

Neustar Reports Revenue Growth of 16% for Second Quarter 2011

Jul 27, 2011

STERLING, Va. — Neustar, Inc. (NYSE: NSR), a provider of market-leading, innovative solutions

and directory services that enable trusted communication across networks, applications and

enterprises around the world, today announced results for the quarter ended June 30, 2011 and

updated guidance for full-year 2011.

Summary of Consolidated Second Quarter Results Compared to Second Quarter of

2010

- Revenue increased 16% to \$147.7 million

- Net income increased 13% to \$32.4 million; net income would have increased 18%

excluding the impact of a \$1.8 million credit to sales tax and interest expense in the

second quarter of 2010; income from continuing operations increased 3% to \$33.6

million; income from continuing operations would have increased 7% excluding the

impact of a \$1.8 million credit to sales tax and interest expense in the second quarter of

2010

- Earnings per diluted share increased 16% to \$0.43; earnings per diluted share would

have increased 19% excluding the impact of a \$1.8 million credit to sales tax and interest

expense in the second quarter of 2010; earnings from continuing operations per diluted

share increased 7% to \$0.45; earnings from continuing operations per diluted share

would have increased 10% excluding the impact of a \$1.8 million credit to sales tax and

interest expense in the second quarter of 2010

- EBITDA from continuing operations increased 6% to \$64.6 million, representing a 44%

margin; EBITDA from continuing operations would have increased 7% excluding the

impact of a \$1.8 million credit to sales tax and interest expense in the second quarter of

2010

“With our exit from the Converged Messaging business and our purchase of Evolving Systems’

numbering assets, Neustar continues to sharpen its strategic focus to drive growth and

profitability,” said Lisa Hook, Neustar’s president and chief executive officer. “Evolving

Systems’ numbering assets expand our information analytics portfolio and enhance our ability

to help our customers manage the transition to IP networks.”

Paul Lalljie, Neustar's chief financial officer added, "Second quarter results reflect continued

strength in revenues and solid profitability. We will continue to focus on increasing profitability

by pursuing additional opportunities for cost savings and building upon operational efficiencies.

Our consistently strong cash flow gives us the flexibility to execute on strategic acquisitions,

like our purchase of Evolving Systems' Numbering Solutions assets, while also returning capital

to shareholders."

Discussion of Second Quarter Results

Consolidated revenue totaled \$147.7 million, a 16% increase from \$127.7 million in the second

quarter of 2010. This increase was driven by growth in both the Carrier Services and Enterprise

Services business segments. In particular:

- Carrier Services revenue totaled \$110.8 million, a 13% increase from \$97.8 million in the

second quarter of 2010. This increase is primarily due to a \$7.9 million increase in

Numbering Services revenue driven from a \$10.9 million increase in the established fixed

fee under the Company's contracts to provide NPAC Services, which was partially offset

by a \$3.2 million decrease in revenue from functionality improvements requested by

customers and a decrease in revenue from international LNP solutions. Additionally,

Order Management Services revenue increased by \$4.3 million, primarily due to greater

demand and usage from existing customers and the addition of new customers; and

- Enterprise Services revenue totaled \$36.8 million, a 23% increase from \$30.0 million in

the second quarter of 2010. This increase is primarily due to a \$4.5 million increase in

Internet Infrastructure Services revenue due to the addition of new DNS solutions,

including IP geolocation services. Additionally, Registry Services revenue increased by

\$2.3 million due to a larger number of common short codes and domain names under

management.

Total operating expense increased 24% to \$92.4 million from \$74.4 million in the second

quarter of 2010. This increase of \$18.0 million in cost of revenue, sales and marketing, and

research and development was primarily driven by overall growth in the business which

required higher levels of support. In particular, expenses for the second quarter of 2011

included expenses associated with the acquired IP geolocation assets, a customer service

experience center, and higher royalty expense resulting from increased common short codes

revenue. Increases in general and administrative expense reflect higher facilities costs and

expenses related to the pursuit of new business opportunities.

Results related to the Company's Converged Messaging Services business for the second

quarter and prior periods have been reclassified to discontinued operations following the

completion of the Company's plan to exit its Converged Messaging Services business during the

second quarter of 2011. Included in results from discontinued operations for the six months

ended June 30, 2011 is an income tax benefit of \$42.7 million related to a worthless stock

deduction.

Cash, cash equivalents and investments totaled \$432.1 million as of June 30, 2011, compared

to \$392.2 million as of March 31, 2011 and compared to \$382.4 million as of December 31,

2010. During the second quarter, the Company purchased approximately 701,000 shares of its

Class A common stock at an average price of \$25.97 per share, for a total purchase price of

\$18.2 million.

Business Outlook for 2011

- Revenue to range from \$585 million to \$600 million;
- EBITDA from continuing operations to range from \$250 million to \$260 million; and
- Income from continuing operations to range from \$127 million to \$133 million, or

between \$1.68 and \$1.76 per diluted share. Per share calculations are based on an

estimated 75.5 million diluted weighted average shares outstanding.

The Company's guidance includes approximately \$5 million of revenue related to the assets

acquired from Evolving Systems. This revenue will be reflected in the Carrier Services business

segment within Order Management Services and replaces organic revenue for similar solutions.

In addition, the guidance excludes the Company's Converged Messaging Services business,

driving the change in the Company's guidance metric from EBITDA to EBITDA from continuing

operations.

Reconciliation of Non-GAAP Financial Measures

In this press release and in other public statements, Neustar presents certain non-GAAP

financial data. To place this data in an appropriate context, the following is a reconciliation of

income to EBITDA from continuing operations for the three and six months ended June 30, 2010

and 2011 and the year ended December 31, 2010. Also provided is a reconciliation of projected

income from continuing operations to projected EBITDA from continuing operations for the year

ending December 31, 2011.

The reconciliation allows investors to appropriately consider each non-GAAP financial measure.

These non-GAAP financial measures, however, should not be considered a substitute for or

superior to, financial measures calculated in accordance with GAAP, and the financial results

calculated in accordance with GAAP and reconciliations from these results should be carefully

evaluated. Management believes that these measures enhance investors' understanding of the

Company's financial performance and the comparability of the Company's operating results to

prior periods, as well as against the performance of other companies. However, these non-

GAAP financial measures may not be comparable with similar non-GAAP financial measures

used by other companies and should not be considered in isolation from, or as a substitute for,

financial information prepared in accordance with GAAP. Prior disclosures of non-GAAP figures

do not exclude the same items and as such should not be used for comparison purposes.

Reconciliation to EBITDA from continuing operations

**Year
Ended
December
31,**

**Three Months Ended
June 30,**

**Six Months Ended
June 30,**

2010

2011

2010

2011

2010 ⁽¹⁾

2

(in thousands, except per share data)

(unaudited)

Revenue	\$ 127,731	\$ 147,683	\$ 254,566	\$ 293,778	\$ 520,866	\$
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Income from continuing operations	\$ 32,527	\$ 33,616	\$ 60,850	\$ 67,081	\$ 124,028
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Add: Depreciation and amortization	7,769	9,386	15,570	18,532	32,861
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Less: Other expense (income)	(1,018)	(804)	(871)	(660)	(587)
Add: Provision for income taxes, continuing operations	21,798	22,423	40,295	45,129	82,282
EBITDA from continuing operations	\$ 61,076	\$ 64,621	\$ 115,844	\$ 130,082	\$ 238,584 ⁽⁴⁾
EBITDA from continuing operations per diluted share	\$ 0.80	\$ 0.86	\$ 1.52	\$ 1.73	\$ 3.14

EBITDA margin ⁽⁵⁾	48%	44%	46%	44%	46%
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Weighted average diluted common shares outstanding	76,217	75,015	76,079	75,129	76,065
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(1) The amounts expressed in this column are derived from the Company's audited

consolidated financial statements for the year ended December 31, 2010

(2) The amounts expressed in this column are based on current estimates as of the date of

this press release of results for the full year. This reconciliation is based on the midpoint of the

revenue guidance

(3) Reflects the reclassification of the Company's Converged Messaging Services business to

discontinued operations for all periods presented

(4) Includes management transition costs of \$6.0 million for restructuring and severance costs

(5) EBITDA margin is a measure of EBITDA from continuing operations as a percentage of total

revenue

Conference Call

As announced on July 15, 2011, Neustar will conduct an investor conference call to discuss the

Company's results today at 4:30 p.m. (Eastern Time). Prior to the call, investors may access

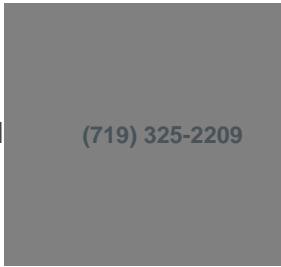
the conference call over the Internet via the Investor Relations tab of the Company's website

(www.neustar.biz). Those listening via the Internet should go to the site 15 minutes early to


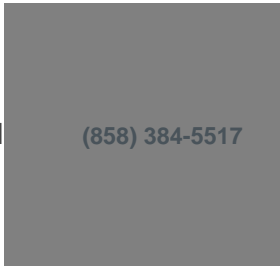
register, download and install any necessary audio software.

The conference call is also accessible via telephone by dialing

(888) 587-0627

(international callers dial  (719) 325-2209). For those who cannot listen to the live

broadcast, a replay will be available through 11:59 p.m. (Eastern Time) Wednesday, August 3,

2011 by dialing  (877) 870-5176 (international callers dial  (858) 384-5517) and entering

replay PIN 5629974, or by going to the Investor Relations tab of the Company's website

(www.neustar.biz).

Neustar will take live questions from securities analysts and institutional portfolio managers;

the complete call is open to all other interested parties on a listen-only basis.

This press release, the financial tables and other supplemental information, including a

reconciliation of segment contribution to the nearest comparable GAAP measure and

reconciliations of certain other non-GAAP measures to their nearest comparable GAAP measures

that may be used periodically by management when discussing the Company's financial results

with investors and analysts, are available on the Company's website under the Investor

Relations tab.

About Neustar, Inc.

Neustar, Inc. (NYSE: NSR) provides market-leading, innovative solutions and directory services

that enable trusted communication across networks, applications, and enterprises around the

world. Visit Neustar online at www.neustar.biz.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This press release includes information that constitutes forward-looking statements made

pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995,

including, without limitation, statements about the Company's expectations, beliefs and

business results in the future, such as guidance regarding its 2011 results. The Company has

attempted, whenever possible, to identify these forward-looking statements using words such

as “may,” “will,” “should,” “projects,” “estimates,” “expects,” “plans,” “intends,” “anticipates,”

“believes” and variations of these words and similar expressions. Similarly, statements herein

that describe the Company’s business strategy, prospects, opportunities, outlooks, objectives,

plans, intentions or goals are also forward-looking statements. The Company cannot assure you

that its expectations will be achieved or that any deviations will not be material. Forward-

looking statements are subject to many assumptions, risks and uncertainties that may cause

future results to differ materially from those anticipated. These potential risks and uncertainties

include, among others, the uncertainty of future revenue and profitability and potential

fluctuations in quarterly operating results due to such factors as disruptions to the Company's

operations; modifications to or terminations of its material contracts; its ability to successfully

identify and complete acquisitions; integrate and support the operations of businesses the

Company acquires; increasing competition; market acceptance of its existing services; its ability

to successfully develop and market new services; the uncertainty of whether new services will

achieve market acceptance or result in any revenue; and business, regulatory and statutory

changes in the communications industry. More information about potential factors that could

affect the Company's business and financial results is included in its filings with the Securities

and Exchange Commission, including, without limitation, the Company's Quarterly Report on

Form 10-Q for the quarter ended March 31, 2011 and subsequent periodic and current reports.

All forward-looking statements are based on information available to the Company on the date

of this press release, and the Company undertakes no obligation to update any of the forward-

looking statements after the date of this press release.

NEUSTAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

Three Months Ended

Six Months Ended

June 30,

June 30,

2010

2011

2010

2011

(unaudited)

Revenue:

Carrier Services	\$ 97,760	\$ 110,834	\$ 195,392	\$ 220,4
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Enterprise Services	29,971	36,849	59,174	73,32
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Total revenue	127,731	147,683	254,566	293,7
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Operating expense:

Cost of revenue (excluding depreciation and

amortization shown separately below)	26,988	31,417	54,004	62,46
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Sales and marketing	21,204	26,267	43,364	51,200
Research and development	3,108	3,441	7,129	7,437
General and administrative	14,584	21,949	32,219	42,160
Depreciation and amortization	7,769	9,386	15,570	18,530

Restructuring charges (recoveries)	771	(12)	2,006	420
	74,424	92,448	154,292	182,2
Income from operations	53,307	55,235	100,274	111,5
Other (expense) income:				

Interest and other expense	(1,011)	(126)	(2,548)	(473)
Interest and other income	2,029	930	3,419	1,133
Income from continuing operations before income taxes	54,325	56,039	101,145	112,2
Provision for income taxes, continuing operations	21,798	22,423	40,295	45,12

Income from continuing operations	32,527	33,616	60,850	67,08
(Loss) income from discontinued operations, net of tax	(3,954)	(1,261)	(7,075)	37,24
Net income	\$ 28,573	\$ 32,355	\$ 53,775	\$ 104,3

Basic net income (loss) per common share:

Continuing operations	\$ 0.43	\$ 0.46	\$ 0.81	\$ 0.91
Discontinued operations	(0.05)	(0.02)	(0.09)	0.50
Basic net income per common share	\$ 0.38	\$ 0.44	\$ 0.72	\$ 1.41

Diluted net income (loss) per common share:

Continuing operations	\$ 0.42	\$ 0.45	\$ 0.80	\$ 0.89
Discontinued operations	(0.05)	(0.02)	(0.09)	0.50
Diluted net income per common share	\$ 0.37	\$ 0.43	\$ 0.71	\$ 1.39

Weighted average common shares outstanding:

Basic

74,997

73,807

74,805

73,87

Diluted

76,217

75,015

76,079

75,12

NEUSTAR, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31, June 30,

2010

2011

(audited)

(unaudited)

ASSETS

Current assets:

Cash, cash equivalents and short-term investments	\$ 345,372	\$ 392,388
Restricted cash	556	9,483
Accounts and unbilled receivables, net	89,438	81,084
Prepaid expenses and other current assets	19,213	21,097

Income taxes receivable	-	15,874
Deferred tax assets	6,146	9,283
Total current assets	460,725	529,209

Long-term investments	37,009	39,721
Property and equipment, net	74,296	87,801
Goodwill and intangible assets, net	143,625	141,387
Other assets, long-term	8,082	11,656

Deferred tax assets, long-term	10,137	7,601
Total assets	\$ 733,874	\$ 817,375

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 61,690	\$ 59,476
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Deferred revenue	31,751	29,778
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Capital lease obligations	6,325	4,087
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Accrued restructuring	4,703	2,002
Other liabilities	11,035	8,635
Total current liabilities	115,504	103,978

Deferred revenue, long-term	10,578	11,169
Capital lease obligations, long-term	4,076	3,083
Accrued restructuring, long-term	315	795
Other liabilities, long-term	7,289	10,122

Total liabilities	137,762	129,147
Total stockholders' equity	596,112	688,228
Total liabilities and stockholders' equity	\$ 733,874	\$ 817,375

NEUSTAR, INC.

**SEGMENT REVENUE
AND CONTRIBUTION**

(in thousands)

**Three
Months
Ended**

**Six
Months
Ended**

June 30,

June 30,

2010

2011

2010

2011

(unaudited) (unaudited)

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3)					
Carrier Services	\$ 97,760	\$ 110,834	\$ 195,392	\$ 220,449	
Enterprise Services	29,971	36,849	59,174	73,329	

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Carrier Services	\$	87,999	\$	97,570	\$	175,226	\$	194,149
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Enterprise Services		13,261		15,418		26,049		31,069
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T	\$	101,260	\$	112,988	\$	201,275	\$	225,218
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(1) **Carrier Services:**

- Numbering Services

- Order Management Services

- IP Services

Enterprise Services:

- Internet Infrastructure Services

- Registry Services

(2) Segment contribution excludes certain unallocated costs within the following expense

classifications: cost of revenue, sales and marketing, research and development, and general

and administrative. In addition, depreciation and amortization and restructuring charges are

excluded from segment contribution. Such unallocated costs totaled \$48.0 million and \$57.8

million for the three months ended June 30, 2010 and 2011, respectively, and totaled \$101.0

million and \$113.7 million for the six months ended June 30, 2010 and 2011, respectively.

(3) The financial information above reflects the reclassification of the Company's Converged

Messaging Services business to discontinued operations for all periods presented.