NEUSTAR INC
Form 10-Q
April 27, 2011

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

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number 001-32548

NeuStar, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**52-2141938**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Small reporting company o

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

There were 73,715,630 shares of Class A common stock, $0.001 par value, and 3,082 shares of Class B common stock, $0.001 par value, outstanding at April 25, 2011.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

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

	December 31, 2010	March 31, 2011 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 331,570	$ 296,684
Restricted cash	556	9,791
Short-term investments	13,802	29,536
Accounts receivable, net of allowance for doubtful accounts of $1,435 and $1,850, respectively	82,250	83,520
Unbilled receivables	7,188	7,336
Notes receivable	567	575
Prepaid expenses and other current assets	12,797	11,061
Deferred costs	5,849	6,441
Income taxes receivable		29,706
Deferred tax assets	6,146	5,929
Total current assets	460,725	480,579
Long-term investments	37,009	65,996
Property and equipment, net	74,296	82,883
Goodwill	124,651	124,651
Intangible assets, net	18,974	17,846
Notes receivable, long-term	1,023	876
Deferred costs, long-term	1,052	947
Deferred tax assets, long-term	10,137	5,488
Other assets, long-term	6,007	5,777
Total assets	$ 733,874	$ 785,043

See accompanying notes.

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

	December 31, 2010	March 31, 2011 (unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,882	$ 4,219
Accrued expenses	57,808	42,943
Income taxes payable	1,590	
Deferred revenue	31,751	31,228
Capital lease obligations	6,325	5,552
Accrued restructuring	4,703	2,717
Other liabilities	9,445	9,777
Total current liabilities	115,504	96,436
Deferred revenue, long-term	10,578	11,025
Capital lease obligations, long-term	4,076	3,099
Accrued restructuring, long-term	315	741
Other liabilities, long-term	7,289	10,021
Total liabilities	137,762	121,322
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, 2010 and March 31, 2011		
Class A common stock, par value $0.001; 200,000,000 shares authorized; 80,294,573 and 81,341,752 shares issued and outstanding at December 31, 2010 and March 31, 2011, respectively	80	81
Class B common stock, par value $0.001; 100,000,000 shares authorized; 3,082 and 3,082 shares issued and outstanding at December 31, 2010 and March 31, 2011, respectively		
Additional paid-in capital	364,346	379,084
Treasury stock, 6,665,228 and 7,404,789 shares at December 31, 2010 and March 31, 2011, respectively, at cost	(169,848)	(189,039)
Accumulated other comprehensive loss	(144)	(58)
Retained earnings	401,678	473,653
Total stockholders equity	596,112	663,721
Total liabilities and stockholders equity	$ 733,874	$ 785,043

See accompanying notes.

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

	Three Months Ended March 31,	
	2010	2011
Revenue:		
Carrier Services	$ 99,788	$ 110,015
Enterprise Services	29,203	36,480
Total revenue	128,991	146,495
Operating expense:		
Cost of revenue (excluding depreciation and amortization shown separately below)	29,113	31,683
Sales and marketing	22,854	25,999
Research and development	4,078	4,038
General and administrative	18,449	21,183
Depreciation and amortization	10,143	9,516
Restructuring charges	2,349	1,718
	86,986	94,137
Income from operations	42,005	52,358
Other (expense) income:		
Interest and other expense	(1,748)	(2,513)
Interest and other income	1,390	203
Income before income taxes	41,647	50,048
Provision (benefit) for income taxes	16,445	(21,927)
Net income	$ 25,202	$ 71,975
Net income per share:		
Basic	$ 0.34	$ 0.97
Diluted	$ 0.33	$ 0.96
Weighted average common shares outstanding:		
Basic	74,613	73,938
Diluted	75,944	75,285

See accompanying notes.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011
Operating activities:		
Net income	$ 25,202	$ 71,975
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,143	9,516
Stock-based compensation	3,866	6,296
Amortization of deferred financing costs	42	42
Excess tax benefits from stock option exercises	(350)	(1,914)
Deferred income taxes	(1,388)	4,785
Provision for doubtful accounts	266	1,009
Gain on trading securities	(61)	
Amortization of bond premium (discount), net		449
Loss on asset sale		1,933
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(3,444)	(3,164)
Unbilled receivables	(1,152)	(334)
Notes receivable		139
Prepaid expenses and other current assets	359	1,736
Deferred costs	402	(487)
Income taxes receivable		(29,706)
Other assets	(619)	334
Other liabilities	714	(636)
Accounts payable and accrued expenses	(27,309)	(15,006)
Income taxes payable	13,490	(248)
Accrued restructuring	(706)	(1,560)
Deferred revenue	2,449	85
Net cash provided by operating activities	21,904	45,244
Investing activities:		
Purchases of property and equipment	(7,191)	(13,248)
Sales of investments	650	257
Purchases of investments		(45,428)
Net cash used in investing activities	(6,541)	(58,419)
Financing activities:		
Increase of restricted cash	(12)	(9,235)
Principal repayments on notes payable	(987)	
Principal repayments on capital lease obligations	(3,545)	(1,750)
Proceeds from exercise of common stock options	2,443	6,570
Excess tax benefits from stock-based compensation	350	1,914
Repurchase of restricted stock awards	(300)	(713)
Repurchase of common stock		(18,478)

Net cash used in financing activities	(2,051)	(21,692)
Effect of foreign exchange rates on cash and cash equivalents	(7)	(19)
Net increase (decrease) in cash and cash equivalents	13,305	(34,886)
Cash and cash equivalents at beginning of period	304,581	331,570
Cash and cash equivalents at end of period	$ 317,886	$ 296,684

See accompanying notes.

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NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2011

1. DESCRIPTION OF BUSINESS AND ORGANIZATION

NeuStar, Inc. (the Company or Neustar) was incorporated as a Delaware corporation in 1998. The Company provides authoritative directory and policy management services to its customers, which include communications service providers, or carriers, and non-carrier, commercial businesses, or enterprises. 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. The Company provides the authoritative solution that the communications industry relies upon to meet this mandate and the Company also provides a broad range of innovative services to meet an expansive range of its customers needs.

The Company provides critical directory services that its carrier and enterprise customers rely upon to manage a wide range of technical and operating requirements, including the following:

Carrier Services. The Company s carrier services include numbering services, order management services and Internet protocol (IP) services. Through its set of unique databases and system infrastructure in geographically dispersed data centers, the Company manages the increasing complexity in the telecommunications industry. The Company ensures the seamless connection of its carrier customers numerous networks, while also enhancing the capabilities and performance of their infrastructure. The Company operates the authoritative databases that manage virtually all telephone area codes and numbers, and enables the dynamic routing of calls among numerous competing carriers in the United States and Canada. All carriers that offer telecommunications services to the public at large must access a copy of the Company s unique database to properly route their customers calls. The Company also facilitates order management and work flow processing among carriers, and allows operators to manage and optimize the addressing and routing of IP communications.

Enterprise Services. The Company s enterprise services include Internet infrastructure services and registry services. Through the Company s global directory platform, the Company provides a suite of domain name system (DNS) services to its enterprise customers. The Company manages a collection of directories that maintain addresses in order to direct, prioritize and manage Internet traffic, and to find and resolve Internet queries and top-level domains. The Company is the authoritative provider of essential registry services and manages directories of similar resources, or addresses, that its customers use for reliable, fair and secure access and connectivity. In addition, enterprise customers rely on the Company s services to monitor and load-test websites to help identify issues and optimize performance. The Company also provides IP geolocation services that help enterprises identify the location of their consumers for a variety of purposes, such as target marketing and fraud prevention. Additionally, the Company provides directory services for the 5- and 6-digit number strings used for all U.S. Common Short Codes, which is part of the short messaging service relied upon by the U.S. wireless industry.

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 months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year. The consolidated balance sheet as of December 31, 2010 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. 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, 2010 (the 2010 Form 10-K) filed with the Securities and Exchange Commission.

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

NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2011

quantification of income tax liabilities due to uncertain tax positions; restructuring liabilities; valuation of investments; recoverability of intangible assets, other long-lived assets and goodwill; and the determination of the allowance for doubtful accounts. The Company bases its estimates on historical experience and assumptions that it believes are reasonable. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic Financial Instruments requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Due to their short-term nature, the carrying amounts reported in the accompanying consolidated financial statements approximate the fair value for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses. The Company determined the fair value of its short-term and long-term investments utilizing quoted market prices in active markets (see Note 4). The Company believes the carrying value of its notes receivable approximates fair value as the interest rate approximates a market rate.

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

	December 31, 2010		March 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 331,570	$ 331,570	$ 296,684	$ 296,684
Restricted cash (current assets)	$ 556	$ 556	$ 9,791	$ 9,791
Short-term investments	$ 13,802	$ 13,802	$ 29,536	$ 29,536
Notes receivable	$ 1,590	$ 1,590	$ 575	$ 575
Marketable securities (other assets, long-term)	$ 3,681	$ 3,681	$ 4,358	$ 4,358
Long-term investments	$ 37,009	$ 37,009	$ 65,996	$ 65,996
Deferred compensation (other liabilities, long-term)	$ 3,621	$ 3,621	$ 4,332	$ 4,332

Restricted Cash

As of December 31, 2010 and March 31, 2011, restricted cash was $0.6 million and $9.8 million, respectively. As of March 31, 2011, cash of $9.3 million was restricted as collateral for the Company s outstanding letters of credit (see Note 6). As of December 31, 2010 and March 31, 2011, cash of $0.6 million and $0.5 million, respectively, was restricted for deposits on leased facilities.

Revenue Recognition

The Company provides essential technology and directory services to carrier and enterprise customers pursuant to various private commercial and government contracts. The Company s revenue recognition policies are in accordance with the Revenue Recognition Topic of the FASB ASC.

Significant Contracts

As part of its carrier services, the Company provides number portability administration center services (NPAC Services), which include wireline and wireless number portability, implementation of the allocation of pooled blocks of telephone numbers and network management services in the United States pursuant to seven contracts with North American Portability Management LLC (NAPM), an industry group that represents all telecommunications service providers in the United States. The aggregate fees for transactions processed under these contracts are determined by an annual fixed-fee pricing model under which the annual fixed fee (Base Fee) was set at $362.1 million and $385.6 million in 2010 and 2011, respectively, and is subject to an annual price escalator of 6.5% in subsequent years. These contracts also provide for fixed credits to customers of $25.0 million in 2010 and $5.0 million in 2011, which were applied to reduce the Base Fee for the applicable year. Customers under these contracts may earn additional credits of up to $15.0 million annually in each of 2010 and 2011 if the customers reach specific levels of aggregate telephone number inventories and adopts and implements certain IP fields and functionality. These contracts also enable the Company s customers to earn credits if the volume of transactions in a given year is above or below the contractually established volume range for that year. The determination of credits earned based on transaction volume is done annually at the end of each year and earned credits are applied to the following year s invoices. To the extent any additional credits expire unused at the end of a year, they will be recognized in revenue at that time.

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NEUSTAR, INC.
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The Company determines the fixed and determinable fee under these contracts on an annual basis at the beginning of each year and recognizes this fee in its Carrier Services operating segment on a straight-line basis over twelve months. For 2010, the Company concluded that the fixed and determinable fee equaled $322.1 million, which represented the Base Fee of $362.1 million, reduced by the $25.0 million fixed credit and $15.0 million of additional credits. For 2011, the Company concluded that the fixed and determinable fee equals $365.6 million, which represents the Base Fee of $385.6 million, reduced by the $5.0 million fixed credit and $15.0 million of additional credits. As of March 31, 2011, the Company has determined that its carrier customers have earned all of the additional credits of $15.0 million attributable to the adoption and implementation of the requisite IP fields and functionality and the achievement of specific levels of aggregate telephone number inventories.

The total amount of revenue derived under the Company s contracts with NAPM, comprised of NPAC Services, connection service fees related to the Company s NPAC Services and system enhancements, was approximately $84.8 million and $93.8 million for the three months ended March 31, 2010 and 2011, respectively.

Fees under the Company s contracts with NAPM 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. The Company also bills a Revenue Recovery Collections fee equal to a percentage of monthly billings to its customers under its NAPM contracts, which is available to the Company if any customer fails to pay its allocable share of total transactions charges under the contracts to provide NPAC Services.

Carrier Services

Under its seven contracts with NAPM, the Company provides NPAC Services. As discussed above under the heading Revenue Recognition Significant Contracts, the Company determines the fixed and determinable fee on an annual basis and recognizes such fee on a straight-line basis over twelve months.

The Company provides NPAC Services in Canada under its long-term contract with the Canadian LNP Consortium Inc. The Company recognizes revenue on a per-transaction fee basis as the services are performed.

The Company generates revenue from its telephone number administration services under two government contracts: North American Numbering Plan Administrator (NANPA) and National Pooling Administrator (NPA). Under its NANPA contract, the Company earns a fixed annual fee and recognizes this fee as revenue on a straight-line basis as services are provided. Under its NPA contract, the Company earns a fixed fee associated with administration of the pooling system. The Company recognizes revenue for this contract on a straight-line basis over the term of the contract. In the event the Company estimates losses on these fixed price contracts, the Company recognizes these losses in the period in which a loss becomes apparent.

The Company generates revenue from connection fees and system enhancements provided under its contracts with NAPM. 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 provides Order Management Services, 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 for these services 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.

Enterprise Services

The Company generates revenue from the management of internal and external DNS services. The Company s revenue from these services 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 DNS 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.

NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2011

The Company generates revenue related to its Internet domain name registry services under contracts with terms generally between one and ten years. The Company recognizes revenue on a straight-line basis over the term of the related customer contracts.

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 related customer contracts.

Accounting for Multiple Element Arrangements Entered Into or Materially Modified After January 1, 2011

In September 2009, the FASB ratified Accounting Standard Update (ASU) 2009-13, Revenue Recognition Topic 605 Multiple-Deliverable Revenue Arrangements (ASU 2009-13). When vendor specific objective evidence or third party evidence for deliverables in a multiple-element arrangement cannot be determined, the Company will be required to develop a best estimate of the selling price for separate deliverables and allocate arrangement consideration using the relative selling price method. The Company adopted ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or after January 1, 2011.

During 2010 and the three months ended March 31, 2011, certain of the Company s arrangements included customer set-up and implementation services, followed by ongoing transaction processing. These customer set-up and implementation services were not considered a separate deliverable that provides stand-alone value to the customer and such fees were deferred and recognized as revenue on a straight-line basis over the term of the contract. Accordingly, the adoption of ASU 2009-13 did not have a material effect on the Company s revenue recognized for the three months ended March 31, 2011. Assuming the adoption of ASU 2009-13 on a prospective basis for arrangements entered into or materially modified on or after January 1, 2010, the effect on revenue recognized for the three months ended March 31, 2010 would not have been materially different.

Service Level Standards

Some of the Company s private commercial contracts require the Company to meet service level standards and impose corresponding penalties if the Company fails to meet those standards. The Company records a provision for these performance-related penalties in the period in which it becomes aware that it has failed to meet required service levels, triggering the requirement to pay a penalty, which results in a corresponding reduction to revenue.

Income Taxes

The Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB ASC. 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. Valuation allowances are provided to reduce such deferred tax assets to amounts more likely than not to be ultimately realized.

The income tax provision includes U.S. federal, state, local and foreign income taxes and is based on pre-tax income or loss. In determining the projected annual effective income tax rate, the Company analyzes various factors, including 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.

The Company assesses uncertain tax positions in accordance with income tax accounting standards. Under these standards, income tax benefits should be recognized when, based on the technical merits of a tax position, the Company 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.

Recent Accounting Pronouncements

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company s consolidated financial statements, from those disclosed in the 2010 Form 10-K.

NEUSTAR, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2011

3. INVESTMENTS

Auction Rate Securities and Rights

In November 2008, the Company accepted a settlement offer in the form of a rights offering (ARS Rights) by the investment firm that brokered the Company s original purchases of auction rate securities (ARS). The ARS Rights provided the Company with rights to sell its ARS at par value to the investment firm during a two year period beginning June 30, 2010. Under the ARS Rights, the investments were completely liquidated on July 1, 2010.

The Company elected to measure the ARS Rights at their fair value pursuant to the Financial Instruments Topic of the FASB ASC and to classify the associated ARS as trading securities. During the three months ended March 31, 2010, the Company recorded a loss of $1.1 million, related to the change in estimated fair value of the ARS Rights and a gain of $1.0 million, related to the change in estimated fair value of the ARS.

Under the terms of the ARS Rights, if the investment firm was successful in selling any ARS prior to June 30, 2010, the investment firm was obligated to pay the Company par value for any ARS sold. During the three months ended March 31, 2010, the investment firm sold ARS with an original par value of $0.7 million. The Company received this amount in cash from the investment firm and recognized realized gains of $0.1 million.

Pre-refunded Municipal Bonds and U.S. Treasury Notes

As of December 31, 2010 and March 31, 2011, the Company held approximately $50.8 million and $75.4 million, respectively, in pre-refunded municipal bonds, secured by an escrow fund of U.S. Treasury securities. In addition, as of March 31, 2011, the Company held approximately $20.1 million in U.S. Treasury notes. These investments are accounted for as available-for-sale securities in the Company s consolidated balance sheet pursuant to the Investments Debt and Equity Securities Topic of the FASB ASC. The Company did not have any sales or record any impairment charges related to these investments during 2010. During the three months ended March 31, 2011, the Company sold approximately $0.3 million of pre-refunded municipal bonds, classified as short-term investments. The following table summarizes the Company s investment in these investments as of December 31, 2010 and March 31, 2011 (in thousands):

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year:				
Municipal bonds	$ 13,782	$ 23	$ (3)	$ 13,802
Due after one year through three years:				
Municipal bonds	36,968	61	(20)	37,009
Total	$ 50,750	$ 84	$ (23)	$ 50,811

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Due within one year:				
Municipal bonds	$ 29,525	$ 17	$ (6)	$ 29,536
Due after one year through three years:				
Municipal bonds	45,832	63	(28)	45,867
U.S. Treasury notes	20,115	14		20,129
Total	$ 95,472	$ 94	$ (34)	$ 95,532

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NEUSTAR, INC.
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4. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received in the sale of asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fair Value Measurements and Disclosure Topic of FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1. Observable inputs, such as quoted prices in active markets;

Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company evaluates assets and liabilities subject to fair value measurements on a recurring and non-recurring basis to determine the appropriate level at which to classify them for each reporting period. This determination requires the Company to make significant judgments.

The following table sets forth, as of December 31, 2010 and March 31, 2011, the Company s financial and non-financial assets and liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy (in thousands):

	December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Municipal bonds (maturities less than one year)	$13,802	$	$	$13,802
Municipal bonds (maturities one to three years)	$37,009	$		