

J2 GLOBAL, INC.  
Form 10-Q  
August 10, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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: 0-25965

j2 GLOBAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction  
of incorporation or organization)

6922 Hollywood Boulevard, Suite 500  
Los Angeles, California 90028

(Address of principal executive offices)

47-1053457

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

(323) 860-9200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required 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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

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Large accelerated filer  Accelerated filer  Non-Accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of August 4, 2015, the registrant had 48,437,323 shares of common stock outstanding.

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j2 GLOBAL, INC.

FOR THE QUARTER ENDED JUNE 30, 2015

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## j2 GLOBAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands except share and per share data)

|  | June 30,<br>2015 | December 31,<br>2014 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Cash and cash equivalents  | \$415,930        | \$433,663            |
| Short-term investments   | 97,188           | 96,206               |
| Accounts receivable, net of allowances of \$4,160 and \$3,685, respectively  | 87,319           | 91,699               |
| Prepaid expenses and other current assets  | 27,140           | 22,602               |
| Deferred income taxes  | 4,514            | 2,013                |
| Total current assets   | 632,091          | 646,183              |
| Long-term investments  | 54,177           | 60,508               |
| Property and equipment, net  | 36,778           | 38,217               |
| Trade names, net   | 103,843          | 105,551              |
| Patent and patent licenses, net  | 21,857           | 24,927               |
| Customer relationships, net  | 175,488          | 163,766              |
| Goodwill   | 674,084          | 635,675              |
| Other purchased intangibles, net   | 14,980           | 17,556               |
| Other assets   | 13,511           | 12,819               |
| Total assets   | \$1,726,809      | \$1,705,202          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                  |                      |
| Accounts payable and accrued expenses  | \$87,081         | \$95,310             |
| Income taxes payable   | 1,215            | —                    |
| Deferred revenue, current  | 75,353           | 63,457               |
| Capital lease, current   | 324              | 258                  |
| Deferred income taxes  | 362              | 342                  |
| Total current liabilities  | 164,335          | 159,367              |
| Long-term debt   | 597,209          | 593,350              |
| Capital lease, non-current   | 195              | 141                  |
| Liability for uncertain tax positions  | 25,136           | 37,551               |
| Deferred income taxes  | 63,267           | 61,960               |
| Deferred revenue, non-current  | 8,222            | 10,182               |
| Other long-term liabilities  | 19,242           | 22,416               |
| Total liabilities  | 877,606          | 884,967              |
| Commitments and contingencies  |                  |                      |
| Preferred stock - Series A, \$0.01 par value. Authorized 6,000; total issued and outstanding zero                                  | —                | —                    |
| Preferred stock - Series B, \$0.01 par value. Authorized 20,000; total issued and outstanding zero                                 | —                | —                    |
| Common stock, \$0.01 par value. Authorized 95,000,000; total issued and outstanding 47,641,831 and 47,409,514 shares, respectively | 476              | 474                  |
| Additional paid-in capital   | 282,702          | 273,304              |
| Retained earnings  | 584,831          | 553,584              |
| Accumulated other comprehensive loss   | (18,806)         | (7,127)              |
| Total stockholders' equity   | 849,203          | 820,235              |
| Total liabilities and stockholders' equity   | \$1,726,809      | \$1,705,202          |

See Notes to Condensed Consolidated Financial Statements

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j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited, in thousands except share and per share data)

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2015                        | 2014       | 2015                      | 2014       |
| Total revenues   | \$176,038                   | \$144,744  | \$337,291                 | \$278,868  |
| Cost of revenues <sup>(1)</sup>                                      | 29,494                      | 25,558     | 57,681                    | 48,947     |
| Gross profit   | 146,544                     | 119,186    | 279,610                   | 229,921    |
| Operating expenses:  |                             |            |                           |            |
| Sales and marketing <sup>(1)</sup>                                   | 40,421                      | 35,329     | 78,011                    | 68,288     |
| Research, development and engineering <sup>(1)</sup>                 | 8,969                       | 7,600      | 17,415                    | 14,814     |
| General and administrative <sup>(1)</sup>                            | 47,088                      | 31,419     | 93,588                    | 60,397     |
| Total operating expenses   | 96,478                      | 74,348     | 189,014                   | 143,499    |
| Income from operations   | 50,066                      | 44,838     | 90,596                    | 86,422     |
| Interest expense, net  | 10,881                      | 5,682      | 21,194                    | 10,630     |
| Other expense (income), net  | 88                          | (185)      | (696)                     | (505)      |
| Income before income taxes   | 39,097                      | 39,341     | 70,098                    | 76,297     |
| Income tax expense   | 181                         | 4,292      | 9,304                     | 12,483     |
| Net income   | \$38,916                    | \$35,049   | \$60,794                  | \$63,814   |
| Net income per common share:   |                             |            |                           |            |
| Basic  | \$0.81                      | \$0.73     | \$1.26                    | \$1.34     |
| Diluted  | \$0.80                      | \$0.73     | \$1.25                    | \$1.33     |
| Weighted average shares outstanding:                                 |                             |            |                           |            |
| Basic  | 47,537,597                  | 46,745,596 | 47,480,315                | 46,556,428 |
| Diluted  | 47,853,574                  | 47,067,767 | 47,737,006                | 46,911,574 |
| Cash dividends paid per common share                                 | \$0.3000                    | \$0.2700   | \$0.5925                  | \$0.5325   |
| <sup>(1)</sup> Includes share-based compensation expense as follows: |                             |            |                           |            |
| Cost of revenues   | \$91                        | \$27       | \$174                     | \$181      |
| Sales and marketing  | 603                         | 426        | 1,187                     | 917        |
| Research, development and engineering                                | 213                         | 222        | 408                       | 362        |
| General and administrative   | 2,261                       | 1,288      | 4,404                     | 2,887      |
| Total  | \$3,168                     | \$1,963    | \$6,173                   | \$4,347    |

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited, in thousands)

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2015                        | 2014     | 2015                      | 2014     |
| Net income   | \$38,916                    | \$35,049 | \$60,794                  | \$63,814 |
| Other comprehensive income (loss), net of tax:   |                             |          |                           |          |
| Foreign currency translation adjustment, net of tax expense of zero and zero for the three and six months of 2015, respectively, and \$498 and \$699 for the three and six months of 2014, respectively  | 7,112                       | 1,334    | (8,125                    | ) 2,171  |
| Unrealized gain (loss) on available-for-sale investments, net of tax expense (benefit) of (\$2,448) and (\$2,616) for the three and six months of 2015, respectively, and \$1,665 and \$135 for the three and six months of 2014, respectively | (3,934                      | ) 2,885  | (3,554                    | ) 245    |
| Other comprehensive loss, net of tax   | 3,178                       | 4,219    | (11,679                   | ) 2,416  |
| Comprehensive income   | \$42,094                    | \$39,268 | \$49,115                  | \$66,230 |

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited, in thousands)

|   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2015                      | 2014     |
| Cash flows from operating activities:   |                           |          |
| Net income  | \$60,794                  | \$63,814 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                           |          |
| Depreciation and amortization   | 43,181                    | 28,455   |
| Accretion and amortization of discount and premium of investments                   | 551                       | 654      |
| Amortization of financing costs and discounts                                       | 4,480                     | 641      |
| Share-based compensation  | 6,173                     | 4,347    |
| Excess tax benefits from share-based compensation                                   | (2,104)                   | (4,803)  |
| Provision for doubtful accounts   | 3,544                     | 1,810    |
| Deferred income taxes, net  | (73)                      | (780)    |
| Gain on sale of available-for-sale investments                                      | (42)                      | (40)     |
| Decrease (increase) in:   |                           |          |
| Accounts receivable   | 2,199                     | 5,691    |
| Prepaid expenses and other current assets   | 2,163                     | (3,151)  |
| Other assets  | 354                       | 37       |
| (Decrease) increase in:   |                           |          |
| Accounts payable and accrued expenses   | (5,814)                   | (3,616)  |
| Income taxes payable  | (5,069)                   | (320)    |
| Deferred revenue  | (1,546)                   | 364      |
| Liability for uncertain tax positions   | (12,414)                  | (1,213)  |
| Other long-term liabilities   | 1,233                     | (84)     |
| Net cash provided by operating activities   | 97,610                    | 91,806   |
| Cash flows from investing activities:   |                           |          |
| Maturity of certificates of deposit   | 65                        | 14,520   |
| Purchase of certificates of deposit   | (62)                      | —        |
| Maturity of available-for-sale investments  | 56,095                    | 51,929   |
| Purchase of available-for-sale investments  | (57,465)                  | (45,043) |
| Purchases of property and equipment   | (6,955)                   | (4,631)  |
| Proceeds from sale of assets  | —                         | 608      |
| Acquisition of businesses, net of cash received                                     | (74,308)                  | (79,546) |
| Purchases of intangible assets  | (866)                     | (3,899)  |
| Net cash used in investing activities   | (83,496)                  | (66,062) |
| Cash flows from financing activities:   |                           |          |
| Issuance of long-term debt  | —                         | 402,500  |
| Debt issuance costs   | —                         | (11,069) |
| Repurchases of common stock and restricted stock                                    | (2,302)                   | (4,733)  |
| Issuance of common stock under employee stock purchase plan                         | 126                       | 123      |
| Exercise of stock options   | 3,009                     | 5,247    |
| Dividends paid  | (28,610)                  | (25,302) |
| Excess tax benefits from share-based compensation                                   | 2,104                     | 4,803    |
| Deferred payments for acquisitions  | (3,883)                   | (13,473) |
| Other   | (180)                     | (217)    |
| Net cash (used in) provided by financing activities                                 | (29,736)                  | 357,879  |
| Effect of exchange rate changes on cash and cash equivalents                        | (2,111)                   | 457      |



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|  |           |           |
|--|-----------|-----------|
| Net change in cash and cash equivalents                  | (17,733   | ) 384,080 |
| Cash and cash equivalents at beginning of period         | 433,663   | 207,801   |
| Cash and cash equivalents at end of period               | \$415,930 | \$591,881 |
| See Notes to Condensed Consolidated Financial Statements |           |           |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

(UNAUDITED)

1. Basis of Presentation

j2 Global, Inc., together with its subsidiaries (“j2 Global” or the “Company”), is a leading provider of Internet services. Through its Business Cloud Services Division, the Company provides cloud services to businesses of all sizes, from individuals to enterprises, and licenses its intellectual property (“IP”) to third parties. In addition, the Business Cloud Services Division includes our j2 Cloud Connect, which is primarily focused on our DID-based voice and fax services. The Digital Media Division specializes in the technology and gaming markets, reaching in-market buyers and influencers in both the consumer and business-to-business space.

The accompanying interim condensed consolidated financial statements include the accounts of j2 Global and its direct and indirect wholly-owned and less-than-wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements although the Company believes that that disclosures made are adequate to make that information not misleading. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2014 included in our Annual Report on Form 10-K filed with the SEC on March 2, 2015. Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

The results of operations for this interim period are not necessarily indicative of the operating results for the full year or for any future period.

Holding Company Reorganization

On June 10, 2014, j2 Global, Inc., a Delaware corporation, completed a corporate reorganization (the “Holding Company Reorganization”) pursuant to which j2 Global, Inc. (the “Predecessor”); merged with j2 Merger Sub, Inc., a Delaware corporation and an indirect, wholly owned subsidiary of the Predecessor, and changed its name to “j2 Cloud Services, Inc.” The Predecessor surviving the merger became a direct, wholly owned subsidiary of a new public holding company, j2 Global Holdings, Inc. (the “Holding Company”), which in connection with the merger changed its name to j2 Global, Inc.

At the effective time of the merger and in connection with the Holding Company Reorganization, all outstanding shares of common stock and preferred stock of the Predecessor were automatically converted into identical shares of common stock or preferred stock, as applicable, of the Holding Company on a one-for-one basis, and the Predecessor’s existing stockholders and other equity holders became stockholders and equity holders, as applicable, of the Holding Company in the same amounts and percentages as they were in the Predecessor prior to the Holding Company Reorganization.

Further information related to the merger and the Holding Company Reorganization is contained in the Agreement and Plan of Merger set forth as an exhibit to the Form 8-K filed with the SEC on June 10, 2014.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications, and the reported amounts of net revenue and expenses during the reporting period. We believe that our most significant estimates are those related to valuation and impairment of marketable securities, valuation of assets acquired and liabilities assumed in connection with business combinations, long-lived and intangible asset impairment, contingent consideration, income taxes, contingencies and allowances for doubtful accounts. On an ongoing basis, management evaluates its estimates based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could materially differ from those estimates.

#### Allowances for Doubtful Accounts

j2 Global reserves for receivables it may not be able to collect. The reserves for the Company's Business Cloud Services segment are typically driven by the historical volume of credit card declines, an evaluation of current market conditions and past due invoices based on historical experience. The reserves for the Company's Digital Media segment are typically driven by past due invoices based on historical experience. Management evaluates the adequacy of these reserves on an ongoing basis.

#### Revenue Recognition

##### Business Cloud Services

The Company's Business Cloud Services revenues substantially consist of monthly recurring subscription and usage-based fees, which are primarily paid in advance by credit card. In accordance with GAAP, the Company recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed and determinable and collection is probable. The Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance and recognizes them in the period earned. Additionally, the Company defers and recognizes subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

j2 Global's Business Cloud Services also include patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to j2 Global in exchange for the grant of non-exclusive, retroactive and future licenses to our intellectual property, including patented technology. Patent revenues may also consist of revenues generated from the sale of patents. Patent license revenues are recognized when earned over the term of the license agreements. With regard to fully paid-up license arrangements, the Company recognizes as revenue in the period the license agreement is executed the portion of the payment attributable to past use of the intellectual property and amortizes the remaining portion of such payments on a straight-line basis, or pro-rata revenue basis, as appropriate over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes as revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

The Business Cloud Services business also generates revenues by licensing certain technology to third parties. These licensing revenues are recognized when earned in accordance with the terms of the underlying agreement. Generally, revenue is recognized as the third party uses the licensed technology over the period.

##### Digital Media

The Company's Digital Media revenues primarily consist of revenues generated from the sale of advertising campaigns that are targeted to the Company's proprietary websites and to those websites operated by third parties that are part of the Digital Media business's advertising network. Revenues for these advertising campaigns are recognized as earned either when an ad is placed for viewing by a visitor to the appropriate web page or when the visitor "clicks through" on the ad, depending upon the terms with the individual advertiser.

Revenues for Digital Media business-to-business operations consist of lead-generation campaigns for IT vendors and are recognized as earned when the Company delivers the qualified leads to the customer.

j2 Global also generates Digital Media revenues through the license of certain assets to clients, for the clients' use in their own promotional materials or otherwise. Such assets may include logos, editorial reviews, or other copyrighted

material. Revenues under such license agreements are recognized when the assets are delivered to the client. Also, Digital Media revenues are generated through the license of certain speed testing technology which is recognized when delivered to the client through providing data services primarily to Internet Service Providers ("ISPs") and wireless carriers which is recognized as earned over the term of the access period. The Digital Media business also generates other types of revenues, including business listing fees, subscriptions to online publications, and from other sources. Such other revenues are recognized as earned.

The Company determines whether Digital Media revenue should be reported on a gross or net basis by assessing whether the Company is acting as the principal or agent in the transaction. If the Company is acting as the principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance for principal-agent considerations and the Company places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

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The Company records revenue on a gross basis with respect to revenue generated (i) by the Company serving online display and video advertising across its owned-and-operated web properties, on third party sites or on unaffiliated advertising networks, (ii) through the Company's lead-generation business and (iii) through the Company's Digital Media licensing program. The Company records revenue on a net basis with respect to revenue paid to the Company by certain third-party advertising networks who serve online display and video advertising across the Company's owned-and-operated web properties or certain third party sites.

#### Fair Value Measurements

As of June 30, 2015 and December 31, 2014, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable, customer deposits and long-term debt are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company's senior unsecured notes was determined using the quoted market prices of debt instruments with similar terms and maturities, if available. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to j2 Global.

#### Debt Issuance Costs and Debt Discount

j2 Global capitalizes costs incurred with borrowing and issuance of debt securities and records debt discounts as a reduction to the debt amount. j2 Global capitalized third-party costs incurred in connection with its sale of senior unsecured notes within long-term other assets and recorded the original purchase discount as a reduction to such notes (See Note 7 - Long Term Debt). These costs and discounts are amortized and included in interest expense over the life of the borrowing or term of the credit facility using the interest method.

#### Concentration of Credit Risk

All of the Company's cash, cash equivalents and marketable securities are invested primarily at major financial institutions within the United States, United Kingdom and Ireland, with cash and cash equivalents also held at financial institutions within several other countries, including Australia, Austria, Canada, China, France, Germany, Italy, Japan, New Zealand, the Netherlands and Poland. These institutions are required to invest the Company's cash in accordance with the Company's investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. The Company's investment policy also requires that investments in marketable securities be in only highly rated instruments, with limitations on investing in securities of any single issuer. However, these investments are not insured against the possibility of a total or near complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks.

At June 30, 2015 and December 31, 2014, the Company's cash and cash equivalents were maintained in accounts that are insured up to the limit determined by the applicable governmental agency. The Company's deposits held in qualifying financial institutions in Ireland are fully insured through March 28, 2018 to the extent on deposit prior to March 28, 2013. With respect to the Company's deposits with financial institutions in other jurisdictions, the insured amounts are immaterial in comparison to the total amount of the Company's cash and cash equivalents held by these institutions which is not insured.

#### Contingent Consideration

j2 Global measures contingent earn-out liabilities in connection with acquisitions at fair value on a recurring basis using significant unobservable inputs and such liabilities are classified within Level 3 of the fair value hierarchy (see

Note 5 - Fair Value Measurements). The Company may use various valuation techniques depending on the terms and conditions of the contingent consideration including a Monte-Carlo simulation. This simulation uses a probability distribution for each significant input to produce hundreds or thousands of possible outcomes and the results are analyzed to determine probabilities of different outcomes occurring. Significant increases or decreases to these inputs in isolation would result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent earn-out obligation, if any. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and the amount paid will be recorded in earnings. If the amount paid is less than the liability on the acquisition date, such deficiency is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the liability on the acquisition date is reflected as cash used in operating activities.

j2 Global reviews and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could be materially different from the initial estimates or prior quarterly amounts. Changes in the estimated fair value

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of our contingent earn-out liabilities are reported in operating income, except for the time component of the present value calculation which is reported in interest expense.

#### Income Taxes

The Company must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the following areas, among others: (i) calculation of tax credits, benefits and deductions; (ii) calculation of tax assets and liabilities arising from differences in the timing of recognition of revenue and expense for tax and financial statement purposes; and (iii) interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to the Company's tax provision in the current or a subsequent period.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. If recovery is not likely, the Company must increase its provision for taxes by recording a valuation allowance against the deferred tax assets that the Company estimates will not ultimately be recoverable. The Company believes that it will ultimately recover a substantial majority of the deferred tax assets recorded on its condensed consolidated balance sheets. However, should there be a change in the Company's ability to recover its deferred tax assets, the Company's tax provision would increase as a result of recording any necessary valuation allowances, in the period in which j2 Global determined that the recovery was not likely.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax laws. j2 Global recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If the Company determines that a tax position will more likely than not be sustained on audit, then the second step requires j2 Global to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as j2 Global has to determine the probability of various possible outcomes. j2 Global reevaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

#### Earnings Per Common Share

Earnings per common share ("EPS") is calculated pursuant to the two-class method as defined in ASC Topic No. 260, Earnings per Share ("ASC 260"), which specifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and should be included in the computation of EPS pursuant to the two-class method.

Basic EPS is calculated by dividing net distributed and undistributed earnings allocated to common shareholders, excluding participating securities and the net income attributable to noncontrolling interest, by the weighted-average number of common shares outstanding. The Company's participating securities consist of its unvested share-based awards that contain rights to nonforfeitable dividends or dividend equivalents.

Diluted EPS includes the determinants of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method. The Company currently intends to satisfy the conversion obligation of its Convertible Notes (See Note 7 - Long Term Debt) by paying and delivering a



combination of cash and shares of the Company's common stock, where cash will be used to settle each \$1,000 of principal and the remainder, if any, will be settled via the Company's common shares. As a result, the potential common shares to satisfy the excess conversion value will be included in the presentation of diluted EPS only to the extent that the conversion features are in-the-money and the effect is dilutive.

## 2. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification (ASC) Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2016 and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The

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Company is evaluating the effect and methodology of adopting this new accounting guidance upon the Company's results of operations, cash flows and financial position.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern. The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on our financial statements.

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity, which clarifies how current guidance should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. The assessment of the substance of the relevant terms and features should incorporate a consideration of: (1) the characteristics of the terms and features themselves; (2) the circumstances under which the hybrid financial instrument was issued or acquired; and (3) the potential outcomes of the hybrid financial instrument, as well as the likelihood of those potential outcomes. The amendments in this ASU apply to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact of adoption on our financial statements and related disclosures.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU provide guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The adoption of this standard is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU provide guidance which require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The adoption of this standard is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other Internal - Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license

element of the arrangement consistent with the acquisition of other software licenses. The amendments in this ASU are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

In June 2015, the FASB issued ASU No. 2015-10, Technical Corrections and Improvements. The amendments in this update cover a wide range of topics in the Codification and are generally categorized as follows: Amendments Related to Differences between Original Guidance and the Codification; Guidance Clarification and Reference Corrections; Simplification; and Minor Improvements. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Since the this update is intended to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice, the adoption of this standard is not expected to have a material impact on our financial statements.

### 3. Business Acquisitions

The Company uses acquisitions as a strategy to grow its customer base by increasing its presence in new and existing markets, expand and diversify its service offerings, enhance its technology and acquire skilled personnel.

The Company completed the following acquisitions during the first six months of fiscal 2015, paying the purchase price in cash in each transaction: (a) a share purchase of the entire issued share capital of Firstway, an Ireland-based distributor of FaxBOX® digital fax services; (b) an asset purchase of Nuvotera (formerly known as Spam Soap), a California-based supplier of email security; (c) an asset purchase of EmailDirect, a California-based provider of email marketing services; (d) an asset purchase of SugarSync®, Inc., a California-based provider of online file backup, synchronization and sharing assets; and (e) other immaterial asset acquisitions of online data backup businesses in the Business Cloud Services segment.

The condensed consolidated statement of income, since the date of each acquisition, and balance sheet, as of June 30, 2015, reflect the results of operations of all 2015 acquisitions. For the six months ended June 30, 2015, these acquisitions contributed \$11.3 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global's integration activities and is impracticable to provide. Total consideration for these transactions was \$74.9 million, net of cash acquired and assumed liabilities and is subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

The following table summarizes the allocation of the purchase consideration for these acquisitions (in thousands):

| Assets and Liabilities    | Valuation |
|---------------------------|-----------|
| Accounts receivable       | \$2,014   |
| Property and equipment    | 490       |
| Other assets              | 407       |
| Software                  | 267       |
| Trade names               | 2,934     |
| Customer relationships    | 37,935    |
| Other intangibles         | 33        |
| Goodwill                  | 41,604    |
| Other accrued liabilities | (1,080)   |
| Deferred revenue          | (8,031)   |
| Capital lease             | (195)     |
| Deferred tax liability    | (1,459)   |
| Total                     | \$74,919  |

The initial accounting for the 2015 acquisitions is incomplete and subject to change, which may be significant. j2 Global has recorded provisional amounts which may be based upon past acquisitions with similar attributes for certain intangible assets (including trade names, software and customer relationships), preliminary acquisition date working capital and related tax items. Actual amounts recorded upon finalization of the purchase accounting may differ materially from the information presented in this Quarterly Report on Form 10-Q. During the six months ended June 30, 2015, the Company recorded adjustments to the initial working capital related to prior period acquisitions and finalized the fair value of contingent consideration associated with the acquisition of Scene LLC ("Ookla"), which resulted in a net decrease in goodwill in the amount of \$(0.5) million.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with these acquisitions during the six months ended June 30, 2015 is \$41.6 million, of which \$21.4 million

is expected to be deductible for income tax purposes.

4. Investments

Short-term investments consist generally of corporate and governmental debt securities and certificates of deposits, which are stated at fair market value. Realized gains and losses of short and long-term investments are recorded using the specific identification method.

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The following table summarizes j2 Global's debt securities designated as available-for-sale, classified by the contractual maturity date of the security (in thousands):

|   | June 30,<br>2015 | December 31,<br>2014 |
|---|------------------|----------------------|
| Due within 1 year                                   | \$67,140         | \$59,896             |
| Due within more than 1 year but less than 5 years   | 53,842           | 60,178               |
| Due within more than 5 years but less than 10 years | —                | —                    |
| Due 10 years or after                               | 335              | 330                  |
| Total   | \$121,317        | \$120,404            |

The following table summarizes the Company's investments (in thousands):

|                         | June 30,<br>2015 | December 31,<br>2014 |
|-------------------------|------------------|----------------------|
| Available-for-sale      | \$151,303        | \$156,649            |
| Certificates of deposit | 62               | 65                   |
| Total                   | \$151,365        | \$156,714            |

The following table summarizes the gross unrealized gains and losses and fair values for the Company's investments classified as available-for-sale investments as of June 30, 2015 and December 31, 2014 aggregated by major security type (in thousands):

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2015   |                   |                              |                               |               |
| Corporate debt securities   | \$92,977          | \$149                        | \$(81)                        | ) \$93,045    |
| Debt securities issued by the U.S.<br>Treasury and other U.S. government<br>corporations and agencies | 26,215            | 17                           | (2)                           | ) 26,230      |
| Debt securities issued by states of the<br>United States and political<br>subdivisions of the states  | 2,040             | 2                            | —                             | 2,042         |
| Equity securities   | 20,611            | 9,375                        | —                             | 29,986        |
| Total   | \$141,843         | \$9,543                      | \$(83)                        | ) \$151,303   |
| December 31, 2014   |                   |                              |                               |               |
| Corporate debt securities   | \$91,456          | \$147                        | \$(136)                       | ) \$91,467    |
| Debt securities issued by the U.S.<br>Treasury and other U.S. government<br>corporations and agencies | 26,848            | 9                            | (13)                          | ) 26,844      |
| Debt securities issued by states of the<br>United States and political<br>subdivisions of the states  | 2,088             | 5                            | —                             | 2,093         |
| Equity securities   | 20,611            | 15,634                       | —                             | 36,245        |
| Total   | \$141,003         | \$15,795                     | \$(149)                       | ) \$156,649   |

At June 30, 2015, corporate and governmental debt securities, which have a fixed interest rate, were recorded as available-for-sale. There have been no significant changes in the maturity dates and average interest rates for the Company's investment portfolio and debt obligations subsequent to June 30, 2015. At June 30, 2015, equity securities

were recorded as available-for-sale and represent a strategic equity investment in Carbonite, Inc. At June 30, 2015, the Company's available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of stockholders' equity.

## Recognition and Measurement of Other-Than-Temporary Impairment

j2 Global regularly reviews and evaluates each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities.

Regardless of the classification of the securities, the Company has assessed each position for impairment.

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

j2 Global's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having an other-than-temporary impairment and those that would not support an other-than-temporary impairment;
- documentation of the results of these analyses, as required under business policies; and
- information provided by third-party valuation experts.

For these securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impairment, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. Credit impairment is assessed using a combination of a discounted cash flow model that estimates the cash flows on the underlying securities and a market comparables method, where the security is valued based upon indications from the secondary market of what discounts buyers demand when purchasing similar securities. The cash flow model incorporates actual cash flows from the securities through the current period and then projects the remaining cash flows using relevant interest rate curves over the remaining term. These cash flows are discounted using a number of assumptions, some of which include prevailing implied credit risk premiums, incremental credit spreads and illiquidity risk premiums, among others.

Securities that have been identified as other-than-temporarily impaired are written down to their current fair value. For debt securities that are intended to be sold or that management believes it more-likely-than-not that will be required to sell prior to recovery, the full impairment is recognized immediately in earnings.

For available-for-sale securities that management has no intent to sell and believes that it more-likely-than-not will not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value impairment is recognized in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security.





The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 2015 and December 31, 2014, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

|  | As of June 30, 2015     |                 |                      |                 |            |                 |
|--|-------------------------|-----------------|----------------------|-----------------|------------|-----------------|
|  | Less than 12 Months     |                 | 12 Months or Greater |                 | Total      |                 |
|  | Fair Value              | Unrealized Loss | Fair Value           | Unrealized Loss | Fair Value | Unrealized Loss |
| Corporate debt securities                                    | \$52,055                | \$(81)          | \$—                  | \$—             | \$52,055   | \$(81)          |
| Debt securities issued by the U.S.                           |                         |                 |                      |                 |            |                 |
| Treasury and other U.S. government corporations and agencies | 10,106                  | (2)             | —                    | —               | 10,106     | (2)             |
| Total  | \$62,161                | \$(83)          | \$—                  | \$—             | \$62,161   | \$(83)          |
|  | As of December 31, 2014 |                 |                      |                 |            |                 |
|  | Less than 12 Months     |                 | 12 Months or Greater |                 | Total      |                 |
|  | Fair Value              | Unrealized Loss | Fair Value           | Unrealized Loss | Fair Value | Unrealized Loss |
| Corporate debt securities                                    | \$57,898                | \$(131)         | \$1,260              | \$(5)           | \$59,158   | \$(136)         |
| Debt securities issued by the U.S.                           |                         |                 |                      |                 |            |                 |
| Treasury and other U.S. government corporations and agencies | 15,072                  | (13)            | —                    | —               | 15,072     | (13)            |
| Total  | \$72,970                | \$(144)         | \$1,260              | \$(5)           | \$74,230   | \$(149)         |

As of June 30, 2015 and December 31, 2014, we did not recognize any other-than-temporary impairment losses.

## 5. Fair Value Measurements

j2 Global complies with the provisions of ASC 820, which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities. ASC 820 clarifies that the fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- 1 Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- 1 Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- 1 Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's money market funds and its marketable equity securities are classified within Level 1. The Company values these Level 1 investments using quoted market prices. The Company's debt investments, time deposits and

commercial paper, all of which have counterparties with high credit ratings, are classified within Level 2. The Company values these Level 2 investments based on quoted market prices or model-driven valuations using significant inputs derived from or corroborated by observable market data.

The fair value of the Senior Notes and Convertible Notes (See Note 7 - Long-Term Debt) is determined using recent quoted market prices or dealer quotes for such securities, if available, which are Level 1 inputs. If such information is unavailable, the fair value of these securities is determined using quoted market prices or dealer quotes for instruments with similar maturities

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and other terms and credit ratings, which are Level 2 inputs. If none of the aforementioned information is available, the fair value of these securities is determined using cash-flow models of the scheduled payments and, for the Convertible Notes, discounted at market interest rates for comparable debt without the conversion feature, which are also Level 2 inputs.

In addition, the Company may pay contingent interest on the Convertible Notes which is accounted for as a derivative with fair value adjustments being recorded to interest expense. This derivative is fair valued using a binomial lattice convertible bond pricing model using historical and implied market information, which are Level 2 inputs. The total carrying value of long-term debt was \$597.2 million and \$593.4 million, and the corresponding fair value was approximately \$734.9 million and \$711.1 million, at June 30, 2015 and December 31, 2014, respectively.

The Company classifies its contingent consideration liability recorded in connection with acquisitions within Level 3 because factors used to develop the estimated fair value are unobservable inputs, such as volatility and market risks, and are not supported by market activity. The fair value of the contingent consideration liability was determined using option based approaches. This methodology was utilized because the distribution of payments is not symmetric and amounts are only payable upon certain earnings before interest, tax, depreciation and amortization ("EBITDA") thresholds being reached. Such valuation approach included the Monte-Carlo simulation for the contingency since the financial metric driving the payments is path dependent. Significant increases or decreases in either of the inputs noted above in isolation would result in a significantly lower or higher fair value of measurement.

The following tables present the fair values of the Company's financial assets or liabilities that are measured at fair value on a recurring basis (in thousands):

| June 30, 2015   | Level 1   | Level 2   | Level 3  | Fair Value |
|---|-----------|-----------|----------|------------|
| Assets:   |           |           |          |            |
| Cash equivalents:   |           |           |          |            |
| Money market and other funds  | \$227,979 | \$—       | \$—      | \$227,979  |
| Time deposits   | —         | 1,700     | —        | 1,700      |
| Corporate commercial papers   | —         | 10,576    | —        | 10,576     |
| Certificates of deposit   | —         | 62        | —        | 62         |
| Equity securities   | 29,986    | —         | —        | 29,986     |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | —         | 26,230    | —        | 26,230     |
| Debt securities issued by states of the U.S. and political subdivisions of the states           | —         | 2,042     | —        | 2,042      |
| Corporate debt securities   | —         | 93,045    | —        | 93,045     |
| Total assets measured at fair value   | \$257,965 | \$133,655 | \$—      | \$391,620  |
| Liabilities:  |           |           |          |            |
| Contingent consideration  | \$—       | \$—       | \$13,000 | \$13,000   |
| Contingent interest derivative  | —         | 742       | —        | 742        |
| Total liabilities measured at fair value  | \$—       | \$742     | \$13,000 | \$13,742   |
|   |           |           |          |            |
| December 31, 2014   | Level 1   | Level 2   | Level 3  | Fair Value |
| Assets:   |           |           |          |            |
| Cash equivalents:   |           |           |          |            |
| Money market and other funds  | \$212,645 | \$—       | \$—      | \$212,645  |
| Time deposits   | —         | 51,807    | —        | 51,807     |
| Certificates of deposit   | —         | 65        | —        | 65         |
| Equity securities   | 36,245    | —         | —        | 36,245     |
| Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies | —         | 26,844    | —        | 26,844     |
| Debt securities issued by states of the U.S. and political subdivisions of the states           | —         | 2,093     | —        | 2,093      |
| Corporate debt securities   | —         | 91,467    | —        | 91,467     |
| Total assets measured at fair value   | \$248,890 | \$172,276 | \$—      | \$421,166  |
| Liabilities:  |           |           |          |            |
| Contingent consideration  | \$—       | \$—       | \$15,000 | \$15,000   |
| Contingent interest derivative  | —         | 742       | —        | 742        |
| Total liabilities measured at fair value  | \$—       | \$742     | \$15,000 | \$15,742   |

At the end of each reporting period, management reviews the inputs to measure the fair value measurements of financial and non-financial assets and liabilities to determine when transfers between levels are deemed to have occurred. For the six months ended June 30, 2015, there were no transfers that have occurred between levels.

The following tables presents a reconciliation of the Company's Level 3 financial assets or liabilities that are measured at fair value on a recurring basis (in thousands):

|   | Level 3   | Affected line item in the Statement of Income |
|---|-----------|---|
| Balance as of December 31, 2014           | \$ 15,000 |   |
| Contingent consideration                  | (3,000    | ) Not applicable                              |
| Total (gains) losses reported in earnings | 1,000     | General and administrative                    |
| Transfers into or out of Level 3          | —         |   |
| Balance as of June 30, 2015               | \$ 13,000 |   |

In connection with the acquisition of Ookla, on December 1, 2014, contingent consideration of up to an aggregate of \$40.0 million may be payable upon achieving certain future income thresholds and was estimated to have a fair value of \$15.0 million, which was recorded as an other long-term liability on the consolidated balance sheet at December 31, 2014. The fair value of the contingent consideration was subsequently finalized during the first quarter of 2015 to \$12.0 million. During the three months ended June 30, 2015, the Company recorded a net increase in the fair value of the contingent consideration of \$1.0 million and reported such increase in general and administrative expenses.

The following tables presents a reconciliation of the Company's derivative instruments (in thousands):

|   | Amount | Affected line item in the Statement of Income |
|---|--------|---|
| Derivative Liabilities:                   |        |   |
| Level 2:                                  |        |   |
| Balance as of December 31, 2014           | \$ 742 |   |
| Total (gains) losses reported in earnings | —      |   |
| Balance as of June 30, 2015               | \$ 742 |   |

Losses associated with other-than-temporary impairments are recorded as a component of other income (expenses). Gains and losses not associated with other-than-temporary impairments are recorded as a component of other comprehensive income.

## 6. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. The fair values of these identified intangible assets are based upon expected future cash flows or income, which take into consideration certain assumptions such as customer turnover, trade names and patent lives. These determinations are primarily based upon the Company's historical experience and expected benefit of each intangible asset. If it is determined that such assumptions are not accurate, then the resulting change will impact the fair value of the intangible asset. Identifiable intangible assets are amortized over the period of estimated economic benefit, which ranges from one to 20 years.

The changes in carrying amounts of goodwill for the six months ended June 30, 2015 are as follows (in thousands):

|                                 | Business Cloud Services | Digital Media | Consolidated |
|---------------------------------|-------------------------|---------------|--------------|
| Balance as of January 1, 2015   | \$390,063               | \$245,612     | \$635,675    |
| Goodwill acquired (Note 3)      | 41,604                  | —             | 41,604       |
| Purchase accounting adjustments | 3,835                   | (4,291        | ) (456       |
| Foreign exchange translation    | (2,746                  | ) 7           | (2,739       |
| Balance as of June 30, 2015     | \$432,756               | \$241,328     | \$674,084    |



Purchase accounting adjustments relate to adjustments to goodwill in connection with prior year business acquisitions.

Intangible assets are summarized as of June 30, 2015 and December 31, 2014 as follows (in thousands):

Intangible Assets with Indefinite Lives:

|            | June 30,<br>2015 | December 31,<br>2014 |
|------------|------------------|----------------------|
| Trade name | \$27,379         | \$27,379             |
| Other      | 5,432            | 5,432                |
| Total      | \$32,811         | \$32,811             |

Intangible Assets Subject to Amortization:

As of June 30, 2015, intangible assets subject to amortization relate primarily to the following (in thousands):

|                             | Weighted-Average<br>Amortization<br>Period | Historical<br>Cost | Accumulated<br>Amortization | Net       |
|-----------------------------|--|--------------------|-----------------------------|-----------|
| Trade names                 | 14.3 years                                 | \$97,359           | \$(20,895)                  | \$76,464  |
| Patent and patent licenses  | 8.3 years                                  | 63,955             | (42,098)                    | 21,857    |
| Customer relationships      | 8.9 years                                  | 264,743            | (89,255)                    | 175,488   |
| Other purchased intangibles | 4.3 years                                  | 28,485             | (18,937)                    | 9,548     |
| Total                       |  | \$454,542          | \$(171,185)                 | \$283,357 |

As of December 31, 2014, intangible assets subject to amortization relate primarily to the following (in thousands):

|                             | Weighted-Average<br>Amortization<br>Period | Historical<br>Cost | Accumulated<br>Amortization | Net       |
|-----------------------------|--|--------------------|-----------------------------|-----------|
| Trade names                 | 14.5 years                                 | \$94,770           | \$(16,598)                  | \$78,172  |
| Patent and patent licenses  | 9.0 years                                  | 62,940             | (38,013)                    | 24,927    |
| Customer relationships      | 9.3 years                                  | 230,424            | (66,658)                    | 163,766   |
| Other purchased intangibles | 4.3 years                                  | 28,360             | (16,236)                    | 12,124    |
| Total                       |  | \$416,494          | \$(137,505)                 | \$278,989 |

Amortization expense, included in general and administrative expense, approximated \$17.6 million and \$11.5 million for the three month periods ended June 30, 2015 and 2014, respectively, and \$34.6 million and \$21.5 million for the six month periods ended June 30, 2015 and 2014, respectively. Amortization expense is estimated to approximate \$57.8 million, \$47.7 million, \$43.1 million, \$32.7 million and \$30.4 million for fiscal years 2015 through 2019, respectively, and \$106.2 million thereafter through the duration of the amortization period.



## 7. Long-Term Debt

### 8.0% Senior Notes

On July 26, 2012, the Company's subsidiary, j2 Cloud Services, Inc., issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended, \$250 million aggregate principal amount of 8.0% senior unsecured notes (the "Senior Notes") due August 1, 2020. j2 Cloud Services, Inc. received proceeds of \$245 million in cash, net of initial purchaser's discounts and commissions of \$5 million. As of June 30, 2015, the unamortized discount on the Senior Notes was approximately \$3.5 million. Other fees were incurred in connection with the issuance of the Senior Notes and have an unamortized balance of \$1.0 million as of June 30, 2015, which is recorded within long-term other assets. The net proceeds were available for general corporate purposes, including acquisitions. Interest is payable semi-annually on February 1 and August 1 of each year beginning on February 1, 2013. j2 Cloud Services, Inc. has the option to call the Senior Notes in whole or in part after August 1, 2016, subject to certain premiums as defined in the indenture governing the Senior Notes plus accrued and unpaid interest. In addition, at any time before August 1, 2016, j2 Cloud Services, Inc. may redeem the Senior Notes, in whole or in part, at a "make-whole" redemption price specified in the indenture plus accrued and unpaid interest, if any, to (but not including) the redemption date. Upon a change in control, the holders may put the Senior Notes at 101% of the principal amount of the Senior Notes plus accrued and unpaid interest, if any, to the repurchase date. The Senior Notes are not guaranteed by any of j2 Cloud Services, Inc.'s subsidiaries as of June 30, 2015, because, as of such date, all of j2 Cloud Services, Inc.'s existing domestic restricted subsidiaries are deemed insignificant subsidiaries (as that term is defined in the indenture) or are designated as unrestricted subsidiaries. If j2 Cloud Services, Inc. or any of its restricted subsidiaries (as that term is defined in the indenture) acquires or creates a domestic restricted subsidiary, other than an insignificant subsidiary, after the issue date, or any insignificant restricted subsidiary ceases to fit within the definition of insignificant subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, j2 Cloud Services, Inc.'s obligations under the Senior Notes. In connection with the issuance of the Convertible Notes (defined below), j2 Global, Inc. unconditionally guaranteed, on an unsecured basis, the obligations of j2 Cloud Services, Inc. under the Senior Notes.

The indenture governing the Senior Notes contains certain restrictive and other covenants applicable to j2 Cloud Services, Inc. and subsidiaries designated as restricted subsidiaries including, but not limited to, limitations on debt and disqualified or preferred stock, restricted payments, liens, sale and leaseback transactions, dividends and other payment restrictions, asset sales and transactions with affiliates. Restricted payments are applicable only if j2 Cloud Services, Inc. and subsidiaries designated as restricted subsidiaries has a pro forma leverage ratio of greater than 1.75 to 1.0. In addition, if such leverage ratio is in excess of 1.75 to 1.0, restricted payments are permitted up to \$50 million. As of June 30, 2015, j2 Cloud Services, Inc. was in compliance with all such covenants. Violation of these covenants could result in a default which could result in the acceleration of outstanding amounts if such default is not cured or waived within the time periods outlined in the indenture agreement.

As of June 30, 2015, the estimated fair value of the Senior Notes was approximately \$267.0 million and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the Senior Notes as of June 30, 2015.

### 3.25% Convertible Notes

On June 10, 2014, j2 Global issued \$402.5 million aggregate principal amount of 3.25% convertible senior notes due June 15, 2029 (the "Convertible Notes"). j2 Global received proceeds of \$391.4 million in cash, net of underwriters' discounts and commissions. The net proceeds were available for general corporate purposes. The Convertible Notes bear interest at a rate of 3.25% per annum, payable semiannually in arrears on June 15 and December 15 of each year. Beginning with the six-month interest period commencing on June 15, 2021, the Company must pay contingent

interest on the Convertible Notes during any six-month interest period if the trading price per \$1,000 principal amount of the Convertible Notes for each of the five trading days immediately preceding the first day of such interest period equals or exceeds \$1,300. Any contingent interest payable on the Convertible Notes will be in addition to the regular interest payable on the Convertible Notes.

Holders may surrender their Convertible Notes for conversion at any time prior to the close of business on the business day immediately preceding the maturity date only if one or more of the following conditions is satisfied: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the closing sale price of j2 Global common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs is more than 130% of the applicable conversion price of the Convertible Notes on each such trading day; (ii) during the five consecutive business day period following any ten consecutive trading day period in which the trading price for the Convertible Notes for each such trading

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day was less than 98% of the product of (a) the closing sale price of j2 Global common stock on each such trading day and (b) the applicable conversion rate on each such trading day; (iii) if j2 Global calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the business day prior to the redemption date; (iv) upon the occurrence of specified corporate events; or (v) during either the period beginning on, and including, March 15, 2021 and ending on, but excluding, June 20, 2021 or the period beginning on, and including, March 15, 2029 and ending on, but excluding, the maturity date. j2 Global will settle conversions of Convertible Notes by paying or delivering, as the case may be, cash, shares of j2 Global common stock or a combination thereof at j2 Global's election. The Company currently intends to satisfy its conversion obligation by paying and delivering a combination of cash and shares of the Company's common stock, where cash will be used to settle each \$1,000 of principal and the remainder, if any, will be settled via the Company's common shares.

The initial conversion rate is 14.4159 shares of our common stock for each \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$69.37 per share of j2 Global common stock. The conversion rate is subject to adjustment for certain events as set forth in the indenture governing the Convertible Notes, but will not be adjusted for accrued interest. In addition, following certain corporate events that occur on or prior to June 20, 2021, j2 Global will increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such a corporate event.

j2 Global may not redeem the Convertible Notes prior to June 20, 2021. On or after June 20, 2021, j2 Global may redeem for cash all or part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Convertible Notes.

Holders have the right to require j2 Global to repurchase for cash all or part of their Convertible Notes on each of June 15, 2021 and June 15, 2024 at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the relevant repurchase date. In addition, if a fundamental change, as defined in the indenture governing the Convertible Notes, occurs prior to the maturity date, holders may require j2 Global to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Convertible Notes are the Company's general senior unsecured obligations and rank: (i) senior in right of payment to any of the Company's future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; (ii) equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated, including in respect of j2 Global's guarantee of the obligations of our subsidiary, j2 Cloud Services, Inc., with respect to its outstanding Senior Notes; (iii) effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries.

#### Accounting for the Convertible Notes

In accordance with ASC 470-20, Debt with Conversion and Other Options, convertible debt that can be settled for cash is required to be separated into the liability and equity component at issuance, with each component assigned a value. The value assigned to the liability component is the estimated fair value, as of the issuance date, of similar debt without the conversion feature. The difference between the cash proceeds and estimated fair value of the liability component, representing the value of the conversion premium assigned to the equity component, is recorded as a debt discount on the issuance date. This debt discount is amortized to interest expense using the effective interest method over the period from the issuance date through the first stated repurchase date on June 15, 2021.

j2 Global estimated the borrowing rates of similar debt without the conversion feature at origination to be 5.79% for the Convertible Notes and determined the debt discount to be \$59.0 million. As a result, a conversion premium after tax of \$37.7 million was recorded in additional paid-in capital. As of June 30, 2015, the carrying value of the Convertible Notes was \$350.7 million, which consisted of \$402.5 million outstanding principal amount net of \$51.8 million unamortized debt discount. The aggregate debt discount is amortized as interest expense over the period from the issuance date through the first stated repurchase date on June 15, 2021, which management believes is the expected life of the Convertible Notes using an interest rate of 5.81%. As of June 30, 2015, the remaining period over which the unamortized debt discount will be amortized is 6.0 years.

In connection with the issuance of the Convertible Notes, the Company incurred \$11.7 million of deferred issuance costs, which primarily consisted of the underwriters' discount and legal and other professional service fees. Of the total deferred issuance costs incurred, \$10.0 million of such deferred issuance costs was attributable to the liability component and is recorded within other assets and is being amortized to interest expense through June 15, 2021. The remaining \$1.7 million (\$1.1 million

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net of tax) of such deferred issuance costs was netted with the equity component in additional paid-in capital at the issuance date. The unamortized balance as of June 30, 2015 was \$8.8 million.

The Convertible Notes are carried at face value less any unamortized debt discount. The fair value of the Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the Convertible Notes, if available. If such information is not available, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature. As of June 30, 2015, the estimated fair value of the Convertible Notes was approximately \$467.9 million.

Cash paid for interest on debt for the six months ended June 30, 2015 was \$16.5 million.

Long-term debt as of June 30, 2015 consists of the following (in thousands):

|  |           |
|--|-----------|
| Senior Notes                               | \$246,462 |
| Convertible Notes                          | 350,747   |
| Total long-term debt                       | 597,209   |
| Less: current portion                      | —         |
| Total long-term debt, less current portion | \$597,209 |

## 8. Commitments and Contingencies

### Litigation

From time-to-time, j2 Global and its affiliates are involved in litigation and other disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against j2 Global and its affiliates, whether meritorious or not, could be time consuming and costly, and could divert significant operational resources. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief.

On January 7, 2011, the Department of Revenue for the State of Washington (“Washington Department of Revenue”) issued assessments to a j2 Global affiliate for business and occupation tax and retail sales tax for the period of January 1, 2004 through September 30, 2010. On November 16, 2012, the Washington Department of Revenue denied the j2 Global affiliate’s petition for correction. The j2 Global affiliate paid the assessments and, on June 21, 2013, filed a complaint against the Washington Department of Revenue in the Superior Court of Washington for Thurston County (No. 13-2-01338-7). In that suit, the j2 Global affiliate is seeking a refund of the entire amount paid and a declaration that the Washington Department of Revenue improperly imposed the taxes. Discovery is ongoing.

On February 17, 2011, Emmanuel Pantelakis (“Pantelakis”) filed suit against a j2 Global affiliate in the Ontario Superior Court of Justice (No. 11-50673), alleging that the j2 Global affiliate breached a contract relating to Pantelakis’s use of the Campaigner® service. The j2 Global affiliate filed a responsive pleading on March 23, 2011 and responses to undertakings on July 16, 2012. On November 6, 2012, Pantelakis filed a second amended statement of claim, reframing his lawsuit as a negligence action. The j2 Global affiliate filed an amended statement of defense on April 8, 2013. Discovery is ongoing.

On January 17, 2013, the Commissioner of the Massachusetts Department of Revenue (“Commissioner”) issued a notice of assessment to a j2 Global affiliate for sales and use tax for the period of July 1, 2003 through December 31, 2011.

On July 22, 2014, the Commissioner denied the j2 Global affiliate’s application for abatement. On September 18, 2014, the j2 Global affiliate petitioned the Massachusetts Appellate Tax Board for abatement of the tax asserted in the notice of assessment (No. C325426). Discovery is ongoing.

On January 18, 2013, Paldo Sign and Display Co. (“Paldo”) filed an amended complaint adding two j2 Global affiliates and a former employee as additional defendants in an existing purported class action pending in the U.S. District Court for the Northern District of Illinois (“Northern District of Illinois”) (No. 1:13-cv-01896). The amended complaint

alleged violations of the Telephone Consumer Protection Act (“TCPA”), the Illinois Consumer Fraud and Deceptive Business Practices Act (“ICFA”), and common law conversion, arising from an indirect customer’s alleged use of the j2 Global affiliates’ systems to send unsolicited facsimile transmissions. On August 23, 2013, a second plaintiff, Sabon, Inc. (“Sabon”), was added. The j2 Global affiliates filed

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a motion to dismiss the ICFA and conversion claims, which was granted. The Northern District of Illinois also dismissed the former employee for lack of personal jurisdiction. Discovery is ongoing.

On August 28, 2013, Phyllis A. Huster (“Huster”) filed suit in the Northern District of Illinois (No. 1:13-cv-06143) against two j2 Global affiliates and three other parties for correction of inventorship for nine j2 Global patents. Huster seeks, among other things, a declaration that she was an inventor of the patents-in-suit, an order directing the U.S. Patent & Trademark Office to substitute or add her as an inventor, and payment of at least half of defendants’ earnings from licensing the patents-in-suit. On September 19, 2014, the Northern District of Illinois granted the defendants’ motion to dismiss for improper venue and transferred the case to the U.S. District Court for the Northern District of Georgia (No. 1:14-cv-03304). Huster filed an amended complaint on February 11, 2015, which she corrected on February 12, 2015. The corrected amended complaint added claims of fraudulent concealment, breach of fiduciary duty, unjust enrichment, breach of contract, breach of a private duty, conversion, and breach of the implied covenant of good faith and fair dealing. Huster also filed a motion to disqualify various law firms from continuing to represent the defendants. In addition, defendants filed several motions to dismiss on March 12, 2015, including three by j2 Global affiliates. These motions remain pending.

On October 16, 2013, a j2 Global affiliate entered an appearance as a plaintiff in a multi-district litigation pending in the Northern District of Illinois (No. 1:12-cv-06286). In this litigation, Unified Messaging Solutions, LLC (“UMS”), a company with rights to assert certain patents owned by the j2 Global affiliate, has asserted five j2 Global patents against a number of defendants. While claims against some defendants have been settled, other defendants have filed counterclaims for, among other things, non-infringement, unenforceability, and invalidity of the patents-in-suit. On December 20, 2013, the Northern District of Illinois issued a claim construction opinion and, on June 13, 2014, entered a final judgment of non-infringement for the remaining defendants based on that claim construction. UMS and the j2 Global affiliate filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit on June 27, 2014 (No. 14-1611). Briefing on the appeal has been stayed, pending the Northern District of Illinois’s resolution of the defendants’ motion to declare the case exceptional.

On February 19, 2014, two j2 Global affiliates filed suit in the U.S. District Court for the Central District of California (“Central District of California”) (No. 2:14-cv-01283) against RPost Holdings, Inc. and two of its affiliates (collectively, “RPost”), alleging infringement of two j2 Global patents and seeking a declaration of non-infringement and invalidity of nine RPost patents that had been asserted against the j2 Global affiliates in a patent assertion letter from RPost. An amended complaint was filed on June 20, 2014, adding an additional j2 Global affiliate as a plaintiff. RPost filed an answer to the complaint on July 14, 2014, asserting counterclaims of infringement for the nine RPost patents against the Campaigner® service. On April 27, 2015, the Central District of California granted the j2 Global affiliates’ motion to stay the litigation pending the resolution of a separate lawsuit, which does not directly involve j2 Global or its affiliates but does address RPost’s ownership of and right to assert the RPost patents-in-suit.

On June 23, 2014, Andre Free-Vychine (“Free-Vychine”) filed a purported class action against a j2 Global affiliate in the Superior Court for the State of California, County of Los Angeles (“Los Angeles Superior Court”) (No. BC549422). The complaint alleges two California statutory violations relating to late fees levied in certain eVoice® accounts. Free-Vychine is seeking, among other things, damages and injunctive relief on behalf of himself and a purported nationwide class of similarly situated persons. On August 26, 2014, Law Enforcement Officers, Inc. (“LEO”) and IV Pit Stop, Inc. (“IV Pit Stop”) filed a separate purported class action against the same j2 Global affiliate in Los Angeles Superior Court (No. BC555721). The complaint alleges three California statutory violations, negligence, breach of the implied covenant of good faith and fair dealing, and various other common law claims relating to late fees levied on any of the j2 Global affiliate’s customers, including those with eVoice® and Onebox® accounts. The plaintiffs are seeking, among other things, damages and injunctive relief on behalf of themselves and a purported nationwide class of similarly situated persons. On September 29, 2014, the Los Angeles Superior Court ordered both cases related and consolidated for discovery purposes. On March 13, 2015, a third amended complaint was filed in this action, which no longer included IV Pit Stop as a plaintiff but added Christopher Dancel (“Dancel”) as a plaintiff. On or around June 26, 2015, the case filed by Free-Vychine was dismissed pursuant to a settlement agreement. Discovery on the case filed by LEO and Dancel is ongoing.

j2 Global does not believe, based on current knowledge, that the foregoing legal proceedings or claims, including those where an unfavorable outcome is reasonably possible, after giving effect to existing reserves, are likely to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect j2 Global's consolidated financial position, results of operations, or cash flows in a particular period.

The Company has not accrued for a loss contingency relating to these legal proceedings because unfavorable outcomes are not considered by management to be probable.



## Non-Income Related Taxes

As a provider of cloud services for business, the Company does not provide telecommunications services. Thus, it believes that its business and its users (by using our services) are not subject to various telecommunication taxes. Moreover, the Company does not believe that its business and its users (by using our services) are subject to other indirect taxes, such as sales and use tax, value added tax, goods and services tax, business tax and gross receipt tax. However, several state and municipal taxing authorities have challenged these beliefs and have and may continue to audit and assess our business and operations with respect to telecommunications and other indirect taxes.

The current U.S. federal government moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet, which is set to expire October 1, 2015, does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules.

The Company is currently under audit for indirect taxes in several states and municipalities. On February 27, 2013, the Office of Finance for the City of Los Angeles (the "Los Angeles Office of Finance") issued assessments to a j2 Global affiliate for business and communications taxes for the period of January 1, 2009 through December 31, 2012. On September 11, 2014, the Los Angeles Office of Finance issued revised assessments to a j2 Global affiliate increasing such affiliate's liability to the City of Los Angeles. On April 30, 2015, the Los Angeles Office of Finance Board of Review denied the j2 Global affiliate's request to abate the assessments. The j2 Global affiliate paid the assessments and requested the abatement of penalties associated with the assessments. In addition, the j2 Global affiliate is currently working with the Office of the City Attorney of the City of Los Angeles to obtain a refund of the entire amount paid. For other jurisdictions, the Company currently has no reserves established for these matters, as the Company has determined that the liability is not probable and estimable. However, it is reasonably possible that such a liability could be incurred, which would result in additional expense, which could materially impact our financial results.

## 9. Income Taxes

The Company's tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate. Each quarter the Company evaluates its estimated annual effective tax rate and, if the estimate changes, makes a cumulative adjustment. j2 Global's annual effective tax rate is normally lower than the 35% U.S. federal statutory rate and applicable apportioned state tax rates primarily due to anticipated earnings of the Company's subsidiaries outside of the U.S. in jurisdictions where the Company's effective tax rate is lower than in the U.S. The Company's effective tax rate was 0.5% and 10.9% for the three months ended June 30, 2015 and 2014, respectively and 13.3% and 16.4% for the six months ended June 30, 2015 and 2014, respectively. j2 Global does not provide for U.S. income taxes on the undistributed earnings of the Company's foreign operations because the Company intends to permanently reinvest such earnings in foreign jurisdictions and any determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Income before income taxes included income from domestic operations of \$28.2 million and \$38.8 million for the six months ended June 30, 2015 and 2014, respectively, and income from foreign operations of \$41.9 million and \$37.5 million for the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015 and December 31, 2014, the Company had \$25.1 million and \$37.6 million, respectively, in liabilities for uncertain income tax positions. Accrued interest and penalties related to unrecognized tax benefits are recognized in income tax expense on the Company's consolidated statement of income.

Cash paid for income taxes net of refunds received was \$26.9 million for the six months ended June 30, 2015.

Certain taxes are prepaid during the year and included within prepaid expenses and other current assets on the consolidated balance sheet. The Company's prepaid taxes were \$14.5 million and \$5.8 million at June 30, 2015 and

December 31, 2014, respectively.

Income Tax Audits:

The Company was under examination by the U.S. Internal Revenue Service ("IRS") for tax years 2009 through 2010. The Company appealed the IRS tax examiner's adjustments for tax years 2009 and 2010. In April 2015, the Company and the IRS reached a settlement which effectively closed the IRS examination for the Company's 2009 and 2010 tax years. In conjunction with the settlement, the Company made tax and interest payments totaling \$1.8 million to the IRS. In June 2015, the Company filed amended state franchise and income tax returns to reflect the IRS settlement and paid tax and interest related to those amended returns totaling \$0.9 million. As a result of the IRS settlement, the Company determined that the 2009 and 2010 tax years were closed and decreased its liabilities for uncertain tax positions by \$9.3 million. The Company remains under income tax audit by the IRS for the 2011 tax year.

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j2 Global was under income tax audit by the California Franchise Tax Board (the “FTB”) for tax years 2009 through 2011. In April 2015, the Company was notified by the FTB that the income tax audit for tax years 2009 through 2011 had concluded with no changes. The Company is currently under income tax audit by the New York City Department of Finance for tax years 2009 through 2011 and by the Canada Revenue Agency for tax years 2010 through 2011. In January 2015, the Company was notified by the Illinois Department of Revenue that the income tax audit for tax years 2008 and 2009 had been concluded with no changes.

It is reasonably possible that these audits may conclude in the next 12 months and that actual assessment of tax by tax agencies may differ from the uncertain tax position liabilities that the Company has recorded in relation to these tax years. If the recorded uncertain tax position liabilities are inadequate to cover the actual tax liabilities assessed by the tax agencies, the Company would be required to recognize additional tax expense in the relevant period, which could be material. If the recorded uncertain tax position liabilities exceed the actual tax liabilities assessed by the tax agencies, the Company would be required to recognize any excess as reduction in tax expense in the relevant period, which could be material. However, it is not currently possible to estimate the amount, if any, of such change.

## 10. Stockholders’ Equity

### Common Stock Repurchase Program

In February 2012, the Company’s Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 19, 2016. During the six month period ended June 30, 2015, no shares were repurchased under this program. Cumulatively at June 30, 2015, 2.1 million shares were repurchased at an aggregate cost of \$58.6 million (including an immaterial amount of commission fees).

Periodically, participants in j2 Global’s stock plans surrender to the Company shares of j2 Global stock to pay the exercise price or to satisfy tax withholding obligations arising upon the exercise of stock options or the vesting of restricted stock. During the three month period ended June 30, 2015, the Company purchased 23,711 shares from plan participants for this purpose.

### Dividends

The following is a summary of each dividend declared during fiscal year 2015:

| Declaration Date  | Dividend per Common Share | Record Date       | Payment Date  |
|-------------------|---------------------------|-------------------|---------------|
| February 10, 2015 | \$0.2925                  | February 23, 2015 | March 9, 2015 |
| May 6, 2015       | \$0.3000                  | May 19, 2015      | June 3, 2015  |

Future dividends are subject to Board approval.

## 11. Stock Options and Employee Stock Purchase Plan

j2 Global’s share-based compensation plans include the Second Amended and Restated 1997 Stock Option Plan (the “1997 Plan”), 2007 Stock Plan (the “2007 Plan”), 2015 Stock Option Plan (the "2015 Plan") and 2001 Employee Stock Purchase Plan (the “Purchase Plan”). Each plan is described below.

The 1997 Plan terminated in 2007. A total of 12,000,000 shares of common stock were authorized to be used for 1997 Plan purposes. An additional 840,000 shares were authorized for issuance upon exercise of options granted outside the 1997 Plan. As of June 30, 2015, 125,498 shares underlying options and zero shares of restricted stock were outstanding under the 1997 Plan, all of which continue to be governed by the 1997 Plan.

The 2007 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. 4,500,000 shares of common stock are authorized to be used for 2007 Plan purposes. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of j2 Global's common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of j2 Global's common stock on the date of grant for non-

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statutory stock options. As of June 30, 2015, 472,313 shares underlying options and 92,953 shares of restricted stock were outstanding under the 2007 Plan.

The 2015 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units and other share-based awards and is intended as a successor plan to the 2007 Stock Plan since no further grants will be made under the 2007 Stock Plan. 4,200,000 shares of common stock are authorized to be used for 2015 Plan purposes. Options under the 2015 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the higher of the par value or 100% of the fair market value of j2 Global's common stock subject to the option on the date the option is granted. As of June 30, 2015, 62,000 shares underlying options and zero shares of restricted stock were outstanding under the 2015 Plan.

All stock option grants are approved by “outside directors” within the meaning of Internal Revenue Code Section 162(m).

### Stock Options

The following table represents stock option activity for the six months ended June 30, 2015:

|  | Number of<br>Shares | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual<br>Term (in years) | Aggregate<br>Intrinsic<br>Value |
|--|---------------------|---|---|---------------------------------|
| Outstanding at January 1, 2015               | 725,649             | \$ 24.29                                  |   |                                 |
| Granted                                      | 62,000              | 67.35                                     |   |                                 |
| Exercised                                    | (127,838            | ) 23.53                                   |   |                                 |
| Canceled                                     | —                   | —   |   |                                 |
| Outstanding at June 30, 2015                 | 659,811             | \$ 28.49                                  | 4.4   | \$ 26,032,294                   |
| Exercisable at June 30, 2015                 | 544,675             | \$ 24.08                                  | 3.6   | \$ 23,891,847                   |
| Vested and expected to vest at June 30, 2015 | 633,034             | \$ 27.26                                  | 4.2   | \$ 25,752,888                   |

For the six months ended June 30, 2015, j2 Global granted 62,000 options to purchase shares of common stock pursuant to the 2015 Plan. These stock options vest 20% per year and expire 10 years from the date of grant.

The per share weighted-average grant-date fair values of stock options granted during the six months ended June 30, 2015 was \$15.22. There were no stock options granted during 2014.

The aggregate intrinsic values of options exercised during the six months ended June 30, 2015 and 2014 were \$5.6 million and \$12.8 million, respectively.

As of June 30, 2015 and December 31, 2014, unrecognized stock compensation related to non-vested stock options granted under each of the share-based compensation plans approximated \$1.4 million and \$0.8 million, respectively. Unrecognized stock compensation expense related to non-vested stock options granted under these plans is expected to be recognized ratably over a weighted-average period of 3.2 years (i.e., the remaining requisite service period).

### Fair Value Disclosure

j2 Global uses the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility for the six months ended June 30, 2015 is based on historical volatility of the Company's common stock. The Company estimates the expected term based upon the historical exercise behavior of our employees. The risk-free

interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. The Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 13.42% and 11.59% as of June 30, 2015 and 2014, respectively.

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The weighted-average fair values of stock options granted have been estimated utilizing the following assumptions:

|                             | Six Months Ended June 30, |           |   |
|-----------------------------|---------------------------|-----------|---|
|                             | 2015                      | 2014      |   |
| Risk-free interest rate     | 1.61                      | % —       | % |
| Expected term (in years)    | 5.2 years                 | 0.0 years |   |
| Dividend yield              | 1.78                      | % —       | % |
| Expected volatility         | 28.12                     | % —       | % |
| Weighted-average volatility | 28.12                     | % —       | % |

#### Restricted Stock

j2 Global has awarded restricted stock and restricted stock units to its Board of Directors and senior staff pursuant to certain share-based compensation plans. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Beginning in fiscal year 2012, vesting periods are approximately one year for awards to members of the Company's Board of Directors and five years for senior staff. The Company recognized \$5.7 million and \$3.6 million of compensation expense for the six months ended June 30, 2015 and 2014, respectively, related to restricted stock and restricted stock units. As of June 30, 2015 and December 31, 2014, the Company had unrecognized share-based compensation cost of approximately \$33.9 million and \$24.1 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.0 years for awards and 3.3 years for units.

Restricted stock award activity for the six months ended June 30, 2015 is set forth below:

|                              | Shares   | Weighted-Average Grant-Date Fair Value |
|------------------------------|----------|--|
| Nonvested at January 1, 2015 | 814,050  | \$26.57                                |
| Granted                      | 147,440  | 66.04                                  |
| Vested                       | (124,683 | ) 36.69                                |
| Canceled                     | (74,515  | ) 38.17                                |
| Nonvested at June 30, 2015   | 762,292  | \$31.41                                |

Restricted stock unit award activity for the six months ended June 30, 2015 is set forth below:

|  | Number of Shares | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--|------------------|--|---------------------------|
| Outstanding at January 1, 2015               | 102,924          |  |                           |
| Granted                                      | 10,900           |  |                           |
| Vested                                       | (13,081          | )  |                           |
| Canceled                                     | (7,790           | )  |                           |
| Outstanding at June 30, 2015                 | 92,953           | 1.9  | \$6,315,227               |
| Vested and expected to vest at June 30, 2015 | 71,843           | 1.7  | \$4,880,982               |

## Employee Stock Purchase Plan

The Purchase Plan provides for the issuance of a maximum of two million shares of the Company's common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of j2 Global's common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period. For the six months ended June 30, 2015 and 2014, 2,104 and 2,824 shares were purchased under the plan, respectively. Cash received upon the issuance of common stock under the Purchase Plan was \$126,000 and \$123,000 for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, 1,632,360 shares were available under the Purchase Plan for future issuance.

## 12. Earnings Per Share

The components of basic and diluted earnings per share are as follows (in thousands, except share and per share data):

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2015                        | 2014       | 2015                      | 2014       |
| Numerator for basic and diluted net income per common share:   |                             |            |                           |            |
| Net income attributable to j2 Global, Inc. common shareholders | \$38,916                    | \$35,049   | \$60,794                  | \$63,814   |
| Net income available to participating securities (a)           | (637                        | ) (701     | ) (1,006                  | ) (1,418   |
| Net income available to j2 Global, Inc. common shareholders    | \$38,279                    | \$34,348   | \$59,788                  | \$62,396   |
| Denominator:   |                             |            |                           |            |
| Weighted-average outstanding shares of common stock            | 47,537,597                  | 46,745,596 | 47,480,315                | 46,556,428 |
| Dilutive effect of:  |                             |            |                           |            |
| Equity incentive plans   | 315,977                     | 322,171    | 256,691                   | 355,146    |
| Common stock and common stock equivalents                      | 47,853,574                  | 47,067,767 | 47,737,006                | 46,911,574 |
| Net income per share:  |                             |            |                           |            |
| Basic  | \$0.81                      | \$0.73     | \$1.26                    | \$1.34     |
| Diluted  | \$0.80                      | \$0.73     | \$1.25                    | \$1.33     |

(a) Represents unvested restricted stock awards that contain certain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid).

For the three months ended June 30, 2015 and 2014, there were no options outstanding which were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common share. For the six months ended June 30, 2015 and 2014, there were 62,000 and no options outstanding, respectively, which were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common share.

## 13. Segment Information

The Company's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. j2 Global's reportable business segments are: (i) Business Cloud Services and (ii) Digital Media. Segment accounting policies are the same as described in Note 1 - Basis of



Presentation.

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Information on reportable segments and reconciliation to consolidated income from operations is presented below (in thousands):

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2015                        | 2014       | 2015                      | 2014       |
| Revenues by segment:                     |                             |            |                           |            |
| Business Cloud Services                  | \$ 125,188                  | \$ 106,523 | \$ 243,249                | \$ 207,353 |
| Digital Media                            | 50,907                      | 38,274     | 94,164                    | 71,642     |
| Elimination of inter-segment revenues    | (57                         | ) (53      | ) (122                    | ) (127     |
| Total revenues                           | 176,038                     | 144,744    | 337,291                   | 278,868    |
| Direct costs by segment <sup>(1)</sup> : |                             |            |                           |            |
| Business Cloud Services                  | 72,858                      | 60,156     | 143,901                   | 115,768    |
| Digital Media                            | 40,986                      | 32,717     | 80,075                    | 61,433     |
| Direct costs by segment <sup>(1)</sup> : | 113,844                     | 92,873     | 223,976                   | 177,201    |
| Business Cloud Services operating income | 52,330                      | 46,367     | 99,348                    | 91,585     |
| Digital Media operating income           | 9,921                       | 5,556      | 14,089                    | 10,208     |
| Segment operating income                 | 62,251                      | 51,923     | 113,437                   | 101,793    |
| Global operating costs <sup>(2)</sup>    | 12,185                      | 7,085      | 22,841                    | 15,371     |
| Income from operations                   | \$ 50,066                   | \$ 44,838  | \$ 90,596                 | \$ 86,422  |

<sup>(1)</sup> Direct costs for each segment include cost of revenues and other operating expenses that are directly attributable to the segment, such as employee compensation expense, local sales and marketing expenses, engineering and network operations expense, depreciation and amortization and other administrative expenses.

<sup>(2)</sup> Global operating costs include general and administrative and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment.

|                                       | June 30, 2015             | December 31, 2014 |
|---------------------------------------|---------------------------|-------------------|
| Assets:                               |                           |                   |
| Business Cloud Services               | \$ 933,702                | \$ 883,587        |
| Digital Media                         | 385,365                   | 378,381           |
| Total assets from reportable segments | 1,319,067                 | 1,261,968         |
| Corporate                             | 407,742                   | 443,234           |
| Total assets                          | \$ 1,726,809              | \$ 1,705,202      |
|                                       | Six Months Ended June 30, |                   |
|                                       | 2015                      | 2014              |
| Capital expenditures:                 |                           |                   |
| Business Cloud Services               | \$ 3,477                  | \$ 2,803          |
| Digital Media                         | 3,296                     | 1,618             |
| Total from reportable segments        | 6,773                     | 4,421             |
| Corporate                             | 182                       | 210               |
| Total capital expenditures            | \$ 6,955                  | \$ 4,631          |



|                                     | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|-------------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                                     | 2015                        | 2014      | 2015                      | 2014      |
| Depreciation and amortization:      |                             |           |                           |           |
| Business Cloud Services             | \$ 14,758                   | \$ 10,026 | \$ 28,772                 | \$ 18,058 |
| Digital Media                       | 6,944                       | 5,105     | 14,024                    | 10,023    |
| Total from reportable segments      | 21,702                      | 15,131    | 42,796                    | 28,081    |
| Corporate                           | 192                         | 186       | 385                       | 374       |
| Total depreciation and amortization | \$ 21,894                   | \$ 15,317 | \$ 43,181                 | \$ 28,455 |

j2 Global maintains operations in the U.S., Canada, Ireland, Japan and other countries. Geographic information about the U.S. and all other countries for the reporting periods is presented below. Such information attributes revenues based on jurisdictions where revenues are reported (in thousands).

|                     | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---------------------|-----------------------------|------------|---------------------------|------------|
|                     | 2015                        | 2014       | 2015                      | 2014       |
| Revenues:           |                             |            |                           |            |
| United States       | \$ 121,017                  | \$ 96,847  | \$ 230,049                | \$ 188,274 |
| Canada              | 18,947                      | 17,436     | 37,086                    | 34,944     |
| Ireland             | 10,820                      | 11,414     | 20,755                    | 22,509     |
| All other countries | 25,254                      | 19,047     | 49,401                    | 33,141     |
|                     | \$ 176,038                  | \$ 144,744 | \$ 337,291                | \$ 278,868 |

|                     | June 30,   | December 31, |
|---------------------|------------|--------------|
|                     | 2015       | 2014         |
| Long-lived assets:  |            |              |
| United States       | \$ 218,818 | \$ 216,099   |
| All other countries | 101,319    | 101,107      |
| Total               | \$ 320,137 | \$ 317,206   |

#### 14. Unrestricted Subsidiaries

As of June 30, 2015, the Company's Board of Directors had designated the following entities as "Unrestricted Subsidiaries" under the indenture governing j2 Cloud Services' Senior Notes:

Ziff Davis, LLC and subsidiaries  
Advanced Messaging Technologies, Inc. and subsidiaries

The financial position and results of operations of these Unrestricted Subsidiaries are included in the Company's condensed consolidated financial statements.

As required by the indenture governing j2 Cloud Services' Senior Notes, information sufficient to ascertain the financial condition and results of operations excluding the Unrestricted Subsidiaries must be presented. Accordingly, the Company is presenting the following tables.

The financial position of the Unrestricted Subsidiaries as of June 30, 2015 and December 31, 2014 is as follows (in thousands):

|   | June 30, 2015 | December 31,<br>2014 |
|---|---------------|----------------------|
| <b>ASSETS</b>                                 |               |                      |
| Cash and cash equivalents                     | \$ 55,796     | \$ 27,944            |
| Accounts receivable                           | 51,295        | 57,005               |
| Prepaid expenses and other current assets     | 2,785         | 2,986                |
| Deferred income taxes                         | 5,829         | 5,292                |
| Total current assets                          | 115,705       | 93,227               |
| Property and equipment, net                   | 13,408        | 12,834               |
| Trade names, net                              | 67,038        | 70,310               |
| Patent and patent licenses, net               | 21,013        | 24,007               |
| Customer relationships, net                   | 49,779        | 55,925               |
| Goodwill                                      | 241,328       | 245,613              |
| Other purchased intangibles, net              | 7,114         | 8,901                |
| Other assets                                  | 1,654         | 1,706                |
| Total assets                                  | \$ 517,039    | \$ 512,523           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |               |                      |
| Accounts payable and accrued expenses         | \$ 42,389     | \$ 40,296            |
| Income taxes payable                          | —             | 316                  |
| Deferred revenue, current                     | 5,990         | 5,277                |
| Total current liabilities                     | 48,379        | 45,889               |
| Long-term debt                                | 110,000       | 110,000              |
| Deferred income taxes                         | 18,224        | 17,397               |
| Other long-term liabilities                   | 15,100        | 16,243               |
| Total liabilities                             | 191,703       | 189,529              |
| Additional paid-in capital                    | 318,810       | 317,932              |
| Retained Earnings                             | 7,780         | 6,051                |
| Accumulated other comprehensive income (loss) | (1,254        | ) (989               |
| Total stockholders' equity                    | 325,336       | 322,994              |
| Total liabilities and stockholders' equity    | \$ 517,039    | \$ 512,523           |

The results of operations of the Unrestricted Subsidiaries for the three and six months ended June 30, 2015 and 2014 is as follows (in thousands):

|                                       | Three Months Ended June 30, |          | Six Months Ended June 30, |          |   |
|---------------------------------------|-----------------------------|----------|---------------------------|----------|---|
|                                       | 2015                        | 2014     | 2015                      | 2014     |   |
| Revenues                              | \$51,103                    | \$38,907 | \$95,524                  | \$72,275 |   |
| Cost of revenues                      | 5,017                       | 4,445    | 9,371                     | 8,297    |   |
| Gross profit                          | 46,086                      | 34,462   | 86,153                    | 63,978   |   |
| Operating expenses:                   |                             |          |                           |          |   |
| Sales and marketing                   | 19,182                      | 16,431   | 36,844                    | 31,389   |   |
| Research, development and engineering | 2,167                       | 1,154    | 4,068                     | 2,226    |   |
| General and administrative            | 16,918                      | 12,959   | 34,897                    | 21,793   |   |
| Total operating expenses              | 38,267                      | 30,544   | 75,809                    | 55,408   |   |
| Income from operations                | 7,819                       | 3,918    | 10,344                    | 8,570    |   |
| Interest expense (income), net        | 2,801                       | (3       | ) 5,318                   | (1       | ) |
| Other expense (income), net           | (145                        | ) (76    | ) 99                      | (418     | ) |
| Income (loss) before income taxes     | 5,163                       | 3,997    | 4,927                     | 8,989    |   |
| Income tax expense                    | 2,878                       | 2,209    | 3,197                     | 4,235    |   |
| Net income (loss)                     | \$2,285                     | \$1,788  | \$1,730                   | \$4,754  |   |

#### 15. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the three months ended June 30, 2015 (in thousands):

|  | Unrealized<br>Gains (Losses)<br>on Investments | Foreign<br>Currency<br>Translation | Total      |
|--|--|------------------------------------|------------|
| Beginning balance  | \$9,768  | \$(31,752)                         | \$(21,984) |
| Other comprehensive (loss) income before reclassifications       | (3,929)  | 7,112                              | 3,183      |
| Amounts reclassified from accumulated other comprehensive income | (5)  | —                                  | (5)        |
| Net current period other comprehensive (loss) income             | (3,934)  | 7,112                              | 3,178      |
| Ending balance   | \$5,834  | \$(24,640)                         | \$(18,806) |

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the six months ended June 30, 2015 (in thousands):

|  | Unrealized<br>Gains (Losses)<br>on Investments | Foreign<br>Currency<br>Translation | Total      |
|--|--|------------------------------------|------------|
| Beginning balance  | \$9,388  | \$(16,515)                         | \$(7,127)  |
| Other comprehensive (loss) income before reclassifications       | (3,541)  | (8,125)                            | (11,666)   |
| Amounts reclassified from accumulated other comprehensive income | (13)   | —                                  | (13)       |
| Net current period other comprehensive (loss) income             | (3,554)  | (8,125)                            | (11,679)   |
| Ending balance   | \$5,834  | \$(24,640)                         | \$(18,806) |

The following table provides details about reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2015 (in thousands):

| Details about Accumulated Other Comprehensive Income Components | Amount Reclassified from Accumulated Other Comprehensive Income |                                | Affected Line Item in the Statement of Income |
|---|---|--------------------------------|---|
|   | Three Months Ended June 30, 2015                                | Six Months Ended June 30, 2015 |   |
| Unrealized gain on available-for-sale investments               | \$ (9)  | ) \$ (21)                      | ) Other expense (income), net                 |
|   | (9)   | ) (21)                         | ) Total, before income taxes                  |
|   | 4   | 8                              | Income tax expense (benefit)                  |
|   | (5)   | ) (13)                         | ) Total, net of tax                           |
| Total reclassifications for the period                          | \$ (5)  | ) \$ (13)                      | ) Total, net of tax                           |

#### 16. Condensed Consolidating Financial Statements

In connection with the June 2014 Convertible Note issuance, j2 Global, Inc. entered into a supplemental indenture related to the Senior Notes, pursuant to which it fully and unconditionally guaranteed, on an unsecured basis, the full and punctual payment of the Senior Notes issued by its wholly owned subsidiary, j2 Cloud Services, Inc. j2 Cloud Services, Inc. is subject to restrictions on dividends in its existing indenture with respect to the Senior Notes. While substantially all of the Company's assets (other than the net cash proceeds from the issuance of the Convertible Notes) are owned directly or indirectly by j2 Cloud Services, Inc., those contractual provisions do not, as of June 30, 2014, meaningfully restrict j2 Cloud Services, Inc.'s ability to pay dividends to j2 Global, Inc.

The following condensed consolidating financial statements present, in separate columns, financial information for (i) j2 Global, Inc. (the "Parent") on a parent-only basis, (ii) j2 Cloud Services, Inc., (iii) the non-guarantor subsidiaries on a combined basis, (iv) the eliminations and reclassifications necessary to arrive at the information for the Company on a consolidated basis, and (v) the Company on a consolidated basis. The condensed consolidating financial statements are presented in accordance with the equity method. Under this method, the investments in subsidiaries are recorded at cost and adjusted for the Company's share of subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. Intercompany charges (income) between the Parent and subsidiaries are recognized in the condensed consolidating financial statements during the period incurred and the settlement of intercompany balances is reflected in the condensed consolidating statement of cash flows based on the nature of the underlying transactions. Consolidating adjustments include consolidating and eliminating entries for investments in subsidiaries, intercompany activity and balances.

j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEET  
 (Unaudited, in thousands except share and per share data)

|   | June 30, 2015   |                         |                            |                           |                        |
|---|-----------------|-------------------------|----------------------------|---------------------------|------------------------|
| BALANCE SHEET                               | j2 Global, Inc. | j2 Cloud Services, Inc. | Non-guarantor Subsidiaries | Consolidating Adjustments | j2 Global Consolidated |
| <b>ASSETS</b>                               |                 |                         |                            |                           |                        |
| Cash and cash equivalents                   | \$ 220,787      | \$ 11,400               | \$ 183,743                 | \$—                       | \$ 415,930             |
| Short-term investments                      | 55,489          | 41,637                  | 62                         | —                         | 97,188                 |
| Accounts receivable, net                    | —               | 12,423                  | 74,939                     | (43                       | ) 87,319               |
| Prepaid expenses and other current assets   | 1,595           | 16,989                  | 10,111                     | (1,555                    | ) 27,140               |
| Deferred income taxes                       | 782             | —                       | 3,732                      | —                         | 4,514                  |
| Intercompany receivable                     | 72,000          | 105,827                 | —                          | (177,827                  | ) —                    |
| Total current assets                        | 350,653         | 188,276                 | 272,587                    | (179,425                  | ) 632,091              |
| Long-term investments                       | 47,119          | 7,058                   | —                          | —                         | 54,177                 |
| Property and equipment, net                 | —               | 7,088                   | 29,690                     | —                         | 36,778                 |
| Trade names, net                            | —               | 10,172                  | 93,671                     | —                         | 103,843                |
| Patent and patent licenses, net             | —               | 815                     | 21,042                     | —                         | 21,857                 |
| Customer relationships, net                 | —               | 1,699                   | 173,789                    | —                         | 175,488                |
| Goodwill                                    | —               | 54,087                  | 619,997                    | —                         | 674,084                |
| Other purchased intangibles, net            | —               | 4,248                   | 10,732                     | —                         | 14,980                 |
| Investment in subsidiaries                  | 889,340         | 943,491                 | 8,717                      | (1,841,548                | ) —                    |
| Other assets                                | 8,786           | 2,718                   | 2,007                      | —                         | 13,511                 |
| Total assets                                | \$ 1,295,898    | \$ 1,219,652            | \$ 1,232,232               | \$ (2,020,973             | ) \$ 1,726,809         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                 |                         |                            |                           |                        |
| Accounts payable and accrued expenses       | \$ 4,500        | \$ 28,429               | \$ 54,195                  | \$ (43                    | ) \$ 87,081            |
| Income taxes payable                        | —               | 2,770                   | —                          | (1,555                    | ) 1,215                |
| Deferred revenue, current                   | —               | 20,461                  | 54,892                     | —                         | 75,353                 |
| Capital lease, current                      | —               | —                       | 324                        | —                         | 324                    |
| Deferred income taxes                       | —               | —                       | 362                        | —                         | 362                    |
| Intercompany payable                        | 54,901          | —                       | 122,926                    | (177,827                  | ) —                    |
| Total current liabilities                   | 59,401          | 51,660                  | 232,699                    | (179,425                  | ) 164,335              |



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|                                       |         |         |        |   |         |
|---------------------------------------|---------|---------|--------|---|---------|
| Long term debt                        | 350,747 | 246,462 | —      | — | 597,209 |
| Capital lease, non-current            | —       | —       | 195    | — | 195     |
| Liability for uncertain tax positions | —       | 25,136  | —      | — | 25,136  |
| Deferred income taxes                 | 26,759  | —       | 36,508 | — | 63,267  |
| Deferred revenue, non-current         | —       | 6,227   | 1,995  | — | 8,222   |
| Other long-term liabilities           | 1,071   | 827     | 17,344 | — |         |