J2 GLOBAL, INC.
Form 10-Q
August 11, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from __________ to __________

Commission File Number: 0-25965

j2 GLOBAL, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	47-1053457 (I.R.S. Employer 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 ý No o

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

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):

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

As of August 5, 2014, the registrant had 47,732,610 shares of common stock outstanding.

j2 GLOBAL, INC.

FOR THE QUARTER ENDED JUNE 30, 2014

INDEX

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
j2 Global, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands except share and per share data)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$591,881	$207,801
Short-term investments	61,687	90,789
Accounts receivable, net of allowances of $3,937 and $4,105, respectively	70,830	67,245
Prepaid expenses and other current assets	33,841	20,064
Deferred income taxes	3,232	3,126
Total current assets	761,471	389,025
Long-term investments	54,934	47,351
Property and equipment, net	40,662	31,200
Trade names, net	82,045	83,108
Patent and patent licenses, net	28,257	28,530
Customer relationships, net	133,629	100,980
Goodwill	514,539	457,422
Other purchased intangibles, net	10,902	10,915
Deferred income taxes	—	1,845
Other assets	13,378	3,413
Total assets	$1,639,817	$1,153,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$65,586	$69,570
Income taxes payable	4,727	1,569
Deferred revenue, current	57,315	36,326
Liability for uncertain tax positions	—	5,535
Deferred income taxes	1,683	1,892
Other current liabilities	909	—
Total current liabilities	130,220	114,892
Long-term debt	589,603	245,670
Liability for uncertain tax positions	42,650	38,329
Deferred income taxes	66,095	35,833
Deferred revenue, non-current	11,742	11,189
Other long-term liabilities	5,915	1,458
Total liabilities	846,225	447,371
Commitments and contingencies	—	—
Preferred stock - Series A, $0.01 par value. Authorized 6,000; total issued and outstanding 5,064	—	—
Preferred stock - Series B, $0.01 par value. Authorized 20,000; total issued and outstanding 4,155	—	—
Common stock, $0.01 par value. Authorized 95,000,000; total issued and outstanding 46,797,466 and 46,105,076 shares, respectively	468	461
Additional paid-in capital	266,122	216,872
Retained earnings	520,351	484,850
Accumulated other comprehensive income	6,651	4,235
Total stockholders' equity	793,592	706,418

Total liabilities and stockholders’ equity	$1,639,817	$1,153,789

See Notes to Condensed Consolidated Financial Statements

j2 Global, Inc.
Condensed Consolidated Statements of Income
(Unaudited, in thousands except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Total revenues	$144,744	$141,361	$278,868	$254,978
Cost of revenues (including share-based compensation of $27 and $181 for the three and six months of 2014, respectively, and $205 and $419 for the three and six months of 2013, respectively)	25,558	22,679	48,947	42,914
Gross profit	119,186	118,682	229,921	212,064
Operating expenses:				
Sales and marketing (including share-based compensation of $426 and $917 for the three and six months of 2014, respectively, and $432 and $850 for the three and six months of 2013, respectively)	35,329	35,213	68,288	64,851
Research, development and engineering (including share-based compensation of $222 and $362 for the three and six months of 2014, respectively, and $102 and $208 for the three and six months of 2013, respectively)	7,600	6,388	14,814	13,134
General and administrative (including share-based compensation of $1,288 and $2,887 for the three and six months of 2014, respectively, and $1,596 and $3,206 for the three and six months of 2013, respectively)	31,419	24,474	60,397	48,485
Total operating expenses	74,348	66,075	143,499	126,470
Operating income	44,838	52,607	86,422	85,594
Interest expense (income), net	5,682	4,859	10,630	9,736
Other expense (income), net	(185)	(42)	(505)	(203)
Income before income taxes	39,341	47,790	76,297	76,061
Income tax expense	4,292	11,823	12,483	17,323
Net income	$35,049	$35,967	$63,814	$58,738
Less net loss attributable to noncontrolling interest	—	(73)	—	(224)
Net income attributable to j2 Global, Inc. common shareholders	$35,049	$36,040	$63,814	$58,962
Net income per common share:				
Basic	$0.73	$0.78	$1.34	$1.28
Diluted	$0.73	$0.77	$1.33	$1.26
Weighted average shares outstanding:				
Basic	46,745,596	45,428,230	46,556,428	45,294,925
Diluted	47,067,767	46,018,245	46,911,574	45,881,465
Cash dividends paid per common share	$0.27	$0.24	$0.53	$0.47

See Notes to Condensed Consolidated Financial Statements

j2 Global, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$35,049	$35,967	$63,814	$58,738
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment, net of tax expense (benefit) of $498 and $699 for three and six months of 2014, respectively, and ($264) and ($978) for the three and six months of 2013, respectively	1,334	(363)	2,171	(2,116)
Unrealized gain (loss) on available-for-sale investments, net of tax expense of $1,665 and $135 for the three and six months of 2014, respectively, and $1,287 and $2,915 for the three and six months of and 2013, respectively	2,885	2,180	245	5,001
Other comprehensive income, net of tax	4,219	1,817	2,416	2,885
Comprehensive income	39,268	37,784	66,230	61,623
Net loss attributable to noncontrolling interest	—	(73)	—	(224)
Foreign currency translation adjustment attributable to noncontrolling interest, net of tax expense (benefit) of $0 for the three and six months of 2014 and ($11) and ($17) for the three and six months of 2013, respectively	—	(15)	—	(22)
Comprehensive income attributable to j2 Global, Inc.	$39,268	$37,872	$66,230	$61,869

See Notes to Condensed Consolidated Financial Statements

j2 Global, Inc.
Condensed Consolidated Statement of Cash Flows
(Unaudited, in thousands)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$63,814	$58,738
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	28,455	18,241
Amortization of discount or premium on investments	654	820
Amortization of financing costs and discounts	641	300
Share-based compensation	4,347	4,683
Excess tax benefits from share-based compensation	(4,803)	(1,581)
Provision for doubtful accounts	1,810	1,279
Deferred income taxes	(780)	(542)
Gain on sale of available-for-sale investments	(40)	—
Decrease (increase) in:		
Accounts receivable	5,691	2,886
Prepaid expenses and other current assets	(3,151)	929
Other assets	37	487
(Decrease) increase in:		
Accounts payable and accrued expenses	(3,616)	4,998
Income taxes payable	(320)	212
Deferred revenue	364	14,049
Liability for uncertain tax positions	(1,213)	3,512
Other	(84)	10
Net cash provided by operating activities	91,806	109,021
Cash flows from investing activities:		
Maturity of certificates of deposit	14,520	31,120
Purchase of certificates of deposit	—	(13,861)
Sales of available-for-sale investments	51,929	67,261
Purchase of available-for-sale investments	(45,043)	(91,729)
Purchases of property and equipment	(4,631)	(5,989)
Proceeds from sale of assets	608	—
Acquisition of businesses, net of cash received	(79,546)	(81,150)
Purchases of intangible assets	(3,899)	(1,261)
Net cash used in investing activities	(66,062)	(95,609)
Cash flows from financing activities:		
Issuance of long-term debt	402,500	—
Debt issuance costs	(11,069)	(47)
Repurchases of common stock and restricted stock	(4,733)	(2,266)
Issuance of common stock under employee stock purchase plan	123	106
Exercise of stock options	5,247	6,524
Dividends paid	(25,302)	(21,762)
Excess tax benefits from share-based compensation	4,803	1,581
Deferred payments for acquisitions	(13,473)	—
Other	(217)	—
Net cash provided by (used in) financing activities	357,879	(15,864)
Effect of exchange rate changes on cash and cash equivalents	457	(1,302)
Net change in cash and cash equivalents	384,080	(3,754)

Cash and cash equivalents at beginning of period	207,801	218,680
Cash and cash equivalents at end of period	$591,881	$214,926

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014
(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. The Digital Media Division operates a portfolio of web properties providing technology, gaming and lifestyle content and an innovative data-driven platform connecting advertisers with visitors to those properties and to visitors of third party websites that are part of the Digital Media Division's advertising network.

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 that disclosures made are adequate to make that information not misleading. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC on March 3, 2014. Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

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

Holding Company Reorganization
On June 10, 2014, j2 Global, Inc., a Delaware corporation, completed a corporate reorganization (the “Holding Company Reorganization”) pursuant to which j2 Global, Inc., (the “Predecessor”) merged with j2 Merger Sub, Inc., a Delaware corporation and an indirect, wholly owned subsidiary of the Predecessor, and changed its name to “j2 Cloud Services, Inc.” The Predecessor surviving the merger became a direct, wholly owned subsidiary of a new public holding company, j2 Global Holdings, Inc. (the “Holding Company”), which in connection with the merger changed its name to j2 Global, Inc.
At the effective time of the merger and in connection with the Holding Company Reorganization, all outstanding shares of common stock and preferred stock of the Predecessor were automatically converted into identical shares of common stock or preferred stock, as applicable, of the Holding Company on a one-for-one basis, and the Predecessor’s existing stockholders and other equity holders became stockholders and equity holders, as applicable, of the Holding Company in the same amounts and percentages as they were in the Predecessor prior to the Holding Company Reorganization.
Further information related to the merger and the Holding Company Reorganization is contained in the Agreement and Plan of Merger set forth as an exhibit to the Form 8-K filed with the Securities and Exchange Commission on June 10, 2014.

Use of Estimates

The preparation of consolidated financial statements in accordance with 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. On an ongoing basis, management evaluates its estimates based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could materially differ from those estimates.

Allowances for Doubtful Accounts

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

Revenue Recognition

Business Cloud Services

The Company's Business Cloud Services revenues substantially consist of monthly recurring subscription and usage-based fees, which are primarily paid in advance by credit card. In accordance with GAAP, the Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance and recognizes them in the period earned. Additionally, the Company defers and recognizes subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

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

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

Digital Media

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

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

j2 Global also generates Digital Media revenues through the license of certain assets to clients, for the clients' use in their own promotional materials or otherwise. Such assets may include logos, editorial reviews, or other copyrighted material. Revenues under such license agreements are recognized when the assets are delivered to the client. The Digital Media business also generates other types of revenues, including business listing fees, subscriptions to online publications, and from other sources. Such other revenues are recognized as earned.

Fair Value Measurements

As of June 30, 2014 and December 31, 2013, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable, customer deposits and long-term debt are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company's senior unsecured notes was determined using the quoted market prices of debt instruments with similar terms and maturities. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to j2 Global.

Debt Issuance Costs and Debt Discount

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

Concentration of Credit Risk

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

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

Income Taxes

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

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

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

Earnings Per Common Share

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

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

Diluted EPS includes the determinants of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method. In connection with the Company's issuance of convertible senior notes (See Note 7 - Long Term Debt) during the second quarter of 2014, the Company currently intends to satisfy the conversion obligation by paying and delivering a combination of cash and shares of the Company's common stock, where cash will be used to settle each $1,000 of principal and the remainder, if any, will be settled via the Company's common shares. As a result, the potential common shares to satisfy the excess conversion value will be included in the presentation of diluted EPS only to the extent that the conversion features are in-the-money and the effect is dilutive.

Reclassifications

Certain prior year reported amounts have been reclassified to conform with the 2014 presentation.

2. Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for fiscal years beginning after December 15, 2013. This new guidance did not have a material impact on our financial statements.

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

3. Business Acquisitions

The Company completed the following acquisitions during the first six months of fiscal 2014, paying the purchase price in cash in each transaction: (a) share purchase of City Numbers®, a UK-based provider of inbound DIDs in over 80 countries; (b) share and asset purchase of Securstore®, an Iceland-based provider of cloud backup and recovery services; (c) share purchase of Livedrive®, a UK-based provider of online backup with added file synchronization features; (d) asset purchase of Faxmate, an Australia-based provider of Internet fax services; (e) share purchase of Critical Software Ltd., a UK-based email security and management company operating under the brand name iCritical™; (f) share and asset purchase of Online Backup Company Norway AS and a subsidiary, a Nordic-based provider of online backup services; (g) share and asset purchase of emedia Communications LLC, a US and UK-based provider of research to information technology (IT) buyers and leads to IT vendors; and (h) other smaller share and asset acquisitions in the Business Cloud Services segment.

The condensed consolidated statement of income, since the date of each acquisition, and balance sheet, as of June 30, 2014, reflect the results of operations of all 2014 acquisitions. For the six months ended June 30, 2014, these acquisitions contributed $14.9 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to the Company's integration activities. Total consideration for these transactions was $129.2 million, net of cash acquired and including $42.4 million in assumed liabilities consisting primarily of deferred revenues, trade accounts payable, and other accrued liabilities.

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

Asset	Valuation
Accounts Receivable	$10,127
Property and Equipment	8,560
Other Assets	3,030
Deferred Tax Asset	1,877
Software	3,107
Trade Names	1,335
Customer Relationships	44,082
Other Intangibles	282
Goodwill	56,842
Total	$129,242

The initial accounting for these acquisitions is incomplete and subject to change, which may be significant. j2 Global has recorded provisional amounts for certain intangible assets (including trade names, software and customer relationships), preliminary working capital and related tax items. Actual amounts recorded upon finalization of the purchase accounting may differ materially from the information presented in this Quarterly Report on Form 10-Q.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with these acquisitions during the six months ended June 30, 2014 is $56.8 million, of which $3.3 million is expected to be deductible for income tax purposes.

Pro Forma Financial Information for 2014 Acquisitions

The following unaudited pro forma supplemental information is based on estimates and assumptions, which j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and the acquired businesses been combined companies during the periods presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1, 2013 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and its 2014 acquisitions as if each acquisition had occurred on January 1, 2013 (in thousands, except per share amounts):

	Six Months Ended June 30, 2014 (unaudited)	Six Months Ended June 30, 2013 (unaudited)
Revenues	$293,269	$280,521
Net Income	$63,926	$59,291
EPS - Basic	$1.34	$1.29
EPS - Diluted	$1.33	$1.27

4. Investments

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

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

	June 30, 2014	December 31, 2013
Due within 1 year	$31,284	$46,339
Due within more than 1 year but less than 5 years	52,456	44,865
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	2,479	2,486
Total	$86,219	$93,690

The following table summarizes the Company's investments designated as available-for-sale (in thousands):

	June 30, 2014	December 31, 2013
Available-for-sale	$116,621	$123,737
Total	$116,621	$123,737

The following table summarizes the gross unrealized gains and losses and fair values for the Company's available-for-sale investments as of June 30, 2014 and December 31, 2013 aggregated by major security type (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Debt Securities	$86,072	$184	$(37)	$86,219
Equity Securities	20,610	9,903	(111)	30,402
Total	$106,682	$10,087	$(148)	$116,621
December 31, 2013				
Debt Securities	$93,569	$158	$(37)	$93,690
Equity Securities	20,610	9,558	(121)	30,047
Total	$114,179	$9,716	$(158)	$123,737

At June 30, 2014, corporate and governmental debt securities, which have a fixed interest rate, were recorded as available-for-sale. There have been no significant changes in the maturity dates and average interest rates for the Company's investment portfolio and debt obligations subsequent to June 30, 2014. At June 30, 2014, equity securities were recorded as available-for-sale and represent a strategic equity investment. At June 30, 2014, 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.

Investments in an unrealized loss position as of June 30, 2014 and December 31, 2013, but in a continuous unrealized loss position for less than 12 months had a fair value of $38.6 million and $37.3 million, respectively. Investments in a continuous unrealized loss position for 12 months and longer as of June 30, 2014 and December 31, 2013 had a fair value of zero and $2.0 million, respectively, of which loss positions are determined to be temporary in nature.

Recognition and Measurement of Other-Than-Temporary Impairment

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

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

Factors considered in determining whether a loss is temporary include:

- the length of time and the extent to which fair value has been below cost;

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

j2 Global's review for impairment generally entails:

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

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

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

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

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 fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- 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 cash equivalents and investments are primarily classified within Level 1. The Company values Level 1 investments primarily using quoted market prices utilizing market observable inputs. The fair value of the Senior Notes and

Convertible Notes (See Note 7 - Long-Term Debt) are determined using recent quoted market prices or dealer quotes, if available, for instruments with similar terms, which is a Level 2 input, credit rating (if applicable) and maturities. If such information is not available, their fair value is determined using cash-flow models of the scheduled payments and, for the Convertible Notes, discounted at market interest rates for comparable debt without the conversion feature, which are considered Level 2 inputs. The total carrying value of long-term debt was $589.6 million and $245.7 million, and the corresponding fair value was approximately $692.3 million and $283.3 million, at June 30, 2014 and December 31, 2013, respectively.

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

June 30, 2014	Level 1	Level 2	Level 3	Fair Value
Cash equivalents:				
Money market and other funds	$417,091	$—	$—	$417,091
Time deposits	52,156	—	—	52,156
Corporate commercial papers	8,998	—	—	8,998
Certificates of deposit	—	—	—	—
Equity securities	30,403	—	—	30,403
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	26,015	—	—	26,015
Debt securities issued by states of the U.S. and political subdivisions of the states	2,143	—	—	2,143
Debt securities issued by foreign governments	2,041	—	—	2,041
Corporate debt securities	56,018	—	—	56,018
Total	$594,865	$—	$—	$594,865

December 31, 2013	Level 1	Level 2	Level 3	Fair Value
Cash equivalents:				
Money market and other funds	$101,232	$—	$—	$101,232
Time deposits	22,773	—	—	22,773
Certificates of deposit	14,402	—	—	14,402
Equity securities	30,047	—	—	30,047
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	23,702	—	—	23,702
Debt securities issued by states of the U.S. and political subdivisions of the states	3,296	—	—	3,296
Corporate debt securities	66,692	—	—	66,692
Total	$262,144	$—	$—	$262,144

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

6. Goodwill and Intangible Assets

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

The changes in carrying amounts of goodwill for the six months ended June 30, 2014 are as follows (in thousands):

Balance as of January 1, 2014	$457,422
Goodwill acquired (Note 3)	56,842
Purchase accounting adjustments	(978)
Foreign exchange translation	1,253
Balance as of June 30, 2014	$514,539

The Company's goodwill balance was $514.5 million as of June 30, 2014, of which $366.2 million and $148.3 million were recorded in the Business Cloud Services and Digital Media segment, respectively. Purchase accounting adjustments relate to adjustments to goodwill in connection with prior year business acquisitions.

Intangible assets are summarized as of June 30, 2014 and December 31, 2013 as follows (in thousands):

Intangible Assets with Indefinite Lives:

	June 30, 2014	December 31, 2013
Trade name	$27,379	$27,379
Other	5,432	5,432
Total	$32,811	$32,811

Intangible Assets Subject to Amortization:

As of June 30, 2014, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Tradenames	16.6 years	$68,147	$(13,481)	$54,666
Patent and patent licenses	7.8 years	62,137	(33,880)	28,257
Customer relationships	9.0 years	185,783	(52,154)	133,629
Other purchased intangibles	5.2 years	19,719	(14,249)	5,470
Total		$335,786	$(113,764)	$222,022

As of December 31, 2013, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Tradenames	17.0 years	$66,911	$(11,182)	$55,729
Patent and patent licenses	8.1 years	58,446	(29,916)	28,530
Customer relationships	8.1 years	139,362	(38,382)	100,980
Other purchased intangibles	5.0 years	18,149	(12,666)	5,483
Total		$282,868	$(92,146)	$190,722

Amortization expense, included in general and administrative expense, approximated $11.5 million and $7.3 million for the three month periods ended June 30, 2014 and 2013, respectively, and $21.5 million and $14.0 million for the six month periods ended June 30, 2014 and 2013, respectively. Amortization expense is estimated to approximate $43.9 million, $41.3 million, $34.9 million, $29.1 million and $20.6 million for fiscal years 2014 through 2018 respectively, and $73.7 million thereafter through the duration of the amortization period.

7. Long-Term Debt

8.0% Senior Notes

On July 26, 2012, j2 Cloud Services, Inc. (formerly j2 Global, Inc.), a subsidiary of j2 Global, Inc., issued $250 million aggregate principal amount of 8.0% senior unsecured notes (the "Senior Notes") due August 1, 2020. j2 Cloud Services, Inc. received proceeds of $245 million in cash, net of initial purchaser's discounts and commissions of $5 million. As of June 30, 2014, the unamortized discount on the Senior Notes was approximately $4.1 million. Unamortized other fees of approximately $1.2 million were incurred in connection with the issuance of the Senior Notes and recorded in long-term other assets. The net proceeds were available for general corporate purposes, including acquisitions. Interest is payable semi-annually on February 1 and August 1 of each year beginning on February 1, 2013. j2 Cloud Services, Inc. has the option to call the Senior Notes in whole or in part after August 1, 2016, subject to certain premiums as defined in the indenture governing the Senior Notes plus accrued and unpaid interest. In addition, at any time before August 1, 2016, j2 Cloud Services, Inc. may redeem the Senior Notes, in whole or in part, at a "make-whole" redemption price specified in the indenture plus accrued and unpaid interest, if any, to (but not including) the redemption date. Also, j2 Cloud Services, Inc. may redeem up to 35% of the aggregate principal amount of the Senior Notes using proceeds from certain public offerings of our equity securities at a price equal to 108% of the principal amount plus accrued and unpaid interest, if any, prior to August 1, 2015. Upon a change in control, the holders may put the Senior Notes at 101% of the principal amount of the Senior Notes plus accrued and unpaid interest, if any, to the repurchase date. The Senior Notes are not guaranteed by any of j2 Cloud Services, Inc.'s subsidiaries as of June 30, 2014, because, as of such date, all of j2 Cloud Services, Inc.'s existing domestic restricted subsidiaries are deemed insignificant subsidiaries (as that term is defined in the indenture) or are designated as unrestricted subsidiaries. If j2 Cloud Services, Inc. or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an insignificant subsidiary, after the issue date, or any insignificant restricted subsidiary ceases to fit within the definition of insignificant subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, j2 Cloud Services, Inc.'s obligations under the Senior Notes. In connection with the issuance of the Convertible Notes (defined below), j2 Global, Inc. unconditionally guaranteed, on an unsecured basis, the obligations of j2 Cloud Services, Inc. under the Senior Notes,

The indenture to the Senior Notes contains certain restrictive and other covenants applicable to j2 Cloud Services, Inc. and subsidiaries designated as restricted subsidiaries, including but not limited to limitations on debt and disqualified or preferred stock, restricted payments, liens, sale and leaseback transactions, dividends and other payment restrictions, asset sales and transactions with affiliates. As of June 30, 2014, j2 Cloud Services, Inc. was in compliance with all such covenants. Violation of these covenants could result in a default which could result in the acceleration of outstanding amounts if such default is not cured or waived within the time periods outlined in the indenture agreement.

As of June 30, 2014, the estimated fair value of the Senior Notes was approximately $289.8 million and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the Senior Notes as of June 30, 2014.

3.25% Convertible Senior Notes

On June 10, 2014, j2 Global issued $402.5 million (including the subsequent exercise of the underwriters option) 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 initial purchaser's discounts and commissions. The net proceeds were available for general corporate purposes, which may include working capital, acquisitions, retirement of debt and other business opportunities. 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 on December 15, 2014. 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 our 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 our 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 our common stock or a combination thereof at our election. The Company currently intends to satisfy our conversion obligation by paying and delivering a combination of cash and shares of the Company's common stock, where cash will be used to settle each $1,000 of principal and the remainder, if any, will be settled via the Company's common shares.

The initial conversion rate is 14.4159 shares of our common stock for each $1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately $69.37 per share of our common stock based on our closing stock price at issuance. The conversion rate is subject to adjustment for certain events as set forth in the indenture governing the Convertible Notes and described in the Prospectus Supplement filed with the Securities and Exchange Commission on June 13, 2014 ("Prospectus Supplement") in connection with the offer and sale of 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 will be the Company's general senior unsecured obligations and will 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 our guarantee of the obligations of our subsidiary, j2 Cloud Services, Inc., with respect to its outstanding Senior Notes; (iii) effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company's subsidiaries.

Accounting for the Convertible Senior 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 straight debt borrowing rates at origination to be 5.79% for the Convertible Notes and determined the debt discount to be $59.0 million. As a result, a conversion premium after tax of $37.7 million was recorded in additional paid-in capital. As of June 30, 2014, the carrying value of the Convertible Notes was $343.7 million, which consisted of $402.5 million outstanding principal amount net of $58.8 million unamortized debt discount. The aggregate debt discount is amortized as interest expense over the period from the issuance date through the first stated repurchase date on June 15, 2021 using an interest rate of 5.81%. As of June 30, 2014, the remaining period over which the unamortized debt discount will be amortized is 7.0 years.

In connection with the issuance of the Convertible Notes, the Company incurred $11.7 million of issuance costs, which primarily consisted of the initial purchasers' discount and legal and other professional service fees. Deferred issuance costs of $10.0 million attributable to the liability component are being amortized to interest expense through June 15, 2021, and $1.7 million ($1.1 million net of tax) of transaction costs attributable to the equity component were netted with the equity component in additional paid-in capital at the issuance date. The deferred debt issuance costs are recorded within other assets in accordance with short- and long-term classification.

For the second quarter ended June 30, 2014, the Company recognized interest expense of $0.7 million related to the Convertible Notes, comprised of $0.4 million for the contractual coupon interest, $0.2 million related to the amortization of debt discount and $0.1 million related to the amortization of deferred debt issuance costs.

The Convertible Notes are carried at face value less any unamortized debt discount. The fair value of the Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the Convertible Notes, if available. If such information is not available, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature. As of June 30, 2014, the estimated fair value of the Convertible Notes was approximately $402.5 million.

Cash paid for interest on debt for the six months ended June 30, 2014 was $10.0 million.

Long-term debt as of June 30, 2014 consists of the following (in thousands):

Notes	$245,923
Convertible Notes	343,680
Total long-term debt	589,603
Less: current portion	—
Total long-term debt, less current portion	$589,603

8. Commitments and Contingencies

Litigation

From time-to-time, j2 Global or its affiliates are involved in litigation and other disputes or regulatory inquiries that arise in the ordinary course of its business. Many of these actions involve or are filed in response to patent actions filed by j2 Global or its affiliates against others. The number and significance of these disputes and inquiries has increased as our business has expanded and j2 Global has grown. Any claims or regulatory actions against j2 Global and its affiliates, whether meritorious or not, could be time-consuming, result in costly litigation, require significant management time and result in diversion of significant operational resources.

As part of the Company's continuing effort to prevent the unauthorized use of its intellectual property, j2 Global or its affiliates have brought claims against several companies for infringing its patents relating to online fax, voice and other messaging technologies, including, among others, Vitelity Communications, Inc. ("Vitelity"), EC Data Systems, Inc. ("EC Data"), Integrated Global Concepts, Inc. ("IGC"), and RPost Holdings, Inc. ("RPost") and its affiliates.

On September 23, 2011, two j2 Global affiliates filed suit against Vitelity in the U.S. District Court for the Central District of California (the "Central District of California"), alleging infringement of U.S. Patent No. 6,208,638 (the "'638 Patent") and U.S. Patent No. 6,350,066 (the "'066 Patent"). On June 15, 2012, Vitelity filed counterclaims for invalidity and non-infringement of the '638 and '066 Patents. On September 13, 2013, the Court entered its Claim Construction Order. On April 3, 2014, this action was dismissed pursuant to a settlement agreement.

On February 21, 2012, EC Data filed a complaint against two j2 Global affiliates in the U.S. District Court for the District of Colorado, seeking declaratory judgment of non-infringement of the '638 and '066 Patents. On April 9, 2012, the j2 Global affiliates filed an answer to the complaint and counterclaims asserting that EC Data infringes these and other patents. On October 25, 2013, EC Data filed an amended complaint asserting claims for declaratory judgment of non-infringement and invalidity of the '638 and '066 Patents, U.S. Patent No. 6,597,688 (the "'688 Patent") and U.S. Patent No. 7,020,132 (the "'132 Patent"). On August 29, 2012, the Court granted the j2 Global affiliates' motion to transfer the case to the Central District of California. On April 3, 2014, this action was dismissed pursuant to a settlement agreement.

On June 28, 2013, a j2 Global affiliate filed suit against EC Data in the Central District of California, alleging infringement of U.S. Patent No. 6,020,980 (the "'980 Patent"). On October 4, 2013, EC Data filed its amended answer and counterclaims for non-infringement and invalidity of the '980 Patent. On April 3, 2014, this action was dismissed pursuant to a settlement agreement.

On October 16, 2013, one of j2 Global's affiliates entered its appearance as a plaintiff in a multi-district litigation proceeding entitled In re: Unified Messaging Solutions LLC and Advanced Messaging Technologies, Inc. Patent Litigation (N.D. Ill. Master Docket No. 12 C 6286). In that litigation, a company with certain rights to assert patents owned by the j2 Global affiliate has asserted those patents against a number of defendants, and those defendants have filed counterclaims for, inter alia, non-infringement, unenforceability, and invalidity of U.S. Patent Nos. 6,857,074 (the "'074 Patent"); 7,836,141 (the "'141 Patent"); 7,895,306 (the "'306 Patent"); 7,895,313 (the "'313 Patent"); and 7,934,148 (the "'148 Patent"). On December 20, 2013, the Court issued a claim construction ruling, construing certain terms of the patents-in-suit and, on June 13, 2014, entered a final judgment of non-infringement for the defendants based on that claim construction. The company asserting the patents and the j2 Global affiliate filed a notice of appeal on June 27, 2014.

On August 28, 2013, Phyllis A. Huster ("Huster") filed suit in the U.S. District Court for the Northern District of Illinois (the "Northern District of Illinois") against Unified Messaging Solutions, LLC, Acacia Patent Acquisition LLC ("Acacia"), Charles R. Bobo, II ("Bobo"), and two j2 Global affiliates for correction of inventorship of the '066, '074, '141, '306, '313, and '148 Patents, as well as U.S. Patents Nos. 5,675,507; 5,870,549; and 6,564,321. Huster seeks a declaration that she was an inventor of the patents at issue, an order directing the U.S. Patent & Trademark Office to substitute or add Huster as an inventor of the patents at issue, an order that the defendants pay to Huster at least half of all earnings from licensing and sales of rights in the patents at issue, costs, and attorneys' fees. On October 28, 2013, the j2 Global affiliates and the other defendants in the case filed a motion to dismiss Huster's action on the basis of improper venue and on the basis that Huster's action is barred by laches. The defendants also filed a motion to strike certain portions of Huster's prayer for relief. On the same day, one of the j2 Global affiliates filed a motion to dismiss on the basis that it is not a proper party to Huster's action; Bobo filed a motion to dismiss for lack of personal jurisdiction; and Acacia filed a motion to dismiss on the basis of lack of subject matter jurisdiction. These motions remain pending.

On September 15, 2006, a j2 Global affiliate filed a patent infringement suit against IGC in the U.S. District Court for the Northern District of Georgia (the "Northern District of Georgia"). On May 13, 2008, IGC filed counterclaims alleging violations of Section 2 of the Sherman Act and breach of contract. IGC is seeking damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys' fees, and costs. On February 18, 2009, the Court granted the j2 Global affiliate's motion to stay the case pending the conclusion of the j2 Global affiliate's appeal of a summary judgment ruling of non-infringement in another case involving the same patents and issues. On January 22, 2010, the U.S. Court of Appeals for the Federal Circuit affirmed the non-infringement ruling in the other case and on June 7, 2010, the Northern District of Georgia lifted the stay. On September 2, 2011, the Northern District of Georgia granted the j2 Global affiliate's motion to dismiss IGC's breach of contract counterclaim and one portion of IGC's antitrust counterclaim. On July 26, 2012, the Northern District of Georgia granted in part IGC's motion to strike certain affirmative defenses asserted by the j2 Global affiliate. On July 27, 2012, the Northern District of Georgia granted the j2 Global affiliate's motion to dismiss the infringement claims and IGC's related declaratory judgment counterclaims. On April 30, 2014, the Court denied IGC's motion for leave to file amended counterclaims to assert a breach of contract claim. On March 12, 2014, the j2 Global affiliate moved for summary judgment on IGC's remaining antitrust claims, which remains pending.

On July 2, 2012, IGC filed suit against two j2 Global affiliates in the U.S. District Court for the Northern District of California ("Northern District of California"), alleging that the j2 Global affiliates - through filing suit in the Central District of California - breached a contract not to sue IGC. IGC seeks monetary damages, attorneys' fees, costs, injunctive relief and specific performance of the alleged covenant not to sue IGC. On April 12, 2013, the j2 Global affiliates filed an answer and asserted counterclaims for infringement of the '638, '066, '688, and '132 Patents. On May 3, 2013, IGC asserted counterclaims seeking declaratory judgments of invalidity, unenforceability and non-infringement of the '638, '066, '688, and '132 Patents, implied license and exhaustion, punitive damages, attorneys' fees and costs. On June 28, 2013, the Court granted in part and denied in part the j2 Global affiliates' motion to dismiss IGC's counterclaims for declaratory judgment, exhaustion and punitive damages. On March 21, 2014, the Court granted the j2 Global affiliates' summary judgment motion, dismissing IGC's breach of contract claims. On June 27, 2014, the Court granted the j2 Global affiliates' motion to transfer the case to the Central District of California.

On June 27, 2013, a j2 Global affiliate filed suit against IGC in the Northern District of California, alleging infringement of the '980 Patent. On August 29, 2013, IGC filed counterclaims for declarations of invalidity, unenforceability, and non-infringement of the '980 Patent; an implied license to the '980 Patent; and breach and specific enforcement of an alleged covenant not to sue IGC. On February 26, 2014, the Court granted the j2 Global affiliate's motion to dismiss in part, dismissing IGC's claim for declaratory judgment of unenforceability of the '980 Patent and striking related affirmative defenses. On October 18, 2013, the Court consolidated IGC's breach of contract counterclaim with the other case pending in the Northern District of California and stayed the j2 Global affiliate's patent infringement claims pending resolution of the breach of contract claims. On March 21, 2014, the Court granted summary judgment, dismissing IGC's breach of contract counterclaims. On June 27, 2014, the Court granted the j2 Global affiliate's motion to transfer the case to the Central District of California.

On February 17, 2011, Emmanuel Pantelakis ("Pantelakis") filed suit against j2 Global Canada, Inc., carrying on business as Protus IP Solutions ("j2 Canada"), in the Ontario Superior Court of Justice, alleging that j2 Canada breached a contract with Pantelakis in connection with j2 Canada's e-mail marketing services. Pantelakis is seeking damages, attorneys' fees, interest, and costs. j2 Canada filed a responsive pleading on March 23, 2011. On July 16, 2012, j2 Canada filed its responses to undertakings. On November 6, 2012, Pantelakis filed his second amended statement of claim reframing his lawsuit as a negligence action. j2 Canada filed its amended statement of defense on April 8, 2013. A pre-trial conference was held on October 23, 2013, at which time the Court allowed additional discovery and set a new time table. Discovery is ongoing.

On January 18, 2013, Paldo Sign and Display Company ("Paldo") filed an amended complaint adding two j2 Global affiliates and a former j2 Canada employee, Tyler Eyamie ("Eyamie"), as additional defendants in an existing purported class action pending in the Northern District of Illinois. 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 a customer's alleged use of the j2 Canada system to send unsolicited facsimile transmissions. On August 23, 2013, Paldo filed a second amended complaint to add a second plaintiff, Sabon, Inc. ("Sabon"). The j2 Global affiliates filed a motion to dismiss the ICFA and conversion claims, which was granted. Paldo and Sabon seek statutory damages, costs, attorneys' fees and injunctive relief for the remaining TCPA claims. Eyamie filed a motion to dismiss for lack of personal jurisdiction, which was granted on March 11, 2014. The discovery period commenced on April 17, 2014, and will close in August 2015. The case is set for trial in late January 2016.

On February 19, 2013, Asher & Simons, P.A. ("Simons") and Dr. Stuart T. Zaller, LLC ("Zaller") filed suit against two j2 Global affiliates in the Circuit Court for Baltimore County, Maryland, alleging violations of the TCPA. On April 10, 2014, Simons and Zaller filed an amended complaint, adding a cause of action for violation of the Maryland Consumer Protection Act. Simons and Zaller seek statutory damages, costs, attorney's fees and injunctive relief. One j2 Global affiliate removed the case to the U.S. District Court for the District of Maryland and the other j2 Global affiliate was dismissed from the lawsuit for lack of personal jurisdiction. Subsequently, the entire case was dismissed pursuant to a settlement agreement.

On December 16, 2013, Anthony Jenkins filed a purported class action against a j2 Global affiliate “carrying on business as eFax” in the Central District of California. An amended complaint was filed on March 18, 2014 adding two additional named plaintiffs. The amended complaint includes causes of action for breach of contract, several state statutory violations, and conversion. The claims arose either out of alleged difficulties some users encountered in canceling their eFax® online fax accounts or from the j2 Global affiliate allegedly being unjustly enriched and converting users’ funds. The potential class representatives are seeking damages, attorneys’ fees, interest, costs, and injunctive relief on behalf of themselves and a purported nationwide class of persons allegedly similarly situated. On May 23, 2014, the Court dismissed with prejudice the plaintiffs’ breach of contract, conversion, and certain statutory claims. Other statutory claims were dismissed without prejudice.

On February 19, 2014, two j2 Global affiliates filed suit against RPost and two RPost affiliates, alleging infringement of the ‘980 and ‘148 Patents, and seeking a declaration of non-infringement and/or invalidity of nine RPost patents that had been asserted against the j2 Global affiliates in an RPost patent assertion letter. An amended complaint was filed on June 20, 2014, adding j2 Canada as a plaintiff. The j2 Global affiliates are seeking damages, costs, and attorneys’ fees. RPost and its affiliates filed an answer to the complaint on July 14, 2014, and are asserting counterclaims of infringement for the nine RPost patents. RPost and its affiliates are seeking damages, costs, attorneys’ fees and injunctive relief.

On June 23, 2014, Andre Free-Vychine (“Free-Vychine”) filed a purported class action against a j2 Global affiliate in the Superior Court for the State of California, County of Los Angeles. The complaint alleges two statutory violations involving the late fees levied in certain eVoice® accounts. Free-Vychine is seeking damages and injunctive relief on behalf of himself and a purported nationwide class of persons allegedly similarly situated. The j2 Global affiliate has not yet filed an answer to the complaint.

On January 7, 2011 the Department of Revenue for the State of Washington (“Washington Department of Revenue”) issued assessments to j2 Cloud Services (formerly j2 Global) for business and occupations and retail sales tax for the periods January 1, 2004 through December 31, 2008 and January 1, 2009 through September 30, 2010. On February 4, 2011, j2 Cloud Services filed a petition for correction with the Washington Department of Revenue. On November 16, 2012 the Washington Department of Revenue issued a determination denying j2 Cloud Service’s petition. j2 Cloud Services paid the assessments on or about December 13, 2012 and on June 21, 2013 filed a complaint against the Washington Department of Revenue in the Superior Court of Washington for Thurston County, seeking a refund of the entire amount paid and asserting various declarations that the State improperly imposed tax. On September 27, 2013, the Court issued its Case Schedule Order. Discovery is ongoing.

j2 Global does not believe, based on current knowledge, that the foregoing legal proceedings or claims, including those where an unfavorable outcome is reasonably possible, after giving effect to existing reserves, are likely to have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect j2 Global’s consolidated financial position, results of operations or cash flows in a particular period. The Company has not accrued for a loss contingency relating to these legal proceedings because unfavorable outcomes are not considered by management to be probable or the amount of any losses reasonably estimable.

Non-Income Related Taxes

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

The current U.S. federal government moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet, which is set to expire November 2014, does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules.

The Company is currently under audit for indirect taxes in several states and municipalities. 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. For the quarter ended June 30, 2014, the effective tax rate was 10.9%. 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 reinvest such earnings in foreign jurisdictions. Income before income taxes included income from domestic operations of $38.8 million and $33.2 million for the six months ended June 30, 2014 and 2013, respectively, and income from foreign operations of $37.5 million and $42.9 million for the six months ended June 30, 2014 and 2013, respectively.

As of June 30, 2014 and December 31, 2013, the Company had $42.7 million and $43.9 million, respectively, in liabilities for uncertain income tax positions. The decrease in liabilities for uncertain income tax positions resulted from j2 Global effectively settling its California Franchise Tax Board ("FTB") 2004 through 2008 income tax audits. 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 $14.9 million for the six months ended June 30, 2014.

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 $19.5 million and $11.3 million at June 30, 2014 and December 31, 2013, respectively.

Income Tax Audits:

The Company is under income tax audit by the U.S. Internal Revenue Service ("IRS") for tax years 2009 and 2011. The Company has appealed the IRS tax examiner's decision regarding transfer pricing for tax years 2009 and 2010 to the IRS appeals office, and that process remains on-going.

j2 Global is currently under income tax audit by the FTB for tax years 2009 through 2011, by the Illinois Department of Revenue for tax years 2008 and 2009, by the New York City Department of Finance for tax years 2009 through 2011 and by the Canada Revenue Agency for tax years 2010 through 2011.

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

Non-Controlling Interest

Non-controlling interests represent equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to j2 Global (i.e., minority interests). Non-controlling interests include the minority equity holders' proportionate share of the equity of Ziff Davis, LLC (formerly Ziff Davis, Inc.) and its subsidiaries ("Ziff Davis").

Ownership interests in subsidiaries held by parties other than the Company are presented as non-controlling interests within stockholders' equity, separately from the equity held by the Company. Revenues, expenses, net income and other comprehensive income are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both the Company's interest and the non-controlling interests in Ziff Davis. Net income and other comprehensive income is then attributed to the Company's interest and the non-controlling interests. Net income (loss) to non-controlling interests is deducted from net income in the condensed consolidated statements of income to determine net income (loss) attributable to the Company's common stockholders.

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") and on February 11, 2014 extended the 2012 Program through February 20, 2015. During the six month period ended June 30, 2014, no shares were repurchased 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 June 30, 2014, the Company purchased 13,205 shares from plan participants for this purpose.

Dividends

The following is a summary of each dividend declared during fiscal year 2014:

Declaration Date	Dividend per Common Share	Record Date	Payment Date
February 11, 2014	$0.2625	February 24, 2014	March 10, 2014
May 7, 2014	$0.27	May 19, 2014	June 3, 2014

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”) and 2001 Employee Stock Purchase Plan (the “Purchase Plan”). Each plan is described below.

The 1997 Plan terminated in 2007. A total of 12,000,000 shares of common stock were authorized to be used for 1997 Plan purposes. An additional 840,000 shares were authorized for issuance upon exercise of options granted outside the 1997 Plan. As of June 30, 2014, 238,429 shares underlying options and zero shares of restricted stock were outstanding under the 1997 Plan, all of which continue to be governed by the 1997 Plan.

The 2007 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. 4,500,000 shares of common stock are authorized to be used for 2007 Plan purposes. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of j2 Global’s common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of j2 Global’s common stock on the date of grant for non-statutory stock options. As of June 30, 2014, 653,946 shares underlying options and 100,604 shares of restricted stock were outstanding under the 2007 Plan.

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

Stock Options

The following table represents stock option activity for the six months ended June 30, 2014:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	1,175,657	$ 21.21		
Granted	—	—		
Exercised	(368,886)	14.71		
Canceled	(15,000)	31.07		
Outstanding at June 30, 2014	791,771	24.05	4.4	$ 21,226,157
Exercisable at June 30, 2014	666,357	23.46	3.9	$ 18,256,962
Vested and expected to vest at June 30, 2014	774,450	$ 23.97	4.3	$ 20,823,380

The aggregate intrinsic values of options exercised during the six months ended June 30, 2014 and 2013 were $12.8 million and $4.0 million, respectively.

As of June 30, 2014 and December 31, 2013, unrecognized stock compensation related to non-vested stock options granted under the 1997 Plan and the 2007 Plan approximated $1.3 million and $2.0 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 1.9 years (i.e., the remaining requisite service period).

Fair Value Disclosure

j2 Global uses the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility for the six months ended June 30, 2014 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 11.59% and 15.68% as of June 30, 2014 and 2013, respectively.

Restricted Stock

j2 Global has awarded restricted stock and restricted stock units to its Board of Directors and senior staff pursuant to the 1997 Plan and the 2007 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Beginning in fiscal year 2012, vesting periods are approximately one year for awards to members of the Company's Board of Directors and five years for senior staff. The Company recognized $3.6 million and $3.2 million of compensation expense for the six months ended June 30, 2014 and 2013, respectively, related to restricted stock and restricted stock units. As of June 30, 2014 and December 31, 2013, the Company had unrecognized share-based compensation cost of approximately $24.8 million and $20.2 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.4 years for awards and 3.6 years for units.

Restricted stock award activity for the six months ended June 30, 2014 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	1,178,371	$17.86
Granted	176,864	44.65
Vested	(405,535)	16.23
Canceled	(15,509)	33.66
Nonvested at June 30, 2014	934,191	$23.38

Restricted stock unit award activity for the six months ended June 30, 2014 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2014	109,725		
Granted	16,737		
Vested	(10,858)		
Canceled	(15,000)		
Outstanding at June 30, 2014	100,604	2.1	$5,116,719
Vested and expected to vest at June 30, 2014	79,246	1.9	$4,030,433

Share-Based Compensation Expense

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 six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Cost of revenues	$27	$205	$181	$419
Operating expenses:				
Sales and marketing	426	432	917	850
Research, development and engineering	222	102	362	208
General and administrative	1,288	1,596	2,887	3,206
Total	$1,963	$2,335	$4,347	$4,683

Employee Stock Purchase Plan

The Purchase Plan provides for the issuance of a maximum of two million shares of the Company's common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of j2 Global's common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period. For the six months ended June 30, 2014 and 2013, 2,824 and 3,158 shares were purchased under the plan, respectively. Cash received upon the issuance of common stock under the Purchase Plan was $123,000 and $106,000 for the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, 1,637,375 shares were available under the Purchase Plan for future issuance.

-25-

12. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator for basic and diluted net income per common share:				
Net income attributable to j2 Global, Inc. common shareholders	$35,049	$36,040	$63,814	$58,962
Net income available to participating securities (a)	(701)	(565)	(1,418)	(1,020)
Net income available to j2 Global, Inc. common shareholders	$34,348	$35,475	$62,396	$57,942
Denominator:				
Weighted-average outstanding shares of common stock	46,745,596	45,428,230	46,556,428	45,294,925
Dilutive effect of:				
Dilutive effect of equity incentive plans	322,171	590,015	355,146	586,540
Common stock and common stock equivalents	47,067,767	46,018,245	46,911,574	45,881,465
Net income per share:				
Basic	$0.73	$0.78	$1.34	$1.28
Diluted	$0.73	$0.77	$1.33	$1.26

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

For the three and six months ended June 30, 2014 and 2013, there were zero options outstanding, which were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common shares.

13.Segment Information

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues by segment:				
Business Cloud Services	$106,523	$108,768	$207,353	$199,507
Digital Media	38,274	32,778	71,642	55,685
Elimination of inter-segment revenues	(53)	(185)	(127)	(214)
Total revenues	144,744	141,361	278,868	254,978
Direct costs by segment[1]:				
Business Cloud Services	60,156	48,489	115,768	94,571
Digital Media	32,717	33,290	61,433	60,193
Direct costs by segment[1]:	92,873	81,779	177,201	154,764
Business Cloud Services operating income	46,367	60,279	91,585	104,936
Digital Media operating income (loss)	5,556	(513)	10,208	(4,509)
Segment operating income	51,923	59,766	101,793	100,427
Global operating costs[2]	7,085	7,159	15,371	14,833
Income from operations	$44,838	$52,607	$86,422	$85,594

(1) 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 operations, depreciation and amortization and other administrative expenses.
(2) Global operating costs include general and administrative and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment.

	June 30, 2014	December 31, 2013
Assets:		
Business Cloud Services	$907,848	$818,722
Digital Media	337,554	333,286
Total assets from reportable segments	1,245,402	1,152,008
Corporate	394,415	1,781
Elimination of intersegment receivables	—	—
Elimination of inter-segment note receivable	—	—
Total assets	$1,639,817	$1,153,789

	Six Months Ended June 30,	
	2014	2013
Capital expenditures:		
Business Cloud Services	$2,803	$2,661
Digital Media	1,618	3,022
Total from reportable segments	4,421	5,683
Corporate	210	306
Total capital expenditures	$4,631	$5,989

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Depreciation and amortization:				
Business Cloud Services	$10,026	$5,906	$18,058	$11,362
Digital Media	5,105	3,415	10,023	6,567
Total from reportable segments	15,131	9,321	28,081	17,929
Corporate	186	158	374	312
Total depreciation and amortization	$15,317	$9,479	$28,455	$18,241

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
United States	$96,847	$103,619	$188,274	$179,997
Canada	17,436	18,587	34,944	37,145
Ireland	11,414	10,307	22,509	20,405
All other countries	19,047	8,848	33,141	17,431
	$144,744	$141,361	$278,868	$254,978

	June 30, 2014	December 31, 2013
Long-lived assets:		
United States	$166,668	$170,247
All other countries	96,015	51,675
Total	$262,683	$221,922

14. Unrestricted Subsidiaries

As of June 30, 2014, the Company's Board of Directors had designated the following entities as “Unrestricted Subsidiaries” under the indenture governing j2 Cloud Services' Senior Notes:

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

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

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

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

	June 30, 2014
ASSETS	
Cash and cash equivalents	$ 19,902
Accounts receivable	47,528
Prepaid expenses and other current assets	2,723
Deferred income taxes	4,187
Total current assets	74,340
Property and equipment, net	13,070
Trade names, net	49,128
Patent and patent licenses, net	19,295
Customer relationships, net	52,705
Goodwill	148,301
Other purchased intangibles, net	3,244
Deferred income taxes	196
Other assets	1,741
Total assets	$ 362,020
LIABILITIES AND STOCKHOLDERS' EQUITY	
Accounts payable and accrued expenses	$ 14,391
Income taxes payable	7,731
Deferred revenue, current	4,527
Deferred income taxes	—
Total current liabilities	26,649
Deferred income taxes	23,799
Other long-term liabilities	1,409
Total liabilities	51,857
Additional paid-in capital	316,300
Accumulated deficit	(6,086)
Accumulated other comprehensive income (loss)	(51)
Total stockholders' equity	310,163
Total liabilities and stockholders' equity	$ 362,020

The results of operations of the Unrestricted Subsidiaries for the three and six months ended June 30, 2014 and 2013 is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014 [(1)]	2013	2014 [(1)]	2013
Revenues	$38,907	$32,778	$72,275	$55,685
Cost of revenues	4,445	4,692	8,297	8,284
Gross profit	34,462	28,086	63,978	47,401
Operating expenses:				
Sales and marketing	16,431	18,176	31,389	30,964
Research, development and engineering	1,154	1,480	2,226	3,458
General and administrative	12,959	8,943	21,793	17,488
Total operating expenses	30,544	28,599	55,408	51,910
Income (loss) from operations	3,918	(513)	8,570	(4,509)
Interest expense (income), net	(3)	2,367	(1)	3,716
Other expense (income), net	(76)	(261)	(418)	(192)
Income (loss) before income taxes	3,997	(2,619)	8,989	(8,033)
Income tax expense (benefit)	2,209	(1,128)	4,235	(3,460)
Net income (loss)	$1,788	$(1,491)	$4,754	$(4,573)

[(1)] Effective in the second quarter of 2014, Advanced Messaging Technologies, Inc. and subsidiaries were classified as Unrestricted Subsidiaries. As a result, the prior period may not be comparable to the current period presentation.

15. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the three months ended June 30, 2014 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	$3,416	$(984)	$2,432
Other comprehensive income before reclassifications	2,918	1,334	4,252
Amounts reclassified from accumulated other comprehensive income	(33)	—	(33)
Net current period other comprehensive income	2,885	1,334	4,219
Ending balance	$6,301	$350	$6,651

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the six months ended June 30, 2014 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	$6,056	$(1,821)	$4,235
Other comprehensive income before reclassifications	261	2,171	2,432
Amounts reclassified from accumulated other comprehensive income	(16)	—	(16)
Net current period other comprehensive income	245	2,171	2,416
Ending balance	$6,301	$350	$6,651

The following table provides details about reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2014 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement of Income
	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014	
Unrealized gain on available-for-sale investments	(52)	(26)	Other expense (income), net
	(52)	(26)	Total, before income taxes
	19	10	Income tax expense (benefit)
	(33)	(16)	Total, net of tax
Total reclassifications for the period	$(33)	$(16)	Total, net of tax

16. Condensed Consolidating Financial Statements

In connection with the June 2014 Convertible Note issuance, j2 Global, Inc. entered into a supplemental indenture related to the Senior Notes, pursuant to which j2 Global, Inc. fully and unconditionally guaranteed, on an unsecured basis, the full and punctual payment of the 8.0% senior unsecured notes due 2020 that were issued by its wholly owned subsidiary, j2 Cloud Services, Inc. j2 Cloud Services, Inc. is subject to restrictions on dividends in its existing indenture with respect to the Senior Notes and the credit facility with Union Bank. While substantially all of the Company's assets (other than the net cash proceeds from the issuance of the Convertible Notes) are owned directly or indirectly by j2 Cloud Services, Inc., those contractual provisions did not, as of June 30, 2014 meaningfully restrict j2 Cloud Services, Inc.'s ability to pay dividends to j2 Global,Inc.

The following condensed consolidating financial statements present, in separate columns, financial information for (i) j2 Global, Inc., (the "Parent") on a parent only basis, (ii) j2 Cloud Services, Inc. (the "Issuer"), (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.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands except share and per share data)
As of
June 30, 2014

BALANCE SHEET	j2 Global, Inc.	j2 Cloud Services, Inc.	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
ASSETS					
Cash and cash equivalents	$391,483	$29,968	$170,430	$—	$591,881
Short-term investments	—	56,667	5,020	—	61,687
Accounts receivable, net	—	11,069	59,761	—	70,830
Prepaid expenses and other current assets	220	30,043	3,578	—	33,841
Deferred income taxes	100	—	3,132	—	3,232
Intercompany receivable	387	545	(1)	(931)	—
Total current assets	392,190	128,292	241,920	(931)	761,471
Long-term investments	—	54,934	—	—	54,934
Property and equipment, net	—	8,416	32,246	—	40,662
Trade names, net	—	10,315	71,730	—	82,045
Patent and patent licenses, net	—	8,922	19,335	—	28,257
Customer relationships, net	—	1,188	132,441	—	133,629
Goodwill	—	61,524	453,015	—	514,539
Other purchased intangibles, net	—	4,311	6,591	—	10,902
Investment in subsidiaries	230,131	407,984	1,076	(639,191)	—
Other assets	9,956	1,444	1,978	—	13,378
Total assets	$632,277	$687,330	$960,332	$(640,122)	$1,639,817
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued expenses	$1,839	$24,778	$38,969	$—	$65,586
Income taxes payable	—	—	4,727	—	4,727
Deferred revenue - short term	—	23,324	33,991	—	57,315
Deferred income taxes	7	2,502	(826)	—	1,683
Other current liabilities	—	—	909	—	909

Intercompany payable	—	—	931	(931)	—
Total current liabilities	1,846	50,604	78,701	(931)	130,220
Long term debt	343,680	245,923	—	—	589,603
Liability for uncertain tax positions	—	42,650	—	—	42,650
Deferred income taxes	20,832	9,503	35,760	—	66,095
Deferred revenue - long term	—	9,552	2,190	—	11,742
Other long-term liabilities	—	940	4,975	—	5,915
Total liabilities	366,358	359,172	121,626	(931)	846,225
Common stock, $0.01 par value.	468	—	34	(34)	468
Additional paid-in capital - common	266,122	230,131	378,986	(609,117)	266,122
Retained earnings	(671)	91,890	459,172	(30,040)	520,351
Accumulated other comprehensive loss	—	6,137	514	—	6,651
Total j2 Global Inc., stockholders' equity	265,919	328,158	838,706	(639,191)	793,592
Total stockholders' equity	265,919	328,158	838,706	(639,191)	793,592
Total liabilities and stockholders' equity	$632,277	$687,330	$960,332	$(640,122)	$1,639,817

j2 Global, Inc.
Condensed Consolidated Statements of Income
(Unaudited, in thousands except share and per share data)
Three Months Ended
June 30, 2014

	j2 Global, Inc.	j2 Cloud Services, Inc	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	$—	$65,313	$106,042	$(26,611)	$144,744
Cost of revenues	—	19,051	33,065	(26,558)	25,558
Gross profit	—	46,262	72,977	(53)	119,186
Operating expenses:					
Sales and marketing	—	8,968	26,414	(53)	35,329
Research, development and engineering	—	3,471	4,129	—	7,600
General and administrative	400	7,646	23,373	—	31,419
Total operating expenses	400	20,085	53,916	(53)	74,348
Operating income	(400)	26,177	19,061	—	44,838
Interest expense (income), net	650	5,095	(63)	—	5,682
Other expense (income), net	—	(40)	(145)	—	(185)
Income before income taxes	(1,050)	21,122	19,269	—	39,341
Income tax expense	(379)	(1,818)	6,489	—	4,292
Net income attributable to j2 Global, Inc. common shareholders	$(671)	$22,940	$12,780	$—	$35,049

j2 Global, Inc.
Condensed Consolidated Statements of Income
(Unaudited, in thousands except share and per share data)
Six Months Ended
June 30, 2014

	j2 Global, Inc.	j2 Cloud Services, Inc	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	$—	$116,507	$202,676	$(40,315)	$278,868
Cost of revenues	—	39,004	50,131	(40,188)	48,947
Gross profit	—	77,503	152,545	(127)	229,921
Operating expenses:					
Sales and marketing	—	17,980	50,435	(127)	68,288
Research, development and engineering	—	7,091	7,723	—	14,814
General and administrative	400	17,215	42,782	—	60,397
Total operating expenses	400	42,286	100,940	(127)	143,499
Operating income	(400)	35,217	51,605	—	86,422
Interest expense (income), net	650	10,198	(218)	—	10,630
Other expense (income), net	—	(71)	(434)	—	(505)
Income before income taxes	(1,050)	25,090	52,257	—	76,297
Income tax expense	(379)	1,325	11,537	—	12,483
Net income attributable to j2 Global, Inc. common shareholders	$(671)	$23,765	$40,720	$—	$63,814

j2 Global, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands except share and per share data)
Three Months Ended
June 30, 2014

	j2 Global, Inc.	j2 Cloud Services, Inc.	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	$(671)	$22,940	$12,780	$—	$35,049
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment, net of tax expense (benefit)	—	—	1,334	—	1,334
Unrealized gain (loss) on available-for-sale investments, net of tax expense (benefit)	—	2,477	408	—	2,885
Other comprehensive income (loss), net of tax	—	2,477	1,742	—	4,219
Comprehensive income attributable to j2 Global, Inc.	$(671)	$25,417	$14,522	$—	$39,268

j2 Global, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands except share and per share data)
Six Months Ended
June 30, 2014

	j2 Global, Inc.	j2 Cloud Services, Inc.	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Net income	$(671)	$23,765	$40,720	$—	$63,814
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustment, net of tax expense (benefit)	—	—	2,171	—	2,171
Unrealized gain (loss) on available-for-sale investments, net of tax expense (benefit)	—	(421)	666	—	245
Other comprehensive income (loss), net of tax	—	(421)	2,837	—	2,416
Comprehensive income attributable to j2 Global, Inc.	$(671)	$23,344	$43,557	$—	$66,230

j2 Global, Inc.
Condensed Consolidated Statement of Cash Flows
(Unaudited, in thousands)
Six Months Ended
June 30, 2014

	j2 Global, Inc.	j2 Cloud Services, Inc.	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Cash flows from operating activities:					
Net income	$(671)	$23,765	$40,720	$—	$63,814
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation and amortization	—	3,703	24,752	—	28,455
Amortization of discount or premium of investments	—	504	150	—	654
Amortization of financing costs and discounts	265	376	—	—	641
Share-based compensation	—	3,850	497	—	4,347
Excess tax benefits from share-based compensation	—	(4,803)	—	—	(4,803)
Provision for doubtful accounts	—	448	1,362	—	1,810
Deferred income taxes	(92)	5	(693)	—	(780)
(Gain) loss on sale of available-for-sale investments	—	(40)	—	—	(40)
Decrease (increase) in:					
Accounts receivable	—	(789)	6,480	—	5,691
Prepaid expenses and other current assets	(2)	(3,845)	696	—	(3,151)
Other assets	—	46	(9)	—	37
(Decrease) increase in:					
Accounts payable and accrued expenses	839	1,451	(5,906)	—	(3,616)
Income taxes payable	(286)	(4,849)	4,815	—	(320)
Deferred revenue	—	(247)	611	—	364
Liability for uncertain tax positions	—	(1,211)	(2)	—	(1,213)
Other	(1)	(51)	(32)	—	(84)
Net cash provided by operating activities	52	18,313	73,441	—	91,806
Cash flows from investing activities:					
Maturity of certificates of deposit	—	8,210	6,310	—	14,520
Purchase of certificates of deposit	—	—	—	—	—
Sales of available-for-sale investments	—	40,340	11,589	—	51,929

Purchase of available-for-sale investments	—	(45,044)	1	—	(45,043)
Purchases of property and equipment	—	(533)	(4,098)	—	(4,631)
Proceeds from sale of assets	—	—	608	—	608
Acquisition of businesses, net of cash received	—	55	(79,601)	—	(79,546)
Purchases of intangible assets	—	(2,804)	(1,095)	—	(3,899)
Investment in subsidiaries	—	(1,021)	—	1,021	—
Net cash used in investing activities	—	(797)	(66,286)	1,021	(66,062)
Cash flows from financing activities:					
Issuance of long-term debt	402,500	—	—	—	402,500
Debt issuance costs	(11,069)	—	—	—	(11,069)
Repurchases of common stock and restricted stock	—	(4,733)	—	—	(4,733)
Issuance of common stock under employee stock purchase plan	—	123	—	—	123
Exercise of stock options	—	5,247	—	—	5,247
Dividends paid	—	(25,302)	—	—	(25,302)
Excess tax benefits from share-based compensation	—	4,803	—	—	4,803
Deferred payments for acquisitions	—	(3,996)	(9,477)	—	(13,473)
Other	—	(54)	(163)	—	(217)
Intercompany	—	1,958	(937)	(1,021)	—
Net cash provided by financing activities	391,431	(21,954)	(10,577)	(1,021)	357,879
Effect of exchange rate changes on cash and cash equivalents	—	—	457	—	457
Net change in cash and cash equivalents	391,483	(4,438)	(2,965)	—	384,080
Cash and cash equivalents at beginning of period	—	34,406	173,395	—	207,801
Cash and cash equivalents at end of period	$391,483	$29,968	$170,430	$—	$591,881

j2 Global, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands except share and per share data)
As of
December 31, 2013

BALANCE SHEET	j2 Global, Inc.	j2 Cloud Services, Inc.	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
ASSETS					
Cash and cash equivalents	$—	$34,406	$173,395	$—	$207,801
Short-term investments	—	67,848	22,941	—	90,789
Accounts receivable, net	—	11,541	55,704	—	67,245
Prepaid expenses and other current assets	—	16,662	3,402	—	20,064
Deferred income taxes	—	—	3,126	—	3,126
Intercompany receivable	—	4,433	—	(4,433)	—
Total current assets	—	134,890	258,568	(4,433)	389,025
Long-term investments	—	47,351	—	—	47,351
Property and equipment, net	—	11,232	19,968	—	31,200
Trade names, net	—	12,119	70,989	—	83,108
Patent and patent licenses, net	—	15,107	13,423	—	28,530
Customer relationships, net	—	6,125	94,855	—	100,980
Goodwill	—	86,025	371,397	—	457,422
Other purchased intangibles, net	—	5,306	5,609	—	10,915
Investment in subsidiaries	—	357,057	—	(357,057)	—
Deferred income taxes	—	202	1,643	—	1,845
Other assets	—	1,576	1,837	—	3,413
Total assets	$—	$676,990	$838,289	$(361,490)	$1,153,789
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued expenses	$—	$29,419	$40,151	$—	$69,570
Income taxes payable	—	—	1,569	—	1,569
Deferred revenue - short term	—	23,762	12,564	—	36,326
Liability for uncertain tax positions	—	5,532	3	—	5,535
Deferred income taxes	—	906	986	—	1,892
Intercompany payable	—	—	4,433	(4,433)	—
Total current liabilities	—	59,619	59,706	(4,433)	114,892
Long term debt	—	245,670	—	—	245,670

-41-

Liability for uncertain tax positions	—	38,329	—	—	38,329
Deferred income taxes	—	—	35,833	—	35,833
Deferred revenue - long term	—	10,753	436	—	11,189
Other long-term liabilities	—	989	469	—	1,458
Total liabilities	—	355,360	96,444	(4,433)	447,371
Common stock, $0.01 par value	—	461	34	(34)	461
Additional paid-in capital - common	—	216,871	326,984	(326,983)	216,872
Retained earnings	—	97,754	417,136	(30,040)	484,850
Accumulated other comprehensive loss	—	6,544	(2,309)	—	4,235
Total j2 Global Inc., stockholders' equity	—	321,630	741,845	(357,057)	706,418
Noncontrolling interests	—	—	—	—	—
Total stockholders' equity	—	321,630	741,845	(357,057)	706,418
Total liabilities and stockholders' equity	$—	$676,990	$838,289	$(361,490)	$1,153,789

-42-

j2 Global, Inc.
Condensed Consolidated Statements of Income
(Unaudited, in thousands except share and per share data)
Three Months Ended
June 30, 2013

	j2 Global, Inc.	j2 Cloud Services, Inc	Non-guarantor Subsidiaries	Consolidating Adjustments	j2 Global Consolidated
Revenues:					
Total revenues	$—	$71,304	$84,240	$(14,183)	$141,361
Cost of revenues	—	21,278	15,399		