the amount to be recognized.

Income tax benefits should be recognized when, based on the technical merits of a tax position, the entity believes that

if a dispute arose with the taxing authority and were taken to a court of last resort, it is more likely than not (*i.e.*, a probability of greater than 50 percent) that the tax position would be sustained as filed. If a position is determined to be more likely than not of being sustained, the reporting enterprise should recognize the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense.

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Foreign Currency**

Assets and liabilities of consolidated foreign subsidiaries, whose functional currency is the local currency, are translated to U.S. dollars at fiscal year end exchange rates. Revenue and expense items are translated to U.S. dollars at the average rates of exchange prevailing during the fiscal year. The adjustment resulting from translating the financial statements of such foreign subsidiaries to U.S. dollars is reflected as a cumulative translation adjustment and reported as a component of accumulated other comprehensive loss.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains or losses, which are reflected within interest and other expense in the consolidated statement of operations.

**Comprehensive Income**

Comprehensive income is comprised of net earnings and other comprehensive loss, which includes certain changes in equity that are excluded from income. The Company includes unrealized holding gains and losses on available-for-sale securities, if any, and foreign currency translation adjustments in other comprehensive loss. Comprehensive income was approximately \$28.0 million and \$45.8 million for the three months and nine months ended September 30, 2008. There were no material differences between net income and comprehensive net income for the three and nine months ended September 30, 2007.

**Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141 (R)), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. The Company does not currently expect SFAS No. 141(R) to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the holder of the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The statement also establishes reporting requirements that require sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any noncontrolling (minority) interests, the Company does not currently expect SFAS No. 160 to have a material impact on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-b, *Effective Date of FASB Statement No. 157* (FSP FAS 157-b), which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The effective date has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact of FSP FAS 157-b on its consolidated financial statements.

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This pronouncement requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company does not currently expect FSP FAS 142-3 to have a material impact on its consolidated financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations when valuing securities in markets that are not active. FSP No. 157-3 is effective upon issuance, and is also effective for periods for which financial statements have not been issued. The Company's adoption of FSP No. 157-3 did not have a material impact on the Company's consolidated financial position or results of operations for the three and nine months ending September 30, 2008.

**3. INVESTMENTS**

A summary of the Company's securities available for sale as of September 30, 2008 and December 31, 2007 is as follows:

	<b>Amortized Cost</b>	<b>September 30, 2008</b>		<b>Estimated Fair Value</b>
		<b>Gross Gains</b>	<b>Losses</b>	
Cash reserve fund	\$ 17,575	\$ ¾	\$ (16)	\$ 17,559
Auction rate securities	40,084	¾	(2,829)	37,255
	\$ 57,659	\$ ¾	\$ (2,845)	\$ 54,814

  

	<b>Amortized Cost</b>	<b>December 31, 2007</b>		<b>Estimated Fair Value</b>
		<b>Gross Gains</b>	<b>Losses</b>	
Cash reserve fund	\$ 49,851	\$ ¾	\$ (628)	\$ 49,223
Auction rate securities	50,825	¾	¾	50,825
	\$ 100,676	\$ ¾	\$ (628)	\$ 100,048

In December 2007, the Company was advised that a cash reserve fund in which the Company had invested would be closed to new investments and immediate redemptions, and that there had been a one percent decline in the net asset value of the fund. During the three and nine months ended September 30, 2008, \$7.4 million and \$30.8 million, respectively, was redeemed from this fund and the Company recognized realized losses of \$53,000 and \$495,000, respectively. At each reporting period, the Company evaluates its investments to determine whether any unrealized loss constitutes an other-than-temporary impairment. To make this determination, the Company evaluates many factors that would be considered indicators of an other-than-temporary impairment, including: whether the fair value of the security is significantly below cost; whether the decline in fair value is attributable to specific adverse conditions affecting a particular investment; whether the decline in fair value is attributable to general market conditions, such as conditions in an industry or in a geographic area; whether management possesses both the intent and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value; whether the decline in fair value has existed for an extended period of time; whether an underlying security has been downgraded by a rating agency; whether the financial condition of the issuer has deteriorated; and whether dividends

have been reduced or eliminated, or scheduled interest payments on debt securities have not been made.

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In this regard, the Company has evaluated the cash reserve fund to determine whether any unrealized losses represent an other-than-temporary impairment. Based upon the Company's assessment, the Company recorded a \$228,000 and \$997,000 charge to earnings during the three and nine months ended September 30, 2008, respectively, to recognize unrealized losses on the cash reserve fund as other-than-temporary impairments. The Company has reduced the amortized cost for this security by the amount of the other-than-temporary impairment charge. The new amortized cost basis will not be changed for subsequent recoveries in fair value. Future increases or decreases in fair value, if determined not to be other-than-temporary, will be recorded in accumulated other comprehensive income or loss. If a further decline in fair value occurs that is considered to be other-than-temporary, the Company will record an additional loss in the period when the subsequent impairment becomes apparent.

As of September 30, 2008, the Company had approximately \$17.6 million invested in this fund. The fund currently has a projected schedule that will result in approximately 83 percent of the fund being redeemed in 2008.

As of September 30, 2008, the Company had long-term investments with an estimated fair value of \$37.3 million that consist of auction rate securities (ARS) whose underlying assets are student loans, the majority of which are guaranteed by the federal government. These auction rate securities are intended to provide liquidity via an auction process that resets the applicable interest rate approximately every 30 days and allows investors to either roll over their holdings or gain immediate liquidity by selling such investments at par. The underlying maturities of these investments range from 17 to 39 years. As a result of current negative conditions in the global credit markets, auctions for the \$37.3 million investment in these securities as of September 30, 2008 either have failed or may fail to settle on their respective settlement dates. Consequently, the investments are not currently liquid and the Company will not be able to access these funds until a future auction of these investments is successful, issuers refinance or a buyer is found outside of the auction process. As a result, the Company has classified these investments as non-current in its consolidated balance sheets.

The Company has evaluated the individual student loan assets underlying the Company's ARS investments to determine whether the unrealized loss associated with any individual ARS investment represents an other-than-temporary impairment. Based upon the Company's assessment of the indicators of an other-than-temporary impairment, the Company recorded a \$0.3 million and \$1.6 million charge to earnings during the three and nine months ended September 30, 2008, respectively, to recognize the unrealized loss on certain ARS investments as an other-than-temporary impairment. The Company has reduced the amortized cost for these securities by the amount of the other-than-temporary impairment charge. The new amortized cost basis will not be changed for subsequent recoveries in fair value. Future increases or decreases in fair value, if determined not to be other-than-temporary, will be recorded as accumulated other comprehensive income or loss. If a further decline in fair value occurs that is considered to be other-than-temporary, the Company will record an additional loss in the period when the subsequent impairment becomes apparent.

With respect to the ARS investments, for which impairment has not been recognized, the Company believes a full liquidation of these securities will occur without significant losses in the long term. As of September 30, 2008, the Company maintains the intent and ability to hold these securities for a long period of time without any adverse effect on its operations. Approximately \$2.8 million in unrealized losses have been included in accumulated other comprehensive loss at September 30, 2008. Any future fluctuations in fair value, including recoveries of previously unrealized losses relating to these investments, would be recorded as accumulated other comprehensive loss. Any adjustments in fair value to these investments that are determined to be other-than-temporary would require the Company to recognize associated adjustments to earnings.

In October 2008, the Company's money manager offered Auction Rate Securities Rights to the Company, which the Company accepted on November 10, 2008. As a result, eligible auction rate securities held by the Company will be repurchased by the money manager at par plus accrued but unpaid dividends or interest starting on June 30, 2010.



## NEUSTAR, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. FAIR VALUE MEASUREMENTS

The Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), on January 1, 2008. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. SFAS No. 157 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 the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in 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 basis to determine the appropriate level to classify them for each reporting period. This determination requires significant judgments to be made.

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2008, by level within the fair value hierarchy (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Short-term investments			\$17,559	\$17,559
Long-term investments			\$37,255	\$37,255
Marketable securities (1)	\$122			\$ 122
Deferred compensation (2)	\$114			\$ 114

(1) In June 2008, the Company established the NeuStar, Inc. Deferred Compensation Plan (the Plan) that gives directors and certain employees the ability to defer a portion of their compensation. The assets of the Plan are invested in marketable securities that are held in a

Rabbi Trust and reported at market value in other assets.

- (2) Obligations to pay benefits under the Plan are included in other long-term liabilities.

The following table provides a reconciliation of the beginning and ending balances for the major class of assets measured at fair value using significant unobservable inputs (Level 3) (in thousands):

	<b>Short-term Investments</b>	<b>Long-term Investments</b>
Balance on January 1, 2008	\$	\$
Transfers in and/or (out) of Level 3	49,851	50,825
Total losses realized / unrealized included in earnings	(1,492)	(1,641)
Total unrealized losses included in other comprehensive loss	(16)	(2,829)
Purchases, sales, issuances and settlements, net	(30,784)	(9,100)
Balance on September 30, 2008	\$ 17,559	\$ 37,255

For the nine months ended September 30, 2008, there were \$2.4 million of losses included in earnings that were attributable to the unrealized losses related to Level 3 assets held at September 30, 2008.

## NEUSTAR, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. ACQUISITION

## Webmetrics, Inc.

On January 10, 2008, the Company acquired Webmetrics, Inc. (Webmetrics) for cash consideration of \$12.5 million, subject to certain purchase price adjustments and contingent cash consideration of up to \$6.0 million, and acquisition costs of approximately \$685,000. The acquisition of Webmetrics, a provider of web and network performance testing, monitoring and measurement services, expands the Company's Internet and infrastructure services. The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141 and the results of operations of Webmetrics have been included in the accompanying consolidated statement of operations since the date of acquisition. Of the total purchase price, a preliminary estimate of \$0.4 million has been allocated to net tangible assets acquired, \$6.4 million to definite-lived intangible assets and \$7.2 million to goodwill. Definite-lived intangible assets consist of customer relationships and acquired technology. The Company is amortizing the value of the customer relationships in proportion to the discounted cash flows over an estimated useful life of 3 years. Acquired technology is being amortized on a straight-line basis over 5 years.

The Company has currently not identified any material pre-acquisition contingencies where a liability is probable and the amount of the liability can be reasonably estimated. If information becomes available prior to the end of the purchase price allocation period which would indicate that such a liability is probable and the amount can be reasonably estimated, such items will be included in the purchase price allocation. In June 2008, the Company recorded a \$0.7 million purchase price adjustment to goodwill related to an earn-out installment as part of the original purchase agreement.

## 6. GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2008 is as follows:

	Clearinghouse Services	NGM Services	Total
Balance at December 31, 2007	\$ 88,148	\$ 115,945	\$ 204,093
Acquisitions	7,226		7,226
Impairment charge		(29,021)	(29,021)
Balance at September 30, 2008	\$ 95,374	\$ 86,924	\$ 182,298

The Company's NGM business segment experienced certain changes in market conditions and customer-related events that caused NGM to revise its business forecast, triggering the Company to perform an interim goodwill impairment test. First, the Company compared the fair value of the NGM reporting unit's net assets, including assigned goodwill, to the book value of these net assets. The estimated fair value for the reporting unit was calculated using a combination of discounted cash flow projections, market values for comparable businesses, and terms, prices and conditions found in sales of comparable businesses. The Company determined that the fair value of the reporting unit was less than its net book value. As such, the Company then performed a theoretical purchase price allocation to compare the carrying value of NGM's assigned goodwill to its implied fair value and recognized an impairment charge of \$29.0 million. The goodwill impairment has been recorded under the caption "Impairment of Goodwill" in the unaudited consolidated statements of operations.

## NEUSTAR, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible assets consist of the following (in thousands):

	December 31, 2007	September 30, 2008 (unaudited)	Weighted- Average Amortization Period (In Years) (unaudited)
Intangible assets:			
Customer lists and relationships	\$ 43,740	\$ 47,504	5.5
Accumulated amortization	(15,463)	(22,653)	
Customer lists and relationships, net	28,277	24,851	
Acquired technology	17,068	19,757	3.3
Accumulated amortization	(8,581)	(12,700)	
Acquired technology, net	8,487	7,057	
Trade name	200	200	3.0
Accumulated amortization	(113)	(163)	
Trade name, net	87	37	
Intangible assets, net	\$ 36,851	\$ 31,945	

Amortization expense related to intangible assets, which is included in depreciation and amortization expense, was approximately \$3.7 million and \$3.8 million for the three months ended September 30, 2007 and 2008, respectively, and \$11.3 million and \$11.4 million for the nine months ended September 30, 2007 and 2008, respectively. Amortization expense related to intangible assets for the years ended December 31, 2008, 2009, 2010, 2011, and 2012, is expected to be approximately \$15.2 million, \$12.8 million, \$8.1 million, \$5.5 million, and \$1.5 million, respectively.

**7. NOTES PAYABLE**

On February 6, 2007, the Company entered into a new credit agreement, which provides for a revolving credit facility in an aggregate principal amount of up to \$100 million (2007 Credit Facility). Borrowings under the 2007 Credit Facility bear interest, at the Company's option, at either a Eurodollar rate plus a spread ranging from 0.625% to 1.25%, or at a base rate plus a spread ranging from 0.0% to 0.25%, with the amount of the spread in each case depending on the ratio of the Company's consolidated senior funded indebtedness to consolidated EBITDA. The 2007 Credit Facility expires on February 6, 2012. Borrowings under the 2007 Credit Facility may be used for working capital, capital expenditures, general corporate purposes and to finance acquisitions. There were no borrowings outstanding under the 2007 Credit Facility as of September 30, 2008, but available borrowings were reduced by letters of credit of \$8.9 million outstanding on that date.

The 2007 Credit Facility contains customary representations and warranties, affirmative and negative covenants, and events of default. The 2007 Credit Facility requires the Company to maintain a minimum consolidated EBITDA

to consolidated interest charge ratio and a maximum consolidated senior funded indebtedness to consolidated EBITDA ratio. If an event of default occurs and is continuing, the Company may be required to repay all amounts outstanding under the 2007 Credit Facility. Lenders holding more than 50% of the loans and commitments under the 2007 Credit Facility may elect to accelerate the maturity of amounts due thereunder upon the occurrence and during the continuation of an event of default.

In May 2007, the Company entered into a note payable with a vendor for \$9.7 million for the purchase of software and services. The note payable is non-interest bearing and payments of approximately \$810,000 are due quarterly beginning July 1, 2007 over the three year term ending April 2010.

## NEUSTAR, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. STOCKHOLDERS' EQUITY

## Stock-Based Compensation

The Company has two stock incentive plans: the NeuStar, Inc. 1999 Equity Incentive Plan (the 1999 Plan) and the NeuStar, Inc. 2005 Stock Incentive Plan (the 2005 Plan). The Company may grant to its directors, employees and consultants awards in the form of incentive stock options, nonqualified stock options, stock appreciation rights, shares of restricted stock, restricted stock units, performance vested restricted stock units (PVRsUs), and other stock-based awards. The aggregate number of shares of Class A common stock with respect to which all awards may be granted under the 2005 Plan is 6,044,715, plus any shares that would otherwise be available for issuance under the 1999 Plan. As of September 30, 2008, 3,006,733 shares were available for grant or award under the 2005 Plan.

Stock-based compensation expense recognized under SFAS No. 123(R) was \$4.1 million and \$4.4 million for the three months ended September 30, 2007 and 2008, respectively, and \$11.6 million and \$13.3 million for the nine months ended September 30, 2007 and 2008, respectively. As of September 30, 2008, total unrecognized compensation expense related to non-vested stock options, non-vested restricted stock and non-vested PVRsUs granted prior to that date is estimated at \$32.3 million, which the Company expects to recognize over a weighted average period of approximately 1.94 years. Total unrecognized compensation expense as of September 30, 2008 is estimated based on outstanding non-vested stock options, non-vested restricted stock and non-vested PVRsUs and may be increased or decreased in future periods for subsequent grants or forfeitures.

## Stock Options

The Company has utilized the Black-Scholes option-pricing model for estimating the fair value of stock options granted during the three and nine months ended September 30, 2007 and 2008, as well as for option grants during all prior periods. The weighted-average grant date fair value of options granted during the three months ended September 30, 2007 and 2008 was \$11.59 and \$8.45, respectively, and for options granted during the nine months ended September 30, 2007 and 2008 was \$11.59 and \$8.47, respectively.

The following are the weighted-average assumptions used in valuing the stock options granted during the three and nine months ended September 30, 2007 and 2008, and a discussion of the Company's assumptions:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2008	2007	2008
Dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	32.81%	37.44-37.74%	33.25%	35.82-37.74%
Risk-free interest rate	4.46%	2.96-3.12%	4.46%	2.56-3.12%
Expected life of options (in years)	4.60	4.37	4.61	4.37

**Dividend yield** The Company has never declared or paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future.

**Expected volatility** Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Given the Company's limited historical stock data from its initial public offering in June 2005, the Company considered the implied volatility and historical volatility of its stock price in determining its expected volatility.

**Risk-free interest rate** The risk-free interest rate is based on U.S. Treasury bonds issued with similar life terms to the expected life of the grant.

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Expected life of the options The expected term is the period of time that the options granted are expected to remain outstanding. For grants subsequent to January 1, 2008, the Company selected the midpoint method which assumes that all vested, outstanding options are settled halfway between the date of analysis and the expiration date. The expected term of new option grants is derived from the weighted average of the time-to-settlement from grant on historically settled options and the midpoint of the remaining contractual life of the unexercised options. The expected term for grants prior to January 1, 2008 was derived from the average midpoint between the weighted average vesting period and the contractual term as described in the SEC's Staff Accounting Bulletin No. 110.

The following table summarizes the Company's stock option activity for the nine months ended September 30, 2008:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 31, 2007	5,668,501	\$ 15.42
Options granted	1,153,415	26.31
Options exercised	(1,519,181)	3.96
Options canceled	(578,128)	28.03
Outstanding September 30, 2008	4,724,607	20.22
Exercisable at September 30, 2008	2,756,674	14.55

The aggregate intrinsic value of options exercised during the nine months ended September 30, 2007 and 2008 was \$55.8 million and \$30.9 million, respectively. The aggregate intrinsic value for all options outstanding under the Company's stock plans as of September 30, 2008 was \$26.9 million. The aggregate intrinsic value for options exercisable under the Company's stock plans as of September 30, 2008 was \$26.3 million. The weighted-average remaining contractual life for all options outstanding under the Company's stock plans as of September 30, 2008 was 5.10 years. The weighted-average remaining contractual life for options exercisable under the Company's stock plans as of September 30, 2008 was 4.53 years.

**Restricted Stock**

The following table summarizes the Company's non-vested restricted stock activity for the nine months ended September 30, 2008:

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Non-vested December 31, 2007	75,660	\$ 31.55
Granted	257,020	25.09
Vested	(23,535)	31.86
Forfeited	(27,495)	28.60
Non-vested September 30, 2008	281,650	25.97

The aggregate intrinsic value for all non-vested restricted stock outstanding under the Company's stock incentive plans at September 30, 2008 was \$5.6 million. During the three and nine months ended September 30, 2008, the

Company repurchased 320 shares and 6,169 shares of common stock, respectively, for an aggregate purchase price of approximately \$7,000 and \$192,000 pursuant to the participants' rights under the Company's stock incentive plans to elect to use common stock to satisfy their tax withholdings obligations.



**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Performance Vested Stock Units**

The following table summarizes the Company's non-vested PVRSU activity for the nine months ended September 30, 2008:

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Non-vested December 31, 2007	303,080	\$ 32.59
Granted	288,213	26.28
Vested		
Forfeited	(147,810)	31.03
Non-vested September 30, 2008	443,483	29.02

The vesting of these stock awards is contingent upon the Company achieving specified financial targets at the end of the specified performance periods and the employees' continued employment. The performance conditions affect the number of shares that will ultimately be issued. The range of possible stock-based award vesting is between 0% and 150% of the initial target. Under SFAS No. 123(R), compensation expense related to these awards is being recognized over the requisite service period based on the Company's estimate of the achievement of the performance target. The Company has currently estimated that 125% of the target will be achieved. The fair value is measured by the closing market price of the Company's common stock on the date of the grant. Compensation expense is recognized ratably over the requisite service period based on those PVRSUs expected to vest.

The aggregate intrinsic value for all non-vested PVRSUs outstanding under the Company's stock plans at September 30, 2008 was \$8.8 million.

**Restricted Stock Units**

In July 2006, the Compensation Committee of the board of directors issued an aggregate of 27,170 restricted stock units to the Company's non-management directors. The aggregate intrinsic value of the restricted stock units granted totaled \$880,000. For those directors who were elected at the 2006 Annual Meeting of Stockholders, as well as incumbent directors whose terms did not expire in 2006, these restricted stock units were granted on July 1, 2006. For those directors appointed by the Company's board of directors on July 26, 2006, the date of grant was July 27, 2006. In August and November 2007, the Company's non-management directors were issued an aggregate of 30,828 and 3,342 restricted stock units, respectively, with an aggregate intrinsic value on the grant date of approximately \$900,000 and \$114,000, respectively. In June 2008 and July 2008, the Company's non-management directors were issued 1,089 and 54,688 restricted stock units, respectively, with an aggregate intrinsic value on the grant date of approximately \$25,000 and \$1.2 million, respectively.

These restricted stock units will fully vest on the first anniversary of the date of grant. Upon vesting, each director's restricted stock units will be automatically converted into deferred stock units, which will be delivered to the director in shares of the Company's stock six months following the director's termination of Board service. Following the resignation of two of the Company's directors on July 26, 2006 and April 10, 2007, respectively, a total of 6,518 restricted stock units were forfeited.

The aggregate intrinsic value for restricted stock units outstanding as of September 30, 2008 was approximately \$2.2 million.

**NEUSTAR, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Phantom Stock Units**

In July 2004, the board of directors granted 350,000 phantom stock units to one of the Company's officers. Effective March 1, 2007, the officer was no longer employed with the Company. On that date, 224,383 phantom stock units vested in accordance with the terms of the officer's phantom stock agreement, which had an aggregate intrinsic value of approximately \$7.3 million. Of the 224,383 shares of the Company's common stock issuable to the officer in respect of his vested phantom stock units, the Company repurchased 91,713 shares on March 1, 2007 for an aggregate purchase price of approximately \$3.0 million pursuant to the officer's right under the applicable stock incentive plan to elect to use common stock to satisfy his tax withholding obligations.

**Treasury Stock**

Pursuant to the Company's stock incentive plans, employees may elect to satisfy their tax withholding obligations upon vesting of restricted stock awards by having the Company make such payments and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, the Company withheld 97,753 shares and 6,169 shares during the nine months ended September 30, 2007 and 2008 with a total market value of approximately \$3.2 million and \$192,000, respectively, from previously granted restricted stock awards for settlement of employee tax liabilities pursuant to the Company's stock incentive plans as discussed in this Note 8, and these shares were accounted for as treasury stock.

On February 14, 2008, a special committee of the board of directors authorized the repurchase of up to \$250 million in shares of the Company's Class A common stock in accordance with applicable rules under the Securities Exchange Act of 1934. As of September 30, 2008, a total of 4,837,109 shares had been repurchased for an aggregate purchase price of approximately \$124.9 million. All repurchased shares are accounted for as treasury shares.

**9. BASIC AND DILUTED NET INCOME PER COMMON SHARE**

The following table reconciles the number of shares used in the basic and diluted net income per share calculation (in thousands, except per share data):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
Computation on basic net income per common share:				
Net income	\$ 25,702	\$ 28,374	\$ 62,819	\$ 46,770
Weighted average common shares outstanding basic	76,461	73,581	75,664	74,293
Basic net income per common share	\$ 0.34	\$ 0.39	\$ 0.83	\$ 0.63
Computation on diluted net income per common share:				
Net income	\$ 25,702	\$ 28,374	\$ 62,819	\$ 46,770
Weighted average common shares outstanding basic	76,461	73,581	75,664	74,293
Effect of dilutive securities:				
Stock-based awards	2,811	1,436	3,456	2,068
Weighted average common shares outstanding diluted	79,272	75,017	79,120	76,361
Diluted net income per common share	\$ 0.32	\$ 0.38	\$ 0.79	\$ 0.61



## NEUSTAR, INC.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. SEGMENT INFORMATION

The Company has two reportable operating segments: Clearinghouse Services and NGM Services.

Information for the three and nine months ended September 30, 2007 and 2008 regarding the Company's reportable operating segments are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
Revenue:				
Clearinghouse services	\$ 108,960	\$ 120,183	\$ 304,013	\$ 350,612
NGM services	1,797	3,627	3,885	10,820
Total revenue	\$ 110,757	\$ 123,810	\$ 307,898	\$ 361,432
Depreciation and amortization:				
Clearinghouse services	\$ 7,098	\$ 7,309	\$ 21,025	\$ 22,049
NGM services	2,400	3,243	6,912	8,909
Total depreciation and amortization	\$ 9,498	\$ 10,552	\$ 27,937	\$ 30,958
Income (loss) from operations:				
Clearinghouse services	\$ 51,506	\$ 56,625	\$ 128,683	\$ 158,585
NGM services	(9,612)	(11,462)	(26,056)	(62,405)
Income (loss) from operations	\$ 41,894	\$ 45,163	\$ 102,627	\$ 96,180

Information as of December 31, 2007 and September 30, 2008 regarding the Company's reportable operating segments is as follows (in thousands):

	December 31, 2007	September 30, 2008
Total assets:		
Clearinghouse services	\$ 449,523	\$ 407,207
NGM services	167,138	143,212
Total assets	\$ 616,661	\$ 550,419
Goodwill:		
Clearinghouse services	\$ 88,148	\$ 95,374
NGM services	115,945	86,924
Goodwill	\$ 204,093	\$ 182,298

Intangible assets:			
Clearinghouse services	\$	14,973	\$ 15,525
NGM services		21,878	16,420
Intangible assets	\$	36,851	\$ 31,945

## 11. INCOME TAXES

As of December 31, 2007 and September 30, 2008, the Company had unrecognized tax benefits of \$2.0 million and \$1.1 million, respectively, of which \$1.5 million and \$0.6 million, respectively, would affect the Company's effective tax rate if recognized. The Company's effective tax rate increased to 50.7% for the nine months ended September 30, 2008 from 39.9% for the nine months ended September 30, 2007 due primarily to the impact of the \$29.0 million non-cash impairment charge related to a write-down of goodwill, none of which is deductible for tax purposes. The effective tax rate for the nine months ended September 30, 2008 includes the impact of approximately \$1.3 million related to gains from the reduction of reserves associated with uncertain tax positions.

**NEUSTAR, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. During the three and nine months ended September 30, 2008, the Company recognized interest of \$12,000 and \$74,000, respectively. As of December 31, 2007 and September 30, 2008, there was approximately \$220,000 and \$83,000 of accrued interest related to uncertain tax positions, respectively. To the extent interest is not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. During the three months ended September 30, 2008, accrued interest decreased by \$211,000 due to the expiration of certain statutes of limitation.

The Company files federal, state and local income tax returns in the United States and in many foreign jurisdictions. The tax years 2005 through 2007 remain open to examination by the major taxing jurisdictions to which the Company is subject. The Internal Revenue Service ( IRS ) has initiated an examination of the Company's federal income tax returns for the years 2005 and 2006. It is anticipated that the examination will be completed within the next twelve months. While the ultimate outcome of the audit is uncertain, management does not currently believe that the outcome will have a material adverse effect on the Company's financial position, result of operations or cash flows.

The Company anticipates that total unrecognized tax benefits will decrease by approximately \$0.3 million over the next 12 months due to the expiration of certain statutes of limitations.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations and economic performance, and our business and growth strategy. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, predicts, potential, continue or the negative or 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 by our management that, although we believe to be reasonable, 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 I, Item 1A. Risk Factors and elsewhere in our Annual Report on 10-K for the year ended December 31, 2007 and 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 otherwise required by law.

### **Overview**

During the third quarter of 2008, we experienced continued growth. Total revenue for the quarter increased 11.8% as compared to the third quarter of 2007. Under our contracts to provide telephone number portability services in the United States, we processed 95.1 million transactions during the quarter, representing growth of 14.3% over the third quarter of 2007.

In addition, we continued to see increased demand for secure, reliable and scalable domain name systems, which fueled demand for our domain name systems service offerings, especially NeuStar Ultra Services. We recognized \$11.2 million of revenue from NeuStar Ultra Services in the third quarter of 2008, a 45.5% increase over the corresponding period in 2007.

Finally, one of our main objectives for the quarter was to streamline our business activities and leverage our operational capabilities. As a result, we began to see a reduction in total operating expenses in the third quarter of 2008, which we believe will improve profitability and cash flows for the remainder of the year.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. The preparation of these financial statements in accordance with U.S. GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense during a fiscal period. The Securities and Exchange Commission 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, actual results may differ from those estimates. See the information in our filings with the Securities and Exchange Commission from time to time, including Part I, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2007, and as updated in our subsequent periodic and current reports, for certain matters that may bear on our future results of operations. We discuss our critical accounting policies and estimates in our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2007 and in our Notes to Unaudited Consolidated Financial Statements in this Quarterly Report on Form 10-Q. There have been no material changes to our critical accounting policies and estimates in 2008 except as follows:

**Investments**

We account for investment securities under the provisions of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, or SFAS No. 115, and related interpretations and staff positions. SFAS No. 115 requires us to record available-for-sale securities at fair value, with unrealized gains and losses being reported as a component of other comprehensive loss. When readily determinable fair values are not available, we use judgment to estimate the fair value of our investments based on observable market inputs or, if no observable market inputs are available, unobservable market inputs, or a combination thereof. Our fair value estimates consider, among other factors, the collateral underlying the security, creditworthiness of the counterparty, timing of expected future cash flows, and, in the case of auction rate securities, the probability of a successful auction in a future period. Further, we use judgment in evaluating whether a decline in fair value is temporary or other-than-temporary and consider the following indicators: whether fair value of the security is significantly below cost; whether the decline in fair value is attributable to specific adverse conditions affecting a particular investment; whether the decline in fair value is attributable to general market conditions, such as conditions in an industry or in a geographic area; whether management possesses both the intent and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value; whether the decline in fair value has existed for an extended period of time; whether an underlying security has been downgraded by a rating agency; whether the financial condition of the issuer has deteriorated; and whether dividends have been reduced or eliminated, or scheduled interest payments on debt securities have not been made. Temporary declines in fair value are recorded as charges to accumulated other comprehensive loss, while other-than-temporary declines in fair value are recorded to earnings.

**Goodwill**

We have made numerous acquisitions, including the 2006 acquisitions of UltraDNS Corporation and Followap Inc., resulting in our recording of goodwill, which represents the excess of the purchase price over the fair value of assets acquired, as well as other definite-lived intangible assets. In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, or SFAS No. 142, goodwill and indefinite-lived intangible assets are not amortized, but are reviewed for impairment upon the occurrence of events or changes in circumstances that would reduce the fair value of such assets below their carrying amount. Goodwill is required to be tested for impairment at least annually, or on an interim basis if circumstances change that would indicate the possibility of impairment. For purposes of our annual impairment test, we have identified and assigned goodwill to two reporting units, our Clearinghouse Services segment and our NGM Services segment.

Goodwill is tested for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of a reporting unit's net assets, including assigned goodwill, to the book value of its net assets, including assigned goodwill. Fair value of the reporting unit is determined using both an income and market approach. To assist in the process of determining if a goodwill impairment exists, we perform internal valuation analyses and consider other market information that is publicly available, and we may obtain appraisals from external advisors. If the fair value of the reporting unit is greater than its net book value, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's net book value, we perform a second step to measure the amount of the impairment, if any. The second step would be to compare the book value of the reporting unit's assigned goodwill to the implied fair value of the reporting unit's goodwill, using a theoretical purchase price allocation based on this implied fair value to determine the magnitude of the impairment. If we determine that an impairment has occurred, we are required to write-down the carrying value of the goodwill and charge the impairment as an operating expense in the period the determination is made.

The goodwill impairment test and the determination of the fair value of intangible assets involve the use of significant estimates and assumptions by management, and are inherently subjective. In particular, for each of our reporting units, the significant assumptions used include market penetration, anticipated growth rates, and risk-adjusted discount rates for the income approach, as well as the selection of comparable companies and comparable transactions for the market approach. Changes in estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Specifically, for our NGM reporting unit, due to the early stage of its operations and the emerging nature of mobile instant



messaging technology, we changed certain of our key assumptions to reflect changes in the market that occurred in the first quarter of 2008. We believe that the assumptions and estimates used to determine the estimated fair values of each of our reporting units, including revised assumptions underlying the valuation of our NGM reporting unit, are reasonable; however, the assumptions and estimates used by management that are incorporated within the NGM valuation have a higher degree of subjectivity and are more likely to change over time. Any changes in key assumptions about our businesses and their prospects, or changes in market conditions, could result in an impairment charge. Such a charge could have a material effect on our consolidated financial statements because of the significance of goodwill and intangible assets to our consolidated balance sheet. As of September 30, 2008, we had \$95.4 million and \$86.9 million, respectively, in goodwill for our Clearinghouse Services reporting unit and our NGM Services reporting unit, subject to future impairment tests.

## **Acquisitions**

### ***I-View.com, Inc. (d/b/a MetaInfo)***

On January 8, 2007, we acquired certain assets of I-View.com, Inc. (d/b/a MetaInfo) for cash consideration of \$1.7 million. The acquisition of MetaInfo expanded our enterprise DNS services. The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141 and the results of operations of MetaInfo have been included in the accompanying consolidated statement of operations since the date of acquisition. Of the total purchase price, we allocated \$0.1 million to net tangible liabilities assumed, \$0.5 million to definite-lived intangible assets and \$1.3 million to goodwill. Definite-lived intangible assets consist of customer intangibles and acquired technology. We are amortizing the value of the customer intangibles in proportion to the discounted cash flows over an estimated useful life of 3 years. Acquired technology is being amortized on a straight-line basis over 3 years.

### ***Webmetrics, Inc.***

On January 10, 2008, we acquired Webmetrics, Inc. (Webmetrics) for cash consideration of \$12.5 million, subject to certain purchase price adjustments and contingent cash consideration of up to \$6.0 million, and acquisition costs of approximately \$685,000. The acquisition of Webmetrics, a provider of web and network performance testing, monitoring and measurement services, expanded our Internet and infrastructure services. The acquisition was accounted for as a purchase business combination in accordance with SFAS No. 141 and the results of operations of Webmetrics have been included in the accompanying consolidated statement of operations since the date of acquisition. Of the total purchase price, a preliminary estimate of \$0.4 million has been allocated to net tangible assets acquired, \$6.4 million to definite-lived intangible assets and \$7.2 million to goodwill. Definite-lived intangible assets consist of customer relationships and acquired technology. We are amortizing the value of the customer relationships in proportion to the discounted cash flows over an estimated useful life of 3 years. Acquired technology is being amortized on a straight-line basis over 5 years. In June 2008, we recorded a \$0.7 million purchase price adjustment to goodwill related to an earnout installment as part of the original purchase agreement.

**Consolidated Results of Operations*****Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2008***

The following table presents an overview of our results of operations for the three months ended September 30, 2007 and 2008.

	<b>Three Months Ended September 30,</b>		<b>Three Months Ended September 30,</b>	
	<b>2007</b>	<b>2008</b>	<b>2007 vs. 2008</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
	<b>(unaudited)</b>			
	<b>(in thousands, except per share data)</b>			
<b>Revenue:</b>				
Addressing	\$ 28,451	\$ 32,470	\$ 4,019	14.1%
Interoperability	15,191	16,237	1,046	6.9
Infrastructure and other	67,115	75,103	7,988	11.9
<b>Total revenue</b>	<b>110,757</b>	<b>123,810</b>	<b>13,053</b>	<b>11.8</b>
<b>Operating expense:</b>				
Cost of revenue (excluding depreciation and amortization shown separately below)	24,093	27,683	3,590	14.9
Sales and marketing	16,317	17,865	1,548	9.5
Research and development	5,977	7,140	1,163	19.5
General and administrative	12,978	15,407	2,429	18.7
Depreciation and amortization	9,498	10,552	1,054	11.1
	68,863	78,647	9,784	14.2
<b>Income from operations</b>	<b>41,894</b>	<b>45,163</b>	<b>3,269</b>	<b>7.8</b>
<b>Other (expense) income:</b>				
Interest and other expense	(529)	(1,110)	(581)	109.8
Interest income	1,148	359	(789)	(68.7)
<b>Income before income taxes</b>	<b>42,513</b>	<b>44,412</b>	<b>1,899</b>	<b>4.5</b>
Provision for income taxes	16,811	16,038	(773)	(4.6)
<b>Net income</b>	<b>\$ 25,702</b>	<b>\$ 28,374</b>	<b>\$ 2,672</b>	<b>10.4%</b>
<b>Net income per common share:</b>				
Basic	\$ 0.34	\$ 0.39		
Diluted	\$ 0.32	\$ 0.38		
<b>Weighted average common shares outstanding:</b>				
Basic	76,461	73,581		

Diluted

79,272

75,017

28

---

## Revenue

*Total revenue.* Total revenue increased \$13.1 million due primarily to increases in demand for our network management services and our expanded range of DNS services.

*Addressing.* Addressing revenue increased \$4.0 million due to the expanded range of DNS services, and the continued increase in the use of U.S. Common Short Codes. Specifically, revenue from DNS services increased \$4.3 million, consisting of a \$3.5 million increase in revenue from our NeuStar Ultra Services from an expanded scope of services provided to our customers, and a \$0.8 million increase in revenue from an increased number of domain names under management. In addition, revenue from U.S. Common Short Codes increased \$1.3 million due to an increased number of codes under management. These increases were offset by a decrease of \$1.4 million in revenue under our contracts to provide telephone number portability services in the United States.

*Interoperability.* Interoperability revenue increased \$1.0 million, consisting of a \$1.0 million decrease in our Clearinghouse Services business segment and a \$2.0 million increase in our NGM Services business segment. The \$1.0 million decrease in Clearinghouse Services revenue was due to a decrease in transactions under our contracts to provide number portability services in the United States. The increase in NGM Services revenue of \$2.0 million was driven by an increase in the number of carrier customers utilizing our services.

*Infrastructure and other.* Infrastructure and other revenue increased \$8.0 million. This increase was driven by an \$8.2 million increase in revenue attributable to our Clearinghouse Services business segment, which was offset by a reduction of \$0.2 million in revenue attributable to our NGM Services business segment. The increase in Clearinghouse Services revenue was predominantly due to increased demand for our network management services for customers making changes to their networks that required actions such as disconnects and modifications to network elements.

## Expense

*Cost of revenue.* Cost of revenue increased \$3.6 million, of which \$0.7 million was attributable to our Clearinghouse Services business segment and \$2.9 million was attributable to our NGM business segment. The \$0.7 million increase in Clearinghouse Services cost of revenue was due primarily to an increase of \$1.0 million in royalty expenses related to U.S. Common Short Code services. The \$2.9 million increase in NGM Services cost of revenue was due primarily to expanded costs associated with additional deployments for the carrier customers utilizing our services.

*Sales and marketing.* Sales and marketing expense increased \$1.5 million, of which \$1.1 million was attributable to our Clearinghouse Services business segment and \$0.5 million was attributable to our NGM Services business segment. The increase in Clearinghouse Services sales and marketing expense was due predominantly to a \$1.2 million increase in personnel and personnel-related expense related to additions to our sales and marketing team to focus on branding, product launches and expanded DNS service offerings. The increase in NGM Services sales and marketing expense was due to an increase of \$0.5 million in personnel and personnel-related expense to expand our sales force for NGM services and new business development opportunities.

*Research and development.* Research and development expense increased \$1.2 million, of which \$0.4 million was attributable to our Clearinghouse Services business segment and \$0.8 million was attributable to our NGM Services business segment. These increases in each of our business segments were driven by increased headcount and increased consulting fees to support our service offerings.

*General and administrative.* General and administrative expense increased \$2.4 million, of which \$3.7 million was attributable to our Clearinghouse Services business segment; offset by \$1.3 million decrease attributable to our NGM Services business segment. The increase in Clearinghouse Services general and administrative expense was due predominantly to a \$2.6 million increase in personnel and personnel-related expense related to increased headcount and a \$0.7 million increase in consulting fees to support business operations and growth. The decrease in NGM Services general and administrative expense was due predominantly to a decrease of \$1.0 million in personnel and personnel-related expense related to headcount reduction and \$0.2 million decrease in professional fees.

*Depreciation and amortization.* Depreciation and amortization expense increased \$1.1 million, of which \$0.2 million was attributable to our Clearinghouse Services business segment and \$0.9 million was attributable to our NGM Services business segment. These increases in each of our segments were due predominantly to increased depreciation of capital assets.

*Interest and other expense.* Interest and other expense for the three months ended September 30, 2008 increased \$0.6 million as compared to the three months ended September 30, 2007. This increase was due primarily to the recognition of an other-than-temporary impairment on our short-term and long-term investments of \$0.6 million, which resulted from a decline in the underlying credit quality of certain investments due to the downturn in the global credit markets.

*Interest income.* Interest income for the three months ended September 30, 2008 decreased \$0.8 million as compared to the three months ended September 30, 2007. This decrease was due to lower yields on lower average cash and short-term investment balances for the period.

*Provision for income taxes.* Our income tax provision for the three months ended September 30, 2008 decreased \$0.8 million as compared to the three months ended September 30, 2007 due primarily to gains from the reduction of reserves associated with uncertain tax positions. Our effective tax rate decreased to 36.1% for the three months ended September 30, 2008 from 39.5% for the three months ended September 30, 2007.

***Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2008***

The following table presents an overview of our results of operations for the nine months ended September 30, 2007 and 2008.

	Nine Months Ended September 30,		Nine Months Ended September 30, 2007 vs. 2008	
	2007	2008	\$	%
	\$	\$	Change	Change
	(in thousands, except per share data)			
Revenue:				
Addressing	\$ 82,311	\$ 94,899	\$ 12,588	15.3%
Interoperability	43,153	49,228	6,075	14.1
Infrastructure and other	182,434	217,305	34,871	19.1
Total revenue	307,898	361,432	53,534	17.4
Operating expense:				
Cost of revenue (excluding depreciation and amortization shown separately below)	70,417	78,983	8,566	12.2
Sales and marketing	52,602	56,808	4,206	8.0
Research and development	19,297	22,442	3,145	16.3
General and administrative	35,018	47,040	12,022	34.3
Depreciation and amortization	27,937	30,958	3,021	10.8
Impairment of goodwill		29,021	29,021	100.0
	205,271	265,252	59,981	29.2
Income from operations	102,627	96,180	(6,447)	(6.3)
Other (expense) income:				
Interest and other expense	(851)	(4,434)	(3,583)	421.0
Interest income	2,829	3,200	371	13.1
Income before income taxes	104,605	94,946	(9,659)	(9.2)
Provision for income taxes	41,786	48,176	6,390	15.3
Net income	\$ 62,819	\$ 46,770	\$ (16,049)	(25.5)%
Net income per common share:				
Basic	\$ 0.83	\$ 0.63		
Diluted	\$ 0.79	\$ 0.61		
Weighted average common shares outstanding:				
Basic	75,664	74,293		
Diluted	79,120	76,361		

**Revenue**

*Total revenue.* Total revenue increased \$53.5 million due primarily to increases in demand for our network management services and our expanded range of DNS services.

*Addressing.* Addressing revenue increased \$12.6 million due to the expanded range of DNS services, and the continued increase in the use of U.S. Common Short Codes. Specifically, revenue from DNS services increased \$13.1 million, consisting of a \$9.6 million increase in revenue from our NeuStar Ultra Services, and a \$3.5 million increase in revenue from an increased number of domain names under management. In addition, revenue from U.S. Common Short Codes increased \$4.4 million due predominately to an increased number of codes under management. These increases were offset by a decrease of \$4.7 million in revenue under our contracts to provide telephone number portability services in the United States.



*Interoperability.* Interoperability revenue increased \$6.1 million, of which \$0.2 million was attributable to our Clearinghouse Services business segment and \$5.9 million was attributable to our NGM Services business segment. The increase in Clearinghouse Services revenue was predominantly due to a \$4.9 million increase in revenue from our order management services. The increase in Clearinghouse Services revenue was offset by a \$4.0 million reduction in revenue from our contracts to provide number portability services in Canada and a \$0.6 million decrease in IP exchange services. The reduction resulted from a return to normal use patterns in the first quarter of 2008 as compared to the elevated transaction levels we experienced in the first quarter of 2007 in advance of the introduction of wireless number portability in Canada. The increase in NGM revenue of \$5.9 million was driven by an increase in the number of carrier customers utilizing our services.

*Infrastructure and other.* Infrastructure and other revenue increased \$34.9 million. This increase was driven by a \$33.9 million increase in revenue attributable to our Clearinghouse Services business segment and a \$1.0 million increase in revenue attributable to our NGM segment. The increase in Clearinghouse Services revenue was predominantly due to increased demand for our network management services for customers making changes to their networks that required actions such as disconnects and modifications to network elements. The increase in NGM Services revenue was driven by an increase in the number of carrier customers utilizing our services.

#### **Expense**

*Cost of revenue.* Cost of revenue increased \$8.6 million, of which \$1.8 million was attributable to our Clearinghouse Services business segment and \$6.8 million was attributable to our NGM Services business segment. The \$1.8 million increase in Clearinghouse Services cost of revenue was due primarily to an increase of \$2.8 million in royalty expenses related to U.S. Common Short Code services and a \$0.8 million increase in deferred expense related to new deployments. In addition, consulting costs to support business growth increased \$1.1 million. These increases in Clearinghouse Services cost of revenue were offset by a \$2.5 million reduction in personnel and personnel-related expense. The \$6.8 million increase in NGM Services cost of revenue was due primarily to expanded costs associated with additional deployments for the carrier customers utilizing our services.

*Sales and marketing.* Sales and marketing expense increased \$4.2 million, of which \$2.2 million was attributable to our Clearinghouse Services business segment and \$2.0 million was attributable to our NGM Services business segment. The increase in Clearinghouse Services sales and marketing expense was due predominantly to a \$1.9 million increase in personnel and personnel-related expense related to additions to our sales and marketing team to focus on branding, product launches, and expanded DNS service offerings. The increase in NGM Services sales and marketing expense was due predominantly to an increase of \$2.0 million in personnel and personnel-related expense to expand our sales force for NGM services and increased sales activities for new business development opportunities.

*Research and development.* Research and development expense increased \$3.1 million, of which \$0.5 million was attributable to our Clearinghouse Services business segment and \$2.7 million was attributable to our NGM Services business segment. The \$0.5 million increase in Clearinghouse Services business segment was driven by increased personnel and personnel-related expenses. The \$2.7 million increase in NGM Services research and development expense was attributable to a \$1.9 million increase of personnel and personnel-related expenses due to increased headcount and a \$0.8 million increase related to consulting fees to support NGM service offerings.

*General and administrative.* General and administrative expense increased \$12.0 million, of which \$11.1 million was attributable to our Clearinghouse Services business segment and \$0.9 million was attributable to our NGM Services business segment. The increase in Clearinghouse Services general and administrative expense was due predominantly to an \$8.1 million increase in personnel and personnel-related expense related to increased headcount and related general facility costs. In addition, consulting fees to support business growth increased \$3.0 million. The \$0.9 million increase in NGM Services general and administrative expense was due to personnel and personnel-related expense related to increased headcount to support business growth and related general facility costs.

*Depreciation and amortization.* Depreciation and amortization expense increased \$3.0 million, of which \$1.0 million was attributable to our Clearinghouse Services business segment and \$2.0 million was attributable to our NGM Services business segment. These increases in each of our segments were due predominantly to increased depreciation of capital assets.



*Impairment of Goodwill.* We recognized an impairment charge of \$29.0 million to write down the value of goodwill from our NGM business segment in the first quarter of 2008. There was no corresponding expense in the nine months ended September 30, 2008.

*Interest and other expense.* Interest and other expense for the nine months ended September 30, 2008 increased \$3.6 million as compared to the nine months ended September 30, 2007. This increase was due primarily to the recognition of an other-than-temporary impairment on our short-term and long-term investments of \$2.6 million, which resulted from a decline in the underlying credit quality of our investments due to the downturn in the global credit markets.

*Interest income.* Interest income for the nine months ended September 30, 2008 increased \$0.4 million as compared to the nine months ended September 30, 2007. This increase was due to higher yields on higher average cash and short and long-term investment balances for the period.

*Provision for income taxes.* Our effective tax rate increased to 50.7% for the nine months ended September 30, 2008 from 39.9% for the nine months ended September 30, 2007 due primarily to the impact of the \$29.0 million non-cash impairment charge related to a write down of goodwill, none of which is deductible for tax purposes. Our income tax provision for the nine months ended September 30, 2008 increased \$6.4 million as compared to the nine months ended September 30, 2007 due primarily to an increase in income from operations excluding the goodwill impairment charge.

### **Liquidity and Capital Resources**

Our principal source of liquidity is cash provided by operating activities. Our principal uses of cash have been to fund acquisitions, stock repurchases, facility expansions, capital expenditures, working capital, and debt service requirements. We anticipate that our principal uses of cash in the future will be acquisitions, stock repurchases, working capital, capital expenditures, and facility expansion.

Total cash and cash equivalents and short-term investments were \$120.2 million at September 30, 2008, a decrease from \$198.7 million at December 31, 2007. This decrease was due primarily to the use of \$124.9 million to repurchase shares of our Class A common stock and the reclassification of \$37.3 million of investments to long-term due to failed auctions for auction rate securities held by us. Of the \$120.2 million included in total cash and cash equivalents and short-term investments, \$17.6 million is invested in a cash reserve fund that has been closed to new investments and immediate redemptions. The fund currently has a projected redemption schedule that will result in approximately 83 percent of the fund being redeemed in 2008.

We have a credit facility that is available for cash borrowings up to \$100 million that may be used for working capital, capital expenditures, general corporate purposes and to finance acquisitions. As of September 30, 2008, we had no borrowings under the credit facility and we had utilized \$8.9 million for outstanding letters of credit.

At September 30, 2008, our long-term investments totaled \$37.3 million and consisted of auction rate securities whose underlying assets are student loans, of which more than 90% are guaranteed by the federal government. These auction rate securities are intended to provide liquidity via an auction process that resets the applicable interest rate approximately every 30 days and allows investors to either roll over their holdings or gain immediate liquidity by selling such investments at par. The underlying maturities of these investments range from 17 to 39 years. As a result of current negative conditions in the global credit markets, auctions for our \$37.3 million investment in these securities as of September 30, 2008 either have failed or may fail to settle on their respective settlement dates. Consequently, the investments are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful or a buyer is found outside of the auction process. Given our strong liquidity position and expected cash flows, we have the ability to execute our business plan and intend to hold these securities until conditions improve.

In October 2008, our money manager offered us Auction Rate Securities Rights, which we accepted on November 10, 2008. As a result, eligible auction rate securities held by us will be repurchased by the money manager at par plus accrued but unpaid dividends or interest starting on June 30, 2010.

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



## Discussion of Cash Flows

### *Cash flows from operations*

Net cash provided by operating activities for the nine months ended September 30, 2008 was \$118.3 million, as compared to \$89.0 million for the nine months ended September 30, 2007. This \$29.3 million increase in net cash provided by operating activities was principally the result of an increase in non-cash adjustments of \$49.9 million, including a goodwill impairment charge of \$29.0 million and a decrease of \$15.7 million relating to excess tax benefits from stock-based compensation resulting from decreased sales by employees of stock based awards. This overall increase in non-cash adjustments was offset by a decrease in net income for the corresponding periods of \$16.0 million and a decrease in net changes in operating assets and liabilities of \$4.5 million.

### *Cash flows from investing*

Net cash provided by investing activities for the nine months ended September 30, 2008 was \$8.1 million, as compared to net cash used in investing activities of \$30.9 million for the nine months ended September 30, 2007. This \$39.0 million increase in net cash provided by investing activities was principally due to a \$49.0 million increase in cash provided by investments from redemptions of our cash reserve fund and a decrease in \$2.2 million in purchases of property and equipment. This increase was offset by \$12.2 million in cash paid for acquisitions.

### *Cash flows from financing*

Net cash used in financing activities was \$123.0 million for the nine months ended September 30, 2008, as compared to net cash provided by financing activities of \$21.0 million for the nine months ended September 30, 2007. This \$144.0 million increase in net cash used in financing activities was principally the result of the \$124.9 million related to the repurchase of our Class A common stock, a \$15.7 million decrease in the excess tax benefits from stock-based compensation and a reduction of \$6.5 million in proceeds from the exercise of stock options.

## Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141(R), *Business Combinations*, or SFAS No. 141 (R), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. We do not currently expect SFAS No. 141(R) to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, or SFAS No. 160, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the holder of the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that require sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Early adoption of this standard is prohibited. In the absence of any noncontrolling (minority) interests, we do not currently expect SFAS No. 160 to have a material impact on our consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-b, *Effective Date of FASB Statement No. 157*, or FSP FAS 157-b, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The effective date has been delayed by one year to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We are currently evaluating the impact of FSP FAS 157-b on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. This pronouncement requires enhanced disclosures concerning a company's treatment of costs incurred to renew or extend the term of a recognized intangible asset. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. We do not currently expect FSP FAS 142-3 to have a material impact on our consolidated financial statements.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations when valuing securities in markets that are not active. FSP No. 157-3 is effective upon issuance, and is also effective for prior periods for which financial statements have not been issued. Our adoption of FSP No. 157-3 did not have a material impact on our consolidated financial statements as of and for the three and nine months ending September 30, 2008.

#### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of or for the period ended September 30, 2008.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk affecting NeuStar, 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, 2007. Our exposure to market risk has not changed materially since December 31, 2007.

#### **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 Securities and Exchange Commission'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 September 30, 2008, 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 third quarter of 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we are subject to claims in legal proceedings arising in the normal course of our business. We do not believe that we are party to any pending legal action that could reasonably be expected to have a material adverse effect on our business or operating results.

### **Item 1A. Risk Factors**

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in *Item 1A Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Notes to Consolidated Financial Statements* in our Annual Report on Form 10-K for the year ended December 31, 2007. The following risk factor should be considered together with the other risks and factors that we have described in our other public filings. Other than as set forth below, or elsewhere in this report or our other filings with the Securities and Exchange Commission, we believe that there have been no material changes to the risk factors disclosed in our 2007 Annual Report and our other public filings.

***The recent financial crisis could negatively affect market acceptance of our services and may harm our financial results.***

Our success will depend in part on our ability to generate revenues from the introduction of new services, extensions of existing services and geographic expansion. The market for some of our services has only recently developed, and the viability and profitability of these services is unproven. Our ability to grow our business will be compromised if we do not develop and market services that achieve broad market acceptance with our current and potential customers. If our new service offerings do not gain widespread market acceptance, our financial results could suffer. In addition, the global economic disruption experienced during the second half of 2008, and any continuing unfavorable changes in economic conditions, may result in lower overall spending by our current and potential customers, and adversely affect our ability to introduce new services and extensions of existing services, as well as expand geographically. If the economic downturn is prolonged, we may have difficulty in establishing a market for our new services and our new services may not gain market acceptance as a result.

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

In February 2008, our Board of Directors authorized a stock repurchase program to acquire up to \$250.0 million of our Class A common stock through open market and privately negotiated transactions, at times and in such amounts as management deems appropriate. In the first three quarters of 2008, we repurchased approximately \$125.0 million of our Class A common stock. The remaining share repurchases under the program we announced are expected to be made over the remainder of 2008 and 2009. These remaining repurchases may be made from time to time through 10b5-1 plans, open market transactions, privately negotiated or structured transactions at our discretion, subject to market conditions and other factors, and at prices we deem appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability, and other market conditions.

The following table is a summary of our repurchases of common stock during each of the three months in the quarter ended September 30, 2008:

<b>Month</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1 through July 31, 2008	94	\$21.20		\$
August 1 through August 31, 2008				
September 1 through September 30, 2008	226	\$20.77		
Total	320	\$20.90		\$

(1) Includes shares of common stock tendered by employees to satisfy the employees tax withholding obligations arising as a result of vesting of restricted stock grants under our stock



incentive plan,  
which shares  
were purchased  
by us based on  
their fair market  
value on the  
vesting date.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 7 to NeuStar's Registration Statement on Form S-1, filed June 28, 2005 (File No. 333-123635).
3.2	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.2 to NeuStar's Current Report on Form 8-K, filed September 16, 2008.
10.1.2	Amendment to the contractor services agreement by and between NeuStar, Inc. and North American Portability Management LLC, as amended.
10.2.5	Amendments to the contractor services agreement between Canadian LNP Consortium Inc. and NeuStar, Inc., as amended.
10.2.6	Exhibit P to the Contractor Services Agreement, restated as of June 1, 2003, by and between Canadian LNP Consortium Inc. and Neustar, Inc., as amended.
10.3.3	Amendment to the National Thousands-Block Pooling Administration agreement awarded to NeuStar, Inc. by the Federal Communications Commission.
10.4.3	Amendments to the North American Numbering Plan Administrator agreement awarded to NeuStar, Inc. by the Federal Communications Commission.
10.5.3	Amendment to .us Top-Level Domain Registry Management and Coordination agreement awarded to NeuStar, Inc. by the National Institute of Standards and Technology on behalf of the Department of Commerce on October 18, 2007.
10.99.2	Amendment to .us Top-Level Domain Registry Management and Coordination agreement awarded to NeuStar, Inc. by the National Institute of Standards and Technology on behalf of the Department of Commerce on October 26, 2001.
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.

**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: November 10, 2008

By: /s/ Jeffrey A. Babka

Jeffrey A. Babka  
Chief Financial Officer  
(Principal Financial and Accounting Officer  
and Duly Authorized Officer)

39

---

**EXHIBIT LIST**

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, incorporated herein by reference to Exhibit 3.1 to Amendment No. 7 to NeuStar's Registration Statement on Form S-1, filed June 28, 2005 (File No. 333-123635).
3.2	Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.2 to NeuStar's Current Report on Form 8-K, filed September 16, 2008.
10.1.2	Amendment to the contractor services agreement by and between NeuStar, Inc. and North American Portability Management LLC, as amended.
10.2.5	Amendments to the contractor services agreement between Canadian LNP Consortium Inc. and NeuStar, Inc., as amended.
10.2.6	Exhibit P to the Contractor Services Agreement, restated as of June 1, 2003, by and between Canadian LNP Consortium Inc. and Neustar, Inc., as amended.
10.3.3	Amendment to the National Thousands-Block Pooling Administration agreement awarded to NeuStar, Inc. by the Federal Communications Commission.
10.4.3	Amendments to the North American Numbering Plan Administrator agreement awarded to NeuStar, Inc. by the Federal Communications Commission.
10.5.3	Amendment to .us Top-Level Domain Registry Management and Coordination agreement awarded to NeuStar, Inc. by the National Institute of Standards and Technology on behalf of the Department of Commerce on October 18, 2007.
10.99.2	Amendment to .us Top-Level Domain Registry Management and Coordination agreement awarded to NeuStar, Inc. by the National Institute of Standards and Technology on behalf of the Department of Commerce on October 26, 2001.
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.