

J2 GLOBAL, INC.  
Form 10-Q  
November 09, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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 47-1053457  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)  
6922 Hollywood Boulevard, Suite 500  
Los Angeles, California 90028  
(Address of principal executive offices)

(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):

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

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 November 3, 2016, the registrant had 48,056,679 shares of common stock outstanding.

---

j2 GLOBAL, INC.

FOR THE QUARTER ENDED SEPTEMBER 30, 2016

INDEX

	PAGE
<b>PART I.</b>	<b>FINANCIAL INFORMATION</b>
Item 1.	Financial Statements
	Condensed Consolidated Balance Sheets (unaudited) <u>3</u>
	Condensed Consolidated Statements of Income (unaudited) <u>4</u>
	Condensed Consolidated Statements of Comprehensive Income (unaudited) <u>5</u>
	Condensed Consolidated Statements of Cash Flows (unaudited) <u>6</u>
	Notes to Condensed Consolidated Financial Statements (unaudited) <u>7</u>
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations <u>51</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk <u>64</u>
Item 4.	Controls and Procedures <u>66</u>
<b>PART II.</b>	<b>OTHER INFORMATION</b>
Item 1.	Legal Proceedings <u>67</u>
Item 1A.	Risk Factors <u>67</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds <u>67</u>
Item 3.	Defaults Upon Senior Securities <u>68</u>
Item 4.	Mine Safety Disclosures <u>68</u>
Item 5.	Other Information <u>68</u>

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

Item 6.	Exhibits	<u>69</u>
	Signature	<u>70</u>

## 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)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 285,563	\$ 255,530
Short-term investments	39,908	79,655
Accounts receivable, net of allowances of \$6,643 and \$4,261, respectively	114,581	114,680
Prepaid expenses and other current assets	26,567	25,722
Deferred income taxes, current	—	7,218
Total current assets	466,619	482,805
Long-term investments	53,421	78,563
Property and equipment, net	61,437	57,442
Trade names, net	118,891	118,965
Patent and patent licenses, net	14,441	18,841
Customer relationships, net	175,434	197,319
Goodwill	853,791	807,661
Other purchased intangibles, net	16,888	17,516
Deferred income taxes, non-current	4,454	—
Other assets	3,769	4,607
<b>TOTAL ASSETS</b>	<b>\$ 1,769,145</b>	<b>\$ 1,783,719</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses	\$ 101,830	\$ 114,384
Income taxes payable	2,207	5,589
Deferred revenue, current	76,259	76,104
Capital lease, current	191	214
Deferred income taxes, current	—	363
Total current liabilities	180,487	196,654
Long-term debt	599,260	592,037
Capital lease, non-current	12	148
Liability for uncertain tax positions	44,418	35,917
Deferred income taxes, non-current	39,975	43,989
Deferred revenue, non-current	2,354	6,538
Other long-term liabilities	4,445	18,228
<b>TOTAL LIABILITIES</b>	<b>870,951</b>	<b>893,511</b>
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 47,245,704 and 47,950,677 shares, respectively	472	479
Additional paid-in capital	304,385	292,064
Retained earnings	634,386	626,789
Accumulated other comprehensive loss	(41,049	) (29,124
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>898,194</b>	<b>890,208</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,769,145	\$ 1,783,719
--	--------------	--------------

See Notes to Condensed Consolidated Financial Statements

-3-

---

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total revenues	\$210,116	\$ 178,701	\$622,418	\$ 515,992
Cost of revenues <sup>(1)</sup>	36,992	30,669	106,870	88,350
Gross profit	173,124	148,032	515,548	427,642
Operating expenses:				
Sales and marketing <sup>(1)</sup>	46,425	38,808	143,155	116,819
Research, development and engineering <sup>(1)</sup>	8,965	8,289	27,165	25,704
General and administrative <sup>(1)</sup>	55,612	45,202	170,823	138,790
Total operating expenses	111,002	92,299	341,143	281,313
Income from operations	62,122	55,733	174,405	146,329
Interest expense, net	10,436	10,259	30,971	31,453
Other expense (income), net	(9,718)	) 1,086	(9,805)	) 390
Income before income taxes	61,404	44,388	153,239	114,486
Income tax expense	15,835	7,013	43,958	16,317
Net income	\$45,569	\$ 37,375	\$109,281	\$ 98,169
Net income per common share:				
Basic	\$0.95	\$ 0.77	\$2.25	\$ 2.03
Diluted	\$0.94	\$ 0.77	\$2.24	\$ 2.02
Weighted average shares outstanding:				
Basic	47,310,011	47,696,224	47,775,798	47,553,075
Diluted	47,494,744	47,953,871	47,997,674	47,777,622
Cash dividends paid per common share	\$0.3450	\$ 0.3075	\$ 1.0050	\$ 0.9000
<sup>(1)</sup> Includes share-based compensation expense as follows:				
Cost of revenues	\$ 116	\$ 99	\$314	\$ 273
Sales and marketing	423	624	1,388	1,811
Research, development and engineering	235	227	663	635
General and administrative	2,925	1,820	7,582	6,224
Total	\$3,699	\$ 2,770	\$9,947	\$ 8,943

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	\$45,569	\$37,375	\$109,281	\$98,169
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(328 )	(4,652 )	(9,566 )	(12,777 )
Change in fair value on available-for-sale investments, net of tax expense (benefit) of \$1,378 and \$1,440 for the three and nine months of 2016, respectively, (\$625) and (\$3,242) for the three and nine months of 2015.	(2,249 )	(1,057 )	(2,359 )	(4,611 )
Other comprehensive loss, net of tax	(2,577 )	(5,709 )	(11,925 )	(17,388 )
Comprehensive Income	\$42,992	\$31,666	\$97,356	\$80,781

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 109,281	\$ 98,169
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	88,569	63,635
Accretion and amortization of discount and premium of investments	896	871
Amortization of financing costs and discounts	7,224	6,774
Share-based compensation	9,947	8,943
Excess tax benefits from share-based compensation	(2,071)	(4,541)
Provision for doubtful accounts	9,072	5,015
Deferred income taxes, net	(2,328)	219
Gain on sale of available-for-sale investment	(7,709)	(37)
Decrease (increase) in:		
Accounts receivable	(7,631)	(4,296)
Prepaid expenses and other current assets	(663)	2,815
Other assets	937	(77)
Increase (decrease) in:		
Accounts payable and accrued expenses	(4,601)	(5,783)
Income taxes payable	(927)	(13,565)
Deferred revenue	(4,134)	(3,727)
Liability for uncertain tax positions	8,502	(9,916)
Other long-term liabilities	(11,824)	4,074
Net cash provided by operating activities	192,540	148,573
Cash flows from investing activities:		
Maturity of certificates of deposit	—	65
Purchase of certificates of deposit	—	(62)
Maturity of available-for-sale investments	145,005	87,976
Purchase of available-for-sale investments	(75,834)	(78,281)
Purchases of property and equipment	(17,447)	(11,927)
Acquisition of businesses, net of cash received	(91,401)	(259,838)
Purchases of intangible assets	(2,014)	(1,258)
Net cash used in investing activities	(41,691)	(263,325)
Cash flows from financing activities:		
Repurchases of common stock and restricted stock	(56,083)	(3,159)
Issuance of common stock under employee stock purchase plan	191	196
Exercise of stock options	3,272	4,618
Dividends paid	(48,768)	(43,526)
Excess tax benefits from share-based compensation	2,071	4,541
Deferred payments for acquisitions	(18,939)	(5,411)
Other	(391)	(250)
Net cash used in financing activities	(118,647)	(42,991)
Effect of exchange rate changes on cash and cash equivalents	(2,169)	(3,552)
Net change in cash and cash equivalents	30,033	(161,295)
Cash and cash equivalents at beginning of period	255,530	433,663

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

Cash and cash equivalents at end of period	\$285,563	\$272,368
--	-----------	-----------

See Notes to Condensed Consolidated Financial Statements

-6-

---

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

(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 j2 Cloud Connect, which primarily focuses on our number-based voice and fax services. The Digital Media Division specializes in the technology, gaming, entertainment and lifestyle 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 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 the 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. It is suggested that these financial statements be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2015 included in our Annual Report (Form 10-K) filed with the SEC on February 29, 2016. 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.

Reorganization

On August 10, 2016, the Board of Directors of j2 Cloud Services, Inc., a wholly owned subsidiary of the Company and a Delaware corporation, approved the conversion of j2 Cloud Services, Inc. into a Delaware limited liability company which will continue as j2 Cloud Services, LLC.

On August 12, 2016, the Board of Directors distributed all of the equity interests in Ziff Davis, LLC, a Delaware limited liability company, and all of the equity interests in Advanced Messaging Technologies, Inc., a Delaware corporation, held by j2 Cloud Services, LLC, a Delaware limited liability company, to j2 Global, the parent company of j2 Cloud Services, LLC.

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 and 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. These reserves for the Company's Business Cloud Services segment are typically driven by the volume of credit card declines and past due invoices and are based on historical experience as well as an evaluation of current market conditions. These reserves for the Company's Digital Media segment are typically driven by past due invoices based on historical experience. On an ongoing basis, Management evaluates the adequacy of these reserves.

-7-

---

#### Debt Issuance Costs and Debt Discount

j2 Global capitalizes costs incurred with borrowing and issuance of debt securities and records debt issuance costs and discounts as a reduction to the debt amount. 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 effective interest method.

#### Contingent Consideration

j2 Global measures contingent earn-out liabilities in connection with acquisitions at fair value on a recurring basis using significant unobservable inputs 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. 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. The amount paid that is less than or equal to the liability on the acquisition date 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-assesses 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 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.

#### Segment Reporting

Accounting guidance establishes standards for the way that public business enterprises report information about operating segments in their annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. Accounting guidance also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company operates as two segments: (1) Business Cloud Services and (2) Digital Media.

#### Reclassifications

Certain prior year reported amounts have been reclassified to conform to the 2016 presentation.

#### 2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("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. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective

date. This ASU must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is continuing to evaluate 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 January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such these investments may be measured at cost. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of this ASU on our financial statements.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815). This ASU is related to the embedded derivative analysis for debt instruments with contingent call or put options. This ASU clarifies that an exercise contingency does not need to be evaluated to determine whether it relates only to interest rates or credit risk. Instead, the contingent put or call option should be evaluated for possible bifurcation as a derivative in accordance with the four-step decision sequence detailed in FASB ASC 815-15, without regard to the nature of the exercise contingency. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on our financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). This ASU is related to reporting revenue gross versus net, or principal versus agent considerations. This ASU is meant to clarify the guidance in ASU 2014-09, Revenue from Contracts with Customers, as it pertains to principal versus agent considerations. Specifically, the guidance addresses how entities should identify goods and services being provided to a customer, the unit of account for a principal versus agent assessment, how to evaluate whether a good or service is controlled before being transferred to a customer, and how to assess whether an entity controls services performed by another party. This ASU has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The 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 March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718). This ASU is related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on our financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. Specifically, the guidance addresses an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. This ASU has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The 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 May 2016, the FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting. This ASU rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 Emerging Issues Task Force (EITF) meeting. Specifically, registrants should not rely on the following SEC Staff Observer comments upon adoption of Topic 606: 1) Revenue and Expense Recognition for Freight Services in Process, which is codified in paragraph 605-20-S99-2; 2) Accounting for Shipping and Handling Fees and Costs, which is codified in paragraph 605-45-S99-1; 3) Accounting for Consideration Given by a Vendor to a Customer (including Reseller of the Vendor's Products), which is codified in paragraph 605-50-S99-1; and 4) Accounting for Gas-Balancing Arrangements (i.e., use of the "entitlements method"), which is codified in paragraph 932-10-S99-5. This ASU becomes effective upon adoption of ASU 2014-09, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact of this ASU on our financial statements.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU does not change the core principle of the guidance in Topic 606. Instead, the amendments provide clarifying guidance in a few narrow areas and add some practical expedients to the guidance. This ASU has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of this new standard on our financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact of this ASU on our financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The amendments in this ASU reduce the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this ASU 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, acquire skilled personnel and enter into other jurisdictions.

The Company completed the following acquisitions during the first nine months of fiscal 2016, paying the purchase price in cash in each transaction: (a) an asset purchase of VaultLogix, acquired on February 17, 2016, a

Massachusetts-based provider of cloud data backup and storage for business clients; (b) a share purchase of the entire issued capital of CallStream Group Limited, acquired on March 3, 2016, a provider of cloud-based call management solutions to markets in the United Kingdom; (c) an asset purchase of Publicaster, acquired on April 1, 2016, a Maryland-based provider of email marketing services; (d) an asset purchase of SMTP, acquired on June 27, 2016, a Florida-based provider of cloud email services offering solutions ranging from sophisticated transactional email solutions to cost-effective Simple Mail Transfer Protocol ("SMTP") relay services; (e) a share purchase of the entire issued capital of Integrated Global Concepts, Inc. ("IGC"), acquired on July 12, 2016, a Chicago-based provider of fax and voicemail services; (f) a share purchase of the entire issued capital of Front-safe A/S, acquired on July 15, 2016, a Denmark-based provider of cloud backup solutions; and (g) other immaterial acquisitions of online data backup, email marketing and digital media businesses.

The condensed consolidated statement of income, since the date of each acquisition, and balance sheet, as of September 30, 2016, reflect the results of operations of all 2016 acquisitions. For the nine months ended September 30, 2016, these acquisitions contributed \$20.1 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 \$95.6 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 <sup>(1)</sup>	Valuation
Accounts receivable	\$2,644
Property and equipment	2,033
Other assets	575
Software	2,546
Trade names	5,344
Customer relationships	32,223
Other intangibles	1,290
Goodwill	56,479
Other accrued liabilities	(3,384 )
Deferred revenue	(1,189 )
Deferred tax liability	(3,003 )
Total	\$95,558

<sup>(1)</sup> In connection with the purchase of IGC, the majority of the value was associated with the 935,231 shares of j2 Global common stock. The value associated with these shares was recorded as a separate transaction from the fax business and has been excluded from the schedule above.

## IGC

The Company acquired the entire issued capital of IGC on July 12, 2016 for a cash purchase price of approximately \$6.3 million (excluding amounts allocated to the Company's purchase of its common stock described below), net of cash acquired and assumed liabilities and is subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

At the date of acquisition, IGC held 935,231 of the Company's common stock which the Company determined should be treated as a separate transaction from the acquired fax and voicemail businesses. In order to determine the amount of purchase consideration allocable to the fax and voicemail business and the Company's common stock, the Company used a relative fair value approach and concluded that the amounts of consideration allocable to the fax and voicemail business and the Company's common stock were \$6.3 million and \$51.5 million, respectively. See Note 10 - Stockholders' Equity for further discussion regarding the Company's common stock acquired in connection with the IGC business combination.

During the nine months ended September 30, 2016, the purchase price accounting has been finalized for the following acquisitions: (i) LiveVault, (ii) Salesify, (iii) CallStream Group Limited, (iv) Publicaster and (v) other immaterial fax, online data backup and digital media businesses. The initial accounting for all other 2016 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.

During the nine months ended September 30, 2016, the Company recorded adjustments to prior period acquisitions due to the finalization of purchase accounting in the Business Cloud Services segment which resulted in a net increase in goodwill in the amount of \$0.8 million. In addition, the Company recorded adjustments to the initial working capital related to prior period acquisitions and updated the purchase accounting of Offers.com in the Digital Media segment, which resulted in a net decrease in goodwill in the amount of \$(4.9) million with a corresponding increase in trade names, net and other purchased intangibles, net (See Note 6 - Goodwill and Intangible Assets). Such adjustments had an immaterial impact to the amortization expense within the Condensed Consolidated Statement of Income for the nine months ended September 30, 2016.

-11-

---

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 nine months ended September 30, 2016 is \$56.5 million, of which \$35.4 million is expected to be deductible for income tax purposes.

#### 4. Investments

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, average cost method or other method, as appropriate.

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):

	September 30, 2016	December 31, 2015
Due within 1 year	\$ 39,845	\$ 56,940
Due within more than 1 year but less than 5 years	53,100	78,248
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	321	315
Total	\$ 93,266	\$ 135,503

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

	September 30, 2016	December 31, 2015
Available-for-sale	\$ 93,266	\$ 158,158
Certificates of deposit	63	60
Total	\$ 93,329	\$ 158,218

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 September 30, 2016 and December 31, 2015 aggregated by major security type (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
Corporate debt securities	\$ 66,120	\$ 186	\$ (31 )	\$ 66,275
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	19,070	4	(14 )	19,060
Debt securities issued by states of the United States and political subdivisions of the states	5,532	1	(2 )	5,531
Variable Rate Demand Notes <sup>(1)</sup>	2,400	—	—	2,400
Total	\$ 93,122	\$ 191	\$ (47 )	\$ 93,266
December 31, 2015				
Corporate debt securities	\$ 88,852	\$ 110	\$ (213 )	\$ 88,749
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	40,715	—	(63 )	40,652
Debt securities issued by states of the United States and political subdivisions of the states	6,111	2	(10 )	6,103
Equity securities	18,536	4,118	—	22,654
Total	\$ 154,214	\$ 4,230	\$ (286 )	\$ 158,158

<sup>(1)</sup> Variable Rate Demand Notes ("VRDNs") are long-term floating rate bonds with embedded put options that allow the bondholder to sell the security at par plus accrued interest. All of the put options are secured by a pledged liquidity source. Our VRDN portfolio is comprised of investments in states and municipalities, which are backed by financial institutions or other highly rated companies that serve as the pledged liquidity source. While they are classified as investments, the put option allows VRDNs to be liquidated generally on a seven business day settlement basis.

At September 30, 2016, corporate and governmental debt securities, which have fixed interest rates, and VRDNs, which have floating rates, were recorded as available-for-sale investments. At December 31, 2015, corporate and governmental debt securities, which have fixed interest rates, and equity securities, were recorded as available-for-sale investments. 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 September 30, 2016.

At September 30, 2016, 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.

The Company sold its strategic investment in Carbonite during fiscal year 2016 resulting in recognized gains before tax of \$7.6 million (\$2.9 million of income tax), which is reflected in the Condensed Consolidated Statements of Income.

## 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 be sold 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 September 30, 2016 and December 31, 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of September 30, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$25,007	\$ (31 )	\$—	\$ —	\$25,007	\$ (31 )
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	14,161	(14 )	—	—	14,161	(14 )
Debt securities issued by states of the United States and political subdivisions of the states	3,193	(2 )	—	—	3,193	(2 )
Total	\$42,361	\$ (47 )	\$—	\$ —	\$42,361	\$ (47 )
	As of December 31, 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	\$74,807	\$ (212 )	\$1,000	\$ (1 )	\$75,807	\$ (213 )
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	38,004	(62 )	649	(1 )	38,653	(63 )
Debt securities issued by states of the United States and political subdivisions of the states	4,189	(10 )	—	—	4,189	(10 )
Total	\$117,000	\$ (284 )	\$1,649	\$ (2 )	\$118,649	\$ (286 )

As of September 30, 2016 and December 31, 2015, 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:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

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.

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, VRDNs 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 Convertible Notes (See Note 7 - Long-Term Debt) is determined using recent quoted market prices or dealer quotes for such securities, which are Level 1 inputs. The fair value of the Senior Notes (See Note 7 - Long-Term Debt) is determined using quoted market prices or dealer quotes for instruments with similar maturities and other terms and credit ratings, which are Level 2 inputs. The fair value of long-term debt at September 30, 2016 and December 31, 2015 was \$747.1 million and \$790.5 million, respectively.

In addition, the Convertible Notes contain terms that may require the Company to 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 Company classifies its contingent consideration liability in connection with the acquisitions of Ookla and Salesify 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):

September 30, 2016	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	\$80,405	\$—	\$—	\$80,405
Time deposits	—	73	—	73
Certificates of deposit	—	63	—	63
Variable Rate Demand Notes	—	2,400	—	2,400
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	—	19,060	—	19,060
Debt securities issued by states of the U.S. and political subdivisions of the states	—	5,531	—	5,531
Corporate debt securities	—	66,275	—	66,275
Total assets measured at fair value	\$80,405	\$93,402	\$—	\$173,807
Liabilities:				
Contingent consideration	\$—	\$—	\$13,661	\$13,661
Contingent interest derivative	—	1,450	—	1,450
Total liabilities measured at fair value	\$—	\$1,450	\$13,661	\$15,111
December 31, 2015	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	\$46,867	\$—	\$—	\$46,867
Time deposits	—	3,004	—	3,004
Certificates of deposit	—	60	—	60
Equity securities	22,654	—	—	22,654
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	—	40,652	—	40,652
Debt securities issued by states of the U.S. and political subdivisions of the states	—	6,103	—	6,103
Corporate debt securities	—	88,749	—	88,749
Total assets measured at fair value	\$69,521	\$138,568	\$—	\$208,089
Liabilities:				
Contingent consideration	\$—	\$—	\$30,600	\$30,600
Contingent interest derivative	—	1,450	—	1,450
Total liabilities measured at fair value	\$—	\$1,450	\$30,600	\$32,050

At the end of each reporting period, management reviews the inputs to 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 nine months ended September 30, 2016, there were no transfers that have occurred between levels.

The following table 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 January 1, 2016	\$30,600	
Total fair value adjustments reported in earnings	1,061	General and administrative
Contingent consideration payments	(18,000)	Not applicable
Balance as of September 30, 2016	\$13,661	

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 had a fair value of \$12.3 million and \$25.0 million at September 30, 2016 and December 31, 2015, respectively. Due to the Company's achievement of certain earnings targets for the year ended December 31, 2015, \$20.0 million (\$17.0 million of contingent consideration and \$3.0 million of compensation) was paid during the first quarter 2016 in connection with this acquisition.

In connection with the acquisition of Salesify, on September 17, 2015, contingent consideration of up to an aggregate of \$17.0 million may be payable upon achieving certain future income thresholds and had a fair value of \$1.3 million and \$5.6 million at September 30, 2016 and December 31, 2015, respectively. Due to the Company's achievement of certain earnings targets for the year ended December 31, 2015, \$1.0 million of contingent consideration was paid during the second quarter 2016 in connection with this acquisition.

The contingent consideration associated with Ookla is classified within current liabilities, while the contingent consideration associated with Salesify is classified within other long-term liabilities on the consolidated balance sheet at September 30, 2016.

During the nine months ended September 30, 2016, the Company recorded an increase in the fair value of the contingent consideration of \$1.1 million and reported such increase in general and administrative expenses.

The following table 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 January 1, 2016	\$ 1,450	
Total fair value adjustments reported in earnings	—	
Balance as of September 30, 2016	\$ 1,450	

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 acquisition 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.

-18-

---

The changes in carrying amounts of goodwill for the nine months ended September 30, 2016 are as follows (in thousands):

	Business Cloud Services	Digital Media	Consolidated
Balance as of January 1, 2016	\$502,718	\$304,943	\$ 807,661
Goodwill acquired (Note 3)	56,479	—	56,479
Purchase accounting adjustments <sup>(1)</sup>	816	(4,931 )	(4,115 )
Foreign exchange translation	(6,073 )	(161 )	(6,234 )
Balance as of September 30, 2016	\$553,940	\$299,851	\$ 853,791

<sup>(1)</sup> Purchase accounting adjustments relate to adjustments to goodwill in connection with prior year business acquisitions (See Note 3 - Business Acquisitions).

#### Intangible Assets with Indefinite Lives:

Intangible assets are summarized as of September 30, 2016 and December 31, 2015 as follows (in thousands):

	September 30, 2016	December 31, 2015
Trade name	\$ 27,379	\$ 27,379
Other	5,432	5,432
Total	\$ 32,811	\$ 32,811

#### Intangible Assets Subject to Amortization:

As of September 30, 2016, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	11.8 years	\$127,254	\$ 35,742	\$91,512
Patent and patent licenses	8.2 years	64,518	50,077	14,441
Customer relationships <sup>(1)</sup>	10.5 years	343,447	168,013	175,434
Other purchased intangibles	4.6 years	35,871	24,415	11,456
Total		\$571,090	\$ 278,247	\$292,843

<sup>(1)</sup> Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

As of December 31, 2015, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	12.0 years	\$ 117,753	\$ 26,167	\$ 91,586
Patent and patent licenses	8.3 years	64,258	45,417	18,841
Customer relationships <sup>(1)</sup>	9.4 years	313,909	116,590	197,319
Other purchased intangibles	4.2 years	33,088	21,004	12,084
Total		\$ 529,008	\$ 209,178	\$ 319,830

<sup>(1)</sup> Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

Amortization expense, included in general and administrative expense, approximated \$23.7 million and \$15.9 million for the three month periods ended September 30, 2016 and 2015, respectively, and \$69.6 million and \$50.5 million for the nine month periods ended September 30, 2016 and 2015, respectively. Amortization expense is estimated to approximate \$93.0 million, \$71.0 million, \$50.7 million, \$32.1 million and \$22.7 million for fiscal years 2016 through 2020, respectively, and \$92.9 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 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, LLC (formerly j2 Cloud Services, Inc.) received proceeds of \$245 million in cash, net of initial purchaser's discounts and commissions of \$5 million. 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. j2 Cloud Services, LLC 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. 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. 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, LLC under the Senior Notes.

The indenture governing the Senior Notes contains certain restrictive and other covenants applicable to j2 Cloud Services, LLC 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, LLC 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 September 30, 2016, j2 Cloud Services, LLC 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.

As of September 30, 2016 and December 31, 2015, the estimated fair value of the Senior Notes was approximately \$278.2 million and \$262.2 million, respectively, and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the Senior Notes which are Level 2 inputs (See Note 5 - Fair Value

Measurements).

-20-

---

### 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 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 stock.

As of September 30, 2016, the conversion rate is 14.4910 shares of j2 Global common stock for each \$1,000 principal amount of Convertible Notes, which represents a conversion price of approximately \$69.01 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, LLC, 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.

-21-

---

## 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. 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 September 30, 2016, the remaining period over which the unamortized debt discount will be amortized is 4.7 years.

The Convertible Notes are carried at face value less any unamortized debt discount and debt issuance costs. 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, which are Level 1 inputs (see Note 5 - Fair Value Measurements). 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 September 30, 2016 and December 31, 2015, the estimated fair value of the Convertible Notes was approximately \$468.9 million and \$528.3 million, respectively.

Long-term debt as of September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, 2016	December 31, 2015
8% Senior Notes	\$ 247,203	\$ 246,750
3.25% Convertible Notes	360,174	354,436
Less: Deferred issuance costs <sup>(1)</sup>	(8,117 )	(9,149 )
Total long-term debt	599,260	592,037
Less: current portion	—	—
Total long-term debt, less current portion	\$ 599,260	\$ 592,037

<sup>(1)</sup> The Company adopted ASU 2015-03 Interest - Imputation Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs during the first quarter of 2016 on a retrospective basis. At December 31, 2015, \$9.1 million of deferred issuance costs were classified as a reduction of Long-term debt on our consolidated balance sheets.

## 8. Commitments and Contingencies

## Litigation

From time-to-time, j2 Global and its affiliates are involved in litigation and other legal 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 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<sup>®</sup> 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.

-22-

---

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). A trial was held on December 16, 2015. The Massachusetts Appellate Tax Board has not yet rendered its decision.

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 putative 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 a j2 Global affiliate's systems to send unsolicited facsimile transmissions. The j2 Global affiliates filed 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. On August 23, 2013, a second plaintiff, Sabon, Inc. ("Sabon"), was added. On March 7, 2016, the j2 Global affiliates moved for summary judgment on all remaining claims. The summary judgment motions are pending. The Northern District of Illinois has not yet addressed class certification.

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 ("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 various common law claims. On November 12, 2015, the Northern District of Georgia dismissed all claims against the j2 Global affiliates. On January 28, 2016, all remaining claims were dismissed on summary judgment. Huster filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") on February 26, 2016 (No. 16-1639). The appeal is 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 Federal Circuit on June 27, 2014 (No. 14-1611). The appeal is pending.

On June 23, 2014, Andre Free-Vychine ("Free-Vychine") filed a putative class action against two j2 Global affiliates in the Superior Court for the State of California, County of Los Angeles ("Los Angeles Superior Court") (No. BC549422). The complaint alleged two California statutory violations relating to late fees levied in certain eVoice® accounts. Free-Vychine sought, 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 putative class action against the same j2 Global affiliates in Los Angeles Superior Court (No. BC555721). The complaint alleged 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 affiliates' customers, including those with eVoice® and Onebox® accounts. LEO and IV Pit Stop sought, 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 related and consolidated both cases for discovery purposes. On March 13, 2015, a third amended complaint was filed

in the case brought by LEO, which no longer included IV Pit Stop as a plaintiff but added Christopher Dancel ("Dancel") as a plaintiff. On June 26, 2015, the case filed by Free-Vychine was dismissed pursuant to a settlement agreement. On October 7, 2015, the parties in the case brought by LEO and Dancel reached a tentative class-based settlement. On September 12, 2016, the Los Angeles Superior Court certified the class for settlement purposes only and preliminary approved the settlement. The court will consider final approval of the settlement in early 2017. j2 Global does not believe, based on current knowledge, that the foregoing legal proceedings or claims, 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 timing, an unfavorable resolution of some or all of these matters

could have a material effect on j2 Global's consolidated financial position, results of operations, or cash flows in a particular period. The Company has not accrued for loss contingencies relating to these legal proceedings because unfavorable outcomes are not considered probable by management.

The Company has not accrued for any material loss contingencies relating to these legal proceedings because unfavorable outcomes are not considered probable by management.

#### 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 the Company's services) are generally not subject to various telecommunication taxes. Moreover, the Company generally does not believe that its business and its users (by using the Company's services) are subject to other indirect taxes, such as sales and use 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 the Company's business and operations with respect to telecommunications and other indirect taxes.

On February 24, 2016, President Obama signed into law H.R. 644, the "Trade Facilitation and Trade Enforcement Act of 2015", which included a provision to permanently ban state and local authorities from imposing access or discriminatory taxes on the Internet. The new law allows "grandfathered" states and local authorities to continue their existing taxes on Internet access through June 2020.

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, on November 2, 2016, the j2 Global affiliate reached an agreement with the City of Los Angeles to obtain a refund of a portion of the assessments 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 updates 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 25.8% and 15.8% for the three months ended September 30, 2016 and 2015, respectively and 28.7% and 14.3% for the nine months ended September 30, 2016 and 2015, 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 \$57.2 million and \$33.7 million for the nine months ended September 30, 2016 and 2015, respectively, and income from foreign operations of \$96.0 million and \$80.8 million for the nine months ended September 30, 2016 and 2015, respectively.

As of September 30, 2016 and December 31, 2015, the Company had \$44.4 million and \$35.9 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 \$40.4 million and \$40.5 million for the nine months ended September 30, 2016 and 2015, respectively.

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 \$11.6 million and \$11.6 million at September 30, 2016 and December 31, 2015, respectively.

Income Tax Audits:

In November 2015, the U.S. Internal Revenue Service ("IRS") began its income tax audit of the Company's 2012 and 2013 tax years. In March 2016, the IRS expanded its income tax audit to include the Company's 2014 tax year.

j2 Global is under income tax audit by the California Franchise Tax Board (the "FTB") for its tax years 2012 and 2013. The FTB, however, has agreed to suspend its audit for 2012 and 2013 pending the outcome of the IRS audit for such tax years.

The Company is under income tax audit by the New York State Department of Taxation and Finance for tax years 2011 through 2013.

j2 Global was under income tax audit by the New York City Department of Finance ("NYC") for its tax years 2009 through 2011. In February 2016, j2 Global settled its NYC audit for approximately \$26,000.

It is reasonably possible that these audits may conclude in the next 12 months and that the uncertain tax positions the Company has recorded in relation to these tax years may change compared to the liabilities recorded for these periods. If the recorded uncertain tax positions are inadequate to cover the associated tax liabilities, the Company would be required to record additional tax expense in the relevant period, which could be material. If the recorded uncertain tax positions are adequate to cover the associated tax liabilities, the Company would be required to record 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 20, 2017. During the nine month period ended September 30, 2016, we repurchased zero shares under this program. Cumulatively at September 30, 2016, 2.1 million shares were repurchased at an aggregate cost of \$58.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (See Note 3 - Business Acquisitions). As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program.

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 September 30, 2016, the Company purchased 14,049 shares from plan participants for this purpose.

Dividends

The following is a summary of each dividend declared during fiscal year 2016 and 2015:

Declaration Date	Dividend	Record Date	Payment Date
	per		

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

	Common Share		
February 10, 2015	\$ 0.2925	February 23, 2015	March 9, 2015
May 6, 2015	\$ 0.3000	May 19, 2015	June 3, 2015
August 3, 2015	\$ 0.3075	August 17, 2015	September 1, 2015
November 3, 2015	\$ 0.3150	November 17, 2015	December 3, 2015
February 10, 2016	\$ 0.3250	February 23, 2016	March 10, 2016
May 5, 2016	\$ 0.3350	May 18, 2016	June 2, 2016
August 2, 2016	\$ 0.3450	August 17, 2016	September 1, 2016

-25-

---

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 j2 Global 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 September 30, 2016, 28,998 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 granting 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 j2 Global 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-statutory stock options. As of September 30, 2016, 333,655 shares underlying options and 28,590 shares of restricted stock were outstanding under the 2007 Plan.

The 2015 Plan provides for the granting 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 j2 Global 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 September 30, 2016, 62,000 shares underlying options and 26,950 shares of restricted stock units 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 nine months ended September 30, 2016:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	566,428	\$ 29.74		
Granted	—	—		
Exercised	(132,073)	25.91		
Canceled	(9,700)	26.92		
Outstanding at September 30, 2016	424,655	\$ 31.00	4.1	\$ 15,169,195
Exercisable at September 30, 2016	362,555	\$ 26.12	3.4	\$ 14,688,225
Vested and expected to vest at September 30, 2016	412,053	\$ 29.96	3.9	\$ 15,137,035

The total intrinsic values of options exercised during the nine months ended September 30, 2016 and 2015 were \$5.1 million and \$9.6 million, respectively.

The Company recognized \$0.1 million and \$0.1 million of compensation expense related to stock options for the three months ended September 30, 2016 and 2015, and \$0.3 million and \$0.6 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015, unrecognized stock compensation related to non-vested

-26-

---

stock options granted under each of the share-based compensation plans approximated \$0.7 million and \$1.1 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 3.0 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 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 12.58% and 14.01% as of September 30, 2016 and 2015, respectively.

#### Restricted Stock and Restricted Stock Units

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 (excluding market-based awards discussed below).

#### Restricted Stock - Awards with Market Conditions

In May 2016, certain key employees were granted market-based restricted stock awards. The market-based awards have vesting conditions that are based on specified stock price targets of the Company's common stock. Market conditions were factored into the grant date fair value using a Monte Carlo valuation model, which utilized multiple input variables to determine the probability of the Company achieving the specified stock price targets with a 20 day lookback (trading days). Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period using the graded-vesting method regardless of whether the market condition is satisfied, provided that the requisite service period has been completed. During the nine months ended September 30, 2016 and 2015, the Company awarded 106,780 and zero market-based restricted stock awards, respectively. The per share weighted average grant-date fair values of the market-based restricted stock awards granted during the nine months ended September 30, 2016 were \$44.67.

The weighted-average fair values of market-based restricted stock awards granted have been estimated utilizing the following assumptions:

	September	
	30, 2016	
Underlying stock price at valuation date	\$ 63.73	
Expected volatility	29.8	%
Risk-free interest rate	1.51	%

Restricted stock award activity for the nine months ended September 30, 2016 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2016	704,804	\$ 39.08

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

Granted	291,914	40.82
Vested	(159,035)	44.53
Canceled	(34,700 )	66.31
Nonvested at September 30, 2016	802,983	\$ 37.46

-27-

---

Restricted stock unit award activity for the nine months ended September 30, 2016 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2016	56,245		
Granted	21,250		
Vested	(10,755)		
Canceled	(11,200)		
Outstanding at September 30, 2016	55,540	1.9	\$3,699,519
Vested and expected to vest at September 30, 2016	43,475	1.7	\$2,895,863

The Company recognized \$3.6 million and \$2.6 million of compensation expense related to restricted stock and restricted stock units for the three months ended September 30, 2016 and 2015, respectively, and \$9.6 million and \$8.3 million for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016 and December 31, 2015, the Company had unrecognized share-based compensation cost of approximately \$41.7 million and \$34.5 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.3 years for awards and 3.3 years for units.

#### 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 common stock at certain plan-defined dates. The price of the j2 Global common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the j2 Global common stock at the end of the offering period. For the nine months ended September 30, 2016 and 2015, 2,996 and 3,155 shares were purchased under the plan, respectively. Cash received upon the issuance of j2 Global common stock under the Purchase Plan was \$191,000 and \$196,000 for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, 1,627,448 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator for basic and diluted net income per common share:				
Net income attributable to j2 Global, Inc. common shareholders	\$45,569	\$ 37,375	\$109,281	\$ 98,169
Net income available to participating securities <sup>(a)</sup>	(718 )	(611 )	(1,610 )	(1,620 )
Net income available to j2 Global, Inc. common shareholders	\$44,851	\$ 36,764	\$107,671	\$ 96,549
Denominator:				
Weighted-average outstanding shares of common stock	47,310,014	47,696,224	47,775,798	47,553,075
Dilutive effect of:				
Equity incentive plans	184,733	257,647	208,974	224,547
Convertible debt <sup>(b)</sup>	—	—	12,902	—
Common stock and common stock equivalents	47,494,744	47,953,871	47,997,674	47,777,622
Net income per share:				
Basic	\$0.95	\$ 0.77	\$2.25	\$ 2.03
Diluted	\$0.94	\$ 0.77	\$2.24	\$ 2.02

<sup>(a)</sup> Represents unvested share-based payment awards that contain certain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid).

<sup>(b)</sup> Represents the incremental shares issuable upon conversion of the Convertible Notes due June 15, 2029 by applying the treasury stock method when the average stock price exceeds the conversion price of the Convertible Notes (See Note 7 - Long Term Debt).

For the three months ended September 30, 2016 and 2015, there were 62,000 and zero 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 stock. For the nine months ended September 30, 2016 and 2015, there were 62,000 and 62,000 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 stock.

## 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues by segment:				
Business Cloud Services	\$143,342	\$126,436	\$423,941	\$369,685
Digital Media	66,819	52,312	198,613	146,476
Elimination of inter-segment revenues	(45 )	(47 )	(136 )	(169 )
Total revenues	210,116	178,701	622,418	515,992
Direct costs by segment <sup>(1)</sup> :				
Business Cloud Services	90,485	69,617	268,333	213,518
Digital Media	52,887	44,970	165,398	125,045
Direct costs by segment <sup>(1)</sup> :	143,372	114,587	433,731	338,563
Business Cloud Services operating income <sup>(2)</sup>	52,857	56,819	155,608	156,167
Digital Media operating income	13,932	7,342	33,215	21,431
Segment operating income	66,789	64,161	188,823	177,598
Global operating costs <sup>(2)(3)</sup>	4,667	8,428	14,418	31,269
Income from operations	\$62,122	\$55,733	\$174,405	\$146,329

<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> During 2016, the Company determined certain personnel and third-party costs were directly attributable to a particular segment. As a result, these costs were no longer classified as Global operating costs in 2016. If such costs in the prior period were classified consistent with the 2016 presentation, the operating income for the Business Cloud Services segment would have been \$53.1 million and \$139.8 million for the three and nine months ended September 30, 2015, respectively. Global operating costs would have been \$4.7 million and \$14.9 million for the three and nine month ended September 30, 2015, respectively.

<sup>(3)</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.

	September 30,		December 31,	
	2016		2015	
Assets:				
Business Cloud Services	\$1,034,687		\$1,017,676	
Digital Media	582,352		427,647	
Total assets from reportable segments	1,617,039		1,445,323	
Corporate	152,106		338,396	
Total assets	\$1,769,145		\$1,783,719	
	Nine Months Ended			
	September 30,			
	2016		2015	
Capital expenditures:				
Business Cloud Services	\$6,251		\$6,078	
Digital Media	11,196		5,528	
Total from reportable segments	17,447		11,606	
Corporate	—		321	
Total capital expenditures	\$17,447		\$11,927	
	Three Months		Nine Months	
	Ended September			
	30,		30,	
	2016	2015	2016	2015
Depreciation and amortization:				
Business Cloud Services	\$20,218	\$12,961	\$58,971	\$41,733
Digital Media	10,118	7,280	29,598	21,303
Total from reportable segments	30,336	20,241	88,569	63,036
Corporate	—	214	—	599
Total depreciation and amortization	\$30,336	\$20,455	\$88,569	\$63,635

The Company's Business Cloud Services segment consists of several services which have similar economic characteristics, including the nature of the services and their production processes, the type of customers, as well as the methods used to distribute these services.

j2 Global groups its Business Cloud services into three main categories based on the similarities of these services: Cloud Connect, Cloud Services and Intellectual Property. Cloud Connect consists of our Fax and Voice services. Cloud Services consist of Backup, Email Security, Email Marketing and Web Hosting.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016			2016		
	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>
Cloud Connect (Fax/Voice)	\$92,599	\$5,950	\$43,503	\$275,700	\$19,096	\$126,598
Cloud Services	49,624	12,826	10,350	144,853	35,327	31,974
Intellectual Property	1,119	1,442	(996)	3,388	4,548	(2,964)
Total	\$143,342	\$20,218	\$52,857	\$423,941	\$58,971	\$155,608



	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>
Cloud Connect (Fax/Voice)	\$89,511	\$ 5,309	\$48,346	\$264,987	\$ 16,287	\$136,909
Cloud Services	35,819	6,030	9,459	100,050	19,810	21,808
Intellectual Property	1,106	1,622	(986 )	4,648	5,636	(2,550 )
Total	\$126,436	\$ 12,961	\$56,819	\$369,685	\$ 41,733	\$156,167

<sup>(4)</sup> During 2016, the Company determined certain personnel and third-party costs were directly attributable to a particular segment. As a result, these costs were no longer classified as Global operating costs in 2016. If such costs in the prior period were classified consistent with the 2016 presentation, the operating income for Cloud Connect and Other Cloud Services would have been \$46.2 million and \$7.9 million, respectively, for the three months ended September 30, 2015 and \$125.3 million and \$17.1 million, respectively, for the nine months ended September 30, 2015.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
United States	\$142,691	\$119,177	\$424,804	\$349,226
Canada	19,939	18,836	57,205	55,922
Ireland	18,068	11,363	54,517	32,118
All other countries	29,418	29,325	85,892	78,726
	\$210,116	\$178,701	\$622,418	\$515,992

	September 30, 2016	December 31, 2015
Long-lived assets:		
United States	\$ 257,217	\$ 271,796
All other countries	97,070	105,477
Total	\$ 354,287	\$ 377,273

#### 14. Unrestricted Subsidiaries (unaudited)

Until the reorganization described in Note 1 of these Notes to the Condensed Consolidated Financial Statements, 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.

-32-

---

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 for any period in which j2 Cloud Services had Unrestricted Subsidiaries. Accordingly, the Company is presenting the following tables.

The financial position of the Unrestricted Subsidiaries as of September 30, 2016 and December 31, 2015 is as follows (in thousands):

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 46,053	\$ 16,482
Accounts receivable	67,857	79,283
Prepaid expenses and other current assets	5,648	5,437
Deferred income taxes, current	—	3,382
Total current assets	119,558	104,584
Property and equipment, net	28,999	25,353
Trade names, net	71,322	73,034
Patent and patent licenses, net	13,779	18,071
Customer relationships, net	54,765	68,317
Goodwill	299,851	304,943
Other purchased intangibles, net	7,224	7,810
Deferred income taxes, non-current	885	2,373
Other assets	3,039	—
Total assets	\$ 599,422	\$ 604,485
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses	\$ 78,942	\$ 88,580
Deferred revenue, current	8,128	6,554
Total current liabilities	87,070	95,134
Long-term debt	162,662	155,000
Deferred income taxes, non-current	6,928	11,270
Other long-term liabilities	1,867	13,546
Total liabilities	258,527	274,950
Additional paid-in capital	320,692	319,728
Retained earnings	21,968	11,552
Accumulated other comprehensive loss	(1,765)	(1,745)
Total stockholders' equity	340,895	329,535
Total liabilities and stockholders' equity	\$ 599,422	\$ 604,485

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

The results of operations of the Unrestricted Subsidiaries for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues	\$66,819	\$52,334	\$198,661	\$147,858
Cost of revenues	5,618	5,922	16,489	15,293
Gross profit	61,201	46,412	182,172	132,565
Operating expenses:				
Sales and marketing	27,394	19,053	81,099	55,896
Research, development and engineering	2,791	1,916	8,443	5,984
General and administrative	19,200	20,172	65,724	55,070
Total operating expenses	49,385	41,141	155,266	116,950
Income from operations	11,816	5,271	26,906	15,615
Interest expense, net	4,364	2,698	12,977	8,016
Other expense (income), net	(2,468 )	430	(1,982 )	529
Income (loss) before income taxes	9,920	2,143	15,911	7,070
Income tax expense	3,223	2,224	5,495	5,421
Net income (loss)	\$6,697	\$(81 )	\$10,416	\$1,649

#### 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 September 30, 2016 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	\$ 2,339	\$ (40,811 )	\$(38,472)
Other comprehensive income (loss) before reclassifications	902	(328 )	574
Amounts reclassified from accumulated other comprehensive income	(3,151 )	—	(3,151 )
Net current period other comprehensive loss	(2,249 )	(328 )	(2,577 )
Ending balance	\$ 90	\$ (41,139 )	\$(41,049)

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the nine months ended September 30, 2016 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	\$ 2,449	\$ (31,573 )	\$(29,124)
Other comprehensive income (loss) before reclassifications	749	(9,566 )	(8,817 )
Amounts reclassified from accumulated other comprehensive income	(3,108 )	—	(3,108 )
Net current period other comprehensive loss	(2,359 )	(9,566 )	(11,925 )
Ending balance	\$ 90	\$ (41,139 )	\$(41,049)



The following table provides details about reclassifications out of accumulated other comprehensive income for the three and nine months ended September 30, 2016 (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 September 30, 2016	Nine Months Ended September 30, 2016			
	Unrealized gain on available-for-sale investments	\$(5,082)		\$ (5,013 )	Other expense (income), net
		(5,082 )		(5,013 )	Income before income taxes
	1,931	1,905	Income tax expense		
	(3,151 )	(3,108 )	Net income		
Total reclassifications for the period	\$(3,151)	\$ (3,108 )	Net income		

#### 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, LLC. j2 Cloud Services, LLC 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, LLC, those contractual provisions did not, as of June 30, 2014, meaningfully restrict j2 Cloud Services, LLC'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, LLC, (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)

September 30, 2016

BALANCE SHEET	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$46,203	\$8,433	\$ 230,927	\$—	\$ 285,563
Short-term investments	39,845	—	63	—	39,908
Accounts receivable, net	—	13,872	100,714	(5	) 114,581
Prepaid expenses and other current assets	32,347	1,846	17,015	(24,641	) 26,567
Intercompany receivable	130,000	201,099	—	(331,099	) —
Total current assets	248,395	225,250	348,719	(355,745	) 466,619
Long-term investments	53,421	—	—	—	53,421
Property and equipment, net	—	6,763	54,674	—	61,437
Trade names, net	—	10,130	108,761	—	118,891
Patent and patent licenses, net	—	637	13,804	—	14,441
Customer relationships, net	—	2,543	172,891	—	175,434
Goodwill	—	61,419	792,372	—	853,791
Other purchased intangibles, net	—	4,438	12,450	—	16,888
Investment in subsidiaries	1,062,379	723,601	(1,072	) (1,784,908	) —
Deferred income taxes, non-current	—	22,475	2,284	(20,305	) 4,454
Other assets	—	457	3,312	—	3,769
Total assets	\$1,364,195	\$1,057,713	\$ 1,508,195	\$(2,160,958)	\$ 1,769,145
<b>LIABILITIES AND STOCKHOLDERS'</b>					
<b>EQUITY</b>					
Accounts payable and accrued expenses	\$6,461	\$24,111	\$ 90,973	\$(19,715	) \$ 101,830
Income taxes payable	—	7,138	—	(4,931	) 2,207
Deferred revenue, current	—	19,977	56,282	—	76,259
Capital lease, current	—	—	191	—	191
Intercompany payable	77,121	—	253,978	(331,099	) —
Total current liabilities	83,582	51,226	401,424	(355,745	) 180,487
Long-term debt	352,858	246,402	—	—	599,260

-36-

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

Capital lease, non-current	—	—	12	—	12
Liability for uncertain tax positions	—	44,418	—	—	44,418
Deferred income taxes, non-current	29,111	—	31,169	(20,305)	39,975
Deferred revenue, non-current	—	2,354	—	—	2,354
Other long-term liabilities	1,522	581	2,342	—	4,445
Total liabilities	467,073	344,981	434,947	(376,050)	870,951
Commitments and contingencies	—	—	—	—	—
Preferred stock - Series A, \$0.01 par value	—	—	—	—	—
Preferred stock - Series B, \$0.01 par value	—	—	—	—	—
Common stock, \$0.01 par value	472	—	—	—	472
Additional paid-in capital	460,276	89,066	425,550	(670,507)	304,385
Retained earnings	436,285	623,518	688,984	(1,114,401)	634,386
Accumulated other comprehensive income (loss)	89	148	(41,286)	—	(41,049)
Total stockholders' equity	897,122	712,732	1,073,248	(1,784,908)	898,194
Total liabilities and stockholders' equity	\$1,364,195	\$1,057,713	\$1,508,195	\$(2,160,958)	\$1,769,145

-37-

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

December 31, 2015

BALANCE SHEET	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$55,516	\$9,975	\$ 190,039	\$—	\$ 255,530
Short-term investments	79,595	—	60	—	79,655
Accounts receivable, net	—	10,679	104,131	(130 )	114,680
Prepaid expenses and other current assets	6,887	8,500	14,319	(3,984 )	25,722
Deferred income taxes, current	—	3,316	4,413	(511 )	7,218
Intercompany receivable	117,000	174,127	—	(291,127 )	—
Total current assets	258,998	206,597	312,962	(295,752 )	482,805
Long-term investments	78,563	—	—	—	78,563
Property and equipment, net	—	6,557	50,885	—	57,442
Trade names, net	—	10,118	108,847	—	118,965
Patent and patent licenses, net	—	743	18,098	—	18,841
Customer relationships, net	—	1,193	196,126	—	197,319
Goodwill	—	56,296	751,365	—	807,661
Other purchased intangibles, net	—	4,218	13,298	—	17,516
Investment in subsidiaries	1,051,927	1,095,155	—	(2,147,082 )	—
Deferred income taxes, non-current	—	14,978	(14,978 )	—	—
Other assets	8,219	1,167	4,370	(9,149 )	4,607
Total assets	\$1,397,707	\$1,397,022	\$ 1,440,973	\$(2,451,983 )	\$ 1,783,719
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable and accrued expenses	\$4,573	\$27,976	\$ 81,965	\$(130 )	\$ 114,384
Income taxes payable	—	9,573	—	(3,984 )	5,589
Deferred revenue, current	—	19,530	56,574	—	76,104
Capital lease, current	—	—	214	—	214
Deferred income taxes, current	511	—	363	(511 )	363
Intercompany payable	121,263	—	169,864	(291,127 )	—
Total current liabilities	126,347	57,079	308,980	(295,752 )	196,654
Long-term debt	354,437	246,749	—	(9,149 )	592,037

-38-

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

Capital lease, non-current	—	—	148	—	148
Liability for uncertain tax positions	—	35,917	—	—	35,917
Deferred income taxes, non-current	24,936	—	19,053	—	43,989
Deferred revenue, non-current	—	4,667	1,871	—	6,538
Other long-term liabilities	1,779	683	15,766	—	18,228
Total liabilities	507,499	345,095	345,818	(304,901 )	893,511
Commitments and contingencies	—	—	—	—	—
Preferred stock - Series A, \$0.01 par value	—	—	—	—	—
Preferred stock - Series B, \$0.01 par value	—	—	—	—	—
Common stock, \$0.01 par value	479	—	—	—	479
Additional paid-in capital	292,064	238,631	524,031	(762,662 )	292,064
Retained earnings	595,216	813,058	602,935	(1,384,420 )	626,789
Accumulated other comprehensive income (loss)	2,449	238	(31,811 )	—	(29,124 )
Total stockholders' equity	890,208	1,051,927	1,095,155	(2,147,082 )	890,208
Total liabilities and stockholders' equity	\$1,397,707	\$1,397,022	\$1,440,973	\$(2,451,983)	\$1,783,719

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

Three Months Ended September 30, 2016

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	\$—	\$57,751	\$ 165,317	\$ (12,952 )	\$ 210,116
Cost of revenues	—	19,421	30,479	(12,908 )	36,992
Gross profit	—	38,330	134,838	(44 )	173,124
Operating expenses:					
Sales and marketing	—	10,166	36,303	(44 )	46,425
Research, development and engineering	—	3,097	5,868	—	8,965
General and administrative	4,667	5,793	45,152	—	55,612
Total operating expenses	4,667	19,056	87,323	(44 )	111,002
Income (loss) from operations	(4,667 )	19,274	47,515	—	62,122
Equity earnings in subsidiaries	45,662	28,224	—	(73,886 )	—
Interest expense, net	1,799	5,199	3,438	—	10,436
Other income, net	(7,500 )	(56 )	(2,162 )	—	(9,718 )
Income before income taxes	46,696	42,355	46,239	(73,886 )	61,404
Income tax expense	1,127	7,110	7,598	—	15,835
Net income	\$45,569	\$35,245	\$ 38,641	\$ (73,886 )	\$ 45,569

-40-

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

Three Months Ended September 30, 2015

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	\$—	\$ 56,753	\$ 148,648	\$ (26,700 )	\$ 178,701
Cost of revenues	(1 )	29,375	27,948	(26,653 )	30,669
Gross profit	1	27,378	120,700	(47 )	148,032
Operating expenses:					
Sales and marketing	—	9,684	29,171	(47 )	38,808
Research, development and engineering	(2 )	3,646	4,645	—	8,289
General and administrative	3,714	5,067	36,421	—	45,202
Total operating expenses	3,712	18,397	70,237	(47 )	92,299
Income (loss) from operations	(3,711 )	8,981	50,463	—	55,733
Equity earnings in subsidiaries	41,260	41,357	—	(82,617 )	—
Interest expense, net	3,293	5,179	1,787	—	10,259
Other expense (income), net	(2 )	37	1,051	—	1,086
Income before income taxes	34,258	45,122	47,625	(82,617 )	44,388
Income tax expense (benefit)	(3,117 )	3,862	6,268	—	7,013
Net income	\$37,375	\$ 41,260	\$ 41,357	\$ (82,617 )	\$ 37,375

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

Nine Months Ended September 30, 2016

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	\$—	\$180,390	\$486,962	\$(44,934)	\$622,418
Cost of revenues	—	53,902	97,767	(44,799)	106,870
Gross profit	—	126,488	389,195	(135)	515,548
Operating expenses:					
Sales and marketing	—	31,055	112,235	(135)	143,155
Research, development and engineering	—	9,316	17,849	—	27,165
General and administrative	14,417	15,694	140,712	—	170,823
Total operating expenses	14,417	56,065	270,796	(135)	341,143
Income (loss) from operations	(14,417)	70,423	118,399	—	174,405
Equity earnings in subsidiaries	118,004	76,706	—	(194,710)	—
Interest expense, net	5,262	15,624	10,085	—	30,971
Other income, net	(7,709)	(1,070)	(1,026)	—	(9,805)
Income before income taxes	106,034	132,575	109,340	(194,710)	153,239
Income tax expense (benefit)	(3,247)	24,987	22,218	—	43,958
Net income	\$109,281	\$107,588	\$87,122	\$(194,710)	\$109,281

-42-

---

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

Nine Months Ended September 30, 2015

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
<b>Revenues:</b>					
Total revenues	\$—	\$ 167,919	\$ 394,300	\$ (46,227 )	\$ 515,992
Cost of revenues	—	60,317	74,091	(46,058 )	88,350
Gross profit	—	107,602	320,209	(169 )	427,642
<b>Operating expenses:</b>					
Sales and marketing	—	29,976	87,012	(169 )	116,819
Research, development and engineering	—	11,264	14,440	—	25,704
General and administrative	11,434	20,928	106,428	—	138,790
Total operating expenses	11,434	62,168	207,880	(169 )	281,313
Income (loss) from operations	(11,434 )	45,434	112,329	—	146,329
Equity earnings in subsidiaries	113,042	91,640	—	(204,682 )	—
Interest expense, net	8,651	16,079	6,723	—	31,453
Other expense (income), net	(20 )	347	63	—	390
Income before income taxes	92,977	120,648	105,543	(204,682 )	114,486
Income tax expense (benefit)	(5,192 )	7,606	13,903	—	16,317
Net income	\$98,169	\$ 113,042	\$ 91,640	\$ (204,682 )	\$ 98,169

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

Three Months Ended September 30, 2016

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	\$45,569	\$35,245	\$38,641	\$(73,886)	\$45,569
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment	—	—	(328)	—	(328)
Change in fair value on available-for-sale investments, net of tax expense (benefit)	(2,249)	—	—	—	(2,249)
Other comprehensive income (loss), net of tax	(2,249)	—	(328)	—	(2,577)
Comprehensive income	\$43,320	\$35,245	\$38,313	\$(73,886)	\$42,992

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

Three Months Ended September 30, 2015

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	\$37,375	\$41,260	\$41,357	\$(82,617)	\$37,375
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment, net of tax	—	—	(4,652)	—	(4,652)
Change in fair value on available-for-sale investments, net of tax expense (benefit)	(1,057)	—	—	—	(1,057)
Other comprehensive income (loss), net of tax	(1,057)	—	(4,652)	—	(5,709)
Comprehensive income	\$36,318	\$41,260	\$36,705	\$(82,617)	\$31,666

-45-

---

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

Nine Months Ended September 30, 2016

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	\$109,281	\$107,588	\$87,122	\$(194,710)	\$109,281
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment, net of tax	—	—	(9,566)	—	(9,566)
Change in fair value on available-for-sale investments, net of tax expense (benefit)	(2,359)	—	—	—	(2,359)
Other comprehensive income (loss), net of tax	(2,359)	—	(9,566)	—	(11,925)
Comprehensive income	\$106,922	\$107,588	\$77,556	\$(194,710)	\$97,356

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

Nine Months Ended September 30, 2015

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	\$98,169	\$113,042	\$ 91,640	\$ (204,682 )	\$ 98,169
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment, net of tax	—	—	(12,777 )	—	(12,777 )
Change in fair value on available-for-sale investments, net of tax expense (benefit)	(4,611 )	—	—	—	(4,611 )
Other comprehensive income (loss), net of tax	(4,611 )	—	(12,777 )	—	(17,388 )
Comprehensive income	\$93,558	\$113,042	\$ 78,863	\$ (204,682 )	\$ 80,781

j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW  
 (Unaudited, in thousands except share and per share data)  
 Nine Months Ended September 30, 2016

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net cash (used in) provided by operating activities	\$(4,416 )	\$35,756	\$ 161,200	\$	—\$ 192,540
Cash flows from investing activities:					
Maturity of available-for-sale investments	145,005	—	—	—	145,005
Purchase of available-for-sale investments	(75,834 )	—	—	—	(75,834 )
Purchases of property and equipment	—	(2,458 )	(14,989 )	—	(17,447 )
Acquisition of businesses, net of cash received	—	(6,292 )	(85,109 )	—	(91,401 )
Purchases of intangible assets	—	(106 )	(1,908 )	—	(2,014 )
Net cash (used in) provided by investing activities	69,171	(8,856 )	(102,006 )	—	(41,691 )
Cash flows from financing activities:					
Repurchases of common and restricted stock	(56,083 )	—	—	—	(56,083 )
Issuance of common stock under employee stock purchase plan	191	—	—	—	191
Exercise of stock options	3,272	—	—	—	3,272
Dividends paid	(48,768 )	—	—	—	(48,768 )
Excess tax benefits from share-based compensation	2,071	—	—	—	2,071
Deferred payments for acquisitions	—	(1,378 )	(17,561 )	—	(18,939 )
Other	—	—	(391 )	—	(391 )
Intercompany	25,463	(26,973 )	1,510	—	—
Net cash used in financing activities	(73,854 )	(28,351 )	(16,442 )	—	(118,647 )
Effect of exchange rate changes on cash and cash equivalents	(214 )	(91 )	(1,864 )	—	(2,169 )
Net change in cash and cash equivalents	(9,313 )	(1,542 )	40,888	—	30,033
Cash and cash equivalents at beginning of period	55,516	9,975	190,039	—	255,530
Cash and cash equivalents at end of period	\$46,203	\$8,433	\$ 230,927	\$	—\$ 285,563

j2 GLOBAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW  
 (Unaudited, in thousands except share and per share data)  
 Nine Months Ended September 30, 2015

	j2 Global, Inc.	j2 Cloud Services, LLC	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net cash (used in) provided by operating activities	\$(21,341 )	\$34,297	\$ 135,617	\$	—\$ 148,573
Cash flows from investing activities:					
Maturity of certificates of deposit	65	—	—	—	65
Purchase of certificates of deposit	(62 )	—	—	—	(62 )
Maturity of available-for-sale investments	87,976	—	—	—	87,976
Purchase of available-for-sale investments	(78,281 )	—	—	—	(78,281 )
Purchases of property and equipment	—	(1,355 )	(10,572 )	—	(11,927 )
Acquisition of businesses, net of cash received	—	47	(259,885 )	—	(259,838 )
Purchases of intangible assets	—	166	(1,424 )	—	(1,258 )
Intercompany	(53,317 )	53,317	—	—	—
Net cash (used in) provided by investing activities	(43,619 )	52,175	(271,881 )	—	(263,325 )
Cash flows from financing activities:					
Repurchases of common stock and restricted stock	(3,159 )	—	—	—	(3,159 )
Issuance of common stock under employee stock purchase plan	196	—	—	—	196
Exercise of stock options	4,618	—	—	—	4,618
Dividends paid	(43,526 )	—	—	—	(43,526 )
Excess tax benefits from share-based compensation	4,541	—	—	—	4,541
Deferred payments for acquisitions	—	—	(5,411 )	—	(5,411 )
Other	—	—	(250 )	—	(250 )
Intercompany	(13,713 )	(103,533)	117,246	—	—
Net cash (used in) provided by financing activities	(51,043 )	(103,533)	111,585	—	(42,991 )
Effect of exchange rate changes on cash and cash equivalents	(1,233 )	(7,895 )	5,576	—	(3,552 )
Net change in cash and cash equivalents	(117,236 )	(24,956 )	(19,103 )	—	(161,295 )
Cash and cash equivalents at beginning of period	226,790	36,810	170,063	—	433,663
Cash and cash equivalents at end of period	\$109,554	\$11,854	\$ 150,960	\$	—\$ 272,368

17. Subsequent Events

On October 18, 2016, in a cash transaction, the Company acquired certain assets of Fonebox Australia Pty Ltd., an Australian-based provider of voice, call routing and virtual receptionist business.

On November 1, 2016, the Company's Board of Directors approved a quarterly cash dividend of \$0.3550 per share of j2 Global common stock payable on December 5, 2016 to all stockholders of record as of the close of business on November 18, 2016.

On October 21, 2016, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among Everyday Health, Inc. ("EVDY"), Ziff Davis, LLC, a subsidiary of j2 Global ("Ziff Davis"), Project Echo Acquisition Corp, a wholly owned subsidiary of Ziff Davis ("Purchaser"), and, for the limited purposes therein, j2 Global. Pursuant to the Merger Agreement, upon the terms and subject to the conditions thereof, the Company and two of its affiliates commenced a tender offer on November 2, 2016 to acquire all of the outstanding shares of common stock of EVDY, \$0.01 par value per share, at a purchase price of approximately \$465.0 million (net of cash acquired and assumed liabilities) or \$10.50 per share in cash, without interest, subject to any required withholding of taxes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Forward-Looking Information

In addition to historical information, we have also made forward-looking statements in this report. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed below, the risk factors discussed in Part II, Item 1A - "Risk Factors" of this Quarterly Report on Form 10-Q (if any) and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 (together, the "Risk Factors"), and the factors discussed in the section in this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures About Market Risk." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

Some factors that could cause actual results to differ materially from those anticipated in these forward-looking statements include, but are not limited to, our ability and intention to:

- Sustain growth or profitability, particularly in light of an uncertain U.S. or worldwide economy and the related impact on customer acquisition and retention rates, customer usage levels and credit and debit card payment declines;
- Maintain and increase our Cloud Services customer base and average revenue per user;
- Generate sufficient cash flow to make interest and debt payments and reinvest in our business, and pursue desired activities and businesses plans while satisfying restrictive covenants relating to debt obligations;
- Acquire businesses on acceptable terms and successfully integrate and realize anticipated synergies from such acquisitions;
- Continue to expand our businesses and operations internationally in the wake of numerous risks, including adverse currency fluctuations, difficulty in staffing and managing international operations, higher operating costs as a percentage of revenues or the implementation of adverse regulations;
- Maintain our financial position, operating results and cash flows in the event that we incur new or unanticipated costs or tax liabilities, including those relating to federal and state income tax and indirect taxes, such as sales, value-added and telecommunication taxes;
- Accurately estimate the assumptions underlying our effective worldwide tax rate;
- Continue to pay a comparable cash dividend on a quarterly basis;
- Maintain favorable relationships with critical third-party vendors whose financial condition will not negatively impact the services they provide;
- Create compelling digital media content causing increased traffic and advertising levels; additional advertisers or an increase in advertising spend; and effectively target digital media advertisements to desired audiences;
- Manage certain risks inherent to our business, such as costs associated with fraudulent activity, system failure or network security breach; effectively maintaining and managing our billing systems; time and resources required to manage our legal proceedings; or adhering to our internal controls and procedures;
- Compete with other similar providers with regard to price, service and functionality;
- Cost-effectively procure, retain and deploy large quantities of telephone numbers in desired locations in the United States and abroad;
- Achieve business and financial objectives in light of burdensome domestic and international telecommunications, Internet or other regulations including data privacy, security and retention;

Successfully manage our growth, including but not limited to our operational and personnel-related resources, and integration of newly acquired businesses;

-51-

---

Successfully adapt to technological changes and diversify services and related revenues at acceptable levels of financial return;

Successfully develop and protect our intellectual property, both domestically and internationally, including our brands, patents, trademarks and domain names, and avoid infringing upon the proprietary rights of others; and

Recruit and retain key personnel.

In addition, our financial results could be materially impacted by risks associated with new accounting pronouncements.

#### Overview

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

Our Business Cloud Services Division generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media Division generates revenues from advertising, performance marketing and licensing fees.

In addition to growing our businesses organically, on a regular basis, we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technology and acquire skilled personnel.

Our consolidated revenues are currently generated from three basic business models, each with different financial profiles and variability. Our Business Cloud Services Division is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter-to-quarter with some seasonal weakness in the fourth quarter. The Business Cloud Services Division also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period-to-period. Our Digital Media Division is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.

j2 Global was incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Business Cloud Services segment, operated by our wholly-owned subsidiary, j2 Cloud Services, LLC (formerly j2 Cloud Services, Inc.), and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Business Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments is included within Note 13 - Segment Information of the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

## Business Cloud Services Segment Performance Metrics

The following table sets forth certain key operating metrics for our Business Cloud Services segment as of and for the three and nine months ended September 30, 2016 and 2015 (in thousands, except for percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2016	2015	2016	2015	
Subscriber revenues:					
Fixed	\$117,816	\$103,957	\$350,511	\$302,491	
Variable	24,396	21,364	70,005	62,419	
Total subscriber revenues	\$142,212	\$125,321	\$420,516	\$364,910	
Other license revenues	1,130	1,115	3,425	4,775	
Total revenues	\$143,342	\$126,436	\$423,941	\$369,685	
Percentage of total subscriber revenues:					
Fixed	82.8	% 83.0	% 83.4	% 82.9	%
Variable	17.2	% 17.0	% 16.6	% 17.1	%
Total revenues:					
Number-based	\$92,396	\$89,257	\$274,955	\$263,979	
Non-number-based	50,946	37,179	148,986	105,706	
Total revenues	\$143,342	\$126,436	\$423,941	\$369,685	
Average monthly revenue per Cloud Business Customer (ARPU) (1)(2)	\$15.28	\$14.06			
Cancel Rate <sup>(3)</sup>	2.3	% 2.0	%		

(1) Quarterly ARPU is calculated using our standard convention of applying the average of the quarter's beginning and ending base to the total revenue for the quarter. We believe ARPU provides investors an understanding of the average monthly revenues we recognize associated with each Cloud Business Customer. As ARPU varies based on fixed subscription fee and variable usage components, we believe it can serve as a measure by which investors can evaluate trends in the types of services, levels of services and the usage levels of those services across our Cloud Business Customer base.

(2) Cloud Business Customers is defined as paying direct inward dialing numbers for fax and voice services, and direct and resellers' accounts for other services.

Cancel Rate is defined as cancels of small and medium business and individual Cloud Business Customers with greater than four months of continuous service (continuous service includes Cloud Business Customers administratively canceled and reactivated within the same calendar month), and enterprise Cloud Business Customers beginning with their first day of service. Calculated monthly and expressed as an average over the three months of the quarter.

## Digital Media Segment Performance Metrics

The following table sets forth certain key operating metrics for our Digital Media segment for the three and nine months ended September 30, 2016 and 2015 (in millions):

Edgar Filing: J2 GLOBAL, INC. - Form 10-Q

	Three Months Ended September 30, 2016	2015	2016	2015
Visits	1,448	1,022	3,705	2,910
Page views	5,405	2,570	13,258	7,188

Sources: Google Analytics and Partner Platforms

## Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions. Our critical accounting policies are described in our 2015 Annual Report on Form 10-K filed with the SEC on February 29, 2016. During the three months ended September 30, 2016, there were no significant changes in our critical accounting policies and estimates.

### Results of Operations for the Three and Nine Months Ended September 30, 2016

#### Business Cloud Services Segment

Assuming a stable or improving economic environment, and subject to our risk factors, we expect the revenue and profits as included in the results of operations below in our Business Cloud Services segment to continue for the foreseeable future (excluding the impact of acquisitions). The main focus of our Business Cloud Services offerings is to reduce or eliminate costs, increase sales and enhance productivity, mobility, business continuity and security of our customers as the technologies and devices they use evolve over time. As a result, we expect to continue to take steps to enhance our existing offerings and offer new services to continue to satisfy the evolving needs of our customers. Through our IP licensing operations, which are included in the Business Cloud Services segment, we seek to make our IP available for license to third parties, and we expect to continue to attempt to obtain additional IP through a combination of acquisitions and internal development in an effort to increase available licensing opportunities and related revenues.

We expect acquisitions to remain an important component of our strategy and use of capital in this segment; however, we cannot predict whether our current pace of acquisitions will remain the same within this segment. In a given period, we may close greater or fewer acquisitions than in prior periods or acquisitions of greater or lesser significance than in prior periods. Moreover, future acquisitions of businesses within this segment but with different business models may impact the segment's overall profit margins. Also, as IP licensing often involves litigation, the timing of licensing transactions is unpredictable and can and does vary significantly from period-to-period. This variability can cause the overall segment's financial results to materially vary from period-to-period.

#### Digital Media Segment

Assuming a stable or improving economic environment, and subject to our risk factors, we expect the revenue and profits in our Digital Media segment to improve over the next several quarters and over the longer term as advertising transactions continue to shift from offline to online.

Advertising revenues from our owned and operated websites has generally exceeded that from third-party websites. Historically, this has had a positive impact on our operating margins. The operating margin we realize on revenues generated from ads placed on our owned and operated websites is higher than the operating margin we realize from revenues generated from third-party websites or other platforms that we do not own.

Trends in advertising spend favors mobile devices and other newer content platforms, such as Snapchat and Facebook. In order to provide relevant and useful experiences for the visitors to our properties, we have taken steps to develop a presence on these third-party content platforms. If revenue from these platforms becomes a significant percentage of our consolidated revenue, there will be pressure on our operating margins.

In addition, as described in Note 17 of the Notes to the Condensed Consolidated Financial Statements, the Company and two of its affiliates commenced a tender offer to acquire all of the outstanding shares of common stock of Everyday Health, Inc. ("EVDY"). If the tender offer is successful and the merger of an affiliate of the Company with and into EVDY is completed, the revenues and expenses in our Digital Media division will increase significantly. There can be no assurances that the tender offer will be successful or that the merger will be completed.

We expect acquisitions to remain an important component of our strategy and use of capital in this segment; however, we cannot predict whether our current pace of acquisitions will remain the same within this segment. In a given period, we may close greater or fewer acquisitions than in prior periods or acquisitions of greater or lesser significance than in prior periods. Moreover, future acquisitions of businesses within this segment but with different business

models may impact the segment's overall profit margins.

-54-

---

## j2 Global Consolidated

We anticipate that the stable revenue trend in our Business Cloud Services segment combined with the improving revenue and profits in our Digital Media segment will result in overall improved revenue and profits for j2 Global on a consolidated basis, excluding the impact of any future acquisitions and revenues associated with licensing our IP which can vary dramatically from period-to-period.

## Revenues

(in thousands, except percentages)	Three Months		Percentage Change	Nine Months		Percentage Change
	Ended September 30,			Ended September 30,		
	2016	2015		2016	2015	
Revenues	\$210,116	\$178,701	18%	\$622,418	\$515,992	21%

Our revenues consist of revenues from our Business Cloud Services segment and from our Digital Media segment. Business Cloud Services revenues primarily consist of revenues from "fixed" customer subscription revenues and "variable" revenues generated from actual usage of our services. We also generate Business Cloud Services revenues from IP licensing. Digital Media revenues primarily consist of advertising revenues, fees paid for generating business leads, and licensing and sale of editorial content and trademarks.

Our revenues in 2016 have increased over the comparable three and nine month period of 2015 primarily due to a combination of acquisitions and organic growth within both the Digital Media and Business Cloud Services segments.

## Cost of Revenues

(in thousands, except percentages)	Three Months		Percentage Change	Nine Months		Percentage Change
	Ended September 30,			Ended September 30,		
	2016	2015		2016	2015	
Cost of revenue	\$36,992	\$30,669	21%	\$106,870	\$88,350	21%
As a percent of revenue	18%	17%		17%	17%	

Cost of revenues is primarily comprised of costs associated with data and voice transmission, numbers, network operations, customer service, editorial and production costs, online processing fees and equipment depreciation. The increase in cost of revenues for the three and nine months ended September 30, 2016 was primarily due to an increase in costs associated with businesses acquired in and subsequent to the third quarter 2015 that resulted in additional network and phone operations, editorial and production costs and depreciation.

## Operating Expenses

## Sales and Marketing.

(in thousands, except percentages)	Three Months		Percentage Change	Nine Months		Percentage Change
	Ended September 30,			Ended September 30,		
	2016	2015		2016	2015	
Sales and Marketing	\$46,425	\$38,808	20%	\$143,155	\$116,819	23%
As a percent of revenue	22%	22%		23%	23%	

Our sales and marketing costs consist primarily of Internet-based advertising, sales and marketing, personnel costs and other business development-related expenses. Our Internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Advertising cost for the three months ended September 30, 2016 was \$23.1 million (primarily consists of \$15.5 million of third-party advertising costs and \$6.2 million of personnel costs) compared to 2015 of \$15.5 million (primarily consists of \$9.8 million third-party advertising costs and \$5.5 million personnel costs). Advertising cost for the nine months ended September 30, 2016 was \$69.2 million (primarily consists of \$46.6 million of third-party advertising costs and \$18.0 million of personnel costs) compared to 2015 of \$47.9 million (primarily consists of \$31.4 million third-party advertising costs and \$16.5 million personnel costs). The increase in sales and marketing expenses for the three and nine months ended September 30, 2016

-55-

---

versus the prior comparable period was primarily due to increased personnel costs and advertising associated with acquisitions within the Business Cloud Services and Digital Media segments, most notably Offers.com, which was acquired in December 2015.

#### Research, Development and Engineering.

(in thousands, except percentages)	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2016	2015		2016	2015	
Research, Development and Engineering	\$8,965	\$8,289	8%	\$27,165	\$25,704	6%
As a percent of revenue	4%	5%		4%	5%	

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs for the three and nine months ended September 30, 2016 versus the prior comparable period was primarily due to additional personnel costs associated with acquisitions within the Business Cloud Services and Digital Media segments and additional expenses for professional services.

#### General and Administrative.

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2016	2015		2016	2015	
General and Administrative	\$55,612	\$45,202	23%	\$170,823	\$138,790	23%
As a percent of revenue	26%	25%		27%	27%	

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, changes in the fair value associated with contingent consideration, share-based compensation expense, bad debt expense, professional fees, taxes and insurance costs. The increase in general and administrative expense for the three and nine months ended September 30, 2016 versus the prior comparable period was primarily due to additional amortization of intangible assets, personnel costs relating to businesses acquired in and subsequent to the third quarter 2015, bad debt expense and depreciation of fixed assets.

#### Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of revenues	\$116	\$99	\$314	\$273
Operating expenses:				
Sales and marketing	423	624	1,388	1,811
Research, development and engineering	235	227	663	635
General and administrative	2,925	1,820	7,582	6,224
Total	\$3,699	\$2,770	\$9,947	\$8,943

#### Non-Operating Income and Expenses

Interest expense, net. Our interest expense, net is generated primarily from interest expense due to outstanding debt; partially offset by interest income earned on cash, cash equivalents and short and long-term investments. Interest expense, net was \$10.4 million and \$10.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$31.0 million and \$31.5 million for the nine months ended September 30, 2016 and 2015, respectively. Interest expense, net has remained consistent with the prior comparable periods.

-56-

---

Other expense (income), net. Our other expense (income), net is generated primarily from miscellaneous items and gain or losses on currency exchange and sale of investments. Other expense (income), net was \$(9.7) million and \$1.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$(9.8) million and \$0.4 million for the nine months ended September 30, 2016 and 2015, respectively. The variance between the three and nine months ended September 30, 2016 and 2015 was attributable to the sale of our strategic investment in Carbonite resulting in a gain on sale of \$7.5 million and \$7.6 million, respectively, and a breakup fee of \$2.5 million associated with the competitive bid for Gawker Media Group during the quarter.

#### Income Taxes

Our effective tax rate is based on pre-tax income, statutory tax rates, tax regulations (including those related to transfer pricing) and different tax rates in the various jurisdictions in which we operate. The tax bases of our assets and liabilities reflect our best estimate of the tax benefits and costs we expect to realize. When necessary, we establish valuation allowances to reduce our deferred tax assets to an amount that will more likely than not be realized.

Provision for income taxes amounted to \$15.8 million and \$7.0 million for the three months ended September 30, 2016 and 2015, respectively and \$44.0 million and \$16.3 million for the nine months ended September 30, 2016, respectively. Our effective tax rate was 25.8% and 15.8% for the three months ended September 30, 2016 and 2015, respectively and 28.7% and 14.3% for the nine months ended September 30, 2016 and 2015, respectively.

The increase in our effective income tax rate for the three months and nine months ended September 30, 2016 was primarily attributable to the following:

1. a decrease during 2016 in the portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.;
2. a decrease during 2016 in return to provision adjustments;
3. a reversal of uncertain tax positions resulting from a 2015 settlement with the Internal Revenue Service for our 2009 through 2011 tax years; and
4. an increase in the year-over-year amount accrued for our uncertain tax positions related to international transfer pricing and other foreign tax positions.

Significant judgment is required in determining our provision for income taxes and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. Certain of these tax positions have in the past been, and are currently being, challenged, and this may have a significant impact on our effective tax rate if our tax reserves are insufficient.

#### Segment Results

Our business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. Our reportable business segments are: (i) Business Cloud Services; and (ii) Digital Media.

We evaluate the performance of our operating segments based on segment revenues, including both external and inter-segment net sales, and segment operating income. We account for inter-segment sales and transfers based primarily on standard costs with reasonable mark-ups established between the segments. Identifiable assets by segment are those assets used in the respective reportable segment's operations. Corporate assets consist of cash and cash equivalents, deferred income taxes and certain other assets. All significant inter-segment amounts are eliminated

to arrive at our consolidated financial results.

-57-

---

## Revenues

The following table presents our revenues by source as a percentage of total revenues for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Business Cloud Services revenues:				
Fax and Voice	44.1 %	50.1 %	44.3 %	51.4 %
Other	24.1 %	20.7 %	23.8 %	20.2 %
Total Business Cloud Services revenues:	68.2 %	70.8 %	68.1 %	71.6 %
Digital Media revenues:				
Media	31.8 %	29.2 %	31.9 %	28.4 %
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %

## Business Cloud Services

The following segment results are presented for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
External net sales	\$143,342	\$126,436	\$423,941	\$369,685
Inter-segment net sales	—	—	—	—
Segment net sales	143,342	126,436	423,941	369,685
Cost of revenues	31,377	24,748	90,389	73,057
Gross profit	111,965	101,688	333,552	296,628
Operating expenses	59,108	44,869	177,944	140,461
Segment operating income	\$52,857	\$56,819	\$155,608	\$156,167

Segment net sales of \$143.3 million for the three months ended September 30, 2016 increased \$16.9 million, or 13.4%, and segment net sales of \$423.9 million for the nine months ended September 30, 2016 increased \$54.3 million, or 14.7%, from the prior comparable periods primarily due to business acquisitions.

Segment gross profit of \$112.0 million for the three months ended September 30, 2016 increased \$10.3 million and segment gross profit of \$333.6 million for the nine months ended September 30, 2016 increased \$36.9 million from the prior comparable periods primarily due to business acquisitions.

Segment operating expenses of \$59.1 million for the three months ended September 30, 2016 increased \$14.2 million and segment operating expenses of \$177.9 million for the nine months ended September 30, 2016 increased \$37.5 million from the prior comparable periods primarily due to (a) additional amortization of intangible assets and salary costs associated with businesses acquired in and subsequent to the prior comparable period; (b) additional bad debt expense; and (c) an increase in professional fees. As a result of these factors, segment operating income of \$52.9 million for the three months ended September 30, 2016 decreased \$(4.0) million, or (7.0)%, and segment operating income of \$155.6 million for the nine months ended September 30, 2016 decreased \$(0.6) million, or (0.4)% from the prior comparable periods. Our Business Cloud Services segment consists of several services which have similar economic characteristics, including the nature of the services and their production processes, the type of customers, as well as the methods used to distribute these services.

We group these services into three main categories based on the similarities of these services: Cloud Connect, Other Cloud Services and Intellectual Property. Cloud Connect consists of our Fax and Voice services and Other Cloud Services consist of Backup, Email Security, Email Marketing and Web Hosting.

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>
Cloud Connect (Fax/Voice)	\$92,599	\$ 5,950	\$43,503	\$275,700	\$ 19,096	\$126,598
Cloud Services	49,624	12,826	10,350	144,853	35,327	31,974
Intellectual Property	1,119	1,442	(996 )	3,388	4,548	(2,964 )
Total	\$143,342	\$ 20,218	\$52,857	\$423,941	\$ 58,971	\$155,608
	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>	Revenue	Depreciation and Amortization	Operating Income <sup>(4)</sup>
Cloud Connect (Fax/Voice)	\$89,511	\$ 5,309	\$48,346	\$264,987	\$ 16,287	\$136,909
Cloud Services	35,819	6,030	9,459	100,050	19,810	21,808
Intellectual Property	1,106	1,622	(986 )	4,648	5,636	(2,550 )
Total	\$126,436	\$ 12,961	\$56,819	\$369,685	\$ 41,733	\$156,167

<sup>(4)</sup> During 2016, the Company determined certain personnel and third-party costs were directly attributable to a particular segment. As a result, these costs were no longer classified as Global operating costs in 2016. If such costs in the prior period were classified consistent with the 2016 presentation, the operating income for Cloud Connect and Other Cloud Services would have been \$46.2 million and \$7.9 million, respectively, for the three months ended September 30, 2015 and \$125.3 million and \$17.1 million, respectively, for the nine months ended September 30, 2015.

## Digital Media

The following segment results are presented for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
External net sales	\$66,774	\$52,265	\$198,477	\$146,307
Inter-segment net sales	45	47	136	169
Segment net sales	66,819	52,312	198,613	146,476
Cost of revenues	5,615	5,922	16,482	15,293
Gross profit	61,204	46,390	182,131	131,183
Operating expenses	47,272	39,048	148,916	109,752
Segment operating income	\$13,932	\$7,342	\$33,215	\$21,431

Segment net sales of \$66.8 million for the three months ended September 30, 2016 increased \$14.5 million, or 27.7%, and segment net sales of \$198.5 million for the nine months ended September 30, 2016 increased \$52.1 million, or 35.6%, from the prior comparable periods primarily due to organic growth supplemented by business acquisitions subsequent to the prior comparable periods which are not fully reflected in the prior comparable period results.

Segment gross profit of \$61.2 million for the three months ended September 30, 2016 increased \$14.8 million and segment gross profit of \$182.1 million for the nine months ended September 30, 2016 increased \$50.9 million from the prior comparable periods primarily due to an increase in net sales between the periods.

Segment operating expenses of \$47.3 million for the three months ended September 30, 2016 increased \$8.2 million and segment operating expenses of \$148.9 million for the nine months ended September 30, 2016 increased \$39.2 million from the prior comparable periods primarily due to business acquisitions subsequent to the prior comparable period.

As a result of these factors, segment operating income of \$13.9 million for the three months ended September 30, 2016 increased \$6.6 million or 89.8% and segment operating income of \$33.2 million for the nine months ended September 30, 2016 increased \$11.8 million or 55.0% from the prior comparable periods.

## Liquidity and Capital Resources

### Cash and Cash Equivalents and Investments

At September 30, 2016, we had cash and investments of \$378.9 million compared to \$413.7 million at December 31, 2015. The decrease in cash and investments resulted primarily from business acquisitions, dividends and interest paid, and repurchase of stock, partially offset by cash provided by operations. At September 30, 2016, cash and investments consisted of cash and cash equivalents of \$285.6 million, short-term investments of \$39.9 million and long-term investments of \$53.4 million. Our investments are comprised primarily of readily marketable corporate and governmental debt securities, money-market accounts and time deposits. For financial statement presentation, we classify our investments primarily as available-for-sale; thus, they are reported as short and long-term based upon their maturity dates. Short-term investments mature within one year of the date of the financial statements and long-term investments mature one year or more from the date of the financial statements. Short-term investments include restricted balances which the Company may not liquidate until maturity, generally within 12 months. Restricted balances included in short-term investments were \$0.1 million at September 30, 2016. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of September 30, 2016, cash and investments held within foreign and domestic jurisdictions were \$183.4 million and \$195.5 million, respectively. If we were to repatriate funds held within foreign jurisdictions, we would incur U.S. income tax on the repatriated amount at the federal statutory rate of 35% and the state statutory rate where applicable, net of a credit for foreign taxes paid on such amounts.

On February 10, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.3250 per share of j2 Global common stock payable on March 10, 2016 to all stockholders of record as of the close of business on February 23, 2016. On May 5, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.3350 per share of j2 Global common stock payable on June 2, 2016 to all stockholders of record as of the close of business on May 18, 2016. On August 2, 2016, the Company's Board of Directors approved a quarterly cash dividend of \$0.3450 per share of j2 Global common stock payable on September 1, 2016 to all stockholders of record as of the close of business on August 17, 2016.

On October 21, 2016, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among Everyday Health, Inc. ("EVDY"), Ziff Davis, LLC, a subsidiary of j2 Global ("Ziff Davis"), Project Echo Acquisition Corp, a wholly owned subsidiary of Ziff Davis ("Purchaser"), and, for the limited purposes therein, j2 Global. Pursuant to the Merger Agreement, upon the terms and subject to the conditions thereof, the Company and two of its affiliates commenced a tender offer on November 2, 2016 to acquire all of the outstanding shares of common stock of EVDY, \$0.01 par value per share, at a purchase price of approximately \$465.0 million (net of cash acquired and assumed liabilities) or \$10.50 per share in cash, without interest, subject to any required withholding of taxes.

The Company intends to finance a portion of the merger consideration with additional indebtedness and will temporarily access earnings of its non-US subsidiaries that have been indefinitely reinvested in foreign jurisdictions. The Company has borrowed from time to time funds domestically and believes that it has the ability in the short term to borrow sufficient funds to repay its non-U.S. subsidiaries. While j2 Global has received commitments from certain financial institutions for additional debt facilities, j2 Global is in the process of negotiating and expects to secure commitments for a larger credit facility. There can be no assurances that we will be able to consummate such financing. j2 Global anticipates that the debt commitments for such facility will be subject to customary conditions. The Company's practice and intent is to continue to reinvest the earnings of its non-U.S. subsidiaries in those operations. The Company may have a higher effective tax rate if domestic financing is not available. It is not practical to estimate additional U.S. taxes should domestic financing be unavailable.

We currently anticipate that our existing cash and cash equivalents and short-term investment balances and cash generated from operations and the additional debt facilities described above will be sufficient to meet our anticipated needs for working capital, capital expenditure, stock repurchases and cash dividends for at least the next 12 months.

## Cash Flows

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents and short-term investments. Net cash provided by operating activities was \$192.5 million and \$148.6 million for the nine months ended September 30, 2016 and 2015, respectively. Our operating cash flows resulted primarily from cash received from our customers offset by cash payments we made to third parties for their services, employee compensation and interest payments associated with our debt. The increase in our net cash provided by operating activities in 2016 compared to 2015 was primarily attributable to increased depreciation and amortization, increased liability for uncertain tax positions and income tax payable; partially offset by a decrease in other long-term liabilities. Certain taxes are prepaid during the year and are included within prepaid expenses and other current assets on the condensed consolidated balance sheet. Our prepaid taxes were \$11.6 million and \$11.6 million at September 30, 2016 and December 31, 2015, respectively. Our cash and cash equivalents and short-term investments were \$325.5 million and \$335.2 million at September 30, 2016 and December 31, 2015, respectively.

Net cash used in investing activities was \$(41.7) million and \$(263.3) million for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, net cash used in investing activities was primarily attributable to business acquisitions, the purchase of available-for-sale investments, property and equipment and intangible assets; partially offset by the maturity of available-for-sale investments. For the nine months ended September 30, 2015, net cash used in investing activities was primarily attributable to business acquisitions, the purchase of available-for-sale investments, property and equipment and intangible assets; partially offset by the sale of available-for-sale investments. The decrease in our net cash used in investing activities in 2016 compared to 2015 was primarily attributable to lower business acquisitions and additional sales of available-for-sale investments.

Net cash used in financing activities was \$(118.6) million and \$(43.0) million for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, net cash used in financing activities was primarily attributable to repurchases of stock which includes the acquisition of Integrated Global Concepts, Inc., which held shares of j2 Global common stock (discussed below), dividends paid, and business acquisitions; partially offset by the exercise of stock options and excess tax benefit from share-based compensation. For the nine months ended September 30, 2015, net cash used in financing activities was primarily attributable to dividends paid, business acquisition and repurchase of stock; partially offset by the exercise of stock options and excess tax benefit from share-based compensation. The change in net cash used in financing activities in 2016 compared to 2015 was primarily attributable to the repurchase of stock, additional deferred payments for acquisitions and dividends paid.

## 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 20, 2017. During the nine month period ended September 30, 2016, we repurchased zero shares under this program. Cumulatively at September 30, 2016, 2.1 million shares were repurchased at an aggregate cost of \$58.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (See Note 3 - Business Acquisitions). As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program.



## Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of September 30, 2016:

Contractual Obligations	Payments Due in						Total
	(in thousands)						
	2016	2017	2018	2019	2020	Thereafter	
Long-term debt - principal (a)	\$—	\$—	\$—	\$—	\$250,000	\$402,500	\$652,500
Long-term debt - interest (b)	6,541	33,081	33,081	33,081	32,803	6,541	145,128
Operating leases (c)	2,525	9,746	9,489	8,071	4,985	13,488	48,304
Capital leases (d)	53	140	9	—	—	—	202
Telecom services and co-location facilities (e)	1,313	4,017	2,006	322	44	—	7,702
Holdback payment (f)	14,111	2,878	—	—	—	—	16,989
Other (g)	185	42	—	—	—	—	227
Total	\$24,728	\$49,904	\$44,585	\$41,474	\$287,832	\$422,529	\$871,052

(a) These amounts represent principal on long-term debt.

(b) These amounts represent interest on long-term debt.

(c) These amounts represent undiscounted future minimum rental commitments under noncancellable operating leases.

(d) These amounts represent undiscounted future minimum rental commitments under noncancellable capital leases.

(e) These amounts represent service commitments to various telecommunication providers.

(f) These amounts represent the holdback amounts in connection with certain business acquisitions.

(g) These amounts represent certain consulting and Board of Directors fee arrangements, software license commitments and others.

As of September 30, 2016, our liability for uncertain tax positions was \$44.4 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with such authorities.

We have not presented the contingent consideration in the table above due to the uncertainty of the amounts and the timing of cash settlements.

## Off-Balance Sheet Arrangements

We are not party to any material off-balance sheet arrangements.

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

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. j2 Global undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this document and in the other documents incorporated by reference herein, including our Annual Report on Form 10-K for the year ended December 31, 2015 as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2016.

#### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We maintain an investment portfolio of various holdings, types and maturities. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of September 30, 2016, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

Our short and long-term investments are comprised primarily of readily marketable corporate and governmental debt securities, corporate commercial paper, time deposits and certificates of deposits. Investments in fixed rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. Our interest income is sensitive to changes in the general level of U.S. and foreign countries' interest rates. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates.

As of September 30, 2016, we had investments in debt securities with effective maturities greater than one year of approximately \$53.4 million. Such investments had a weighted average yield of approximately 1.2%. As of September 30, 2016 and December 31, 2015, we had cash and cash equivalent investments primarily in money market funds with maturities of 90 days or less of \$285.6 million and \$255.5 million, respectively.

Based on our cash and cash equivalents and short and long-term investment holdings as of September 30, 2016, an immediate 100 basis point decline in interest rates would decrease our annual interest income by approximately \$3.8 million.

We cannot ensure that future interest rate movements will not have a material adverse effect on our future business, prospects, financial condition, operating results and cash flows. To date, we have not entered into interest rate hedging transactions to control or minimize certain of these risks.

#### Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada, Australia and the European Union. Our principal exposure to foreign currency risk relates to investment and inter-company debt in foreign subsidiaries that transact business in functional currencies other than the U.S. Dollar, primarily the Australian Dollar, the Canadian Dollar, the Euro, the Hong Kong Dollar, the Japanese Yen, the New Zealand Dollar, the Norwegian Kroner and the British Pound

Sterling. If we are unable to settle our short-term inter-company debts in a timely manner, we remain exposed to foreign currency fluctuations.

As we expand our international presence, we become further exposed to foreign currency risk by entering new markets with additional foreign currencies. The economic impact of currency exchange rate movements is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

As currency exchange rates change, translation of the income statements of the international businesses into U.S. Dollars affects year-over-year comparability of operating results, the impact of which is immaterial to the comparisons set forth in this Quarterly Report on Form 10-Q.

Historically, we have not hedged translation risks because cash flows from international operations were generally reinvested locally; however, we may do so in the future. Our objective in managing foreign exchange risk is to minimize the potential exposure to changes that exchange rates might have on earnings, cash flows and financial position.

Foreign exchange gains and (losses) were not material to our earnings, amounting to approximately \$0.3 million and \$(1.1) million, for the three months ended September 30, 2016 and 2015, respectively, and \$1.2 million and \$(0.4) million, for the nine months ended September 30, 2016 and 2015. Cumulative translation adjustments included in other comprehensive income amounted to approximately \$(0.3) million and \$(4.7) million, for the three months ended September 30, 2016 and 2015, respectively, and \$(9.6) million and \$(12.8) million, for the nine months ended September 30, 2016 and 2015, respectively.

We currently do not have derivative financial instruments for hedging, speculative or trading purposes and therefore are not subject to such hedging risk. However, we may in the future engage in hedging transactions to manage our exposure to fluctuations in foreign currency exchange rates.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, j2 Global's management, with the participation of Nehemia Zucker, our principal executive officer, and R. Scott Turicchi, our principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, Mr. Zucker and Mr. Turicchi concluded that these disclosure controls and procedures were effective as of the end of the period covered in this Quarterly Report on Form 10-Q.

(b) Changes in Internal Controls

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) which occurred during the third quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

See Note 8 – Commitments and Contingencies of the Notes to Financial Statements (Part I, Item 1) for information regarding certain legal proceedings in which we are involved.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, before deciding to invest in j2 Global or to maintain or increase your investment, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 (the "10-K Risk Factors") as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2016. If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K Risk Factors are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. There have been no material changes from the 10-K Risk Factors, except for the risks described below relating to the pending acquisition of Everyday Health, Inc.

#### Risks Related To Our Business

We face risks and uncertainties associated with the pending acquisition of Everyday Health, Inc. ("Everyday Health") by our wholly owned subsidiary Ziff Davis, LLC ("Ziff Davis"), including Ziff Davis' ability to consummate the transactions contemplated by the Merger Agreement with Everyday Health on a timely basis.

We face risks and uncertainties associated with Ziff Davis' pending acquisition of Everyday Health. Due to factors beyond our control, Ziff Davis or Everyday Health may be unable to satisfy the conditions to the closing of the tender offer or the merger contemplated by the Merger Agreement, or the parties may be unable to do so on a timely basis. In addition, Everyday Health shareholders may not tender a sufficient number of shares for us to consummate the transactions contemplated by the Merger Agreement. Moreover, while j2 Global has received commitments from certain financial institutions for additional debt facilities, there can be no assurances that we will be able to consummate such financing. A failure to consummate the transactions could have an adverse impact on our share price. In addition, the announcement and pendency of the tender offer and merger could cause disruption in Everyday Health's business due to uncertainty about the effects of these transactions on employees, customers and other counterparties which, in turn, could adversely impact the benefits we expect to derive from the acquisition. Following the consummation of the transactions contemplated by the Merger Agreement, Ziff Davis may be unable to integrate or manage its and Everyday Health's disparate technologies, lines of business, personnel and corporate cultures or realize its business strategy or the expected return on its investment. The acquisition of Everyday Health could divert attention from management and from other business concerns and could expose us to unforeseen liabilities or unfavorable accounting treatment. Moreover, the discovery of material liabilities associated with the acquisition could adversely affect our business, results of operations and financial condition.

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

#### (a) Unregistered Sales of Equity Securities

None.

#### (b) Issuer Purchases of Equity Securities

Effective February 15, 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 20, 2017. During the nine month period ended September 30, 2016, we repurchased zero shares under this program. Cumulatively at September 30, 2016, 2.1 million shares were repurchased at an aggregate cost of \$58.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (See Note 3 - Business Acquisitions). As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase

-67-

---

under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program.

The following table details the repurchases that were made under and outside the 2012 Program during the three months ended September 30, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Program
July 1, 2016 - July 31, 2016	937,056	\$ 55.06	—	1,938,689
August 1, 2016 - August 31, 2016	12,224	\$ 68.05	—	1,938,689
September 1, 2016 - September 30, 2016	—	\$ —	—	1,938,689
Total	949,280		—	1,938,689

All shares purchased were surrendered to the Company to pay the exercise price and/or to satisfy tax withholding obligations in connection with employee stock options and/or the vesting of restricted stock issued to employees.

(1) In addition, share purchases in the month of July 2016 includes the purchase of 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (See Note 3 - Business Acquisitions).

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following financial information from j2 Global, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of  
101 Income for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (v) the Notes to Condensed Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

j2 Global, Inc.

Date: November 9, 2016 By: /s/ NEHEMIA ZUCKER  
Nehemia Zucker  
Chief Executive Officer  
(Principal Executive Officer)

Date: November 9, 2016 By: /s/ R. SCOTT TURICCHI  
R. Scott Turicchi  
President and Chief Financial Officer  
(Principal Financial Officer)

Date: November 9, 2016 By: /s/ STEVE P. DUNN  
Steve P. Dunn  
Chief Accounting Officer

INDEX TO EXHIBITS

Exhibit Number	Description
31.1	Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from j2 Global, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (v) the Notes to Condensed Consolidated Financial Statements.