

NEUSTAR INC
Form 10-K
February 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

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 No. 001-32548

NeuStar, Inc.

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction of
incorporation or organization)

21575 Ridgetop Circle

Sterling, Virginia

(Address of principal executive offices)

(571) 434-5400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Class A Common Stock

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

On February 21, 2014, 61,186,486 shares of NeuStar Class A common stock were outstanding and 3,082 shares of NeuStar Class B common stock were outstanding. The aggregate market value of the NeuStar common equity held by non-affiliates as of June 30, 2013 was approximately \$4.2 billion.

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DOCUMENTS INCORPORATED BY REFERENCE:

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of NeuStar's definitive proxy statement for its 2014 Annual Meeting of Stockholders, which NeuStar intends to file with the Securities and Exchange Commission within 120 days of December 31, 2013.

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Unless the context requires otherwise, references in this report to “Neustar,” “we,” “us,” the “Company” and “our” refer to NeuStar, Inc. and its consolidated subsidiaries.

PART I

ITEM 1. BUSINESS

Our Business

We are a neutral and trusted provider of real-time information services and analytics, using authoritative, hard-to-replicate datasets and proprietary analytics to help our clients promote and protect their businesses. We develop unique solutions using proprietary, third-party and client data sets. These solutions provide accurate, up-to-the-minute insights and data driven intelligence, enabling our clients to make informed, actionable decisions in real time, one customer interaction at a time. We also offer a broad range of innovative registry and other data services. Our Marketing Services enhance our clients' ability to acquire and retain valuable customers across disparate platforms. Our Security Services help our clients direct and manage Internet traffic flow, resolve Internet queries and protect their online assets against a growing number of cyber threats. We primarily serve clients in the communications, financial services, media and advertising, retail and eCommerce, Internet, and technology industries. We incorporated in Delaware in 1998. Our principal executive offices are located at 21575 Ridgetop Circle, Sterling, Virginia 20166, and our telephone number at that address is (571) 434-5400.

Our Services

Our primary services are as follows:

Marketing Services

Our Marketing Services provide clients the ability to plan and execute marketing strategies and measure the effectiveness of advertising campaigns across multiple channels with advanced marketing analytics, custom segmentation and media optimization. Using our workflow solutions, marketers are able to tailor their media spending plans, efficiently reach target audiences, and measure campaign performance across an array of channels and devices. In particular, our services help our clients identify and target their highest value potential customers and reach them through online and offline channels. These workflow solutions enable clients dealing with large volumes of continuous customer interactions and data to make instant, informed and high-impact decisions designed to promote their businesses and increase customer retention. Our privacy-by-design marketing suite of services enhances our clients' ability to achieve greater campaign success and increase their return on investment.

Our Marketing Services provide:

Marketing analytics and segmentation. We provide scientific, cloud-based solutions that enable marketers to analyze their customer base and build granular, highly predictive segmentation in real time. This provides our clients with a consistent view of customer and prospect groups most highly predisposed to purchase their products and services based on attributes such as demographics, geography, and buying propensities. Our services enable clients to plan data-driven marketing strategies, develop high-impact advertising and lead generation campaigns and execute informed media planning for consistent execution across multiple channels.

Customer targeting. Our customer targeting services enable effective online display ad targeting of prospect audiences and customers. Our predictive segmentation and geo-targeting capabilities enable clients to reach highly predisposed online customers with relevant messages, either by deploying propensity, geography or a combination of each, in a privacy compliant manner.

Identity verification and scoring. We provide services that allow clients to interact efficiently with their customers, for example, to validate customer data, distinguish between an existing customer and a prospect, enhance leads and assign a lead quality rating. Our lead scoring service assigns a real-time predictive score to inbound telephone and web leads and predicts which prospects are most likely to convert into customers and/or become high-value customers, or which current customers are likely to respond to additional offers.

Local search and licensed business data. We provide a business listing and identity management solution that serves search platforms, national brands, authorized channel partners and local businesses. This service provides

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businesses, national brands and channel partners the essential tools to verify, enhance and manage the identity of local listings on search platforms across the Web, and offers search platforms an accurate, complete and up-to-date database of local business listings for online publishing.

Measurement and attribution. We provide campaign conversion analytics that enable clients to measure advertising effectiveness, for example, by assessing the offline consumer behavior of persons exposed to online advertising campaigns, consistent with privacy-by-design principles. We also provide a single, neutral media intelligence platform for measurement and optimization of multi-channel, multi-device advertising campaigns and conversion-attribution analytics.

Business Assurance Services

We provide our clients with website performance monitoring and load testing analysis to enhance their ability to measure and improve online performance, and to promote competitive advantages and positive end-user experiences.

Our Business Assurance Services provide:

Website performance monitoring. We help clients identify a wide range of online performance issues, and set up synthetic and real user monitors from a single interface. In addition, we provide load-testing analysis to help an enterprise prepare for severe stress to new and existing systems. Our extensive diagnostics and multi-domain views give customers a holistic perspective both inside and outside the firewall.

User authentication and rights management. We operate the user authentication and rights management system, which supports the UltraViolet™ digital content locker that consumers use to access their entertainment content.

Security Services

We provide a suite of domain name systems, or DNS services, built on a global directory platform. These services play a key role in directing and managing the flow of Internet traffic, resolving Internet queries and providing security protection against cyber attacks.

Our Security Services provide:

DDoS protection. We provide Distributed Denial of Service, or DDoS, alerting and detection systems, as both a stand-alone DDoS mitigation solution, or together with advanced services to strengthen and protect an enterprise's defenses. By identifying suspicious traffic, we reduce risk, downtime and revenue loss for our clients. We help protect an enterprise's intellectual capital by providing early warning of attacks so it can act quickly to minimize damage.

Internet infrastructure. Our solutions protect an enterprise's Internet ecosystem and defend most standard transmission control protocol based applications, including, among others, websites, email servers, application programming interfaces, and databases. Our managed and recursive DNS services deliver fast, accurate responses to online queries with the scalability that today's enterprises demand.

Data Services

We manage large, complex data sets that enable clients to process decisions and transactions in real time. Our workflow solutions enable the exchange of essential operating information with multiple carriers in order to provision and manage services. Our services assist clients with fast and accurate order processing, and immediate routing of customer inquiries. These services include inventory management services that allow our carrier clients to manage effectively their assigned telephone numbers and associated resources.

Our Data Services provide:

Order management. We provide network services that permit our carrier customers to exchange essential operating information with multiple carriers to provision and manage services for their subscribers. In addition, we offer inventory management services to allow our carrier customers to manage efficiently their assigned telephone numbers and associated resources.

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Legal compliance. We provide end-to-end managed services that help our clients reduce costs, risks, and manual processing associated with complying with their obligations to provide customer information under applicable law. These services help our clients meet their obligations regarding customer records and real-time access to communications while achieving higher accuracy workflows, minimizing costs and resources, and reducing risk exposure.

Data Registries Services

Our suite of data registry services includes the dynamic routing of calls and text messages among all competing communications service providers in the United States and Canada, the provision of caller-name and related information to telephony providers, the management of authoritative domain-name registries and the administration of the U.S. common short codes registry.

Our Data Registries Services provide:

Numbering. We operate and maintain authoritative databases that help manage the increasing complexity in the telecommunications industry. Our numbering services include number portability administration center services, or NPAC Services, in the United States and Canada and number inventory and allocation management. The NPAC is the world's largest and most complex number portability system with connections to over 4,800 individual customers and is a critical component of the national telecommunications network infrastructure. Our NPAC Services provide a key foundation for subscriber acquisition and for a robust and competitive telecommunications market. These services also support the industry's needs for real-time network and resource optimization, emergency preparedness and disaster recovery, and efficient telephone number utilization. In addition, we provide international local number portability, or LNP, solutions in Taiwan and Brazil.

Registries. We provide caller identification services to carriers in the U.S. We operate the authoritative registries of Internet domain names for the .biz, .us, .tel, and .travel top-level domains, and provide international registry gateways. We provide back-end support for generic top-level domains, or gTLDs. All Internet communications routed to any of these domains must query a copy of our directory to ensure that the communication is routed to the appropriate destination. We also operate the authoritative common short codes registry on behalf of the U.S. wireless industry.

Operations

Sales Force and Marketing

We operate as a unified marketing and sales organization in order to more effectively promote our brand and go to market with our solutions. Our sales and marketing teams are aligned by industry verticals. We believe this operating model allows us to deliver solutions that address the most critical challenges of our clients' business. Our experienced sales and marketing staff have extensive knowledge of the industries we serve, and understand their priorities and needs; it is this client focused perspective that we believe allows us to successfully generate client demand. We employ a wide array of direct and indirect sales approaches and marketing strategies, and we base our strategy for each industry vertical on our analysis of market requirements, client needs, and industry direction. As of December 31, 2013, our sales and marketing organization consisted of 491 people who work together to offer our clients advanced services and solutions.

Client Support

Client support personnel are responsible for the resolution of all client inquiries, provisioning and trouble requests. Our staff works closely with our clients to ensure that our service level agreements are being met. They continually solicit client feedback and are in charge of bringing together the appropriate internal resources to troubleshoot any problems or issues that clients may have. We measure the performance of our client support personnel based on responses to client satisfaction surveys and measurements of key performance indicators.

Operational Capabilities

We provide our services through our state-of-the-art data centers and remotely hosted computer hardware located in third-party facilities throughout the world. Our data centers, including third-party facilities that we use, are custom designed for processing and transmitting high volumes of transaction-related, time-sensitive data in a highly secure environment. We are committed to employ best-of-breed tools and equipment for application development, infrastructure management, operations management and information security. In general, we subscribe to the highest

level of service and responsiveness available from each third-party vendor that we use. Further, to protect the integrity and ensure reliability of our systems, the major components of our networks are generally designed to eliminate any single point of failure.

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We consistently meet and frequently exceed our contractual service level requirements. Our performance results for certain services are monitored internally and are subjected to independent audits on a regular basis.

Research and Development

We maintain a research and development group, the principal function of which is to develop new and innovative services and improvements to existing services, oversee quality control processes and perform application testing. Our processes surrounding the development of new services and improvements to existing services focus on resolving the challenges our clients face. We employ industry experts in areas of technology that we believe are key to solving these challenges. Our quality control and application testing processes focus predominantly on resolving highly technical issues that are integral to the performance of our services and solutions. These issues are identified through both internal and external feedback mechanisms, and continuous testing of our applications and systems to ensure uptime commensurate with the service level standards we have agreed to provide to our clients. As of December 31, 2013, we had 93 employees dedicated to research and development, including software engineers, quality assurance engineers, technical project managers and documentation specialists. Our research and development expense was \$17.5 million, \$29.8 million and \$28.0 million for the years ended December 31, 2011, 2012 and 2013, respectively.

Clients and Markets

We primarily serve clients in the communications, financial services, media and advertising, retail and eCommerce, Internet, and technology industries. Our client base and the primary services we provide within these industries include:

Communications industry. Our clients include Verizon Communications Inc., AT&T Inc., Comcast Corporation, and Time Warner Cable Inc., as well as emerging providers of voice over Internet protocol, or VoIP, services, social media, and message aggregators. Within this industry, we provide numbering services, caller identification services, order management services, and marketing analytics.

Financial services industry. Our clients are leading financial services organizations across various market sectors, including retail banking, collections, insurance, credit cards and investment companies. Within this industry, we provide verification for risk and compliance mitigation, web infrastructure protection, demographic analytics, digital marketing and measurement, and customer call center experience.

Media and advertising industry. Our media and advertising clients include both the buy-side and sell-side of the advertising and media landscapes, including advertisers, agencies, ad enablers, publishers and performance marketing providers. Within this industry, we provide marketing solutions that enable identification and targeting of customers, optimization of media investments and measurement of campaign effectiveness.

Retail and eCommerce industry. Our retail and eCommerce clients include department stores, travel and hospitality companies, consumer packaged goods providers, educational institutions and auto parts manufacturers. Within this industry, we primarily provide marketing data analytics services, media intelligence platform services, and internet infrastructure services.

Internet industry. Our Internet clients include eCommerce, consumer Internet services (e.g. social networks), and online gaming companies. Within this industry, we primarily provide security services such as DDoS protection and website personalization services as well as marketing analytics and measurement services.

Technology industry. Our technology clients include hardware, consumer electronics, high-tech manufacturers, software and SaaS companies. Within this industry, we primarily provide security services such as DDoS protection and website personalization services as well as call center optimization services.

Our clients include over 14,000 different corporate entities, each of which is separately billed for the services we provide, regardless of whether it may be affiliated with one or more of our other clients. No single corporate entity accounted for more than 10% of our total revenue in 2013. The amount of our revenue derived from clients inside the United States was \$571.1 million, \$776.0 million and \$839.3 million for the years ended December 31, 2011, 2012 and 2013, respectively. The amount of our revenue derived from clients outside the United States was \$49.4 million, \$55.4 million and \$62.7 million for the years ended December 31, 2011, 2012 and 2013, respectively. The amount of our revenue derived under our contracts with North American Portability Management LLC, or NAPM, an industry group that represents all telecommunications service providers in the United States, was \$374.4 million,

\$418.2 million and \$446.4 million for the years ended December 31, 2011, 2012 and 2013, respectively, and represented 60%, 50% and 49% of our revenue for the years ended December 31, 2011, 2012 and 2013, respectively. Our total revenue from our contracts with NAPM includes revenue from our NPAC Services, connection services related to our NPAC Services and NPAC-related system enhancements.

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We currently operate in one operating segment. A single management team reports to the chief operating decision maker who manages the entire business. We do not operate any separate lines of businesses or separate business entities with respect to the sale and support of our services. For further discussion of enterprise-wide results, including goodwill, and intangible assets, revenue, total long-lived assets, as well as information concerning our international operations, see Note 6 and Note 17 to our Consolidated Financial Statements in Item 8 of Part II of this report.

Competition

We have a number of competitors for our services:

Marketing Services. Our primary competitors include Comscore, Inc., Acxiom Corporation, Nielsen Holdings N.V., Adobe Systems Incorporated, DataLogix International Inc. and BlueKai Inc., which compete with us in lead verification, marketing analytics, online display advertising solutions and online media intelligence insights, respectively.

Business Assurance Services. Our competitors include Keynote Systems, Inc. which compete with us in website performance monitoring. We do not face direct competition for our user authentication and rights management services.

Security Services. Our competitors include Akamai Technologies, Inc. which compete with us in DDoS protection services. With respect to our DNS services, our competitors include VeriSign, Inc. and OpenDNS, Inc.

Data Services. Our competitors include Synchronoss Technologies, Inc., Telcordia Technologies, Inc., a wholly-owned subsidiary of LM Ericsson Telephone Company, and Syniverse Technologies, Inc., which also competes with us in order management services.

Data Registries Services. There are no other providers currently providing the services we offer as the North American Numbering Plan Administrator, National Pooling Administrator, administrator of local number portability for the communications industry, operator of the sole authoritative registry for the .us and .biz Internet domain names, and operator of the sole authoritative registry for U.S. Common Short Codes. We were awarded the contracts to administer these services in open and competitive processes in which we competed against companies including Accenture plc, Computer Sciences Corporation, Hewlett-Packard Company, International Business Machines Corporation, or IBM, Noblis, Inc., Nortel Networks Corporation, Pearson Education, Inc., Perot Systems Corporation, Telcordia Technologies, Inc., and VeriSign, Inc. We have renewed or extended the term of several of these contracts since they were first awarded to us. Prior to the expiration of our contracts to provide these services, our competitors may submit proposals to replace us as the provider of the services covered by these contracts.

NAPM has initiated a selection process for the administration of NPAC services when our existing NPAC contracts expire on June 30, 2015. We are participating in the NAPM RFP process and seek to be selected to continue to provide the NPAC Services. (See “Risk Factors — Risks Related to Our Business — The revenue we receive under our seven contracts with North American Portability Management LLC represents, in the aggregate, a substantial portion of our overall revenue. These contracts are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and are currently subject to a competitive proposal process. If we are not selected to continue to provide these services on the same terms and conditions, or at all, our business, prospects, financial condition and results of operations will be materially adversely affected.” in Item 1A of this report).

Similarly, with respect to our contracts to act as the North American Number Plan Administrator, the National Pooling Administrator, operator of the authoritative registry for the .us and .biz Internet domain names, and the operator of the authoritative registry for U.S. common short codes, the relevant counterparty could elect not to exercise the extension period under the contract, if applicable, or could allow the contract to terminate in accordance with its terms. If any of these contracts were allowed to terminate, or otherwise were not extended, we could be required to compete with other providers to continue providing the services we currently provide under the respective contract. The U.S. Department of Commerce recently conducted a competitive procurement process with respect to our contract to act as the operator of the authoritative registry for the .us domain name, and as a result of this competitive process, we received the contract award and entered into a contract for renewal on February 28, 2014. This new contract is for a term of three years, with two additional one-year extension options.

While we do not face direct competition for the registry of .us and .biz Internet domain names, other than as noted above, we compete with other companies that maintain the registries for different domain names, including VeriSign, Inc., which manages the .com and .net registries, Afilias Limited, which manages the .org and .info

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registries, and a number of managers of country-specific domain name registries, such as .uk for domain names in the United Kingdom. We compete with TNS, Inc. with respect to our caller identification services.

Competitive factors in the market for our services include breadth and quality of services offered, reliability, security, cost-efficiency, privacy compliance and client support. Our ability to compete successfully depends on numerous factors, both within and outside our control, including:

- our responsiveness to clients' needs;
- our ability to support existing and new industry standards and protocols;
- our ability to continue to develop technical innovations; and
- the quality, reliability, security and price-competitiveness of our services.

We may not be able to compete successfully against current or future competitors and competitive pressures that we face may materially and adversely affect our business. See "Risk Factors — Risks Related to Our Business — The markets for our services are competitive, and if we do not adapt our organization and services to meet rapid technological and market change, we could lose clients or market share." in Item 1A of this report.

Employees

As of December 31, 2013, we had 1,623 employees. None of our employees are currently represented by a labor union. We have not experienced any work stoppages and consider our relationship with our employees to be good.

Contracts

We provide many of our services pursuant to private commercial and government contracts. Specifically, in the United States, we provide wireline and wireless number portability, implement the allocation of pooled blocks of telephone numbers and provide network management services pursuant to seven regional contracts with NAPM. Although the FCC has plenary authority over the administration of telephone number portability, it is not a party to our contracts with NAPM. The NANC, a federal advisory committee to which the FCC has delegated limited oversight responsibilities, reviews and oversees NAPM's management of these contracts. See — "Regulatory Environment — Telephone Numbering."

Our seven regional contracts with NAPM provide for an annual fixed-fee pricing model under which the annual fixed fee, or Base Fee, was set at \$385.6 million, \$410.7 million and \$437.4 million in 2011, 2012 and 2013, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. If the actual volume of transactions in a given year is above or below the contractually established volume range for that year, the Base Fee may be adjusted up or down, respectively, with any such adjustment being applied in the following year. The contracts also provided for a fixed credit of \$5.0 million in 2011, which was applied to reduce the Base Fee in 2011. Additional credits of up to \$15.0 million in 2011 could have been triggered if the clients reached certain levels of aggregate telephone number inventories and adopted and implemented certain IP fields and functionality. During 2011, our clients earned all of the available additional credits of \$15.0 million for the adoption and implementation of certain IP fields and functionality and the attainment of specific levels of aggregate telephone number inventories.

Under the fixed-fee model, our 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 revenue of all U.S. telecommunications service providers, as determined by the FCC. Under these contracts, we also bill to our clients a revenue recovery collections fee, or RRC fee, equal to a percentage of monthly billings, which is available to us if any telecommunications service provider fails to pay its allocable share of total transaction charges. If the RRC fee proves insufficient for that purpose, these contracts also provide for the recovery of such differences from the remaining telecommunications service providers. Under these contracts, users of our directory services also pay fees to connect to our data center and additional fees for reports that we generate at the user's request. Our contracts with NAPM continue through June 2015. (See "Risk Factors — Risks Related to Our Business — The revenue we receive under our seven contracts with North American Portability Management LLC represents, in the aggregate, a substantial portion of our overall revenue. These contracts are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and are currently subject to a competitive proposal process. If we are not selected to continue to provide these services on the same terms and conditions, or at all, our business, prospects, financial condition and results of

operations will be materially adversely affected.” in Item 1A of this report).

We also provide wireline and wireless number portability and network management services in Canada pursuant to a contract with the Canadian LNP Consortium Inc., a private corporation composed of telecommunications service providers who

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participate in number portability in Canada. The Canadian Radio-Television and Telecommunications Commission oversees the Canadian LNP Consortium's management of this contract. We bill each telecommunications service provider for our services under this contract primarily on a per-transaction basis. In July 2010, this contract was amended to continue through December 2016. The services we provide under the contracts with NAPM and the Canadian LNP Consortium are subject to rigorous performance standards, and we are subject to corresponding penalties for failure to meet those standards.

We serve as the North American Numbering Plan Administrator and the National Pooling Administrator pursuant to two separate contracts with the FCC. Under these contracts, we administer the assignment and implementation of new area codes in North America, the allocation of central office codes (which are the prefixes following the area codes) to telecommunications service providers in the United States, and the assignment and allocation of pooled blocks of telephone numbers in the United States in a manner designed to conserve telephone number resources. The North American Numbering Plan Administration contract is a fixed-fee government contract that was originally awarded by the FCC to us in 2003. In July 2012, we were awarded a new contract to serve as the North American Numbering Plan Administrator for a term not to exceed 5 years. The National Pooling Administration contract was originally awarded to us by the FCC in 2001. Under this contract, we perform the administrative functions associated with the allocation of pooled blocks of telephone numbers in the United States. The terms of this contract provide for a fixed fee associated with the administration of the pooling system. In August 2007, the FCC awarded us a new contract to continue as the National Pooling Administrator. The initial contract term was two years, commencing in August 2007, and the contract had three one-year extension options, each of which was exercised by the FCC. The FCC awarded a new contract for the National Pooling Administrator that began on July 15, 2013. The new contract is for one base year with four possible one-year extensions.

We are the operator of the .biz Internet top-level domain by contract with the Internet Corporation for Assigned Names and Numbers, or ICANN. The .biz contract was originally granted to us in May 2001. In August 2013, the .biz contract was extended through June 30, 2019. Similarly, pursuant to a contract with the U.S. Department of Commerce, originally awarded in October 2001, we operate the .us Internet top-level domain. The Department of Commerce recently conducted a competitive procurement process with respect to this contract, and as a result of this competitive process, we received the contract award and entered into a contract for renewal on February 28, 2014. This new contract is for a term of three years, with two additional one-year extension options. The .biz and .us contracts allow us to provide domain name registration services to domain name registrars, who pay us on a per-name basis.

We have an exclusive contract with the CTIA — The Wireless Association to serve as the registry operator for the administration of U.S. Common Short Codes. U.S. Common Short Codes are short strings of numbers to which text messages can be addressed — a common addressing scheme that works across all participating wireless networks. We were awarded this contract in October 2003 through an open proposal process by the major wireless carriers. In June 2008, the contract was amended to extend the term through December 2015. We provide U.S. Common Short Code registration services to wireless content providers, who pay us subscription fees per each U.S. Common Short Code registered.

Regulatory Environment

Telephone Numbering

Overview. Congress enacted the Telecommunications Act of 1996 to remove barriers to entry in the communications market. Among other things, the Telecommunications Act of 1996 mandates portability of telephone numbers and requires traditional telephone companies to provide non-discriminatory access and interconnection to potential competitors. The FCC has plenary jurisdiction over issues relating to telephone numbers, including telephone number portability and the administration of telephone number resources. Under this authority, the FCC promulgated regulations governing the administration of telephone numbers and telephone number portability. In 1995, the FCC established the NANC, a federal advisory committee, to advise and make recommendations to the FCC on telephone numbering issues, including telephone number resources administration and telephone number portability. The members of the NANC include representatives from local exchange carriers, interexchange carriers, wireless

providers, VoIP providers, manufacturers, state regulators, consumer groups, and telecommunications associations. Telephone Number Portability. The Telecommunications Act of 1996 requires telephone number portability, which is the ability of users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability, or convenience when switching from one telecommunications service provider to another. Through a competitive proposal process, a consortium of service providers representing the communications industry selected us to develop, build and operate a solution to enable telephone number portability in the United States. We ultimately entered into seven regional contracts to administer the system that we developed, after which the NANC recommended to the FCC, and the FCC approved, our selection to serve as a neutral administrator of telephone number portability. The FCC also directed the seven original regional entities, each comprising a consortium of service providers operating in the respective regions, to manage and oversee the

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administration of telephone number portability in their respective regions, subject to NANC oversight. Under the rules and policies adopted by the FCC, NAPM, as successor in interest to the seven regional consortiums, has the power and authority to manage and negotiate changes to the current master agreements.

On November 3, 2005, BellSouth Corporation, or BellSouth, filed a petition with the FCC seeking changes in the way our clients are billed for services provided by us under our contracts with NAPM. In response to the BellSouth petition, the FCC requested comments from interested parties. As of February 28, 2014, the FCC had not initiated a formal rulemaking process, and the BellSouth petition remains pending. Similarly, on May 20, 2011, Verizon Communications Inc. and Verizon Wireless Inc. filed a joint petition, the Verizon Petition, with the FCC seeking a ruling that certain carrier initiated modifications of NPAC records be excluded from the costs of the shared NPAC database and be paid for instead by the provider that caused such costs to be incurred. In response to the Verizon Petition, the FCC requested comments from interested parties. On April 18, 2013, the FCC initiated a rulemaking concerning interconnected VoIP providers direct access to telephone numbers in which it asked for comment on the question of whether the FCC should initiate a rulemaking to examine the FCC's cost allocation rules for number administration, portability and pooling more generally. As of February 28, 2014, the FCC had not initiated a formal rulemaking process and the Verizon Petition remains pending.

After the amendment of our contracts with NAPM in September 2006, Telcordia Technologies, Inc. filed a petition with the FCC requesting an order that would require NAPM to conduct a new bidding process to appoint a provider of telephone number portability services in the United States. In response to our amendment of these contracts in January 2009, Telcordia filed another petition asking that the FCC abrogate these contracts and initiate a government-managed procurement in their place. As of February 28, 2014, the FCC had not initiated a formal rulemaking process on either of these petitions, and the Telcordia petitions are still pending. Although these Telcordia petitions remain pending, we believe that they have been superseded by the initiation of a selection process to award a new contract for the administration of NPAC Services at the expiration of the existing contracts. (See "Risk Factors — Risks Related to Our Business — The revenue we receive under our seven contracts with North American Portability Management LLC represents, in the aggregate, a substantial portion of our overall revenue. These contracts are not exclusive and could be terminated or modified in ways unfavorable to us. These contracts are due to expire in June 2015 and are currently subject to a competitive proposal process. If we are not selected to continue to provide these services on the same terms and conditions, or at all, our business, prospects, financial condition and results of operations will be materially adversely affected." in Item 1A of this report).

North American Numbering Plan Administrator and National Pooling Administrator. We have contracts with the FCC to act as the North American Numbering Plan Administrator and the National Pooling Administrator, and we must comply with the rules and regulations of the FCC that govern our operations in each capacity. We are charged with administering numbering resources in an efficient and non-discriminatory manner, in accordance with FCC rules and industry guidelines developed primarily by the Industry Numbering Committee. These guidelines provide governing principles and procedures to be followed in the performance of our duties under these contracts. The communications industry regularly reviews and revises these guidelines to adapt to changed circumstances or as a result of the experience of industry participants in applying the guidelines. A committee of the NANC evaluates our performance against these rules and guidelines each year and provides an annual review to the NANC and the FCC. If we violate these rules and guidelines, or if we fail to perform at required levels, the FCC may reevaluate our fitness to serve as the North American Numbering Plan Administrator and the National Pooling Administrator and may terminate our contracts or impose fines on us. The division of the NANC responsible for reviewing our performance as the North American Numbering Plan Administrator and the National Pooling Administrator has determined that, with respect to our performance in 2012, we "exceeded" our performance guidelines under each such respective review. Similar reviews of our performance in 2013 have not yet been completed.

Neutrality. Under FCC rules and orders establishing the qualifications and obligations of the North American Numbering Plan Administrator and National Pooling Administrator, and under our contracts with NAPM to provide telephone number portability services, we are required to comply with neutrality regulations and policies. Under these neutrality requirements, we are required to operate our numbering plan, pooling administration and number portability

functions in a neutral and impartial manner, which means that we cannot favor any particular telecommunications service provider, telecommunications industry segment or technology or group of telecommunications consumers over any other telecommunications service provider, industry segment, technology or group of consumers in the conduct of those businesses. We are examined periodically on our compliance with these requirements by independent third parties. The combined effect of our contracts and the FCC's regulations and orders requires that we: not be a telecommunications service provider, which is generally defined by the FCC as an entity that offers telecommunications services to the public at large, and is, therefore, providing telecommunications services on a common carrier basis, or an interconnected VoIP provider;

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• not be an affiliate of a telecommunications service provider or VoIP provider, which means, among other things, that we:

• must restrict the beneficial ownership of our capital stock by telecommunications service providers, VoIP providers or affiliates of a telecommunications service provider or VoIP provider; and

• may not otherwise, directly or indirectly, control, be controlled by, or be under common control with, a telecommunications service provider or VoIP provider;

• not derive a majority of our revenue from any single telecommunications service provider; and

• not be subject to undue influence by parties with a vested interest in the outcome of numbering administration and activities. Notwithstanding our satisfaction of the other neutrality criteria above, the NANC or the FCC could determine that we are subject to such undue influence. The NANC may conduct an evaluation to determine whether we meet this “undue influence” criterion.

We are required to maintain confidentiality of competitive client information obtained during the conduct of our business. In addition, as part of our neutrality framework, we are required to comply with a code of conduct that is designed to ensure our continued neutrality. Among other things, our code of conduct, which was approved by the FCC, requires that:

• we never, directly or indirectly, show any preference or provide any special consideration to any telecommunications service provider;

• we prohibit access by our stockholders to user data and proprietary information of telecommunications service providers served by us (other than access of employee stockholders that is incidental to the performance of our numbering administration duties);

• our stockholders take steps to ensure that they do not disclose to us any user data or proprietary information of any telecommunications service provider in which they hold an interest, other than the sharing of information in connection with the performance of our numbering administration duties;

• we not share confidential information about our business services and operations with employees of any telecommunications service provider;

• we refrain from simultaneously employing, whether on a full-time or part-time basis, any individual who is an employee of a telecommunications service provider and that none of our employees hold any interest, financial or otherwise, in any company that would violate these neutrality standards;

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