J2 GLOBAL, INC.
Form 10-K
March 02, 2015

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

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

For the fiscal year ended December 31, 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	47-1053457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6922 Hollywood Boulevard, Suite 500, Los Angeles, California 90028, (323) 860-9200
(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x 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 x

As of the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of the common stock held by non-affiliates, based upon the closing price of the common stock as quoted by the NASDAQ Global Select Market was $1,201,977,991. Shares of common stock held by executive officers, directors and holders of more than 5% of the outstanding common stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 20, 2015, the registrant had 48,239,238 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 6, 2015 are incorporated by reference into Part III of this Form 10-K.

This Annual Report on Form 10-K includes 127 pages with the Index to Exhibits located on page 123.

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PART I
Item 1. Business

Overview
j2 Global, Inc., together with its subsidiaries (“j2 Global”, “our”, “us” or “we”), is a global provider of Internet services. Through our Business Cloud Services Division, we provide cloud services to businesses of all sizes, from individuals to enterprises, and license our intellectual property ("IP") to third parties. Our Digital Media Division specializes in the technology and gaming markets, reaching in-market buyers and influencers in both the consumer and business-to-business space.
Our Business Cloud Services Division generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media Division generates revenues from advertising, performance marketing and licensing fees.

In addition to growing our business organically, on a regular basis we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technologies and acquire skilled personnel.
Our consolidated revenues are currently generated from three basic business models, each with different financial profiles and variability. Our Business Cloud Services Division is driven primarily by subscription revenues that are relatively higher margin and stable and predictable from quarter-to-quarter with some seasonal weakness in the fourth quarter. The Business Cloud Services Division also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period-to-period. Our Digital Media Division is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.
We were incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Business Cloud Services segment, operated by our wholly-owned subsidiary, j2 Cloud Services, Inc, and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Business Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments is included within Note 16 - Segment Information of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference. IP licensing activities are included within the Business Cloud Services segment.

Business Cloud Services
We believe that businesses of all sizes are increasingly purchasing cloud services to meet their communication, messaging, data backup, hosting, customer relationship management and other needs. Cloud-based services represent a model for delivering and consuming, independent of location, real time business technology services, resources and solutions over the Internet. Their goal is to reduce or eliminate costs, increase sales and enhance productivity, mobility, business continuity and security. Our eFax® and MyFax® online fax services enable users to receive faxes into their email inboxes and to send faxes via the Internet. eVoice® and Onebox® provide our customers a virtual phone system with various available enhancements. KeepItSafe® enables our customers to securely back up their data and dispose of tape or other physical systems. Our FuseMail® service provides our customers email, archival and perimeter protection solutions, while Campaigner® provides our customers enhanced email marketing solutions. CampaignerCRM® provides customer relationship management solutions designed to increase our customers' sales and increase efficiency. We believe these services represent more efficient and less expensive solutions than many existing alternatives, and provide increased security, privacy, flexibility and mobility.
We generate substantially all of our Business Cloud Services revenues from "fixed" subscription revenues for basic customer subscriptions and “variable” usage revenues generated from actual usage by our subscribers. We also generate Business Cloud Services revenues from patent licensing and sales and advertising. We categorize our Business Cloud Services and solutions into two basic groups: direct inward-dial number (“DID”) -based, which are services provided in

whole or in part through a telephone number, and non-DID-based, which are our other cloud services for business. We market our Business Cloud Services offerings to a broad spectrum of prospective business customers including sole proprietors, small to medium-sized businesses and, enterprises and government organizations. Our marketing efforts include enhancing brand awareness; utilizing online advertising, search engines and affiliate programs; selling through both a telesales and direct sales force; and cross-selling. We continuously seek to extend the number of distribution channels through which we acquire paying customers and improve the cost and volume of customers obtained through our current channels.

We offer the following cloud services and solutions:
Fax
eFax® is the leading brand in the global online fax market. Various tiers of service provide increasing levels of features and functionality to sole proprietors, small and medium-sized businesses, and enterprises around the world. Our most popular services allow individuals to receive and send faxes as email attachments. In addition to eFax®, we offer online fax services under a variety of alternative brands including MyFax®, eFax Plus®, eFax Pro™, eFax Corporate™ and eFax Developer™.
Voice and Unified Communications
eVoice® is a virtual phone system that provides small and medium-sized businesses on-demand voice communications services, featuring a toll-free or local company DID, auto-attendant and menu tree. With these services, a subscriber can assign departmental and individual extensions that can connect to multiple U.S. or Canadian DIDs, including land-line and mobile phones and IP networks, and can enhance reachability through "find me/follow me" capabilities. These services also include advanced integrated voicemail for each extension, effectively unifying mobile, office and other separate voicemail services and improving efficiency by delivering voicemails in both native audio format and as transcribed text.
Onebox® is a full-featured unified communications suite. It combines the features of many of our other branded services, plus added functionality, to provide a full virtual office. Onebox includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.
Online Backup
KeepItSafe® provides fully managed and monitored online backup solutions for businesses, using its ISO-certified platform. By securing critical digital assets via the Internet to highly secure data vaults, customers enjoy peace of mind knowing they have reliable and cost effective backups, and equally importantly rapid restores of the data that keeps their businesses operating. The software installs simply and provides full-server imaging and proven off-site data recovery capabilities without costly investments. Company data is protected from human error, file corruption and other harmful factors.
LiveDrive®, which we acquired on February 10, 2014, provides online backup with added file-sync features for professionals and individuals.

Email and Customer Relationship Management
FuseMail® offers hosted email security, email encryption and email archival services to businesses. These solutions are hosted offsite and seamlessly integrated into a customer's existing email system. The services include hosted email, VirusSMART™ virus scanning, CypherSMART™ encryption services, SpamSMART™ SPAM filtering and VaultSMART™ / PolicySMART™ archiving which delivers a secure, scalable email archiving and customizable compliance tool to correspond with a company's retention policy.

Campaigner® is an email marketing service that enables businesses to easily create and send highly personalized one-to-one email communications to subscribers and customers to build better relationships. Campaigner also helps businesses increase the size of their mailing lists, comply with email regulations like CAN-SPAM and get more emails to more inboxes.

CampaignerCRM® is an easy-to-use, cloud-based CRM solution specifically designed to help small/medium-sized businesses close more deals, reduce the sales cycle and sell larger deals. CampaignerCRM has a unique sales checklist capability that gives sales representatives a step-by-step plan to closing a deal. With CampaignerCRM's Social CRM capabilities, companies can seamlessly integrate a customer's latest information from Twitter®, LinkedIn®, and Facebook® directly into their Contact profile. With integrated email marketing, CampaignerCRM makes it easy to create powerful and eye-catching email marketing programs that deliver consistent and trackable results.

IP Licensing

We hold a number of issued U.S. and foreign patents and other intellectual property rights. We seek to license some of these intellectual property rights to third parties in exchange for fees. We include the results of these activities within the Business Cloud Services segment, exclusive of brand licensing by the Digital Media segment.

Global Network and Operations

Our Business Cloud Services business operates multiple physical Points of Presence (“POPs”) worldwide, a central data center in Los Angeles and several remote disaster recovery facilities. We connect our POPs to our central data centers via redundant, and often times diverse, Virtual Private Networks (“VPNs”) using the Internet. Our network is designed to deliver value-added user applications, customer support and billing services for our customers anywhere in the world and a local presence for our DID-based service customers from thousands of cities in 50 countries on six continents. We offer DIDs covering all major metropolitan areas in the U.S., U.K. and Canada, and such other major cities as Berlin, Hong Kong, Madrid, Manila, Mexico City, Milan, Paris, Rome, Singapore, Sydney, Taipei, Tokyo and Zurich. We have customers located throughout the world.

For financial information about geographic areas, see Note 16 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

Customer Support Services

Our Business Cloud Services customer service organization supports our cloud services customers through a combination of online self-help, email communications, interactive chat sessions and telephone calls. Our Internet-based online self-help tools enable customers to resolve simple issues on their own, eliminating the need to speak or write to our customer service representatives. We use internal personnel and contracted third parties (on a dedicated personnel basis) to answer our customer emails and telephone calls and to participate in interactive chat sessions.

Our Business Cloud Services segment customer service organization provides email support seven days per week, 24 hours per day to all subscribers. Paying subscribers have access to live-operator telephone support seven days per week, 24 hours per day. Dedicated telephone support is provided for corporate customers 24 hours per day, seven days per week. Live sales and customer support services are available in nine languages, including English, Spanish, Dutch, German, French and Cantonese.

Competition

Our Business Cloud Services segment faces competition from, among others, online fax-providers, broadcast fax companies, traditional fax machine or multi-function printer companies, unified messaging/communications providers, telephone companies, voicemail providers, companies offering PBX systems and outsourced PBX solutions, email providers, various data backup and hosting providers and customer relationship management solutions. Historically, our most popular solutions have related to online faxing, including the ability of our customers to access faxes via email and our outbound desktop faxing capabilities. These solutions compete primarily against traditional fax machine manufacturers, which are generally large and well-established companies, as well as publicly traded and privately-held providers of fax servers and related software and outsourced fax services. Some of these companies may have greater financial and other resources than we do.

We believe that the primary competitive factors determining our success in the market for our business cloud services include financial strength and stability; pricing; reputation for reliability and security of service; intellectual property ownership; effectiveness of customer support; sign-up, service and software ease-of-use; service scalability; customer messaging and branding; geographic coverage; scope of services; currency and payment method acceptance; and local language sales, messaging and support. In addition, we believe competitive factors relating to attracting and retaining users include the ability to provide premium and exclusive content and the reach, effectiveness, and efficiency of our marketing services to attract advertisers and publishers are important.

For more information regarding the competition that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Digital Media

Our Digital Media business segment consists of the web properties and business operations of Ziff Davis. The Ziff Davis portfolio of web properties - including PCMag.com, IGN.com, Speedtest.net, AskMen.com and TechBargains.com, among many others - features trusted reviews of technology, gaming and men's lifestyle products and services, news and commentary related to these vertical markets, professional networking tools for IT professionals, speed testing for Internet and network connections, and online deals and discounts for consumers.

We generate Digital Media revenues from the sale of display and video advertising on our owned-and-operated properties as well as third-party sites, from the sale of customer clicks to online merchants and business-to-business leads to IT vendors, and through the licensing of technology, data and other intellectual material to clients. During 2014, our Digital Media web properties attracted 2.6 billion visits and 8 billion page views.
We continue to seek opportunities to acquire additional web properties, both within and outside of the technology, gaming and men's lifestyle verticals, with the goal of monetizing their audiences and content though application of our proprietary technologies and insight.

Web Properties

Our Digital Media properties and services include the following:

PCMag is a trusted online resource for laboratory-based product reviews, technology news and buying guides. We operate the largest and oldest independent testing facility for consumer technology products. Founded in 1984, our lab produces more than 2,200 unbiased technology product and service reviews annually. PCMag's “Editor's Choice” award is recognized globally as the trust-mark for buyers and sellers of technology products and services.

IGN.com is a leading online media and services company focused on gaming and entertainment. Our premium gaming and entertainment content attracts one of the largest online concentrations of men within the 18-34 year old age category.

Speedtest.net is a global market leader in allowing consumers and businesses to test broadband connection speed and mobile network speed. Our desktop solutions test connections to the Internet as well as on internal networks. Our mobile apps test cellular connections and Wi-Fi speeds.

AskMen.com is a leading online source of information and advice focused on men’s lifestyles. AskMen.com features the latest in fashion, grooming, health, sports, fine living and finance.

TechBargains.com is a destination for the best deals and discounts on the web. Our site curates up-to-the-minute deals and coupons on electronics, hardware, software and more.

Display and Video Advertising

We sell display and video advertising on our owned-and-operated web properties as well as targeted advertising across the Internet through various networks. Both display and video advertising can be targeted by subject matter, keyword, demographics, purchase intent, geography and other factors, subject to applicable laws.

Affiliate Marketing

We generate business-to-business leads for IT vendors through the marketing of content, including white papers and webinars, and offer additional lead qualification and nurturing services. On the consumer side, we generate clicks to online merchants by promoting deals and discounts on our web properties.

Licensing

We license our proprietary technology, data and intellectual property to third parties for various purposes. For instance, we will license our Speedtest technology to businesses to allow them to test their internal networks, or we will license the right to use PCMag's “Editors' Choice” logo and other copyrighted editorial content to businesses whose products have earned such distinction.

Competition

Competition in the digital media space is fierce and continues to intensify. Our digital media business competes with online publishers including CNET, PCWorld, TechTarget, AOL Tech, GameSpot and others as well as with portals, advertising networks, social media sites and other platforms, including Yahoo, Facebook, Twitch and others.

We believe that the primary competitive factors determining our success in the market for our digital media include Ziff Davis's reputation as a trusted source of objective information and our ability to attract Internet users and advertisers to our web properties.
For more information regarding the competition that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Patents and Proprietary Rights

We regard the protection of our intellectual property rights as important to our success. We aggressively protect these rights by relying on a combination of patents, trademarks, copyrights, trade dress and trade secret laws and by using the domain name dispute resolution system. We also enter into confidentiality and invention assignment agreements with employees and contractors, and nondisclosure agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information.

Through a combination of internal technology development and acquisitions, we have built a portfolio of numerous U.S. and foreign patents and multiple pending U.S. and foreign patent applications. We generate licensing revenues from some of these patents. We are currently engaged in litigation to enforce several of our patents. For a more detailed description of the lawsuits in which we are involved, see Item 3. Legal Proceedings. We intend to continue to invest in patents, to aggressively protect our patent assets from unauthorized use and to continue to generate patent licensing revenues from authorized users.

We have multiple pending U.S. and foreign patent applications, all covering components of our technology and in some cases technologies beyond those that we currently offer. Four of our core U.S. patents have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office (the “USPTO”). We seek patents for inventions that contribute to our business and technology strategy. We have obtained patent licenses for certain technologies where such licenses are necessary or advantageous. Unless and until patents are issued on the pending applications, no patent rights on those applications can be enforced.

Over the past five years, we have generated royalties from licensing certain of our patents and have enforced these patents against companies using our patented technology without our permission. We have pending patent infringement lawsuits against several companies. In each case, we are seeking at least a reasonable royalty for the infringement of the patent(s) in suit, a permanent injunction against continued infringement and attorneys' fees, interest and costs.

We own and use a number of trademarks in connection with our services, including word and logo trademarks for eFax, MyFax, eFax Corporate, eVoice, KeepItSafe, Fusemail, Onebox, PCMag, IGN and AskMen, among others. Many of these trademarks are registered in the U.S. and other countries, and numerous trademark applications are pending in the U.S. and several non-U.S. jurisdictions. We hold numerous Internet domain names, including “efax.com”, “efaxcorporate.com”, “myfax.com”, “fax.com”, “evoice.com”, “keepitsafe.com”, “fusemail.com”, “campaigner.co “onebox.com”, “pcmag.com”, “techbargains.com”, “ign.com” “askmen.com” and "Speedtest.net", among others. We have filed to protect our rights to our brands in certain alternative top-level domains such as “.org”, “.net“, “.biz”, “.info” and “.us”, amon others.

Like other technology-based businesses, we face the risk that we will be unable to protect our intellectual property and other proprietary rights, and the risk that we will be found to have infringed the proprietary rights of others. For more information regarding these risks, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business over the Internet and, in some cases, using services of third-party telecommunications and Internet service providers. These include, among others, laws and regulations addressing privacy, data storage, retention and security, freedom of expression, content, taxation, DIDs, advertising and intellectual property. We are not a regulated telecommunications provider in the U.S. For information about the risks we face with respect to governmental regulation, please see Item 1A of this Annual Report on Form 10-K entitled Risk Factors.

Seasonality

Our Business Cloud Services revenues are impacted by the number of effective business days in a given period. We traditionally experience lower than average Business Cloud Services usage and customer sign-ups in the fourth quarter. Revenues associated with our Digital Media operations are subject to seasonal fluctuations, becoming most active during the fourth quarter holiday period due to increased online retail activity.

Research and Development

The markets for our services are evolving rapidly, requiring ongoing expenditures for research and development and timely introduction of new services and service enhancements. Our future success will depend, in part, on our ability to enhance our current services, to respond effectively to technological changes, to sell additional services to our existing customer base and to introduce new services and technologies that address the increasingly sophisticated needs of our customers.

We devote significant resources to develop new services and service enhancements. Our research, development and engineering expenditures were $30.7 million, $25.5 million and $18.6 million for the fiscal years ended December 31, 2014, 2013 and 2012, respectively. For more information regarding the technological risks that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Employees

As of December 31, 2014, we had approximately 1,410 employees, the majority of whom are in the U.S.

Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel. Our employees are not represented by any collective bargaining unit or agreement. We have never experienced a work stoppage. We believe our relationship with our employees is good.

Web Availability of Reports

Our corporate information Website is www.j2global.com. The information on our Website is not part of this Annual Report on Form 10-K. However, on the Investor Relations portion of this Website the public can access free of charge our annual, quarterly and current reports, changes in the stock ownership of our directors and executive officers and other documents filed with the Securities and Exchange Commission (“SEC”) as soon as reasonably practicable after the filing dates. Further, the SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

Item 1A. Risk Factors

Before deciding to invest in j2 Global or to maintain or increase your investment, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere in this Annual Report on Form 10-K and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. In that event, the market price of our common stock will likely decline and you may lose part or all of your investment.

Risks Related To Our Business

A system failure or security breach could delay or interrupt service to our customers, harm our reputation or subject us to significant liability.

Our operations are dependent on our network being free from interruption by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, computer viruses, cyber attacks or other events beyond our control. There can be no assurance that our existing and planned precautions of backup systems, regular data backups, security protocols and other procedures will be adequate to prevent significant damage, system failure or data loss. Also, many of our services are web-based, and the amount of data we store for our users on our servers has been increasing. Despite the implementation of security measures, our infrastructure may be vulnerable to computer viruses, hackers or similar disruptive problems caused by our subscribers, employees or other Internet users who attempt to invade public and private data networks. Further, in some cases we do not have in place disaster recovery facilities for certain ancillary services. Currently, a significant number of our cloud services customers authorize us to bill their credit or debit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology to effect secure transmission of confidential information, including customer credit and debit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us to protect transaction data. Any system failure or security breach that causes interruptions or data loss in our operations or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential information could result in significant liability to us (including in the form of judicial decisions and/or settlements, regulatory findings and/or forfeitures, and other means), cause considerable harm to us and our reputation (including requiring notification to customers, regulators, and/or the media) and deter current and potential customers from using our services. Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We rely heavily on the revenue generated by our fax services.

Currently, a substantial portion of the overall traffic on our Business Cloud Services segment's network is fax related. That segment's success is therefore dependent upon the continued use of fax as a messaging medium and/or our ability to diversify our service offerings and derive more revenue from other services, such as voice, online backup, email and unified messaging solutions. If the demand for fax as a messaging medium decreases, and we are unable to replace lost revenues from decreased usage or cancellation of our fax services with a proportional increase in our customer base or with revenues from our other services, our business, financial condition, operating results and cash flows could be materially and adversely affected.

We believe that one of the attractions to fax is that fax signatures are a generally accepted method of executing contracts. There are on-going efforts by governmental and non-governmental entities to create a universally accepted method for electronically signing documents. Widespread adoption of so-called “digital signatures” could reduce demand for our fax services and, as a result, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

In order to sustain our cloud services growth, we must continue to attract new paid subscribers at a greater rate and with at least an equal amount of revenues per subscriber than we lose existing paid subscribers.

We may not be able to continue to grow or even sustain our current base of paid cloud services customers on a quarterly or annual basis. Our future success depends heavily on the continued growth of our paid cloud services user base. In order to sustain our growth, we must continuously obtain an increasing number of paid cloud services users to replace the users who cancel their service. In addition, these new users must provide revenue levels per subscriber that are greater than or equal to the levels of our current customers or the customers they are replacing. We must also retain our existing cloud services customers while continuing to attract new ones at desirable costs. We cannot be certain that our continuous efforts to offer high quality services at attractive prices will be sufficient to retain our cloud services customer base or attract new cloud services customers at rates sufficient to offset customers who cancel their service. In addition, we believe that competition from companies providing similar or alternative services has caused, and may continue to cause, some of our cloud services customers or prospective cloud services customers to sign up with or to switch to our competitors' services. Moreover, we have experienced, and may continue to experience, an overall reduction in our average revenue per subscriber in our cloud services business due to a combination of a shift in the mix of products sold and reduced usage from customers. These factors may adversely affect our cloud services customer retention rates, the number of our new cloud services customer acquisitions, our average revenue per cloud services subscriber and/or subscriber usage levels. Any combination of a decline in our rate of new customer sign-ups, decline in usage rates of our customers, decline in average revenue per subscriber, decline in customer retention rates or decline in the size of our overall customer base may result in a decrease in our cloud services revenues, which could have a material adverse effect on our total revenues, business, prospects, financial condition, operating results and cash flows.

The majority of our revenue within the Digital Media segment is derived from advertising and a reduction in spending by or loss of current or potential advertisers would cause our revenue and operating results to decline.

In most cases, our agreements with advertisers have a term of less than one year and may be terminated at any time by the advertiser or by us. Advertising agreements often provide that we receive payment based on "served" impressions but the online ad industry has started to shift so that payment will be made based on "viewable" impressions, and that change in basis could have a negative effect on available impressions thereby reducing our revenue potential. Accordingly, it is difficult to forecast display revenue accurately. In addition, our expense levels are based in part on expectations of future revenue. The state of the global economy and availability of capital has impacted and could further impact the advertising spending patterns of existing and potential advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

If we are unable to develop or commission compelling content in our Digital Media business at acceptable prices, our expenses may increase, the number of visitors to our online properties may not grow as anticipated, or may decline, and/or visitors' level of engagement with our websites may decline, any of which could harm our operating results.
Our future success depends in part on the ability of our Digital Media segment to aggregate compelling content and deliver that content through our online properties. We believe that users will increasingly demand high-quality content and services. Such content and services may require us to make substantial payments to third parties if we are unable to develop content of our own. Our ability to maintain and build relationships with such third-party providers is critical to our success. In addition, as new methods for accessing the Internet become available, including through alternative devices, we may need to enter into amended agreements with existing third-party providers to cover the new devices. We may be unable to monetize the activity on these alternative devices including mobile handsets which may supplant current traffic that we monetize. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content or services we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our third-party providers may increase the prices at which they offer their content and services to us and potential providers may not offer their content or services to us at all, or may offer them on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers could harm our operating results and financial condition. Further, many of our content and services licenses with third parties are non-exclusive. Accordingly, other media providers may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate our properties from other businesses. If we are unable to develop compelling content of our own, we may be required to engage freelance services or obtain licensed content which may not be at reasonable prices which could harm our operating results.

We could be subject to changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities which may adversely impact our financial results.

We are a U.S. based multinational company subject to taxes in the U.S. and numerous foreign jurisdictions, including Ireland, where a number of the our subsidiaries are organized. Our provision for income taxes is based on a jurisdictional mix of earnings, statutory tax rates and enacted tax rules, including transfer pricing. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. As a result, our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including in the U.S. and Ireland. For example, Ireland tax authorities announced changes to the treatment of non-resident Irish entities, commonly used in a “double Irish” structure. The changes will impact newly created Irish entities immediately but are not expected to impact existing non-resident Irish entities, such as ours, until after December 31, 2020. These changes may adversely impact our effective tax rate and harm our financial position and results of operations.

Additionally, the Organization for Economic Co-Operation and Development recently released draft guidance covering various topics, including addressing the “tax challenges of the digital economy,” country-by-country reporting, and definitional changes to permanent establishment, which could ultimately impact our tax liabilities to foreign jurisdictions and treatment of our foreign earnings from a U.S. perspective which may adversely impact our effective tax rate and harm our financial position and results of operations.

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. We are currently under audit by the California Franchise Tax Board (“FTB”) for tax years 2009 through 2011 and by other state taxing authorities for various periods. The Company is also under audit by the IRS for 2009 and 2011 income taxes and by the Canada Revenue Agency ("CRA") for 2010 through 2011 Our future income tax returns are likely to become the subject of audits by these or other taxing authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax reserves and expense. If our reserves are not sufficient to cover these contingencies, such inadequacy could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

Our business and users may be subject to telecommunications and sales taxes.

As a provider of cloud services for business, we do not provide telecommunications services. Thus, we believe that our business and our users (by using our services) are not subject to various telecommunication taxes. However, several state taxing authorities have challenged this belief and have and may continue to audit and assess our business and operations with respect to telecommunications and sales taxes.

In addition, the application of other indirect taxes (such as sales and use tax, value added tax ("VAT"), goods and services tax, business tax and gross receipt tax) to e-commerce businesses such as j2 Global and our users is a complex and evolving issue.

In November 2007, the U.S. federal government enacted legislation extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet through November 2014 (subsequently extended through October 1, 2015). This moratorium 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 application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business. We are currently under audit for indirect taxes in several states and municipalities. We currently have no financial reserves established with respect to indirect taxes, as we have determined that the liability is not probable and estimable. As a result, if a material indirect tax liability associated with prior periods were to be recorded, it could materially affect our financial results for the period in which it is recorded.

Weakness in the economy has adversely affected and may continue to adversely affect segments of our customers, which has resulted and may continue to result in decreased usage and advertising levels, customer acquisitions and customer retention rates and, in turn, could lead to a decrease in our revenues or rate of revenue growth.

Certain segments of our customers have been and may continue to be adversely affected by the recent weakness in the general economy and the continuing slow pace of recovery. To the extent these customers' businesses have been adversely affected by the economic downturn and their usage of our services and/or our customer retention rates to decline. This may result in decreased cloud services subscription and/or usage revenues and decreased advertising revenues in our digital media business, which may adversely impact our revenues and profitability.

If our Business Cloud Services segment experiences excessive fraudulent activity or cannot meet evolving credit card company merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment and our subscriber base could decrease significantly.

A significant number of our paid cloud services subscribers authorize us to bill their credit card accounts directly for all service fees charged by us. If people pay for these services with stolen credit cards, we could incur substantial unreimbursed third-party vendor costs. We also incur losses from claims that the customer did not authorize the credit card transaction to purchase our service. If the numbers of unauthorized credit card transactions become excessive, we could be assessed substantial fines for excess chargebacks and could lose the right to accept credit cards for payment. In addition, credit card companies may change the merchant standards required to utilize their services from time to time. If we are unable to meet these new standards, we could be unable to accept credit cards. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our paid cloud services subscriber base to significantly decrease, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Increased numbers of credit and debit card declines in our cloud business could lead to a decrease in our cloud business revenues or rate of revenue growth.

A significant number of our paid cloud services subscribers pay for their services through credit and debit cards. Weakness in certain segments of the credit markets and in the U.S. and global economies, which continue to experience heightened levels of unemployment, has resulted in and may continue to result in increased numbers of rejected credit and debit card payments. We believe this has resulted in and may continue to result in increased cloud services customer cancellations and decreased customer signups. This also has required and may continue to require us to increase our reserves for doubtful accounts and write-offs of accounts receivables. The foregoing may adversely impact our revenues and profitability.

Future acquisitions could result in dilution, operating difficulties and other harmful consequences, and may require us to incur additional indebtedness.

We may acquire or invest in additional businesses, products, services and technologies that complement or augment our service offerings and customer base. We cannot assure that we will successfully identify suitable acquisition candidates, integrate or manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment, or manage a geographically dispersed company. Acquisitions could divert attention from management and from other business concerns and could expose us to unforeseen liabilities or unfavorable accounting treatment. In addition, we may lose key employees while integrating any new companies, and we may have difficulties entering new markets where we have no or limited prior experience.

We may pay for some acquisitions by issuing additional common stock, which would dilute current stockholders, or incur debt, which may cause us to incur additional interest expense, leverage and debt service requirements. We may also use cash to make acquisitions, which may limit our availability of cash for other uses, such as interest payments, stock repurchases or dividends. We will be required to review goodwill and other intangible assets for impairment in connection with past and future acquisitions, which may materially increase operating expenses if an impairment issue is identified.

The markets in which we operate are highly competitive and our competitors may have greater resources to commit to growth, superior technologies, cheaper pricing or more effective marketing strategies. Also, we face significant competition for users, advertisers, publishers, developers and distributors.

For information regarding our competition, and the risks arising out of the competitive environment in which we operate, see the section entitled Competition contained in Item 1 of this Annual Report on Form 10-K. In addition, some of our competitors include major companies with much greater resources and significantly larger subscriber bases than we have. Some of these competitors offer their services at lower prices than we do. These companies may be able to develop and expand their network infrastructures and capabilities more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we can. There can be no assurance that additional competitors will not enter markets that we are currently serving and plan to serve or that we will be able to compete effectively. Competitive pressures may reduce our revenue, operating profits or both.

Our Digital Media segment faces significant competition from online media companies as well as from social networking sites, traditional print and broadcast media, general purpose and vertical search engines and various e-commerce sites.
Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content. We compete against these and other companies to attract and retain users, advertisers and developers. We also compete with social media and networking sites which are attracting a substantial and increasing share of users and users' online time, and may continue to attract an increasing share of online advertising dollars.
In addition, several competitors offer products and services that directly compete for users with our digital media offerings. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad networks, demand side platforms, ad serving technologies and sponsored search offerings. We also compete with traditional print and broadcast media companies to attract advertising spending. Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market.Some of the competitors for our Business Cloud Services segment in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.
If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

Our growth will depend on our ability to develop our brands and market new brands, and these efforts may be costly.

We believe that continuing to strengthen our current brands and effectively launch new brands will be critical to achieving widespread acceptance of our services, and will require continued focus on active marketing efforts. The demand for and cost of online and traditional advertising have been increasing and may continue to increase. Accordingly, we may need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other efforts to create and maintain brand loyalty among users. In addition, we are supporting an increasing number of brands, each of which requires its own resources. Brand promotion activities may not yield increased revenues, and even if they do, any increased revenues may not offset the expenses incurred in building our brands. If we fail to promote and maintain our brands, or if we incur substantial expense in an unsuccessful attempt to promote and maintain our brands, our business could be harmed.

If our trademarks are not adequately protected or we are unable to protect our domain names, our reputation and brand could be adversely affected.

Our success depends, in part, on our ability to protect our trademarks. We rely on some brands that use the letter “e” before a word, such as “eFax” and “eVoice”. Some regulators and competitors have taken the view that the “e” is descriptive. Others have claimed that these brands are generic when applied to the products and services our Business Cloud Services segment offers. However, we have obtained U.S. and foreign trademarks for eFax and eVoice. If we lose our existing trademark protections or we are unable to to obtain and/or protect trademark rights to our other brands, the value of these brands may be diminished, competitors may be able to more effectively mimic our service and methods of operations, the perception of our business and service to subscribers and potential subscribers may become confused in the marketplace and our ability to attract subscribers may be adversely affected.

We currently hold various domain names relating to our brands, both in the U.S. and internationally. The acquisition and maintenance of domain names generally are regulated by governmental agencies and their designees. The regulation of domain names in the U.S. may change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names in the U.S. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights in the U.S. is unclear. Similarly, international rules governing the acquisition and maintenance of domain names in foreign jurisdictions are sometimes different from U.S. rules, and we may not be able to obtain all of our domains internationally. As a result of these factors, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights. In addition, failure to protect our domain names domestically or internationally could adversely affect our reputation and brands, and make it more difficult for users to find our websites and our services.

Inadequate intellectual property protections could prevent us from enforcing or defending our proprietary technology.

Our success depends in part upon our proprietary technology. We rely on a combination of patents, trademarks, trade secrets, copyrights and contractual restrictions to protect our proprietary technology. However, these measures provide only limited protection, and we may not be able to detect unauthorized use or take appropriate steps to enforce our intellectual property rights, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S. While we have been issued a number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to us.

In addition, effective protection of patents, copyrights, trademarks, trade secrets and other intellectual property may be unavailable or limited in some foreign countries. As a result, we may not be able to effectively prevent competitors in these regions from infringing our intellectual property rights, which could reduce our competitive advantage and ability to compete in those regions and negatively impact our business.

Companies in our segments have experienced substantial litigation regarding intellectual property. Currently, we have pending patent infringement lawsuits, both offensive and defensive, against several companies in this industry. This or any other litigation to enforce or defend our intellectual property rights may be expensive and time-consuming, could divert management resources and may not be adequate to protect our business.

We may be found to have infringed the intellectual property rights of others, which could expose us to substantial damages or restrict our operations.

We have been and expect to continue to be subject to claims and legal proceedings that we have infringed the intellectual property rights of others. The ready availability of damages and royalties and the potential for injunctive relief has increased the costs associated with the litigation and settlement of patent infringement claims. In addition, we may be required to indemnify our resellers and users for similar claims made against them. Any claims against us, whether or not meritorious, could require us to spend significant time and money in litigation, pay damages, develop new intellectual property or acquire licenses to intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available at all or have acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We may be subject to risks from international operations.

As we continue to expand our business operations in countries outside the U.S., our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; political or social unrest or economic instability in a specific country or region including and continuation or worsening of the current Eurozone crisis; trade protection measures and other regulatory requirements which may affect our ability to provide our services; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries and affiliates. Any or all of these factors could have a material adverse impact on our future business, prospects, financial condition, operating results and cash flows.

We have only limited experience in marketing and operating our services in certain international markets. Moreover, we have in some cases experienced and expect to continue to experience in some cases higher costs as a percentage of revenues in connection with establishing and providing services in international markets versus the U.S. In addition, certain international markets may be slower than the U.S. in adopting the Internet and/or outsourced messaging and communications solutions and so our operations in international markets may not develop at a rate that supports our level of investments.

As we continue to grow our international operations, adverse currency fluctuations and foreign exchange controls could have a material adverse effect on our balance sheet and results of operations.

As we expand our international operations, we could be exposed to significant risks of currency fluctuations. In some countries outside the U.S., we already offer our services in the applicable local currency, including but not limited to the Australian Dollar, the Canadian Dollar, the Euro, the Hong Kong Dollar, the Japanese Yen, the New Zealand Dollar, the Norwegian Kroner and the British Pound Sterling. As a result, fluctuations in foreign currency exchange rates affect the results of our operations, which in turn may materially adversely affect reported earnings and the comparability of period-to-period results of operations. Changes in currency exchange rates may also affect the relative prices at which we and foreign competitors sell our services in the same market. In addition, changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Furthermore, we may become subject to exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. Dollars. We cannot assure you that future exchange rate movements will not have a material adverse effect on our future business, prospects, financial condition, operating results and cash flows. To date, we have not entered into foreign currency hedging transactions to control or minimize these risks.

We may be engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management's time and attention.

From time to time we are subject to litigation or claims, including in the areas of patent infringement and anti-trust, that could negatively affect our business operations and financial condition. Such disputes could cause us to incur unforeseen expenses, occupy a significant amount of our management's time and attention and negatively affect our business operations and financial condition. We are unable to predict the outcome of our currently pending cases. Some or all of the money we may be required to pay to defend or to satisfy a judgment or settlement of any or all of these proceedings may not be covered by insurance. Under indemnification agreements we have entered into with our current and former officers and directors, we are required to indemnify them, and advance expenses to them, in connection with their participation in proceedings arising out of their service to us. These payments may be material. For a more detailed description of the lawsuits in which we are involved, see Item 3. Legal Proceedings.

The successful operation of our business depends upon the supply of critical elements and marketing relationships from other companies.

We depend upon third parties for several critical elements of our business, including various technology, infrastructure, customer service and marketing components. We rely on private third-party providers for our Internet and other connections and for co-location of a significant portion of our servers. Any disruption in the services provided by any of these suppliers, or any failure by them to handle current or higher volumes of activity could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. To obtain new cloud services customers, we have marketing agreements with operators of leading search engines and websites. These arrangements typically are not exclusive and do not extend over a significant period of time. Failure to continue these relationships on terms that are acceptable to us or to continue to create additional relationships could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Our business is highly dependent on our billing systems.

A significant part of our revenues depends on prompt and accurate billing processes. Customer billing is a highly complex process, and our billing systems must efficiently interface with third-party systems, such as those of credit card processing companies. Our ability to accurately and efficiently bill our customers is dependent on the successful operation of our billing systems and the third-party systems upon which we rely, such as our credit card processor, and our ability to provide these third parties the information required to process transactions. In addition, our ability to offer new services or alternative-billing plans is dependent on our ability to customize our billing systems. Any failures or errors in our billing systems or procedures could impair our ability to properly bill our current customers or attract and service new customers, and thereby could materially and adversely affect our business and financial results.

Our success depends on our retention of our executive officers, senior management and our ability to hire and retain key personnel.

Our success depends on the skills, experience and performance of executive officers, senior management and other key personnel. The loss of the services of one or more of our executive officers, senior managers or other key employees could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. Our future success also depends on our continuing ability to attract, integrate and retain highly qualified technical, sales and managerial personnel. Competition for these people is intense, and there can be no assurance that we can retain our key employees or that we can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future.

We are exposed to risk if we cannot maintain or adhere to our internal controls and procedures.

We have established and continue to maintain, assess and update our internal controls and procedures regarding our business operations and financial reporting. Our internal controls and procedures are designed to provide reasonable assurances regarding our business operations and financial reporting. However, because of the inherent limitations in this process, internal controls and procedures may not prevent or detect all errors or misstatements. To the extent our internal controls are inadequate or not adhered to by our employees, our business, financial condition and operating results could be materially adversely affected.

If we are not able to maintain internal controls and procedures in a timely manner, or without adequate compliance, we may be unable to accurately report our financial results or prevent fraud and may be subject to sanctions or investigations by regulatory authorities such as the SEC or NASDAQ. Any such action or restatement of prior-period financial results could harm our business or investors' confidence in j2 Global, and could cause our stock price to fall.

A substantial portion of our cash and investments is invested outside of the U.S. We may be subject to incremental taxes upon repatriation of such funds to the U.S.

A significant portion of our worldwide cash reserves are generated by, and therefore held in, foreign jurisdictions. To the extent we have excess cash in foreign locations that could be used in, or is needed by, our U.S. operations, we may incur significant taxes to repatriate there funds.

Our level of indebtedness could adversely affect our financial flexibility and our competitive position.

Our level of indebtedness could have significant effects on our business. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our current indebtedness and any other indebtedness we may incur in the future;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other

elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends;

- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- require us to repatriate cash for debt service from our foreign subsidiaries resulting in tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments;
- restrict us from exploiting business opportunities;
- make it more difficult to satisfy our financial obligations, including payments on our indebtedness;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the indenture governing the 8.0% Senior Notes due 2020 (the "Senior Notes") of our subsidiary, j2 Cloud Services, Inc. ("j2 Cloud Services") do, and the agreements evidencing or governing other future indebtedness may, contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

To service our debt and fund our other capital requirements, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to meet our debt service obligations and to fund working capital, capital expenditures, acquisitions and other elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends, will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. To some extent, this is subject to general and regional economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot ensure that we will generate cash flow from operations, or that future borrowings will be available, in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional indebtedness or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The indenture governing the Senior Notes restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise indebtedness or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our debt obligations.

The terms of the indenture governing the Senior Notes restrict the current and future operations of j2 Cloud Services and, indirectly, us, particularly the ability of j2 Cloud Services to respond to changes or to take certain actions.

The indenture governing the Senior Notes contains a number of restrictive covenants that impose significant operating and financial restrictions on j2 Cloud Services and, indirectly, us and may limit our ability to plan for or react to market conditions, meet capital needs or make acquisitions, or otherwise restrict our activities or business plans. These include restrictions on j2 Cloud Service's ability to:

- incur additional indebtedness;
- create liens;
- engage in sale-leaseback transactions;
- pay dividends or make distributions in respect of capital stock;
- purchase or redeem capital stock;
- make investments or certain other restricted payments;
- sell assets;
- enter into transactions with affiliates; or
- effect a consolidation or merger.

A breach of the covenants under the indenture governing the Senior Notes could result in an event of default. Such a default may allow the creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies. In the event our lenders or the holders of our Senior Notes accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness or our other indebtedness.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes or to repurchase the Convertible Notes upon a fundamental change or on a repurchase date or Senior Notes upon a change in control, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Convertible Notes or the Senior Notes.

Holders of the 3.25% convertible senior notes due June 15, 2029 (the "Convertible Notes") will have the right to require us to repurchase their Convertible Notes on each of June 15, 2021 and June 15, 2024 and upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes), in each case, at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. Holders of the Senior Notes also have the right to require our subsidiary, j2 Cloud Services, to repurchase the Senior Notes upon the occurrence of a change in control (as defined in the indenture governing the Senior Notes) at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Convertible Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Convertible Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Notes or Senior Notes surrendered therefor or Convertible Notes being converted. In addition, our ability to repurchase the Convertible Notes or Senior Notes or to pay cash upon conversions of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Convertible Notes or Senior Notes at a time when the repurchase is required by the applicable indenture or to pay any cash payable on future conversions of the Convertible Notes as required by the Convertible Notes indenture would constitute a default under the Convertible Notes indenture. A default under either indenture or the fundamental change or change of control itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Our interest deductions attributable to the Convertible Notes may be deferred, limited or eliminated under certain conditions.

We believe that the Convertible Notes are subject to the IRS contingent payment debt instrument regulations. This conclusion is subject to complex factual and legal uncertainty and is not binding on the IRS or the courts. If the IRS takes a contrary position and a court sustains the IRS’ position, our tax deductions would be severely diminished with a resulting adverse effect on our cash flow and ability to service the Convertible Notes.

Risks Related To Our Industries

Our services may become subject to burdensome regulation, which could increase our costs or restrict our service offerings.

We believe that our cloud services are “information services” under the Telecommunications Act of 1996 and related precedent, or, if not “information services,” that we are entitled to other exemptions, meaning that we are not currently subject to U.S. telecommunications services regulation at both the federal and state levels. In connection with our cloud services business, we utilize data transmissions over public telephone lines and other facilities provided by carriers. These transmissions are subject to foreign and domestic laws and regulation by the Federal Communications Commission (the “FCC”), state public utility commissions and foreign governmental authorities. These regulations affect the availability of DIDs, the prices we pay for transmission services, the administrative costs associated with providing our services, the competition we face from telecommunications service providers and other aspects of our market. However, as messaging and communications services converge and as the services we offer expand, we may become subject to FCC or other regulatory agency regulation. It is also possible that a federal or state regulatory agency could take the position that our offerings, or a subset of our offerings, are properly classified as telecommunications services or otherwise not entitled to certain exemptions upon which we currently rely. Such a finding could potentially subject us to fines, penalties or enforcement actions as well as liabilities for past regulatory fees and charges, retroactive contributions to various telecommunications-related funds, telecommunications-related taxes, penalties and interest. It is also possible that such a finding could subject us to additional regulatory obligations that could potentially require us either to modify our offerings in a costly manner, diminish our ability to retain customers, or discontinue certain offerings, in order to comply with certain regulations. Changes in the regulatory environment could decrease our revenues, increase our costs and restrict our service offerings. In many of our international locations, we are subject to regulation by the applicable governmental authority.

In the U.S., Congress, the FCC, and a number of states require regulated telecommunications carriers to contribute to federal and/or state Universal Service Funds (“USF”). Generally, USF is used to subsidize the cost of providing service to low-income customers and those living in high cost or rural areas. Congress, the FCC and a number of states are reviewing the manner in which a provider's contribution obligation is calculated, as well as the types of entities subject to USF contribution obligations. If any of these reforms are adopted, they could cause us to alter or eliminate our non-paid services and to raise the price of our paid services, which could cause us to lose customers. Any of these results could lead to a decrease in our revenues and net income and could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

In August 2005, the FCC reclassified wireline broadband Internet access services (i.e., DSL) as information services. The decision enables incumbent local exchange carriers to charge higher rates for underlying broadband transmission service to competitive local exchange carriers that service some of our lines in various states. This could have an indirect impact on our profitability and operations.

The Telephone Consumer Protection Act (the “TCPA”) and FCC rules implementing the TCPA, as amended by the Junk Fax Act, prohibit sending unsolicited facsimile advertisements to telephone fax machines. The FCC may take enforcement action against companies that send “junk faxes” and individuals also may have a private cause of action. Although entities that merely transmit facsimile messages on behalf of others are not liable for compliance with the prohibition on faxing unsolicited advertisements, the exemption from liability does not apply to fax transmitters that have a high degree of involvement or actual notice of an illegal use and have failed to take steps to prevent such transmissions. We take significant steps to ensure that our services are not used to send unsolicited faxes on a large scale, and we do not believe that we have a high degree of involvement or notice of the use of our service to broadcast junk faxes. However, because fax transmitters do not enjoy an absolute exemption from liability under the TCPA and related FCC rules, we could face FCC inquiry and enforcement or civil litigation, or private causes of action, if someone uses our service for such impermissible purposes. If this were to occur and we were to be held liable for someone's use of our service for transmitting unsolicited faxes, the financial penalties could cause a material adverse effect on our operations.

Also, in the U.S., the Communications Assistance to Law Enforcement Act (“CALEA”) requires telecommunications carriers to be capable of performing wiretaps and recording other call identifying information. In September 2005, the FCC released an order defining telecommunications carriers that are subject to CALEA obligations as facilities-based broadband Internet access providers and Voice-over-Internet-Protocol (“VoIP”) providers that interconnect with the public switched telephone network. As a result of this definition, we do not believe that j2 Global is subject to CALEA. However, if the category of service providers to which CALEA applies broadens to also include information services, that change may impact our operations.

The FCC recently adopted new rules requiring certain providers, like us, to enable text-to-911 messages from our platform. We are in the process of implementing this solution. Emergency call centers will have the ability to request that we activate this functionality when such centers are capable of receiving these communications. We may be subject to fines, penalties or enforcement actions, at both the federal and state levels, if our service is found to be out of compliance or we may decide to discontinue the service offering. Additionally, providing such functionality may increase our costs of providing our text messaging service which may reduce our profits, or make our offering less competitive in the marketplace if we increase the price to subscribers and lead to less revenue if we lose subscribers due to price increases. We cannot predict the impact of these new text-to-911 rules on our text messaging offering at this time.

In addition, for calls placed to certain of our European DIDs we receive revenue share payments from the local telecommunications carrier. The per minute rates applicable to these "calling party pays" DIDs is subject to foreign laws and regulations. A reduction in the permitted per minute rates would reduce our revenues and could cause us to restrict our service offerings.

We are subject to a variety of new and existing laws and regulations which could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.
The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, security, defamation, pricing, advertising, taxation, promotions, billing, consumer protection, accessibility, content regulation, and intellectual property ownership and infringement in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Further, the application of existing laws to us or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol, adult content, tobacco, or firearms, as well as insurance and securities brokerage, and legal services, can be unclear. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. We may incur substantial liabilities for expenses necessary to defend such litigation or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

The use of consumer data by online service providers and advertising networks is a topic of active interest among federal, state, and international regulatory bodies, and the regulatory environment is unsettled. Federal, state, and international laws and regulations govern the collection, use, retention, disclosure, sharing and security of data that we receive from and about our users. Our privacy policies and practices concerning the collection, use, and disclosure of user data are posted on our Websites.

A number of U.S. federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business. If these or other laws or judicial interpretations are changed to narrow their protections, or if international jurisdictions refuse to apply similar provisions in foreign lawsuits, we will be subject to greater risk of liability, our costs of compliance with these regulations or to defend litigation may increase, or our ability to operate certain lines of business may be limited. The Children's Online Privacy Protection Act is intended to impose restrictions on the ability of online services to collect some types of information from children under the age of 13. In addition, Providing Resources, Officers, and Technology to Eradicate Cyber Threats to Our Children Act of 2008 (“PROTECT Act”) requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Other federal, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business.

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the “CAN-SPAM Act”), which allows for penalties that run into the millions of dollars, requires commercial emails to include identifying information from the sender and a mechanism for the receiver to opt out of receiving future emails. Several states have enacted additional, more restrictive and punitive laws regulating commercial email. Foreign legislation exists as well, including Canada’s Anti-Spam Legislation (“CASL”) and the European laws that have been enacted pursuant to European Union Directive 2002/58/EC and its amendments. We believe that our email practices comply with the requirements of the CAN-SPAM Act, state laws, and applicable foreign legislation. If we were ever found to be in violation of these laws and regulations, or any other laws or regulations, our business, financial condition, operating results and cash flows could be materially adversely affected.

Further, failure or perceived failure by us to comply with our policies, applicable requirements, or industry self-regulatory principles related to the collection, use, sharing or security of personal information, or other privacy, data-retention or data-protection matters could result in a loss of user confidence in us, damage to our brands, and ultimately in a loss of users and advertising partners, which could adversely affect our business. Changes in these or any other laws and regulations or the interpretation of them could increase our future compliance costs, make our products and services less attractive to our users, or cause us to change or limit our business practices. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal liabilities.

Our business could suffer if providers of broadband Internet access services block, impair or degrade our services.

Our business is dependent on the ability of our cloud services customers and visitors to our digital media properties to access our services and applications over broadband Internet connections. While we have not encountered any material difficulties with regard to such access, increased network congestion in the future may result in broadband Internet access providers engaging in actions that would either reduce the quality of the services we provide today, or impede our ability to offer new services that use more bandwidth. In late 2010, the Federal Communications Commission (FCC) adopted so-called net neutrality rules intended, in part, to prevent network operators from discriminating against legal traffic that transverse their networks. The U.S. Court of Appeals for the District of Columbia struck down the FCC's net neutrality rules. In response, the FCC is poised to release new rules that would provide even greater protection to Internet service providers like us. But the rules have not yet been released and certain broadband providers have indicated that they will likely challenge the FCC's yet-to-be released rules. Moreover, Congress could enact laws that are not as strong as the FCC's and limit the FCC's jurisdiction with respect to broadband service providers. To the extent network operators attempt to use this ruling to extract fees from us to deliver our traffic or otherwise engage in discriminatory practices, our business could be adversely impacted. We cannot predict the outcome of the FCC's net neutrality proposals, nor can we forecast congressional action. As we continue to expand internationally, government regulation concerning the Internet, and in particular, network neutrality, may be nascent or non-existent. Within such a regulatory environment, coupled with potentially significant political and economic power of local network operators, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business.

Our cloud services business is dependent on a small number of telecommunications carriers in each region and our inability to maintain agreements at attractive rates with such carriers may negatively impact our business.

Our cloud services business substantially depends on the capacity, affordability, reliability and security of our network and services provided to us by our telecommunications suppliers. Only a small number of carriers in each region, and in some cases only one carrier, offer the DID and network services we require. We purchase certain telecommunications services pursuant to short-term agreements that the providers can terminate or elect not to renew. As a result, any or all of our current carriers could discontinue providing us with service at rates acceptable to us, or at all, and we may not be able to obtain adequate replacements, which could materially and adversely affect our business, prospects, financial condition, operating results and cash flows.

Our business could suffer if we cannot obtain or retain DIDs, are prohibited from obtaining local numbers or are limited to distributing local numbers to only certain customers.

The future success of our DID-based cloud services business depends on our ability to procure large quantities of local DIDs in the U.S. and foreign countries in desirable locations at a reasonable cost and offer our services to our prospective customers without restrictions. Our ability to procure and distribute DIDs depends on factors such as applicable regulations, the practices of telecommunications carriers that provide DIDs, the cost of these DIDs and the level of demand for new DIDs. For example, several years ago the FCC conditionally granted petitions by Connecticut and California to adopt specialized "unified messaging" area codes, but neither state has adopted such a code. Adoption of a specialized area code within a state or nation could harm our ability to complete in that state or nation if materially affecting our ability to acquire DIDs for our operations or making our services less attractive due to the unavailability of DIDs with a local geographic area.

In addition, although we are the customer of record for all of our U.S. DIDs, from time to time, certain U.S. telephone carriers inhibit our ability to port numbers or port our DIDs away from us to other carriers. If a federal or regulatory agency determines that our customers should have the ability to port DIDs without our consent, we may lose customers at a faster rate than what we have experienced historically, potentially resulting in lower revenues. Also, in some foreign jurisdictions, under certain circumstances, our customers are permitted to port their DIDs to another carrier. These factors could lead to increased cancellations by our cloud services customers and loss of our DID inventory. These factors may have a material adverse effect on our business, prospects, financial condition, operating results, cash flows and growth in or entry into foreign or domestic markets.

In addition, future growth in our DID-based cloud services subscriber base, together with growth in the subscriber bases of other providers of DID-based services, has increased and may continue to increase the demand for large quantities of DIDs, which could lead to insufficient capacity and our inability to acquire sufficient DIDs to accommodate our future growth.

We may be subject to increased rates for the telecommunications services we purchase from regulated carriers which could require us to either raise the retail prices of our offerings and lose customers or reduce our profit margins.

The FCC recently adopted wide-ranging reforms to the system under which regulated providers of telecommunications services compensate each other for the exchange of various kinds of traffic. While we are not a provider of regulated telecommunications services, we rely on such providers to offer our cloud services to our customers. As a result of the FCC's reforms, regulated providers of telecommunications services are determining how the rates they charge customers like us will change in order to comply with the new rules. It is possible that some or all of our underlying carriers will increase the rates we pay for certain telecommunications services. Should this occur, the costs we incur to provide DID-based cloud services may increase which may require us to increase the retail price of our services. Increased prices could, in turn, cause us to lose customers, or, if we do not pass on such higher costs to our subscribers, our profit margins may decrease.

New technologies could block our advertisements or impair our ability to serve interest-based advertising which could harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block display advertising. Most of our digital media revenues are derived from fees paid by advertisers in connection with the display of advertisements or clicks on advertisements on web pages. As a result, such technologies and tools could reduce the number of display and advertisements that we are able to deliver or our ability to serve our interest-based advertising and this, in turn, could reduce our advertising revenue and operating results.

If we or our third-party service providers fail to prevent click fraud or choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability may decline.

A portion of our display revenue comes from advertisers that pay for advertising on a price-per-click basis, meaning that the advertisers pay a fee every time a user clicks on their advertising. This pricing model can be vulnerable to so-called “click fraud,” which occurs when clicks are submitted on ads by a user who is motivated by reasons other than genuine interest in the subject of the ad. We or our third-party service providers may be exposed to the risk of click fraud or other clicks or conversions that advertisers may perceive as undesirable. If fraudulent or other malicious activity is perpetrated by others and we or our third-party service provider are unable to detect and prevent it, or choose to manage traffic quality in a way that advertisers find unsatisfactory, the affected advertisers may experience or perceive a reduced return on their investment in our advertising programs which could lead the advertisers to become dissatisfied with our advertising programs and they might refuse to pay, demand refunds, or withdraw future business. Undetected click fraud could damage our brands and lead to a loss of advertisers and revenue.

The industries in which we operate are undergoing rapid technological changes and we may not be able to keep up.

The industries in which we operate are subject to rapid and significant technological change. We cannot predict the effect of technological changes on our business. We expect that new services and technologies will emerge in the markets in which we compete. Carriers upon which our services depend are migrating their respective networks from Time-division multiplexing (TDM) to Session Initiation Protocol (SIP), which may impact their ability to deliver faxes. These new services and technologies may be superior to the services and technologies that we use or these new services may render our services and technologies obsolete. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes and evolving industry standards. We may be unable to obtain access to new technologies on acceptable terms or at all, and may therefore be unable to offer services in a competitive manner. Any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Increased cost of email transmissions could have a material adverse effect on our business.

We rely on email for the delivery of certain cloud services. In addition, we derive some advertising revenues through the delivery of email messages to free subscribers and regularly communicate with our customers via email. We also offer email services through FuseMail. If regulations or other changes in the industry lead to a charge associated with the sending or receiving of email messages, the cost of providing our services would increase and, if significant, could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

Risks Related To Our Stock

The fundamental change purchase feature of the Convertible Notes and the change of control features of the Senior Notes may delay or prevent an otherwise beneficial attempt to take over our company.

The terms of the Convertible Notes require us to offer to purchase the Convertible Notes for cash in the event of a fundamental change (as defined in the indenture governing the Convertible Notes), and the terms of the Senior Notes require our subsidiary, j2 Cloud Services, to offer to repurchase the Senior Notes for cash in the event of a change of control (as defined in the indenture governing the Senior Notes). These features may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to investors.

Conversions of the Convertible Notes will dilute the ownership interest of our existing stockholders, including holders who had previously converted their Convertible Notes.

The conversion of some or all of the Convertible Notes will dilute the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could depress the price of our common stock.

We are a holding company and our operations are conducted through, and substantially all of our consolidated assets are held by, our subsidiaries, which are subject to certain restrictions on their ability to pay dividends to us to fund dividends on our stock, pay interest on the Convertible Notes and fund other holding company expenses.

We are a holding company. We conduct substantially all of our operations through our subsidiaries. A substantial portion of our consolidated assets is held by our subsidiaries. Accordingly, our ability to pay dividends on our stock, service our debt, including the Convertible Notes, and fund other holding company expenses depends on the results of operations of our subsidiaries and upon the ability of such subsidiaries to provide us with cash, whether in the form of dividends, loans or otherwise.

In addition, dividends, loans or other distributions to us from such subsidiaries are subject to contractual and other restrictions and are subject to other business considerations. j2 Cloud Services, which currently conducts all of our operations, is subject to restrictions on dividends in its existing indenture with respect to the Senior Notes. The Senior Notes indenture generally prohibits dividends except out of a basket of 50% of cumulative net income (as defined in the indenture) and proceeds from equity offerings, although it permits any dividends if j2 Cloud Services' pro forma leverage ratio (as calculated as required by the indenture) is less than 1.75 to 1. While j2 Cloud Services is currently in compliance with such covenants, its ability to comply with such covenants is subject to conditions outside its control. If we cannot obtain cash from our subsidiaries, we may not be able to pay dividends on our stock, pay interest on the Convertible Notes and fund other operating company expenses without additional sources of cash.

Quarterly dividends may not continue or could decrease.

We may not continue to issue quarterly dividends or we could decrease the amount of any future dividends. We paid our first quarterly dividend of $0.20 per share of common stock on September 19, 2011. We have declared increasing dividends in each subsequent quarter. Future dividends are subject to Board approval. We cannot assure that the Company will continue to pay a dividend in the future or the amount of any future dividends.

Future sales of our common stock may negatively affect our stock price.

As of February 20, 2015, substantially all of our outstanding shares of common stock were available for resale, subject to volume and manner of sale limitations applicable to affiliates under SEC Rule 144. Sales of a substantial number of shares of common stock in the public market or the perception of such sales could cause the market price of our common stock to decline. These sales also might make it more difficult for us to sell equity securities in the future at a price that we think is appropriate, or at all.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and of our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire control of us. For example, we are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of

Directors. Additionally, our certificate of incorporation authorizes our Board of Directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third-party to acquire us even if an acquisition might be in the best interest of our stockholders.

Our stock price may be volatile or may decline.

Our stock price and trading volumes have been volatile and we expect that this volatility will continue in the future due to factors, such as:

- Assessments of the size of our subscriber base and our average revenue per subscriber, and comparisons of our results in these and other areas versus prior performance and that of our competitors;

- Variations between our actual results and investor expectations;
- Regulatory or competitive developments affecting our markets;
- Investor perceptions of us and comparable public companies;
- Conditions and trends in the communications, messaging and Internet-related industries;
- Announcements of technological innovations and acquisitions;
- Introduction of new services by us or our competitors;
- Developments with respect to intellectual property rights;
- Conditions and trends in the Internet and other technology industries;
- Rumors, gossip or speculation published on public chat or bulletin boards;
- General market conditions; and
- Geopolitical events such as war, threat of war or terrorist actions.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stocks of technology and other companies, particularly communications and Internet companies. These broad market fluctuations have previously resulted in a material decline in the market price of our common stock. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources, which could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, we are leasing approximately 40,000 square feet of office space for our global headquarters in Los Angeles, California under a lease that expires on January 31, 2020. The Digital Media business is headquartered in New York City, where it leases approximately 43,000 square feet of office space under a lease that expires on May 31, 2019. Additionally, we have smaller leased office facilities in Arizona, California, Illinois, Massachusetts, Pennsylvania, Washington, Australia, Canada, Denmark, Hong Kong, Ireland, Japan, New Zealand, Norway, Sweden, The Netherlands and the United Kingdom.

All of our network equipment is housed either at our leased properties or at one of our multiple co-location facilities around the world.

Item 3. Legal Proceedings

From time-to-time, j2 Global and its affiliates are involved in litigation and other disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against j2 Global and its affiliates, whether meritorious or not, could be time consuming and costly, and could divert significant operational resources. Many of these matters directly or indirectly concern patent actions filed by j2 Global and its affiliates against others.

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

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 ("Northern District of Georgia") (No. 1:06-cv-02119). In response, IGC filed counterclaims alleging antitrust violations and breach of contract, in addition to patent-related counterclaims. On September 2, 2011, the Northern District of Georgia dismissed IGC's breach of contract counterclaim and one of its antitrust counterclaims. On July 27, 2012, the Northern District of Georgia granted the j2 Global affiliate's motion to dismiss the patent-related claims and counterclaims. On March 12, 2014, the j2 Global affiliate moved for summary judgment on IGC's remaining antitrust claims, which motion remains pending.

On January 7, 2011 the Department of Revenue for the State of Washington ("Washington Department of Revenue") issued assessments to a j2 Global affiliate for business and occupation tax and retail sales tax for the period of January 1, 2004 through September 30, 2010. On November 16, 2012, the Washington Department of Revenue denied the j2 Global affiliate's petition for correction. The j2 Global affiliate paid the assessments and on June 21, 2013 filed a complaint against the Washington

Department of Revenue in the Superior Court of Washington for Thurston County (No. 13-2-01338-7). In that suit, the j2 Global affiliate is seeking a refund of the entire amount paid and a declaration that the State improperly imposed the taxes. Discovery is ongoing.

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

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") (No. 5:12-cv-03434), alleging that the j2 Global affiliates breached a covenant not to sue IGC. The j2 Global affiliates asserted counterclaims for infringement of U.S. Patent Nos. 6,350,066 ("the '066 Patent"), 6,208,638 ("the '638 Patent"), 6,597,688 ("the '688 Patent"), and 7,020,132 ("the '132 Patent"), and IGC asserted counterclaims for, among other things, invalidity, unenforceability, non-infringement, and implied license. On June 27, 2013, one of the j2 Global affiliates filed an additional suit against IGC in the Northern District of California (No. 5:13-cv-02971), alleging infringement of U.S. Patent No. 6,020,980 ("the '980 Patent"). In response, IGC filed counterclaims for, among other things, invalidity, non-infringement, implied license, and breach of the same covenant not to sue. On March 21, 2014, the Northern District of California granted summary judgment dismissing IGC's breach of contract claims in both actions and on May 5, 2014, denied IGC's motion for reconsideration. On June 27, 2014, the Northern District of California transferred the cases to the Central District of California (Nos. 2:14-cv-5128 and 2:14-cv-5139). On January 15, 2015, the Central District of California denied IGC's request for entries of final judgment on the breach of contract claims, which would have allowed IGC to immediately appeal the grant of summary judgment. On January 23, 2015, the j2 Global affiliates filed amended counterclaims adding the '980 Patent to the first action (No. 2:14-cv-5128), so that the Central District of California could administratively close the second action (No. 2:14-cv-5139). IGC filed additional counterclaims of its own on February 11, 2015. In addition to the counterclaims previously asserted, IGC added a counterclaim for breach of the implied covenant of good faith and fair dealing and a request for a declaration that IGC has an express license to the '066 Patent. Discovery is ongoing.

On January 17, 2013, the Commissioner of the Massachusetts Department of Revenue ("Commissioner") issued a notice of assessment to a j2 Global affiliate for sales and use tax for the period of July 1, 2003 through December 31, 2011. On or around July 22, 2014, the Commissioner denied the j2 Global affiliate's application for abatement. On September 18, 2014, the j2 Global affiliate petitioned the Massachusetts Appellate Tax Board for abatement of the tax asserted in the notice of assessment (No. C325426). The Massachusetts Appellate Tax Board has not yet issued a scheduling order.

On January 18, 2013, Paldo Sign and Display Co. ("Paldo") filed an amended complaint adding two j2 Global affiliates and a former j2 Canada employee as additional defendants in an existing purported class action pending in the U.S. District Court for the Northern District of Illinois ("Northern District of Illinois") (No. 1:13-cv-01896). The amended complaint alleged violations of the Telephone Consumer Protection Act ("TCPA"), the Illinois Consumer Fraud and Deceptive Business Practices Act ("ICFA"), and common law conversion, arising from an indirect customer's alleged use of the j2 Global affiliates' systems to send unsolicited facsimile transmissions. On August 23, 2013, a second plaintiff, Sabon, Inc. ("Sabon"), was added. The j2 Global affiliates filed a motion to dismiss the ICFA and conversion claims, which was granted. The Northern District of Illinois also dismissed the j2 Canada employee for lack of personal jurisdiction. Discovery is ongoing.

On August 28, 2013, Phyllis A. Huster ("Huster") filed suit in the Northern District of Illinois (No. 1:13-cv-06143) against two j2 Global affiliates and three other parties for correction of inventorship for the '066 Patent, as well as 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"), 7,934,148 ("the '148 Patent"), 5,675,507, 5,870,549, and 6,564,321. Huster seeks, among other things, a declaration that she was an inventor of the patents-in-suit, an order directing the U.S. Patent & Trademark Office to substitute or add her as an inventor, and payment of at least half of defendants' earnings from patent licensing and sales of rights. On September 19, 2014, the Northern District of Illinois granted the defendants’ motion to dismiss for improper venue and transferred the case to the Northern District of Georgia (No. 1:14-cv-03304). Huster filed an amended complaint on February 11, 2015, which she corrected on February 12, 2015. The amended complaint added claims of fraudulent concealment, breach of fiduciary duty, unjust enrichment, breach of contract, breach of a private duty, conversion, and breach of the implied covenant of good faith and fair dealing. The j2 Global affiliates have not yet responded.

On October 16, 2013, one of j2 Global’s affiliates entered its appearance as a plaintiff in a multi-district litigation pending in the Northern District of Illinois (No. 1:12-cv-06286). In this litigation, Unified Messaging Solutions, LLC (“UMS”), a company with rights to assert certain patents owned by the j2 Global affiliate, has asserted the ’074, ’141, ’306, ’313, and ’148 Patents against a number of defendants. While claims against some defendants have been settled, other defendants have filed counterclaims for, among other things, non-infringement, unenforceability, and invalidity of the patents-in-suit. On December 20, 2013, the Northern District of Illinois issued a claim construction opinion and, on June 13, 2014, entered a final judgment of non-infringement for the remaining defendants based on that claim construction. UMS and the j2 Global affiliate filed a notice of appeal to the Federal Circuit on June 27, 2014 (No. 14-1611). Briefing on the appeal was stayed on September 26, 2014, pending the Northern District of Illinois’s resolution of the defendants’ motion to declare the case exceptional.

On February 19, 2014, two j2 Global affiliates filed suit in the Central District of California (No. 2:14-cv-01283) against RPost, alleging infringement of the ’980 and ’148 Patents and seeking a declaration of non-infringement and invalidity of nine RPost patents that had been asserted against the j2 Global affiliates in a patent assertion letter from RPost. An amended complaint was filed on June 20, 2014 adding j2 Canada as a plaintiff. RPost filed an answer to the complaint on July 14, 2014, asserting counterclaims of infringement for the nine RPost patents against j2 Canada’s Campaigner® product. Discovery is ongoing.

On June 23, 2014, Andre Free-Vychine (“Free-Vychine”) filed a purported class action against a j2 Global affiliate in the Superior Court for the State of California, County of Los Angeles (“Los Angeles Superior Court”). The complaint alleges two California statutory violations relating to late fees levied in certain eVoice® accounts. Free-Vychine is seeking, among other things, damages and injunctive relief on behalf of himself and a purported nationwide class of allegedly similarly situated persons. On August 26, 2014, Law Enforcement Officers, Inc. and IV Pit Stop, Inc. (collectively, “LEO”) filed a purported class action against the same j2 Global affiliate in Los Angeles Superior Court. The complaint alleges three California statutory violations, negligence, breach of the implied covenant of good faith and fair dealing, and various other common law claims relating to late fees levied in certain Onebox® accounts. LEO is seeking, among other things, damages and injunctive relief on behalf of itself and a purported nationwide class of allegedly similarly situated persons. On September 29, 2014, the Los Angeles Superior Court ordered both cases related. 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 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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol “JCOM”. The following table sets forth the high and low closing sale prices for our common stock for the periods indicated, as reported by the NASDAQ Global Select Market.

	High	Low
Year ended December 31, 2014		
First Quarter	51.67	43.04
Second Quarter	51.14	43.67
Third Quarter	53.76	47.50
Fourth Quarter	63.62	48.72
Year ended December 31, 2013		
First Quarter	39.21	31.14
Second Quarter	42.83	37.41
Third Quarter	52.48	42.20
Fourth Quarter	55.74	43.92

Holders

We had 287 registered stockholders as of February 20, 2015. That number excludes the beneficial owners of shares held in “street” name or held through participants in depositories.

Dividends

We initiated a quarterly cash dividend program in August, 2011 with a payment of $0.20 per share of common stock on September 19, 2011. We have paid an increasing quarterly cash dividend in each subsequent calendar quarter. 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
August 5, 2014	$0.2775	August 18, 2014	September 2, 2014
October 30, 2014	$0.285	November 17, 2014	December 4, 2014

On February 10, 2015, our Board of Directors approved a quarterly cash dividend of $0.2925 per share of common stock payable on March 9, 2015 to all stockholders of record as of the close of business on February 23, 2015 (see Note 22 - Subsequent Events). Future dividends are subject to Board approval.

Treasury Stock

On August 14, 2012, the Company retired all treasury stock (which resulted from prior stock repurchases) on its balance sheet. Accordingly, such treasury stock is zero as of December 31, 2014 and 2013.

Recent Sales of Unregistered Securities

On November 17, 2014, we exchanged an aggregate of 235,665 shares of our common stock to the two holders of our then outstanding shares of j2 Series A preferred stock for all such shares of j2 Series A preferred stock. The issuance of our shares of common stock was effected in accordance with the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(a)(2) thereunder.

Issuer Purchases of Equity Securities

Effective February 15, 2012, the Company's Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program"). On February 10, 2015, the Board of Directors extended the 2012 Program through February 19, 2016. (see Note 22 - Subsequent Events). Cumulatively at December 31, 2014, we repurchased 2.1 million shares under the 2012 Program at an aggregated cost of $58.6 million (including an immaterial amount of commission fees).

The following table details the repurchases that were made under and outside the 2012 Program during the three months ended December 31, 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Program
October 1, 2014 - October 31, 2014	1,829	$50.55	—	2,873,920
November 1, 2014 - November 30, 2014	—	$—	—	2,873,920
December 1, 2014 - December 31, 2014	1,725	$56.97	—	2,873,920
Total	3,554		—	2,873,920

(1) Includes shares surrendered to the Company to pay the exercise price and/or to satisfy tax withholding obligations in connection with employee stock options and/or the vesting of restricted stock issued to employees.

Equity Compensation Plan Information

The following table provides information as of December 31, 2014 regarding shares outstanding and available for issuance under j2 Global's existing equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	725,649	$ 24.29	1,797,773
Equity compensation plans not approved by security holders	—	—	—

Total	725,649	$ 24.29	1,797,773

The number of securities remaining available for future issuance includes 163,309 and 1,634,464 under our 2007 Stock Plan and 2001 Employee Stock Purchase Plan, respectively. Please refer to Note 13 to the accompanying consolidated financial statements for a description of these Plans as well as our Second Amended and Restated 1997 Stock Option Plan, which terminated in 2007.

Performance Graph

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of j2 Global under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total stockholder return for j2 Global, the NASDAQ Computer Index and an index of companies that j2 Global has selected as its peer group in the cloud service for business space.

j2 Global's peer group index consists of Athenahealth, Inc., Concur Technologies, Inc., Constant Contact, Inc., DealerTrack Technologies, Inc., LivePerson, Inc., LogMeIn, Inc., NetSuite Inc., Salesforce.com, Inc., The Ultimate Software Group, Inc. and Vocus, Inc.

Measurement points are December 31, 2009 and the last trading day in each of j2 Global's fiscal quarters through the end of fiscal 2014. The graph assumes that $100 was invested on December 31, 2009 in j2 Global's common stock and in each of the indices, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Measurement Date	j2 Global	NASDAQ Computer Index	Peer Group Index
Dec-09	100.00	100.00	100.00
Mar-10	114.79	102.53	99.25
Jun-10	107.32	91.06	105.22
Sep-10	116.90	102.92	134.99
Dec-10	142.26	117.44	159.44
Mar-11	145.01	122.23	166.60
Jun-11	138.72	119.41	177.63
Sep-11	133.17	109.92	139.58
Dec-11	140.27	118.01	145.35
Mar-12	143.96	145.83	197.88
Jun-12	133.91	135.25	192.65
Sep-12	166.44	143.42	210.94
Dec-12	156.63	132.74	215.12
Mar-13	200.09	135.71	233.54
Jun-13	217.48	138.28	222.28
Sep-13	253.14	153.53	290.45
Dec-13	256.81	175.15	306.37
Mar-14	258.29	177.87	310.40
Jun-14	263.60	192.31	302.71
Sep-14	257.60	201.85	312.42
Dec-14	321.11	209.96	331.52

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related Notes contained in this Annual Report on Form 10-K and the information contained herein in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except for share and per share amounts)				
Statement of Income Data:					
Revenues	$599,030	$520,801	$371,396	$330,159	$255,394
Cost of revenues	105,989	86,893	67,013	60,613	44,086
Gross profit	493,041	433,908	304,383	269,546	211,308
Operating expenses:					
Sales and marketing	141,967	131,317	62,825	59,066	46,332
Research, development and engineering	30,680	25,485	18,624	16,373	12,827
General and administrative	134,188	101,683	60,772	58,157	48,226
Total operating expenses	306,835	258,485	142,221	133,596	107,385
Income from operations	186,206	175,423	162,162	135,950	103,923
Interest expense (income), net	31,204	21,254	7,650	(629)	(2,033)
Other expense (income), net	(165)	11,472	(410)	(537)	(4,681)
Income before income taxes	155,167	142,697	154,922	137,116	110,637
Income tax expense	29,840	35,175	33,259	22,350	27,590
Net income	$125,327	$107,522	$121,663	$114,766	$83,047
Less net income attributable to noncontrolling interest	—	—	83	—	—
Less extinguishment of Series A preferred stock	(991)	—	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	$124,336	$107,522	$121,580	$114,766	$83,047
Net income per common share:					
Basic	$2.60	$2.31	$2.63	$2.46	$1.86
Diluted	$2.58	$2.28	$2.61	$2.43	$1.81
Weighted average shares outstanding:					
Basic	46,778,015	45,548,767	45,459,712	45,799,615	44,578,036
Diluted	47,106,538	46,140,019	45,781,658	46,384,848	45,941,843
Cash dividends declared per common share	$1.10	$0.98	$0.87	$0.41	$—

	December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$433,663	$207,801	$ 218,680	$ 139,359	$ 64,752
Working capital	486,816	274,133	298,572	155,099	57,610
Total assets	1,705,202	1,153,789	995,170	651,171	532,623
Other long-term liabilities	22,416	1,458	1,557	2,342	3,302
Total stockholders' equity	820,235	706,418	594,595	554,375	431,745

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. These forward-looking statements involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed in Part I, Item 1A - "Risk Factors" in this Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

Overview

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

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

In addition to growing our business organically, we use acquisitions to grow our customer bases, expand and diversify our service offerings, enhance our technology and acquire skilled personnel.

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

j2 Global was incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Business Cloud Services segment, operated by our wholly-owned subsidiary, j2 Cloud Services, Inc, and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Business Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments is included within Note 16 - Segment Information of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference.

Business Cloud Services Segment Performance Metrics

The following table sets forth certain key operating metrics for our Business Cloud Services segment as of or for the years ended December 31, 2014, 2013 and 2012 (in thousands, except for percentages):

	Year Ended December 31,		
	2014	2013	2012
Subscriber revenues:			
Fixed	$348,340	$296,457	$286,720
Variable	76,392	74,631	65,798
Total subscriber revenues	424,732	371,088	352,518
Other license revenues	6,743	19,016	9,166
Total revenues	$431,475	$390,104	$361,684
Percentage of total subscriber revenues:			
Fixed	82.0 %	79.9 %	81.3 %
Variable	18.0 %	20.1 %	18.7 %
Total revenues:			
DID-based	$347,754	$340,438	$326,940
Non-DID-based	83,721	49,666	34,744
Total revenues	$431,475	$390,104	$361,684
Average monthly revenue per Cloud Business Customer (ARPU) (1)(2)	$14.23	$13.85	
Cancel rate (3)	2.1 %	2.1 %	

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

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

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

Digital Media Segment Performance Metrics

The following table sets forth certain key operating metrics for our Digital Media segment for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Year Ended December 31,		
	2014	2013	2012
Visits	2,563	2,171	345
Page views	8,002	7,345	1,131

Sources: Omniture; Google Analytics

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements and related disclosures in accordance with U.S. generally accepted accounting principles ("GAAP") and our discussion and analysis of our financial condition and operating results require us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. See Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K which describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ significantly from those estimates under different assumptions and conditions and may be material.

We believe that our most critical accounting policies are those related to revenue recognition, valuation and impairment of marketable securities, share-based compensation expense, long-lived and intangible asset impairment, contingent consideration, income taxes and contingencies and allowance for doubtful accounts. We consider these policies critical because they are those that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of the Company's Board of Directors.

Revenue Recognition

Business Cloud Services

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

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

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

Digital Media

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

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

j2 Global also generates Digital Media revenues through the license of certain assets to clients, for the clients' use in their own promotional materials or otherwise. Such assets may include logos, editorial reviews, or other copyrighted material. Revenues under such license agreements are recognized when the assets are delivered to the client. Also, Digital Media revenues are generated through the license of certain speed testing technology which is recognized when delivered to the client and through providing data services primarily to Internet Service Providers ("ISPs") and wireless carriers which is recognized as earned over the term of the access period. The Digital Media business also generates other types of revenues, including business listing fees, subscriptions to online publications, and from other sources. Such other revenues are recognized as earned.

Valuation and Impairment of Marketable Securities

We account for our investments in debt and equity securities in accordance with Financial Accounting Standards Board ("FASB") ASC Topic No. 320, Investments - Debt and Equity Securities (“ASC 320”). ASC 320 requires that certain debt and equity securities be classified into one of three categories: trading, available-for-sale or held-to-maturity securities. Our investments are comprised primarily of readily marketable corporate and governmental debt securities, money-market accounts and time deposits. We determine the appropriate classification of our investments at the time of acquisition and reevaluate such determination at each balance sheet date. Held-to-maturity securities are those investments that we have the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost. Available-for-sale securities are recorded at fair value, with unrealized gains or losses recorded as a separate component of accumulated other comprehensive income (loss) in stockholders' equity until realized. Trading securities are carried at fair value, with unrealized gains and losses included in interest and other income on our consolidated statement of income. All securities are accounted for on a specific identification basis. We assess whether an other-than-temporary impairment loss on an investment has occurred due to declines in fair value or other market conditions (see Note 4 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K).

Share-Based Compensation Expense

We comply with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation (“ASC 718”). Accordingly, we measure share-based compensation expense at the grant date, based on the fair value of the award, and recognize the expense over the employee's requisite service period using the straight-line method. The measurement of share-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining share-based compensation expense and the actual factors, which become known over time, we may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter. We elected to adopt the alternative transition method for calculating the tax effects of share-based compensation.

Long-lived and Intangible Assets

We account for long-lived assets in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment (“ASC 360”), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

We assess the impairment of identifiable definite-lived intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could individually or in combination trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- our market capitalization relative to net book value.

If we determined that the carrying value of definite-lived intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would record an impairment equal to the excess of the carrying amount of the asset over its estimated fair value.

We have assessed whether events or changes in circumstances have occurred that potentially indicate the carrying value of definite-lived intangibles and long-lived assets may not be recoverable and noted no indicators of potential impairment for the years ended December 31, 2014, 2013 and 2012.

Goodwill and Purchased Intangible Assets

We evaluate our goodwill and indefinite-lived intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles - Goodwill and Other (“ASC 350”), which provides that goodwill and other intangible assets with indefinite lives are not amortized but tested for impairment annually or more frequently if circumstances indicate potential impairment. In connection with the annual impairment test for goodwill, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it was more likely than not that the fair value of the reporting unit is less than its carrying amount, then we perform the impairment test upon goodwill. The impairment test is comprised of two steps: (1) a reporting unit's fair value is compared to its carrying value; if the fair value is less than its carrying value, impairment is indicated; and (2) if impairment is indicated in the first step, it is measured by comparing the implied fair value of goodwill and intangible assets to their carrying value at the reporting unit level. In connection with the annual impairment test for intangible assets, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of is less than its carrying amount, then we perform the impairment test upon intangible assets. We completed the required impairment review for the years ended December 31, 2014, 2013, and 2012 and noted no impairment. Consequently, no impairment charges were recorded.

Contingent Consideration

Certain of our acquisition agreements include contingent earn-out arrangements, which are generally based on the achievement of future income thresholds. The contingent earn-out arrangements are based upon our valuations of the acquired companies and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved.

The fair values of these earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. For each transaction, we estimate the fair value of contingent earn-out payments as part of the initial purchase price and record the estimated fair value of contingent consideration as a liability on the consolidated balance sheets. We consider several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (2) the former shareholders of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (See Note 5 - Fair Value Measurements of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference). We may use various valuation techniques depending on the terms and conditions of the contingent consideration including a Monte-Carlo simulation. This simulation uses probability distribution for each significant input to produce hundreds or thousands of possible outcomes and the results are analyzed to determine probabilities of different outcomes occurring. Significant increases or decreases to these inputs in isolation would result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and amount paid will be recorded in earnings. The amount paid that is less than or equal to the liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

Income Taxes

We account for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. Our valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, we review historical and future expected operating results and other factors to determine whether it is more likely than not that deferred tax assets are realizable.

Income Tax Contingencies

We calculate current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the following year. Adjustments based on filed returns are recorded when identified in the subsequent year.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax position is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the income 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. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. We recognize accrued interest and penalties related to uncertain income tax positions in income tax expense on our consolidated statement of income. On a quarterly basis, we evaluate uncertain income tax positions and establish or release reserves as appropriate under GAAP.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities. In addition, we may be subject to examination of our tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities.

It is possible that one or more of these audits may conclude in the next 12 months and that the unrecognized tax benefits we have recorded in relation to these tax years may change compared to the liabilities recorded for the periods. However, it is not possible to estimate the amount, if any, of such change. We establish reserves for these tax contingencies when we believe that certain tax positions might be challenged despite our belief that our tax positions are fully supportable. We adjust these reserves when changing events and circumstances arise.

Non-Income Tax Contingencies

We are currently under audit by various state, local and foreign taxing authorities for direct and indirect non-income related taxes, including Canadian sales tax. In accordance with the provisions of FASB ASC Topic No. 450, Contingencies (“ASC 450”) we make judgments regarding the future outcome of contingent events and record loss contingency amounts that are probable and reasonably estimable based upon available information.

As of December 31, 2014, we had no non-income tax related contingent liabilities on our balance sheet. However, it is reasonably possible that we will incur a liability associated with such taxes and, in that case, we would be required to record an expense for such liability in the period in which the liability becomes probable and estimable, which could materially impact our financial results. The estimates that we make in accounting for contingencies and the gains and losses that we record upon the ultimate resolution of these uncertainties could have a significant effect on the liabilities and expenses in our financial statements.

Allowances for Doubtful Accounts

We reserve for receivables we may not be able to collect. These reserves are typically driven by the volume of credit card declines and past due invoices and are based on historical experience as well as an evaluation of current market conditions. On an ongoing basis, management evaluates the adequacy of these reserves.

Recent Accounting Pronouncements

See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies - to our accompanying consolidated financial statements for a description of recent accounting pronouncements and our expectations of their impact on our consolidated financial position and results of operations.

Results of Operations

Years Ended December 31, 2014, 2013 and 2012

Business Cloud Services Segment

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

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

Digital Media Segment

Assuming a stable or improving economic environment, subject to our risk factors, we expect the revenue and profits in our Digital Media segment to increase over the next several quarters as we integrate our recent acquisitions and over the longer term as advertising transactions continue to shift from offline to online. The main focus of our advertising programs is to provide relevant and useful advertising to visitors to our websites and those included within our advertising networks, reflecting our commitment to constantly improve their overall web experience. As a result, we expect to continue to take steps to improve the relevance of the ads displayed on our websites and those included within our advertising networks.

The operating margin we realize on revenues generated from ads placed on our websites is significantly higher than the operating margin we realize from revenues generated from those placed on third-party websites. Growth in advertising revenues from our websites has generally exceeded that from third-party websites. This trend has had a positive impact on our operating margins, and we expect that this will continue for the foreseeable future. However, the trend in advertising spend is shifting to mobile devices and other newer advertising formats which generally experience lower margins than those from desktop computers and tablets. We expect this trend to continue to pressure our margins.

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

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j2 Global Consolidated

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

We expect operating profit as a percentage of revenues to generally stabilize in the future despite the growth in our less profitable Digital Media segment and the expected increasing pressure on margins as described above to grow at a faster rate than our more profitable Businesses Cloud Services segment; however, such pressure of margins is partially offset by increased economies of scale within the Digital Media segment.

The following table sets forth, for the years ended December 31, 2014, 2013 and 2012, information derived from our statements of income as a percentage of revenues. This information should be read in conjunction with the accompanying financial statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,		
	2014	2013	2012
Revenues	100%	100%	100%
Cost of revenues	18	17	18
Gross profit	82	83	82
Operating expenses:			
Sales and marketing	24	25	17
Research, development and engineering	5	5	5
General and administrative	22	20	16
Total operating expenses	51	50	38
Income from operations	31	34	44
Interest expense (income), net	5	4	2
Other expense (income), net	—	2	—
Income before income taxes	26	28	42
Income tax expense	5	7	9
Net income	21%	21%	33%
Less net income attributable to noncontrolling interest	—	—	—
Less extinguishment of Series A preferred stock	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	21%	21%	33%

Revenues

(in thousands, except percentages)	2014	2013	2012	Percentage Change 2014 versus 2013	Percentage Change 2013 versus 2012
Revenues	$599,030	$520,801	$371,396	15%	40%

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

Our revenues have increased over the past three years primarily due to the following factors:

- Acquisitions within our Digital Media properties, plus organic growth in that segment;

- As it relates to fiscal year 2012, increase in our Business Cloud Services IP licensing revenues as a result of the $27 million patent license agreement secured with Open Text during fiscal year 2013, resulting in approximately $12.6 million of revenues during that year as associated with past damages; and

- Acquisitions within our Business Cloud Services segment, plus organic growth in that segment.

Cost of Revenues

(in thousands, except percentages)	2014	2013	2012	Percentage Change 2014 versus 2013	Percentage Change 2013 versus 2012
Cost of revenue	$105,989	$86,893	$67,013	22%	30%
As a percent of revenue	18%	17%	18%		

Cost of revenues is primarily comprised of costs associated with data and voice transmission, DIDs, network operations, customer service, editorial and production costs, online processing fees and equipment depreciation. The increase in cost of revenues for the year ended December 31, 2014 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2013 that resulted in additional network operations, editorial and production costs, depreciation, customer service and processing fees. The increase in cost of revenues from 2012 to 2013 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2012 that resulted in additional editorial and production costs, network operations, customer service and processing fees.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)	2014	2013	2012	Percentage Change 2014 versus 2013	Percentage Change 2013 versus 2012
Sales and Marketing	$141,967	$131,317	$62,825	8%	109%
As a percent of revenue	24%	25%	17%		

Our sales and marketing costs consist primarily of Internet-based advertising, sales and marketing, personnel costs and other business development-related expenses. Our Internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Advertising cost for the year ended December 31, 2014, 2013 and 2012 was $60.5 million, $55.4 million and $48.1 million, respectively. The increase in sales and marketing expenses from 2013 to 2014 and from 2012 to 2013 was primarily due to additional advertising and personnel costs associated with businesses acquired, especially within the Digital Media Division which tend to have lower operating profit margins primarily due to the additional sales and marketing expense required to operate in that industry.

Research, Development and Engineering.

(in thousands, except percentages)	2014	2013	2012	Percentage Change 2014 versus 2013	Percentage Change 2013 versus 2012
Research, Development and Engineering	$30,680	$25,485	$18,624	20%	37%
As a percent of revenue	5%	5%	5%		

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs from 2013 to 2014 was primarily due to an an increase in personnel costs associated with businesses acquired in and subsequent to 2013 and additional expenses for professional services. The increase in research, development and engineering costs from 2012 to 2013 was primarily due to an increase in personnel costs associated with businesses acquired in and subsequent to 2012.

General and Administrative.

(in thousands, except percentages)	2014	2013	2012	Percentage Change 2014 versus 2013	Percentage Change 2013 versus 2012
General and Administrative	$134,188	$101,683	$60,772	32%	67%
As a percent of revenue	22%	20%	16%		

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, share-based compensation expense, bad debt expense, professional fees, severance and insurance costs. The increase in general and administrative expense from 2013 to 2014 was primarily due to an increase in amortization of intangible assets, personnel costs relating to acquisitions closed during 2013 and 2014, additional professional fees and bad debt expense. The increase in general and administrative expense from 2012 to 2013 was primarily due to personnel costs relating to acquisitions closed during 2012 and 2013 and an increase in amortization of intangible assets.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of income for the year ended December 31, 2014, 2013 and 2012 (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Cost of revenues	$345	$756	$844
Operating expenses:			
Sales and marketing	1,944	1,855	1,543
Research, development and engineering	721	434	459
General and administrative	5,898	6,675	6,286
Total	$8,908	$9,720	$9,132

Non-Operating Income and Expenses

Interest expense (income), net. Our interest expense (income), net is generated primarily from interest expense due to outstanding debt and the recognition of the interest portion of a loss on extinguishment of debt of $1.6 million in connection with the December 31, 2013 reorganization of Ziff Davis, Inc. into Ziff Davis, LLC and the Company's acquisition of all of the minority holders' equity interests in Ziff Davis, Inc., and interest earned on cash, cash equivalents and short-term and long-term investments. Interest expense (income), net was $31.2 million, $21.3 million, and $7.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. The increase from 2013 to 2014 was primarily due to additional interest expense following the June 2014 issuance of the Convertible Notes. The increase from 2012 to 2013 was primarily due to interest expense following the July 2012 issuance of the Senior Notes.

Other expense (income), net. Our other expense (income), net is generated primarily from miscellaneous items, gain or losses on currency exchange and the sale of investments. Other expense (income), net was $(0.2) million, $11.5 million, and $(0.4) million for the years ended December 31, 2014, 2013 and 2012, respectively. The decrease from 2013 to 2014 and the increase from 2012 to 2013 are primarily due to the recognition of the other expense portion of a loss on extinguishment of debt of $12.9 million in connection with the December 31, 2013 reorganization of Ziff Davis, Inc. into Ziff Davis, LLC and the Company's acquisition of all of the minority holders' equity interests in Ziff Davis, Inc.

Income Taxes

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

As of December 31, 2014, we had federal net operating loss carryforwards ("NOLs") of $20.5 million after considering substantial restrictions on the utilization of these NOLs due to "ownership changes", as defined in the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). We estimate that all of the above-mentioned federal NOLs will be available for use before their expiration. These NOLs expire through the year 2031. As of December 31, 2014 and 2013, the Company has foreign tax credits of $11.1 million and $7.8 million, respectively. The Company has provided a valuation allowance on the foreign tax credits of $11.1 million and $7.7 million, respectively, as the weight of available evidence does not support full utilization of these credits. The foreign tax credits expire through the year 2024. In addition, as of December 31, 2014 and 2013, we had available unrecognized state research and development tax credits of $2.0 million and $0.9 million, respectively, which last indefinitely. As of December 31, 2014 and 2013, we also had state enterprise zone tax credits of $0.9 and $0.5 million, respectively. The state enterprise zone credits expire through the year 2024. We estimate that all of the state enterprise zone credits will be available for use before their expiration.

Income tax expense amounted to $29.8 million, $35.2 million and $33.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. Our effective tax rates for 2014, 2013 and 2012 were 19%, 25% and 21%, respectively.

The decrease in our annual effective income tax rate from 2013 to 2014 was primarily attributable to the following:

1. a reversal of uncertain income tax positions during 2014;
2. a decrease during 2014 in reorganization costs not deductible for tax purposes; partially offset by:
3. a decrease during 2014 in the portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.

The increase in our annual effective income tax rate from 2012 to 2013 was primarily attributable to the following:

1. an increase during 2013 in reorganization costs not deductible for tax purposes, and
2. a decrease during 2013 in the U.S. federal domestic production activities deduction; partially offset by:
3. a decrease during 2013 in the valuation allowance for foreign tax credit carryforwards.

In order to provide additional understanding in connection with our foreign taxes, the following represents the statutory and effective tax rate by significant foreign country:

	Ireland	United Kingdom	Canada
Statutory tax rate	12.50%	21.00%	26.50%
Effective tax rate (1)	12.50%	21.13%	26.52%

(1) Effective tax rate excludes certain discrete items.

The statutory tax rate is the rate imposed on taxable income for corporations by the local government in that jurisdiction. The effective tax rate measures the taxes paid as a percentage of pretax profit. The effective tax rate can differ from the statutory tax rate when a company can exempt some income from tax, claim tax credits, or due to the effect of book-tax differences that do not reverse and discreet items.

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

Segment Results

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

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

Business Cloud Services

The following segment results are presented for fiscal year 2014, 2013 and 2012 (in thousands):

	2014			2013			2012		
External net sales	$431,475	100.0	%	$390,104	100.0	%	$361,684	100.0	%
Inter-segment net sales	—	—		—	—		—	—	
Segment net sales	431,475	100.0		390,104	100.0		361,684	100.0	
Cost of revenues	86,962	20.2		69,911	17.9		65,056	18.0	
Gross profit	344,513	79.8		320,193	82.1		296,628	82.0	
Operating expenses	154,630	35.8		121,258	31.1		109,268	30.2	
Segment operating income	$189,883	44.0	%	$198,935	51.0	%	$187,360	51.8	%

Segment net sales of $431.5 million in 2014 increased $41.4 million, or 10.6%, from the prior comparable period primarily due to business acquisitions, partially offset by a decrease in patent and technology related licensing revenues associated with a $27 million license agreement of which $12.6 million from past damages was recognized in 2013. Segment net sales of $390.1 million in 2013 increased $28.4 million, or 7.9%, from 2012 primarily due to an increase in our subscriber base and an increase in patent and technology related licensing revenues.

Segment gross profit of $344.5 million in 2014 increased $24.3 million from 2013 primarily due to an increase in net sales between the periods. The gross profit as a percentage of revenues for 2014 decreased from the prior comparable period primarily due to acquisitions during the fiscal year which increased network operation costs and depreciation. In addition, acquisitions historically have lower initial profitability than our existing business until synergies with respect to those acquisitions are realized in future periods. Segment gross profit of $320.2 million in 2013 increased $23.6 million from 2012 primarily due to an increase in net sales between the periods. The gross profit as a percentage of revenues for 2013 was consistent with the prior comparable period.

Segment operating expenses of $154.6 million in 2014 increased $33.4 million from 2013 primarily due to (a) additional depreciation and amortization and an increase in sales and marketing costs primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2013; and (b) additional bad debts and professional fees. Segment operating expenses of $121.3 million in 2013 increased $12.0 million from 2012 primarily due to (a) an increase in sales and marketing costs primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2012 and (b) additional depreciation and amortization associated with businesses acquired in and subsequent to 2012.

As a result of these factors, segment operating earnings of $189.9 million in 2014 decreased $(9.1) million, or (4.6)%, from 2013. As a result of these factors, segment operating earnings of $198.9 million in 2013 increased $11.6 million, or 6.2%, from 2012.

Digital Media

As our Digital Media segment was established as a result of the acquisition of Ziff Davis, Inc. on November 9, 2012, the increase from 2012 to 2013 is due to a full year of activity in fiscal year 2013.

The following segment results are presented for fiscal year 2014, 2013 and 2012 (in thousands):

	2014			2013			2012		
External net sales	$167,555	99.8	%	$130,697	99.7	%	$9,712	100.0	%
Inter-segment net sales	259	0.2		449	0.3		—	—	
Segment net sales	167,814	100.0		131,146	100.0		9,712	100.0	
Cost of revenues	19,028	11.3		16,982	12.9		1,956	20.1	
Gross profit	148,786	88.7		114,164	87.1		7,756	79.9	
Operating expenses	118,293	70.5		107,431	81.9		4,867	50.1	
Segment operating income	$30,493	18.2	%	$6,733	5.1	%	$2,889	29.7	%

Segment net sales of $167.8 million in 2014 increased $36.7 million, or 28.0%, from the prior comparable period primarily due to business acquisitions subsequent to the prior comparable period.

Segment gross profit of $148.8 million in 2014 increased $34.6 million from the prior comparable period primarily due to an increase in net sales between the periods. Gross profit as a percentage of revenues in 2014 was consistent with the prior comparable period.

Segment operating expenses of $118.3 million in 2014 increased $10.9 million from the prior comparable period primarily due to business acquisitions subsequent to the prior comparable period, partially offset by reduced operating costs as the Digital Media segment leverages its scale and completes the integration process of prior acquisitions.

As a result of these factors, segment operating income of $30.5 million in 2014 increased $23.8 million, or 352.9%, from 2013.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At December 31, 2014, we had cash and investments of $590.4 million compared to $345.9 million at December 31, 2013. The increase resulted primarily from the proceeds from our June 2014 issuance of $402.5 million in aggregate principal amount of Convertible Notes and cash provided by operations, partially offset by business acquisitions, dividends, interest payments and purchase of property, plant and equipment. At December 31, 2014, cash and investments consisted of cash and cash equivalents of $433.7 million, short-term investments of $96.2 million and long-term investments of $60.5 million. Our investments are comprised primarily of readily marketable corporate and governmental debt securities, money-market accounts, equity securities and time deposits. For financial statement presentation, we classify our investments primarily as available-for-sale; thus, they are reported as short- and long-term based upon their maturity dates. Short-term investments mature within one year of the date of the financial statements and long-term investments mature one year or more from the date of the financial statements. Short-term investments include restricted balances which the Company may not liquidate until maturity, generally within 12 months. Restricted balances included in short-term investments were $0.1 million at December 31, 2014. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of December 31, 2014 and 2013, cash and investments held within foreign and domestic jurisdictions were $138.3 million and $452.1 million and $182.4 million and $163.5 million, respectively. If we were to repatriate funds held within foreign jurisdictions, we would incur U.S. income tax on the repatriated amount at the federal statutory rate of 35% and the state statutory rate where applicable, net of a credit for foreign taxes paid on such amounts.

The Company's Board of Directors approved four quarterly cash dividends during the year ended December 31, 2014, totaling $1.095 per share of common stock. On February 10, 2015, the Company's Board of Directors approved a quarterly cash dividend of $0.2925 per share of common stock payable on March 9, 2015 to all stockholders of record as of the close of business on February 23, 2015. Future dividends are subject to Board approval.

In July 2012, the Company completed the sale in a private offering of $250 million in aggregate principal amount of Senior Notes. The net proceeds of the sale were $243.7 million after deducting the initial purchaser's discounts, commissions and expenses of the offering. The Company is using the net proceeds from the offering for general corporate purposes, including acquisitions. In June 2014, the Company issued Convertible Notes of $402.5 million in aggregate principal and received net proceeds of $391.4 million in cash, net of initial underwriter's discounts and commissions. The net proceeds are available for general corporate purposes, which may include working capital, acquisitions, retirement of debt and other business opportunities.

On August 31, 2012, j2 Global submitted a preliminary non-binding proposal to acquire all outstanding shares for cash consideration of $10.50 per fully diluted share, representing a substantial premium to the market trading price of the shares on such date. On December 24, 2014, j2 Global initiated a cash tender offer to acquire all of the outstanding shares of Carbonite for cash consideration of $15.00 per share, subject to the terms and conditions described in our tender offer documents (see the Company's Current Report on Form 8-K, filed with the SEC on December 24, 2014 for further details). The Company estimates that the tender offer would require approximately $366 million in consideration based upon the most recent publicly disclosed outstanding shares of Carbonite (as of October 31, 2014). This estimate could increase related to any equity awards which may vest upon a change in control and be offset by cash that would be acquired, if any. On March 2, 2015, the Company effectively rescinded its tender offer and entered into a confidentiality agreement with Carbonite Inc.

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

Cash Flows

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents and short-term investments. Net cash provided by operating activities was $177.2 million, $193.3 million, and $169.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Our operating cash flows resulted primarily from cash received from our subscribers offset by cash payments we made to third parties for their services, employee compensation and tax payments. The decrease in our net cash provided by operating activities in 2014 compared to 2013 was primarily attributable to an increase in billings associated with the Digital Media segment which historically has a collection cycle longer than our Business Cloud segment. The increase in our net cash provided by operating activities in 2013 compared to 2012 was primarily attributable to cash received from our customers, the impact of a 2012 non-cash change in estimate relating to deferred revenue and higher year-end accounts payable and accrued expense balances. Certain tax payments are prepaid during the year and included within prepaid expenses and other current assets on the consolidated balance sheet. Our prepaid tax payments were $5.8 million and $11.3 million at December 31, 2014 and 2013, respectively. Our cash and cash equivalents and short-term investments were $529.9 million, $298.6 million and $323.7 million at December 31, 2014, 2013 and 2012, respectively.

Net cash used in investing activities was approximately $(275.5) million, $(167.4) million and $(249.5) million for the years ended December 31, 2014, 2013 and 2012, respectively. Net cash used in investing activities in 2014 was primarily attributable to business acquisitions, purchase of available-for-sale investments, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments and maturity of certificates of deposit. Net cash used in investing activities in 2013 was primarily attributable to business acquisitions, purchase of available-for-sale investments and certificates of deposit, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments and maturity of certificates of deposit. Net cash used in investing activities in 2012 was primarily attributable to business acquisitions, purchase of available-for-sale investments and certificates of deposit, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments and maturity of certificates of deposit.

Net cash (used in) provided by financing activities was approximately $327.5 million, $(35.7) million and $158.4 million for the year ended December 31, 2014, 2013 and 2012, respectively. Net cash provided by financing activities in 2014 was primarily attributable to the proceeds from the sale of the Convertible Notes, proceeds from the exercise of stock options and excess tax benefit from share-based compensation, partially offset by dividends paid, deferred payments for acquisitions and the repurchase of stock. Net cash used in financing activities in 2013 was primarily attributable to dividends paid and the repurchase of stock, partially offset by the exercise of stock options and excess tax benefit from share-based compensation. Net cash provided by financing activities in 2012 was primarily attributable to the proceeds from the sale of long-term debt and from the exercise of stock options and excess tax benefit from share-based compensation, partially offset by the repurchase of stock and dividends paid.

Stock Repurchase Program

Effective February 15, 2012, our Board of Directors authorized the repurchase of up to five million shares of our common stock through February 20, 2013 (see Note 22 - Subsequent Events for discussion regarding the extension of the share repurchase program to February 19, 2016).

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2014:

	Payment Due by Period (in thousands)				
Contractual Obligations	1 Year	2-3 Years	4-5 Years	More than 5 Years	Total
Long-term debt - principal (a)	$—	$—	$—	$652,500	$652,500
Long-term debt - interest (b)	33,081	66,163	66,163	39,344	204,751
Operating leases (c)	9,025	13,149	7,985	1,161	31,320
Telecom services and co-location facilities (d)	1,841	1,701	34	—	3,576
Holdback payment (e)	14,863	15,447	—	—	30,310
Other (f)	1,081	367	—	—	1,448
Total	$59,891	$96,827	$74,182	$693,005	$923,905

(a) These amounts represent principal on long-term debt.
(b) These amounts represent interest on long-term debt.
(c) These amounts represent undiscounted future minimum rental commitments under noncancellable leases.
(d) These amounts represent service commitments to various telecommunication providers.
(e) These amounts primarily represent the holdback amounts in connection with certain business acquisitions.
(f) These amounts primarily represent certain consulting and Board of Director fee arrangements and software license commitments.

As of December 31, 2014, our liability for uncertain tax positions was $37.6 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities. In addition, with the acquisition of Ookla, acquired on December 1, 2014 (see Note 3 - Business Acquisitions), contingent consideration of up to an aggregate of $40.0 million may be payable upon achieving certain future income thresholds and was determined to have a fair value of $15.0 million which was recorded as an other long-term liability on the consolidated balance sheet at December 31, 2014. We have not been presented this contingent consideration in the table above due to the uncertainty of the amounts and timing of cash settlement.

Credit Agreement

On January 5, 2009, we entered into a Credit Agreement with Union Bank, N.A. in order to further enhance our liquidity in the event of potential acquisitions or other corporate purposes. The Credit Agreement was amended on August 16, 2010, July 13, 2012 and November 9, 2012. The July 13, 2012 amendment was entered into in connection with the issuance of the Senior Notes as discussed in Note 8 - Long-Term Debt - and extended the Revolving Credit Commitment Termination Date (as defined in the Credit Agreement) to November 14, 2013. The November 9, 2012 amendment was entered into in connection with the acquisition of Ziff Davis, Inc. as discussed in Note 3 - Business Acquisitions. The November 19, 2013 amendment extended the revolving credit commitment termination date to November 14, 2016 and amended certain definitions and covenants. On November 26, 2014, the Company and Union Bank, N.A. mutually agreed to terminate the Credit Agreement dated January 5, 2009.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We maintain an investment portfolio of various holdings, types and maturities. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2014, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

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

As of December 31, 2014, we had investments in debt securities with effective maturities greater than one year of approximately $60.5 million. Such investments had a weighted average yield of approximately 0.71%. As of December 31, 2014 and December 31, 2013, we had cash and cash equivalent investments in time deposits and money market funds with maturities of three months or less of $433.7 million and $207.8 million, respectively. Based on our cash and cash equivalents and short- and long-term investment holdings as of December 31, 2014, an immediate 100 basis point decline in interest rates would decrease our annual interest income to approximately zero.

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

Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada, Australia and the European Union. Our principal exposure to foreign currency risk relates to investment and inter-company debt in foreign subsidiaries that transact business in functional currencies other than the U.S. Dollar, primarily the Australian Dollar, the Canadian Dollar, the Euro, the Hong Kong Dollar, the Japanese Yen, the New Zealand Dollar, the Norwegian Kroner and the British Pound Sterling. If we are unable to settle our short-term intercompany debts in a timely manner, we remain exposed to foreign currency fluctuations.

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

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

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

Foreign exchange gains and (losses) were not material to our earnings in 2014, 2013 or 2012. For the years ended December 31, 2014, 2013 and 2012, net foreign currency transaction gain/(loss) amounted to $(0.1) million, $0.4 million and $(0.1) million, respectively. During the year ended December 31, 2014 and 2013, cumulative translation adjustments included in other comprehensive income amounted to $(14.7) million and $0.1 million, respectively.

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

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
j2 Global, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheet of j2 Global, Inc. (“Company”) as of December 31, 2014 and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for the year then ended. In connection with our audit of the financial statements, we have also audited the financial statement schedule listed in the accompanying index. These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of j2 Global, Inc. at December 31, 2014, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), j2 Global, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Los Angeles, California
March 2, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
j2 Global, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheet of j2 Global, Inc. and subsidiaries (collectively, the “Company”) as of December 31, 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2013. Our audits also included the financial statement schedule of j2 Global, Inc. listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of j2 Global, Inc. and subsidiaries as of December 31, 2013 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ SingerLewak LLP
Los Angeles, California
February 28, 2014, except for Note 17 as to which the date is March 2, 2015.

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
(In thousands, except share amounts)

	2014	2013
ASSETS		
Cash and cash equivalents	$433,663	$207,801
Short-term investments	96,206	90,789
Accounts receivable, net of allowances of $3,685 and $4,105, respectively	91,699	67,245
Prepaid expenses and other current assets	22,602	20,064
Deferred income taxes	2,013	3,126
Total current assets	646,183	389,025
Long-term investments	60,508	47,351
Property and equipment, net	38,217	31,200
Trade names, net	105,551	83,108
Patent and patent licenses, net	24,927	28,530
Customer relationships, net	163,766	100,980
Goodwill	635,675	457,422
Other purchased intangibles, net	17,556	10,915
Deferred income taxes	—	1,845
Other assets	12,819	3,413
Total assets	$1,705,202	$1,153,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$95,310	$69,570
Income taxes payable	—	1,569
Deferred revenue	63,457	36,326
Capital lease, current	258	—
Liability for uncertain tax positions	—	5,535
Deferred income taxes	342	1,892
Total current liabilities	159,367	114,892
Long-term debt	593,350	245,670
Capital lease, non-current	141	—
Liability for uncertain tax positions	37,551	38,329
Deferred income taxes	61,960	35,833
Deferred revenue, non-current	10,182	11,189
Other long-term liabilities	22,416	1,458
Total liabilities	884,967	447,371
Commitments and contingencies	—	—
Preferred stock - Series A, $0.01 par value. Authorized 6,000 at December 31, 2014 and 2013, respectively; total issued and outstanding is zero and 5,064 at December 31, 2014 and 2013, respectively.	—	—
Preferred stock - Series B, $0.01 par value. Authorized 20,000 at December 31, 2014 and 2013, respectively; total issued and outstanding is zero and 4,155 at December 31, 2014 and 2013, respectively.	—	—
Common stock, $0.01 par value. Authorized 95,000,000 at December 31, 2014 and 2013; total issued and outstanding 47,409,514 and 46,105,076 shares at December 31, 2014 and 2013, respectively.	474	461
Additional paid-in capital	273,304	216,872
Retained earnings	553,584	484,850

Accumulated other comprehensive income (loss)	(7,127)	4,235
Total stockholders' equity	820,235	706,418
Total liabilities and stockholders' equity	$1,705,202	$1,153,789

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014, 2013 and 2012
(In thousands, except share and per share data)

	2014	2013	2012
Revenues:			
Total revenues	$599,030	$520,801	$371,396
Cost of revenues (including share-based compensation of $345, $756 and $844 in 2014, 2013 and 2012, respectively)	105,989	86,893	67,013
Gross profit	493,041	433,908	304,383
Operating expenses:			
Sales and marketing (including share-based compensation of $1,944, $1,855 and $1,543 in 2014, 2013 and 2012, respectively)	141,967	131,317	62,825
Research, development and engineering (including share-based compensation of $721, $434 and $459 in 2014, 2013 and 2012, respectively)	30,680	25,485	18,624
General and administrative (including share-based compensation of $5,898, $6,675 and $6,286 in 2014, 2013 and 2012, respectively)	134,188	101,683	60,772
Total operating expenses	306,835	258,485	142,221
Income from operations	186,206	175,423	162,162
Interest expense (income), net	31,204	21,254	7,650
Other expense (income), net	(165)	11,472	(410)
Income before income taxes	155,167	142,697	154,922
Income tax expense	29,840	35,175	33,259
Net income	125,327	107,522	121,663
Less net income attributable to noncontrolling interest	—	—	83
Less extinguishment of Series A preferred stock	(991)	—	—
Net income attributable to j2 Global, Inc. common shareholders	$124,336	$107,522	$121,580
Net income per common share:			
Basic	$2.60	$2.31	$2.63
Diluted	$2.58	$2.28	$2.61
Weighted average shares outstanding:			
Basic	46,778,015	45,548,767	45,459,712
Diluted	47,106,538	46,140,019	45,781,658
Cash dividends paid per common share	$1.10	$0.98	$0.87

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Net Income	$125,327	$107,522	$121,663
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment, net of tax expense (benefit) of zero, ($122) and $196 for the year ended 2014, 2013 and 2012, respectively	(14,694)	78	1,435
Unrealized gain on available-for-sale investments, net of tax expense of $2,757, $2,447 and $646 for the year ended 2014, 2013 and 2012, respectively	3,332	4,245	1,954
Other comprehensive income (loss), net of tax	(11,362)	4,323	3,389
Comprehensive Income	$113,965	$111,845	$125,052
Net income attributable to noncontrolling interest	—	—	83
Comprehensive income attributable to j2 Global, Inc.	$113,965	$111,845	$124,969

See Notes to Consolidated Financial Statements

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j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014, 2013 and 2012
(In thousands)

	2014	2013	2012
Cash flows from operating activities:			
Net earnings	$125,327	$107,522	$121,663
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	62,953	39,788	22,164
Accretion and amortization of discount and premium of investments	1,334	1,796	1,603
Amortization of financing costs and discounts	5,045	613	249
Share-based compensation	8,908	9,720	9,132
Excess tax benefits from share-based compensation	(5,512)	(2,695)	(961)
Provision for doubtful accounts	4,702	3,135	4,289
Deferred income taxes	(10,033)	250	1,150
Loss on disposal of fixed assets	—	8	54
(Gain) loss on available-for-sale investments	(90)	66	(266)
Loss on extinguishment of debt and related interest expense	—	14,437	—
Changes in assets and liabilities, net of effects of business combinations:			
Decrease (increase) in:			
Accounts receivable	(11,078)	(9,588)	(5,417)
Prepaid expenses and other current assets	(3,212)	149	(2,028)
Other assets	(42)	168	(243)
Increase (decrease) in:			
Accounts payable and accrued expenses	(5,447)	9,126	5,138
Income taxes payable	10,797	667	4,139
Deferred revenue	(711)	12,368	1,612
Liability for uncertain tax positions	(6,313)	6,186	7,601
Other long-term liabilities	603	(392)	32
Net cash provided by operating activities	177,231	193,324	169,911
Cash flows from investing activities:			
Maturity of certificates of deposit	14,520	42,615	8,000
Purchase of certificates of deposit	(65)	(22,071)	(34,673)
Sales of available-for-sale investments	110,363	140,126	138,709
Purchase of available-for-sale investments	(138,452)	(168,901)	(151,989)
Purchases of property and equipment	(11,829)	(18,627)	(5,061)
Proceeds from sale of assets	608	1	156
Acquisition of businesses, net of cash received	(245,278)	(126,341)	(198,341)
Purchases of intangible assets	(5,336)	(14,200)	(6,295)
Net cash used in investing activities	(275,469)	(167,398)	(249,494)
Cash flows from financing activities:			
Issuance of long-term debt	402,500	—	245,000
Debt issuance costs	(11,991)	(47)	(1,384)
Repurchases of common stock and restricted stock	(5,663)	(4,587)	(60,282)
Issuance of common stock under employee stock purchase plan	265	213	157
Exercise of stock options	6,621	13,604	5,646
Mandatorily redeemable financial instrument	—	—	8,557

Dividends paid	(52,269)	(45,134)	(40,263)
Excess tax benefits from share-based compensation	5,512	2,695	961
Deferred payments for acquisitions	(16,512)	—	—
Other	(933)	(2,437)	—
Net cash (used in) provided by financing activities	327,530	(35,693)	158,392
Effect of exchange rate changes on cash and cash equivalents	(3,430)	(1,112)	512
Net change in cash and cash equivalents	225,862	(10,879)	79,321
Cash and cash equivalents at beginning of period	207,801	218,680	139,359
Cash and cash equivalents at end of period	$433,663	$207,801	$218,680

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Year Ended December 31, 2014, 2013 and 2012
(in thousands, except share amounts)

	Common stock		Preferred Series A	Preferred A		Preferred Series B	Preferred B		Additional paid-in capital	Treasury stock		Retained earnings	Accumulated other comprehensive income/(loss)	j2 Glol Inc. Stockh equity
	Shares	Amount	Shares	Amount	Additional paid-in capital	Shares	Amount	Additional paid-in capital		Shares	Amount			
Balance, January 1, 2012	55,389,636	$554	—	$	$—	—	$	$—	$197,374	(8,680,568)	$(112,671)	$472,595	$(3,477)	$554,3
Net income	—	—	—	—	—	—	—	—	—	—	—	121,580	—	121,58
Other comprehensive income, net of tax of $842	—	—	—	—	—	—	—	—	—	—	—	—	3,389	3,389
Dividends	—	—	—	—	—	—	—	—	—	—	—	(40,263)	—	(40,26
Exercise of stock options	357,234	4	—	—	—	—	—	—	5,642	—	—	—	—	5,646
Issuance of shares under Employee Stock Purchase Plan	5,797	—	—	—	—	—	—	—	157	—	—	—	—	157
Vested restricted stock	204,052	2	—	—	—	—	—	—	(2)	—	—	—	—	—
Retirement of common shares	(10,806,648)	(108)	—	—	—	—	—	—	(42,580)	8,680.568	112,671	(129,171)	—	(59,18
Repurchase of restricted stock	(55,880)	(1)	—	—	—	—	—	—	(1,093)	—	—	—	—	(1,094
Share based compensation	—	—	—	—	—	—	—	—	9,083	—	—	49	—	9,132
Excess tax benefit on share based compensation	—	—	—	—	—	—	—	—	961	—	—	—	—	961
Balance, December 31, 2012	45,094,191	$451	—	$	$—	—	$	$—	$169,542	—	$—	$424,790	$(88)	$594,6
Net income	—	—	—	—	—	—	—	—	—	—	—	107,522	—	107,52
Other comprehensive income, net of tax of $2,325	—	—	—	—	—	—	—	—	—	—	—	—	4,323	4,323
Dividends	—	—	—	—	—	—	—	—	—	—	—	(45,135)	—	(45,13
Purchase of mandatorily	234,025	2	5,064	—	4,774	4,155	—	6,575	22,900	—	—	—	—	22,902

redeemable financial instrument												
Exercise of stock options	569,204	6	—	—	—	—	13,598	—	—	—	—	13,604
Issuance of shares under Employee Stock Purchase Plan	5,402	—	—	—	—	—	213	—	—	—	—	213
Vested restricted stock	308,082	3	—	—	—	—	(3)	—	—	—	—	—
Retirement of common shares	(29,950)	—	—	—	—	—	(684)	—	—	(2,395)	—	(3,079
Repurchase of restricted stock	(75,878)	(1)	—	—	—	—	(1,506)	—	—	—	—	(1,507
Share based compensation	—	—	—	—	—	—	9,585	—	—	68	—	9,653
Excess tax benefit on share based compensation	—	—	—	—	—	—	3,227	—	—	—	—	3,227
Balance, December 31, 2013	46,105,076	$461	5,064	$—$4,774	4,155	$—$6,575	$216,872	—	$—	$484,850	$4,235	$706,4
Net income	—	—	—	—	—	—	—	—	—	125,327	—	125,32
Other comprehensive income, net of tax benefit $2,757	—	—	—	—	—	—	—	—	—	—	(11,362)	(11,36
Dividends	—	—	—	—	—	—	—	—	—	(52,269)	—	(52,26
Exercise of stock options	433,008	4	—	—	—	—	6,617	—	—	—	—	6,621
Issuance of shares under Employee Stock Purchase Plan	5,735	—	—	—	—	—	265	—	—	—	—	265
Equity portion of convertible debt	—	—	—	—	—	—	36,478	—	—	—	—	36,478
Vested restricted stock	565,713	6	—									