BOULDER GROWTH & INCOME FUND
Form 40-17G
April 04, 2014

TRAVELERS

INVESTMENT COMPANY BLANKET BOND
St. Paul Fire and Marine Insurance Company
St. Paul, Minnesota 55102-1396
(A Stock Insurance Company, herein called Underwriter)

DECLARATIONS BOND NO. ZBN-14P46110-14-N2

Item 1. Name of Insured (herein called Insured):
BOULDER TOTAL RETURN FUND, INC.
Principal Address: 2344 SPRUCE STREET, SUITE A
BOULDER, CO 80302

Item 2. Bond Period from 12:01 a.m. on 02/19/14 to 12:01 a.m. on 02/19/15 the effective date of the termination or cancellation of the bond, standard time at the Principal Address as to each of said dates.

Item 3. Limit of Liability
Subject to Sections 9, 10, and 12 hereof:

	Limit of Liability	Deductible Amount
Insuring Agreement A -FIDELITY	$2,775,000	$25,000
Insuring Agreement B -AUDIT EXPENSE	$25,000	$1,000
Insuring Agreement C -PREMISES	$2,775,000	$25,000
Insuring Agreement D -TRANSIT	$2,775,000	$25,000
Insuring Agreement E -FORGERY OR ALTERATION	$2,775,000	$25,000
Insuring Agreement F -SECURITIES	$2,775,000	$25,000
Insuring Agreement G -COUNTERFEIT CURRENCY	$2,775,000	$25,000
Insuring Agreement H -STOP PAYMENT	$100,000	$10,000
Insuring Agreement I -UNCOLLECTIBLE ITEMS OF DEPOSIT	$100,000	$10,000

OPTIONAL COVERAGES ADDED BY RIDER:

COMPUTER SYSTEMS	$2,775,000	$25,000
UNAUTHORIZED SIGNATURE	$2,775,000	$25,000
EXTORTION-THREATS TO PERSONS AND PROPERTY	$2,775,000	$25,000

If "Not Covered" is inserted above opposite any specified Insuring Agreement or Coverage, such Insuring Agreement or Coverage and any other reference thereto in this bond shall be deemed to be deleted therefrom.

Item 4. Offices or Premises Covered -Offices acquired or established subsequent to the effective date of this bond are covered according to the terms of General Agreement A. All the Insured's offices or premises in existence at the time this bond becomes effective are covered under this bond except the offices or premises located as follows:

Item 5. The liability of the Underwriter is subject to the terms of the following endorsements or riders attached hereto: Endorsements or Riders No. 1 through

ICB010 07-04
ICB011 02-10
ICB012 07-04
ICB015 07-04
ICB016 07-04
ICB026 07-04
ICB031 07-04
ICB037 07-04
MEL2956 05-05
MEL3282 05-05

Item 6. The Insured by the acceptance of this bond gives notice to the Underwriter terminating or canceling prior bonds or policy(ies) No.(s) ZBN-14P46110-13-N2 such termination or cancellation to be effective as of the time this bond becomes effective.

IN WITNESS WHEREOF, the Company has caused this bond to be signed by its President and Secretary and countersigned by a duly authorized representative of the Company.

Countersigned:

ST. PAUL FIRE AND MARINE INSURANCE COMPANY

Authorized Representative
Countersigned at

Countersignature Date /s/Brian
MacLean /s/Wendy C. Sly
President Secretary

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INVESTMENT COMPANY BLANKET BOND

The Underwriter, in consideration of an agreed premium, and subject to the Declarations made a part hereof, the General Agreements, Conditions and Limitations and other terms of this bond, agrees with the Insured, in accordance with the Insuring Agreements hereof to which an amount of insurance is applicable as set forth in Item 3 of the Declarations and with respect to loss sustained by the Insured at any time but discovered during the Bond Period, to indemnify and hold harmless the Insured for:

INSURING AGREEMENTS

(A) FIDELITY

Loss resulting from any dishonest or fraudulent act(s), including Larceny or Embezzlement, committed by an Employee, committed anywhere and whether committed alone or in collusion with others, including loss of Property resulting from such acts of an Employee, which Property is held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is liable therefor.

Dishonest or fraudulent act(s) as used in this Insuring Agreement shall mean only dishonest or fraudulent act(s) committed by such Employee with the manifest intent:

(a) to cause the Insured to sustain such loss; and

(b) to obtain financial benefit for the Employee, or for any other Person or organization intended by the Employee to receive such benefit, other than salaries, commissions, fees, bonuses, promotions, awards, profit sharing, pensions or other employee benefits earned in the normal course of employment.

(B) AUDIT EXPENSE

Expense incurred by the Insured for that part of the costs of audits or examinations required by any governmental regulatory authority to be conducted either by such authority or by an independent accountant by reason of the discovery of loss sustained by the Insured through any dishonest or fraudulent act(s), including Larceny or Embezzlement, of any of the Employees. The total liability of the Underwriter for such expense by reason of such acts of any Employee or in which such Employee is concerned or implicated or with respect to any one audit or examination is limited to the amount stated opposite Audit Expense in Item 3 of the Declarations; it being understood, however, that such expense shall be deemed to be a loss sustained by the Insured through any dishonest or fraudulent act(s), including Larceny or Embezzlement, of one or more of the Employees, and the liability under this paragraph shall be in addition to the Limit of Liability stated in Insuring Agreement (A) in Item 3 of the Declarations.

(C) ON PREMISES

Loss of Property (occurring with or without negligence or violence) through robbery, burglary, Larceny, theft, holdup, or other fraudulent means, misplacement, mysterious unexplainable disappearance, damage thereto or destruction thereof, abstraction or removal from the possession, custody or control of the Insured, and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is (or is supposed or believed by the Insured to be) lodged or deposited within any offices or premises located anywhere, except in an office listed in Item 4 of the Declarations or amendment thereof or in the mail or with a carrier for hire, other than an armored motor vehicle company, for the purpose of transportation.

Office and Equipment

(1) loss of or damage to furnishings, fixtures, stationery, supplies or equipment, within any of the Insured's offices covered under this bond caused by Larceny or theft in, or by burglary, robbery or hold-up of, such office, or attempt thereat, or by vandalism or malicious mischief; or

(2) loss through damage to any such office by Larceny or theft in, or by burglary, robbery or hold-up of, such office, or attempt thereat, or to the interior of any such office by vandalism or malicious mischief provided, in any event, that the Insured is the owner of such offices, furnishings, fixtures, stationery, supplies or equipment or is legally liable for such loss or damage always excepting, however, all loss or damage through fire.

(D) IN TRANSIT

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Loss of Property (occurring with or without negligence or violence) through robbery, Larceny, theft, hold-up, misplacement, mysterious unexplainable disappearance, being lost or otherwise made away with, damage thereto or destruction thereof, and loss of subscription, conversion, redemption or deposit privileges through the misplacement or loss of Property, while the Property is in transit anywhere in the custody of any person or persons acting as messenger, except while in the mail or with a carrier for hire, other than an armored motor vehicle company, for the purpose of transportation, such transit to begin immediately upon receipt of such Property by the transporting person or persons, and to end immediately upon delivery thereof at destination.

(E) FORGERY OR ALTERATION

Loss through Forgery or alteration of or on:

(1) any bills of exchange, checks, drafts, acceptances, certificates of deposit, promissory notes, or other written promises, orders or directions to pay sums certain in money, due bills, money orders, warrants, orders upon public treasuries, letters of credit; or

(2) other written instructions, advices or applications directed to the Insured, authorizing or acknowledging the transfer, payment, delivery or receipt of funds or Property, which instructions, advices or applications purport to have been signed or endorsed by any:

(a) customer of the Insured, or

(b) shareholder or subscriber to shares, whether certificated or uncertificated, of any Investment Company, or

(c) financial or banking institution or stockbroker,

but which instructions, advices or applications either bear the forged signature or endorsement or have been altered without the knowledge and consent of such customer, shareholder or subscriber to shares, or financial or banking institution or stockbroker; or

(3) withdrawal orders or receipts for the withdrawal of funds or Property, or receipts or certificates of deposit for Property and bearing the name of the Insured as issuer , or of another Investment Company for which the Insured acts as agent,

excluding, however, any loss covered under Insuring Agreement (F) hereof whether or not coverage for Insuring Agreement (F) is provided for in the Declarations of this bond.

Any check or draft (a) made payable to a fictitious payee and endorsed in the name of such fictitious payee or (b) procured in a transaction with the maker or drawer thereof or with one acting as an agent of such maker or drawer or anyone impersonating another and made or drawn payable to the one so impersonated and endorsed by anyone other than the one impersonated, shall be deemed to be forged as to such endorsement.

Mechanically reproduced facsimile signatures are treated the same as handwritten signatures.

(F) SECURITIES

Loss sustained by the Insured, including loss sustained by reason of a violation of the constitution by-laws, rules or regulations of any Self Regulatory Organization of which the Insured is a member or which would have been imposed upon the Insured by the constitution, by-laws, rules or regulations of any Self Regulatory Organization if the Insured had been a member thereof,

(1) through the Insured's having, in good faith and in the course of business, whether for its own account or for the account of others, in any representative, fiduciary, agency or any other capacity, either gratuitously or otherwise, purchased or otherwise acquired, accepted or received, or sold or delivered, or given any value, extended any credit or assumed any liability, on the faith of, or otherwise acted upon, any securities, documents or other written instruments which prove to have been:

(a) counterfeited, or

(b) forged as to the signature of any maker, drawer, issuer, endorser, assignor, lessee, transfer agent or registrar, acceptor, surety or guarantor or as to the signature of any person signing in any other capacity, or

(c) raised or otherwise altered or lost, or stolen, or

(2) through the Insured's having, in good faith and in the course of business, guaranteed in writing or witnessed any signatures whether for valuable consideration or not and whether or not such guaranteeing or witnessing is ultra vires the Insured, upon any transfers, assignments, bills of sale, powers of attorney, guarantees, endorsements or other obligations upon or in connection with any securities, documents or other written instruments and which pass or purport to pass title to such securities, documents or other written instruments; excluding losses caused by Forgery or alteration of, on or in those instruments covered under Insuring Agreement (E) hereof.

Securities, documents or other written instruments shall be deemed to mean original (including original counterparts) negotiable or non-negotiable agreements which in and of themselves represent an equitable interest, ownership, or debt, including an assignment thereof, which instruments are, in the ordinary course of business, transferable by delivery of such agreements with any necessary endorsement or assignment.

The word "counterfeited" as used in this Insuring Agreement shall be deemed to mean any security, document or other written instrument which is intended to deceive and to be taken for an original.

Mechanically reproduced facsimile signatures are treated the same as handwritten signatures.

(G) COUNTERFEIT CURRENCY

Loss through the receipt by the Insured, in good faith, of any counterfeited money orders or altered paper currencies or coin of the United States of America or Canada issued or purporting to have been issued by the United States of America or Canada or issued pursuant to a United States of America or Canada statute for use as currency.

(H) STOP PAYMENT

Loss against any and all sums which the Insured shall become obligated to pay by reason of the liability imposed upon the Insured by law for damages:

For having either complied with or failed to comply with any written notice of any customer, shareholder or subscriber of the Insured or any Authorized Representative of such customer, shareholder or subscriber to stop payment of any check or draft made or drawn by such customer, shareholder or subscriber or any Authorized Representative of such customer, shareholder or subscriber, or

For having refused to pay any check or draft made or drawn by any customer, shareholder or subscriber of the Insured or any Authorized Representative of such customer, shareholder or subscriber.

(I) UNCOLLECTIBLE ITEMS OF DEPOSIT

Loss resulting from payments of dividends or fund shares, or withdrawals permitted from any customer's, shareholder's, or subscriber's account based upon Uncollectible Items of Deposit of a customer, shareholder or subscriber credited by the Insured or the Insured's agent to such customer's, shareholder's or subscriber's Mutual Fund Account; or loss resulting from an Item of Deposit processed through an Automated Clearing House which is reversed by the customer, shareholder or subscriber and deemed uncollectible by the Insured.

Loss includes dividends and interest accrued not to exceed 15% of the Uncollectible Items which are deposited.

This Insuring Agreement applies to all Mutual Funds with "exchange privileges" if all Fund(s) in the exchange program are insured by the Underwriter for Uncollectible Items of Deposit. Regardless of the number of transactions between Fund(s), the minimum number of days of deposit within the Fund(s) before withdrawal as declared in the Fund(s) prospectus shall begin from the date a deposit was first credited to any Insured Fund(s).

GENERAL AGREEMENTS

A. ADDITIONAL OFFICES OR EMPLOYEES - –CONSOLIDATION OR MERGER -NOTICE

(1) If the Insured shall, while this bond is in force, establish any additional office or offices, such offices shall be automatically covered hereunder from the dates of their establishment, respectively. No notice to the Underwriter of an increase during any premium period in the number of offices or in the number of Employees at any of the offices covered hereunder need be given and no additional premium need be paid for the remainder of such premium period.

(2) If an Investment Company, named as Insured herein, shall, while this bond is in force, merge or consolidate with, or purchase the assets of another institution, coverage for such acquisition shall apply automatically

from the date of acquisition. The Insured shall notify the Underwriter of such acquisition within 60 days of said date, and an additional premium shall be computed only if such acquisition involves additional offices or employees.

B. WARRANTY

No statement made by or on behalf of the Insured, whether contained in the application or otherwise, shall be deemed to be a warranty of anything except that it is true to the best of the knowledge and belief of the person making the statement.

C. COURT COSTS AND ATTORNEYS' FEES

(Applicable to all Insuring Agreements or Coverages now or hereafter forming part of this bond)

The Underwriter will indemnify the Insured against court costs and reasonable attorneys' fees incurred and paid by the Insured in defense, whether or not successful, whether or not fully litigated on the merits and whether or not settled, of any suit or legal proceeding brought against the Insured to enforce the Insured's liability or alleged liability on account of any loss, claim or damage which, if established against the Insured, would constitute a loss sustained by the Insured covered under the terms of this bond provided, however, that with respect to Insuring Agreement (A) this indemnity shall apply only in the event that:

(1) an Employee admits to being guilty of any dishonest or fraudulent act(s), including Larceny or Embezzlement; or

(2) an Employee is adjudicated to be guilty of any dishonest or fraudulent act(s), including Larceny or Embezzlement;

(3) in the absence of (1) or (2) above an arbitration panel agrees, after a review of an agreed statement of facts, that an Employee would be found guilty of dishonesty if such Employee were prosecuted.

The Insured shall promptly give notice to the Underwriter of any such suit or legal proceedings and at the request of the Underwriter shall furnish it with copies of all pleadings and other papers therein. At the Underwriter's election the Insured shall permit the Underwriter to conduct the defense of such suit or legal proceeding, in the Insured's name, through attorneys of the Underwriter's selection. In such event, the Insured shall give all reasonable information and assistance which the Underwriter shall deem necessary to the proper defense of such suit or legal proceeding.

If the amount of the Insured's liability or alleged liability is greater than the amount recoverable under this bond, or if a Deductible Amount is applicable, or both, the liability of the Underwriter under this General Agreement is limited to the proportion of court costs and attorneys' fees incurred and paid by the Insured or by the Underwriter that the amount recoverable under this bond bears to the total of such amount plus the amount which is not so recoverable. Such indemnity shall be in addition to the Limit of Liability for the applicable Insuring Agreement or Coverage.

D. FORMER EMPLOYEE

Acts of an Employee, as defined in this bond, are covered under Insuring Agreement (A) only while the Employee is in the Insured's employ. Should loss involving a former Employee of the Insured be discovered subsequent to the termination of employment, coverage would still apply under Insuring Agreement (A) if the direct proximate cause of the loss occurred while the former Employee performed duties within the scope of his/her employment.

THE FOREGOING INSURING AGREEMENTS AND GENERAL AGREEMENTS ARE SUBJECT TO THE FOLLOWING CONDITIONS AND LIMITATIONS:

SECTION 1. DEFINITIONS

The following terms, as used in this bond have the respective meanings stated in this Section:

(a) "Employee" means:

(1) any of the Insured's officers, partners, or employees, and

(2) any of the officers or employees of any predecessor of the Insured whose principal assets are acquired by the Insured by consolidation or merger with, or purchase of assets or capital stock of, such predecessor, and

(3) attorneys retained by the Insured to perform legal services for the Insured and the employees of such attorneys while such attorneys or employees of such attorneys are performing such services for the Insured, and

(4) guest students pursuing their studies or duties in any of the Insured's offices, and

(5) directors or trustees of the Insured, the investment advisor, underwriter (distributor), transfer agent, or shareholder accounting record keeper, or administrator authorized by written agreement to keep financial and/or other required records, but only while performing acts coming within the scope of the usual duties of an officer or employee or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of the Insured, and

(6) any individual or individuals assigned to perform the usual duties of an employee within the premises of the Insured, by contract, or by any agency furnishing temporary personnel on a contingent or part-–time basis, and

(7) each natural person, partnership or corporation authorized by written agreement with the Insured to perform services as electronic data processor of checks or other accounting records of the Insured, but excluding any such processor who acts as transfer agent or in any other agency capacity in issuing checks, drafts or securities for the Insured, unless included under sub-section (9) hereof, and

(8) those persons so designated in Section 15, Central Handling of Securities, and

(9) any officer, partner, or Employee of:

(a) an investment advisor,

(b) an underwriter (distributor),

(c) a transfer agent or shareholder accounting record-keeper, or

(d) an administrator authorized by written agreement to keep financial and/or other required records,

for an Investment Company named as Insured while performing acts coming within the scope of the usual duties of an officer or Employee of any Investment Company named as Insured herein, or while acting as a member of any committee duly elected or appointed to examine or audit or have custody of or access to the Property of any

such Investment Company, provided that only Employees or partners of a transfer agent, shareholder accounting record-keeper or administrator which is an affiliated person, as defined in the Investment Company Act of 1940, of an Investment Company named as Insured or is an affiliated person of the advisor, underwriter or administrator of such Investment Company, and which is not a bank, shall be included within the definition of Employee.

Each employer of temporary personnel or processors as set forth in sub-sections (6) and (7) of Section l(a) and their partners, officers and employees shall collectively be deemed to be one person for all the purposes of this bond, excepting, however, the last paragraph of Section 13.

Brokers, or other agents under contract or representatives of the same general character shall not be considered Employees.

(b) "Property" means money (i.e. currency, coin, bank notes, Federal Reserve notes), postage and revenue stamps, U.S. Savings Stamps, bullion, precious metals of all kinds and in any form and articles made therefrom, jewelry, watches, necklaces, bracelets, gems, precious and semi-precious stones, bonds, securities, evidences of debts, debentures, scrip, certificates, interim receipts, warrants, rights, puts, calls, straddles, spreads, transfers, coupons, drafts, bills of exchange, acceptances, notes, checks, withdrawal orders, money orders, warehouse receipts, bills of lading, conditional sales contracts, abstracts of title, insurance policies, deeds, mortgages under real estate and/or chattels and upon interests therein, and assignments of such policies, mortgages and instruments, and other valuable papers, including books of account and other records used by the Insured in the conduct of its business, and all other instruments similar to or in the nature of the foregoing including Electronic Representations of such instruments enumerated above (but excluding all data processing records) in which the Insured has an interest or in which the Insured acquired or should have acquired an interest by reason of a predecessor's declared financial condition at the time of the Insured's consolidation or merger with, or purchase of the principal assets of, such predecessor or which are held by the Insured for any purpose or in any capacity and whether so held gratuitously or not and whether or not the Insured is liable therefor.

(c) "Forgery" means the signing of the name of another with intent to deceive; it does not include the signing of one's own name with or without authority, in any capacity, for any purpose.

(d) "Larceny and Embezzlement" as it applies to any named Insured means those acts as set forth in Section 37 of the Investment Company Act of 1940.

(e) "Items of Deposit" means any one or more checks and drafts. Items of Deposit shall not be deemed uncollectible until the Insured's collection procedures have failed.

SECTION 2. EXCLUSIONS

THIS BOND DOES NOT COVER:

(a) loss effected directly or indirectly by means of forgery or alteration of, on or in any instrument, except when covered by Insuring Agreement (A), (E), (F) or (G).

(b) loss due to riot or civil commotion outside the United States of America and Canada; or loss due to military, naval or usurped power, war or insurrection unless such loss occurs in transit in the circumstances recited in Insuring Agreement (D), and unless, when such transit was initiated, there was no knowledge of such riot, civil commotion, military, naval or usurped power, war or insurrection on the part of any person acting for the Insured in initiating such transit.

(c) loss, in time of peace or war, directly or indirectly caused by or resulting from the effects of nuclear fission or fusion or radioactivity; provided, however, that this paragraph shall not apply to loss resulting from industrial uses of nuclear energy.

(d) loss resulting from any wrongful act or acts of any person who is a member of the Board of Directors of the Insured or a member of any equivalent body by whatsoever name known unless such person is also an Employee or an elected official, partial owner or partner of the Insured in some other capacity, nor, in any event, loss resulting from the act or acts of any person while acting in the capacity of a member of such Board or equivalent body.

(e) loss resulting from the complete or partial non-payment of, or default upon, any loan or transaction in the nature of, or amounting to, a loan made by or obtained from the Insured or any of its partners, directors or Employees, whether authorized or unauthorized and whether procured in good faith or through trick, artifice fraud or false pretenses, unless such loss is covered under Insuring Agreement (A), (E) or (F).

(f) loss resulting from any violation by the Insured or by any Employee:

(1) of law regulating (a) the issuance, purchase or sale of securities, (b) securities transactions upon Security Exchanges or over the counter market, (c) Investment Companies, or (d) Investment Advisors, or

(2) of any rule or regulation made pursuant to any such law.

unless such loss, in the absence of such laws, rules or regulations, would be covered under Insuring Agreements (A) or (E).

(g) loss of Property or loss of privileges through the misplacement or loss of Property as set forth in Insuring Agreement (C) or (D) while the Property is in the custody of any armored motor vehicle company, unless such loss shall be in excess of the amount recovered or received by the Insured under (a) the Insured's contract with said armored motor vehicle company, (b) insurance carried by said armored motor vehicle company for the benefit of users of its service, and (c) all other insurance and indemnity in force in whatsoever form carried by or for the benefit of users of said armored motor vehicle company's service, and then this bond shall cover only such excess.

(h) potential income, including but not limited to interest and dividends, not realized by the Insured because of a loss covered under this bond, except as included under Insuring Agreement (I).

(i) all damages of any type for which the Insured is legally liable, except direct compensatory damages arising from a loss covered under this bond.

(j) loss through the surrender of Property away from an office of the Insured as a result of a threat:

(1) to do bodily harm to any person, except loss of Property in transit in the custody of any person acting as messenger provided that when such transit was initiated there was no knowledge by the Insured of any such threat, or

(2) to do damage to the premises or Property of the Insured, except when covered under Insuring Agreement (A).

(k) all costs, fees and other expenses incurred by the Insured in establishing the existence of or amount of loss covered under this bond unless such indemnity is provided for under Insuring Agreement (B).

(1) loss resulting from payments made or withdrawals from the account of a customer of the Insured, shareholder or subscriber to shares involving funds erroneously credited to such account, unless such payments are made to or withdrawn by such depositors or representative of such person, who is within the premises of the drawee bank of the Insured or within the office of the Insured at the time of such payment or withdrawal or unless such payment is covered under Insuring Agreement (A).

(m) any loss resulting from Uncollectible Items of Deposit which are drawn from a financial institution outside the fifty states of the United States of America, District of Columbia, and territories and possessions of the United States of America, and Canada.

SECTION 3. ASSIGNMENT OF RIGHTS

This bond does not afford coverage in favor of any Employers of temporary personnel or of processors as set forth in sub-sections (6) and (7) of Section l(a) of this bond, as aforesaid, and upon payment to the Insured by the Underwriter on account of any loss through dishonest or fraudulent act(s) including Larceny or Embezzlement committed by any of the partners, officers or employees of such Employers, whether acting alone or in collusion with others, an assignment of such of the Insured's rights and causes of action as it may have against such Employers by reason of such acts so committed shall, to the extent of such payment, be given by the Insured to the Underwriter, and the Insured shall execute all papers necessary to secure to the Underwriter the rights herein provided for.

SECTION 4. LOSS - NOTICE - PROOF - LEGAL PROCEEDINGS

This bond is for the use and benefit only of the Insured named in the Declarations and the Underwriter shall not be liable hereunder for loss sustained by anyone other than the Insured unless the Insured, in its sole discretion and at its option, shall include such loss in the Insured's proof of loss. At the earliest practicable moment after discovery of any loss hereunder the Insured shall give the Underwriter written notice thereof and shall also within six months after such discovery furnish to the Underwriter affirmative proof of loss with full particulars. If claim is made under this bond for loss of securities or shares, the Underwriter shall not be liable unless each of such securities or shares is identified in such proof of loss by a certificate or bond number or, where such securities or shares are uncertificated, by such identification means as agreed to by the Underwriter. The Underwriter shall have thirty days after notice and proof of loss within which to investigate the claim, but where the loss is clear and undisputed, settlement shall be made within forty-eight hours; and this shall apply notwithstanding the loss is made up wholly or in part of securities of which duplicates may be obtained. Legal proceedings for recovery of any loss hereunder shall not be brought prior to the expiration of sixty days after such proof of loss is filed with the Underwriter nor after the expiration of twenty-four months from the discovery of such loss, except that any action or proceedings to recover hereunder on account of any judgment against the Insured in any suit mentioned in General Agreement C or to recover attorneys' fees paid in any such suit, shall be begun within twenty−-four months from the date upon which the judgment in such suit shall become final. If any limitation embodied in this bond is prohibited by any law controlling the construction hereof, such limitation shall be deemed to be amended so as to be equal to the minimum period of limitation permitted by such law.

Discovery occurs when the Insured:
(a) becomes aware of facts, or

(b) receives written notice of an actual or potential claim by a third party which alleges that the Insured is liable under circumstances,

which would cause a reasonable person to assume that a loss covered by the bond has been or will be incurred even though the exact amount or details of loss may not be then known.

SECTION 5. VALUATION OF PROPERTY

The value of any Property, except books of accounts or other records used by the Insured in the conduct of its business, for the loss of which a claim shall be made hereunder, shall be determined by the average market value of such Property on the business day next preceding the discovery of such loss; provided, however, that the value of any Property replaced by the Insured prior to the payment of claim therefor shall be the actual market value at the time of replacement; and further provided that in case of a loss or misplacement of interim certificates, warrants, rights, or other securities, the production of which is necessary to the exercise of subscription, conversion, redemption or deposit privileges, the value thereof shall be the market value of such privileges immediately preceding the expiration thereof if said loss or misplacement is not discovered until after their expiration. If no market price is quoted for such Property or for such privileges, the value shall be fixed by agreement between the parties or by arbitration.

In case of any loss or damage to Property consisting of books of accounts or other records used by the Insured in the conduct of its business, the Underwriter shall be liable under this bond only if such books or records are actually reproduced and then for not more than the cost of blank books, blank pages or other materials plus the cost of labor for the actual transcription or copying of data which shall have been furnished by the Insured in order to reproduce such books and other records.

SECTION 6. VALUATION OF PREMISES AND FURNISHINGS

In case of damage to any office of the Insured, or loss of or damage to the furnishings, fixtures, stationery, supplies, equipment, safes or vaults therein, the Underwriter shall not be liable for more than the actual cash value thereof, or for more than the actual cost of their replacement or repair. The Underwriter may, at its election, pay such actual cash value or make such replacement or repair. If the underwriter and the Insured cannot agree upon such cash value or such cost of replacement or repair, such shall be determined by arbitration.

SECTION 7. LOST SECURITIES

If the Insured shall sustain a loss of securities the total value of which is in excess of the limit stated in Item 3 of the Declarations of this bond, the liability of the Underwriter shall be limited to payment for, or duplication of, securities having value equal to the limit stated in Item 3 of the Declarations of this bond.

If the Underwriter shall make payment to the Insured for any loss of securities, the Insured shall thereupon assign to the Underwriter all of the Insured's rights, title and interest in and to said securities.

With respect to securities the value of which do not exceed the Deductible Amount (at the time of the discovery of the loss) and for which the Underwriter may at its sole discretion and option and at the request of the Insured issue a Lost Instrument Bond or Bonds to effect replacement thereof, the Insured will pay the usual premium charged therefor and will indemnify the Underwriter against all loss or expense that the Underwriter may sustain because of the issuance of such Lost Instrument Bond or Bonds.

With respect to securities the value of which exceeds the Deductible Amount (at the time of discovery of the loss) and for which the Underwriter may issue or arrange for the issuance of a Lost Instrument Bond or Bonds to effect replacement thereof, the Insured agrees that it will pay as premium therefor a proportion of the usual premium charged therefor, said proportion being equal to the percentage that the Deductible Amount bears to the value of the securities upon discovery of the loss, and that it will indemnify the issuer of said Lost Instrument Bond or Bonds against all loss and expense that is not recoverable from the Underwriter under the terms and conditions of this Investment Company Blanket Bond subject to the Limit of Liability hereunder.

SECTION 8. SALVAGE

In case of recovery, whether made by the Insured or by the Underwriter, on account of any loss in excess of the Limit of Liability hereunder plus the Deductible Amount applicable to such loss, from any source other than suretyship, insurance, reinsurance, security or indemnity taken by or for the benefit of the Underwriter, the net amount of such recovery, less the actual costs and expenses of making same, shall be applied to reimburse the Insured in full for the excess portion of such loss, and the remainder, if any, shall be paid first in reimbursement of the Underwriter and thereafter in reimbursement of the Insured for that part of such loss within the Deductible Amount. The Insured shall execute all necessary papers to secure to the Underwriter the rights provided for herein.

SECTION 9. NON-REDUCTION AND NON−-ACCUMULATION OF LIABILITY AND TOTAL LIABILITY

At all times prior to termination hereof, this bond shall continue in force for the limit stated in the applicable sections of Item 3 of the Declarations of this bond notwithstanding any previous loss for which the Underwriter may have paid or be liable to pay hereunder; PROVIDED, however, that regardless of the number of years this bond shall continue in force and the number or premiums which shall be payable or paid, the liability of the Underwriter under this bond with respect to all loss resulting from:

(a) any one act of burglary, robbery or holdup, or attempt thereat, in which no Partner or Employee is concerned or implicated shall be deemed to be one loss, or

(b) any one unintentional or negligent act on the part of any other person resulting in damage to or destruction or misplacement of Property, shall be deemed to be one loss, or

(c) all wrongful acts, other than those specified in (a) above, of any one person shall be deemed to be one loss, or

(d) all wrongful acts, other than those specified in (a) above, of one or more persons (which dishonest act(s) or act(s) of Larceny or Embezzlement include, but are not limited to, the failure of an Employee to report such acts of others) whose dishonest act or acts intentionally or unintentionally, knowingly or unknowingly, directly or indirectly, aid or aids in any way, or permits the continuation of, the dishonest act or acts of any other person or persons shall be deemed to be one loss with the act or acts of the persons aided, or

(e) any one casualty or event other than those specified in (a), (b), (c) or (d) preceding, shall be deemed to be one loss, and

shall be limited to the applicable Limit of Liability stated in Item 3 of the Declarations of this bond irrespective of the total amount of such loss or losses and shall not be cumulative in amounts from year to year or from period to period.

Sub-section (c) is not applicable to any situation to which the language of sub-section (d) applies.

SECTION 10. LIMIT OF LIABILITY

With rign="right">54,029

$

44,491

$

156,935

$

127,724

Other

1,717

1,400

6,932

4,451

55,746

45,891

163,867

132,175

Cost of revenues (including stock-based compensation of $169 and $491 for the three and nine months of 2007, respectively, and $97 and $303 for the three and nine months of 2006, respectively)

11,168

9,648

32,390

27,947

Gross profit

44,578

36,243

131,477

104,228

Operating expenses:

Sales and marketing (including stock-based compensation of $304 and $846 for the three and nine months of 2007, respectively, and $266 and $807 for the three and nine months of 2006, respectively)

10,218

8,141

28,670

22,498

Research, development and engineering (including stock-based compensation of $186 and $543 for the three and nine months of 2007, respectively, and $149 and $413 for the three and nine months of 2006, respectively)

3,045

2,129

8,734

5,965

General and administrative (including stock-based compensation of $1,209 and $3,420 for the three and nine months of 2007, respectively, and $995 and $3,073 for the three and nine months of 2006, respectively)

10,042

10,204

28,817

26,454

Total operating expenses

23,305

20,474

66,221

54,917

Operating earnings

21,273

15,769

65,256

49,311

Interest and other income, net

2,598

1,586

6,721

3,922

Earnings before income taxes

23,871

17,355

71,977

53,233

Income tax expense

5,783

4,565

20,372

14,933

Net earnings

$ 18,088

$ 12,790

$ 51,605

$ 38,300

Net earnings per common share:

Basic

$ 0.37

$ 0.26

$

1.05

$

0.78

Diluted

$

0.35

$

0.25

$

1.01

$

0.75

Weighted average shares outstanding:

Basic

49,215,250

49,218,918

49,050,697

49,272,631

Diluted

51,075,957

51,107,362

50,923,136

51,072,988

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net earnings	$ 51,605	$ 38,300
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	7,188	5,996
Stock-based compensation	5,417	4,596
Tax benefit of vested restricted stock	363	24
Tax benefit of stock option exercises	4,843	1,381
Excess tax benefits on stock option exercises	(3,460)	(1,290)
Deferred income taxes	(426)	(1,214)
Loss on disposal of fixed assets	194	—
Changes in assets and liabilities, net of effects of business combinations:		
Decrease (increase) in:		
Accounts receivable	(3,794)	(1,725)
Prepaid expenses and other current assets	(740)	(2,064)
Other assets	160	(177)
(Decrease) increase in:		
Accounts payable and accrued expenses	(1,541)	3,018
Income taxes payable	(4,350)	(2,970)
Deferred revenue	3,036	3,135
Accrued income taxes	9,971	—
Other	(38)	92
Net cash provided by operating activities	68,428	47,102
Cash flows from investing activities:		
Net purchases of available-for-sale investments	(23,740)	(18,655)
Net redemptions of held-to-maturity investments	12,040	29,354
Purchases of property and equipment	(5,975)	(5,226)
Acquisition of businesses, net of cash received	(6,814)	(7,194)
Purchases of intangible assets	(3,802)	(2,950)
Proceeds from sale of property and equipment	—	10
Proceeds from sale of investment	—	822
Net cash used in investing activities	(28,291)	(3,839)
Cash flows from financing activities:		
Repurchases of common stock	(14,950)	(9,727)
Repurchases of restricted stock	(295)	—
Issuance of common stock under employee stock purchase plan	193	381
Exercise of stock options	6,791	800
Excess tax benefits on stock option exercises	3,460	1,290
Repayment of long-term debt	(151)	(460)
Net cash used in financing activities	(4,952)	(7,716)

Effect of exchange rate changes on cash and cash equivalents		1,306		1,595
Net increase in cash and cash equivalents		36,491		37,142
Cash and cash equivalents at beginning of period		95,605		36,301
Cash and cash equivalents at end of period	$	132,096	$	73,443

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(UNAUDITED)

1. Basis of Presentation

j2 Global Communications, Inc. ("j2 Global" or the "Company") is a Delaware corporation founded in 1995. By leveraging the power of the Internet, the Company provides outsourced, value-added messaging and communications services to individuals and businesses throughout the world. j2 Global offers fax, voicemail, email and call handling services and bundled suites of certain of these services. j2 Global markets its services principally under the brand names eFax®, eFax Corporate®, Fax.com™, Send2Fax®, eFax Broadcast™, jBlast®, jConnect®, Onebox®, Onebox Receptionist™, eVoice®, eVoice Receptionist™, YAC® and Electric Mail®.

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

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including those for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2007.

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

Income Taxes

In July 2006, the Financial Accounting Standard Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the adoption, the Company recorded an approximately $18.6 million increase in accrued income taxes in the condensed consolidated balance sheet for unrecognized tax benefits, which was accounted for as a cumulative effect adjustment to the January 1, 2007 balance of retained earnings. See Note 6 for further information regarding the effects of adopting FIN 48.

2. Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts and the valuation of deferred income taxes, tax contingencies, stock-based compensation expense, long-lived and intangible assets and goodwill. These estimates are based on historical experience and on various other factors that the

Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

3. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS 157 applies to all accounting pronouncements that require fair value measurements. It does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Accordingly, the Company will adopt SFAS 157 commencing in the first quarter of 2008. The Company is currently assessing the potential impact of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Unrealized gains and losses, arising subsequent to adoption, are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is required to adopt SFAS 159 in the first quarter of 2008. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

4. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are estimated by management based on the fair value of assets acquired. Identifiable intangible assets subject to amortization are being amortized using the straight-line method over estimated useful lives ranging from two to twenty years.

The changes in carrying amounts of goodwill and other intangible assets for the nine months ended September 30, 2007 are as follows (in thousands):

	Balance as of January 1, 2007	Additions	Amortization	Foreign Exchange Translation	Balance as of September 30, 2007
Goodwill	$ 30,954	$ 5,456	$ —$	481	$ 36,891
Intangible assets with indefinite lives	2,063	267	—	—	2,330
Intangible assets subject to amortization	19,337	8,250	(2,724)	156	25,019
	$ 52,354	$ 13,973	$ (2,724)	$ 637	$ 64,240

Intangible assets with indefinite lives relate primarily to a trade name. As of September 30, 2007, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Patents	10.7 years	$ 19,429	$ 4,756	$ 14,673
Technology	3.0 years	4,096	3,106	990
Customer relationships	4.5 years	4,665	2,290	2,375
Trade name	16.1 years	7,789	808	6,981
Total		$ 35,979	$ 10,960	$ 25,019

Amortization expense, included in general and administrative expense, during the three-month periods ended September 30, 2007 and 2006 approximated $1.1 million and $0.7 million, respectively. Amortization expense, included in general and administrative expense, during the nine-month periods ended September 30, 2007 and 2006 approximated $2.7 million and $1.9 million, respectively. Amortization expense is estimated to approximate $3.7 million, $3.7 million, $3.4 million, $3.0 million and $2.3 million for fiscal years 2007 through 2011, respectively, and $11.7 million thereafter through the duration of the amortization period.

5. Litigation

In February 2004 and July 2005, the Company filed two lawsuits against Venali in the United States District Court for the Central District of California for infringement of several of its U.S. patents. On June 21, 2006, Venali filed suit against the Company and its affiliate in the United States District Court for the Southern District of Florida, alleging violations of antitrust law and various related claims arising out of the Company’s procurement and enforcement of its patents. In lieu of any response to Venali’s complaint, the parties reached an agreement whereby Venali dismissed its complaint without prejudice and re-filed certain of its claims as counterclaims in the patent infringement actions in California. On December 27, 2006, Venali filed amended counterclaims in the July 2005 action alleging several violations of antitrust law (fraudulent procurement of patents, fraudulent enforcement of patents, tying and attempted monopolization) as well as tortious interference with business relationships, trademark infringement and unfair and deceptive trade practices. Venali is seeking damages, including treble damages for the antitrust claims, injunctive relief, attorneys’ fees and costs. Venali’s claims relate in substantial part to the patent infringement claims by the Company against Venali. On April 13, 2007, the court granted in part the Company’s motion to dismiss Venali’s counterclaims, dismissing the tying claim with leave to amend. Venali has agreed that it will not replead the tying counterclaim and has also stipulated to the dismissal of its Lanham Act and tortious interference counterclaims.

On December 12, 2006, Venali filed suit against the Company in the United States District Court for the Southern District of Florida, alleging infringement of U.S. Patent Number 7,114,004 (the “ ’004 Patent”). Venali is seeking damages in the amount of lost profits or a reasonable royalty, a permanent injunction against continued infringement, treble damages, attorneys’ fees, interest and costs. On March 6, 2007, the Company filed an answer to the complaint denying liability. On May 17, 2007, the Company filed a request with the U.S. Patent & Trademark Office for reexamination of the ’004 Patent, which request was granted on July 27, 2007. On August 13, 2007, the Company moved to stay the action pending the reexamination. On August 20, 2007, the court granted the motion and stayed the action pending reexamination of the patent.

On May 9, 2007, Bear Creek Technologies, Inc. (“Bear Creek”) filed suit against the Company in the United States District Court for the Eastern District of Texas, alleging infringement of U.S. Patent Number 6,685,494. Bear Creek is seeking damages in, at least, the amount of a reasonable royalty, a permanent injunction against continued infringement, treble damages, attorneys’ fees, interest and costs. On June 29, 2007, the Company filed an answer to the complaint denying liability, asserting affirmative defenses**,** and asserting counterclaims of non-infringement and invalidity. On September 21, 2007, Bear Creek filed its reply to the Company’s counterclaims, denying each one. The claim construction hearing is set for April 28, 2008, and jury selection for trial in the matter is set for April 7, 2009.

On June 21, 2007, Integrated Global Concepts, Inc. (“IGC”) filed a lawsuit against the Company, certain of the Company’s current and former officers and/or directors, one of the Company’s affiliates, and several other parties in the United States District Court for the Northern District of Illinois. The suit purports to allege violations of antitrust law, the Racketeer Influenced and Corrupt Organizations Act and various related statutory and common law claims arising out of the Company’s procurement and enforcement of its patents and its acquisition of certain companies. IGC’s claims relate in substantial part to a patent infringement action by an affiliate of the Company against IGC. The suit seeks damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys’ fees and costs. On October 31, 2007, the Court stayed this action pending resolution of the related case in the Northern District of Georgia described below.

On October 11, 2007, IGC filed substantially the same claims it previously filed in the Northern District of Illinois as counterclaims in a pending patent infringement case in the United States District Court for the Northern District of Georgia brought against IGC by an affiliate of the Company. Like the prior lawsuit, IGC’s counterclaims name the Company, certain of the Company’s current and former officers and/or directors, one of the Company’s affiliates, and several other parties, and purport to allege violations of antitrust law, the Racketeer Influenced and Corrupt Organizations Act and various related statutory and common law claims arising out of the Company’s procurement and enforcement of its patents and its acquisition of certain companies. The counterclaims seek damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys' fees and costs. The Company has not yet responded to the counterclaim.

On June 29, 2007, a purported class action was filed by Justin Lynch as the named plaintiff in the United States District Court for the Central District of California alleging that the Company has attempted to monopolize and/or monopolized the market for Internet facsimile services to home and small offices in violation of Section 2 of the Sherman Act. The claims relate in substantial part to the patent infringement actions by the Company against various companies. The suit seeks treble damages, injunctive relief, attorneys' fees and costs. On August 24, 2007, the Company filed an answer to the complaint denying liability.

The Company does not believe, based on current knowledge, that any of the foregoing legal proceedings or claims is likely to have a material adverse effect on its 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 its business, financial position, results of operations or cash flows in a particular period.

6. Income Taxes

The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of approximately $18.6 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. Prior to the adoption of FIN 48, the Company recorded reserves related to uncertain tax positions as a current liability, whereas upon adoption of FIN 48, the Company reclassified tax reserves of approximately $6.0 million related to uncertain tax positions for which a cash tax payment is not expected within the next twelve months to noncurrent liabilities. As of January 1, 2007, the total amount of unrecognized tax benefits was $24.6 million, substantially all of which would have an impact on the Company's effective tax rate if subsequently recognized. The Company recognized an additional $0.6 million and $4.0 million of unrecognized tax benefits during the three and nine months ended September 30, 2007, respectively, relating to tax positions taken during those periods, in each case net of $1.1 million of required reductions in the third quarter of 2007 due to the lapse of a statute of limitations.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company has approximately $1.2 million in interest and penalties related to unrecognized tax benefits accrued as of January 1, 2007. For the three and nine months ended September 30, 2007, the Company recognized an additional $0.5 million and $1.0 million, respectively, of interest and penalties, net of deferred income tax benefit, within income tax expense.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by U.S. federal, California state and foreign tax authorities for years before 2004, 2003 and 2000, respectively. Management believes that its accrual for tax liabilities is adequate for all open audit years based on its assessment of many factors including past experience and interpretation of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. Over the next twelve months, the Company's existing tax positions are expected to generate an increase in total unrecognized tax benefits.

The Company is currently under audit by the Internal Revenue Service for the 2005 tax year. While it is possible that the 2005 tax audit may conclude in the next 12 months and that the unrecognized tax benefits the Company has recorded in relation to this audit may change compared to the liabilities recorded for the period, it is not possible to estimate the effect, if any, of any amount of such change during the next 12 months to previously recorded uncertain tax positions.

7. Stockholders' Equity

Common Stock Repurchase Program

In March 2006, the Company’s Board of Directors approved a common stock repurchase program authorizing the repurchase of up to 2,000,000 shares of the Company’s common stock through December 2008. During the three months ended March 31, 2007, the Company repurchased 400,000 shares of common stock under this program at an aggregated cost of approximately $10.2 million (including commission fees of $12,000), representing an average price per share of $25.43. The Company did not make any common stock repurchases during the three months ended June 30, 2007. During the three months ended September 30, 2007, the Company repurchased 142,278 shares at an aggregated cost of approximately $4.8 million (including commission fees of $4,300). As of September 30, 2007, there were 986,822 shares of common stock available for repurchase under this program.

8. Stock Options and Employee Stock Purchase Plan

The Company's stock-based compensation plans include the Second Amended and Restated 1997 Stock Option Plan, 2007 Stock Plan and the 2001 Employee Stock Purchase Plan (described below).

(a) *Second Amended and Restated 1997 Stock Option Plan and 2007 Stock Plan*

The 1997 Stock Option Plan (the "1997 Plan") was adopted in November 1997 and has twice been amended and restated. This plan provides for the granting of incentive stock options, nonqualified stock options and restricted stock awards. Options under the 1997 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of the Company's common stock on the date of grant for incentive stock options and not less than 85% of the fair value of the Company's common stock on the date of grant for non-statutory stock options. At September 30, 2007, there were 1,565,987 additional shares underlying options and shares of restricted stock available for grant under the original terms of the 1997 Plan and no additional shares available for grant outside of the 1997 Plan. On August 22, 2007, the Company's Board of Directors adopted resolutions limiting shares available for grant under the 1997 Plan to 356,000 for the period from June 30, 2007 until October 24, 2007, the date of the Special Meeting of Stockholders to approve the 2007 Stock Plan discussed below. The limitation reduced the number of shares available for grant under the 1997 Plan to 138,854 as of September 30, 2007.

The 2007 Stock Plan (the "2007 Plan") was adopted on October 24, 2007 (see Note 14) to replace the 1997 Plan, which expires in November 2007. The 2007 Plan provides for the granting of awards similar in nature and under terms comparable to awards provided for under the 1997 Plan. The total number of shares reserved for awards under the 2007 Plan is 4.5 million, none of which have been granted.

<u>Stock Options</u>

The following table represents stock option activity for the nine months ended September 30, 2007:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	4,639,614	$ 8.58		
Granted	640,100	31.00		
Exercised	(684,681)	9.92		
Canceled	(131,200)	23.37		
Outstanding at September 30, 2007	4,463,833	11.18	6.0	$ 96,414,975
Exercisable at September 30, 2007	2,898,853	4.83	4.7	80,881,512
Vested and expected to vest at September 30, 2007	4,150,353	10.29	5.8	93,308,283

For the nine months ended September 30, 2007, the Company granted 640,100 options to purchase shares of common stock pursuant to the 1997 Plan to newly hired and existing members of management. The stock options vest 20% per year and expire 10 years from the date of grant.

The per share weighted-average grant-date fair values of stock options granted during the nine months ended September 30, 2007 and 2006 were $21.49 and $18.81, respectively.

The aggregate intrinsic values of options exercised during the nine months ended September 30, 2007 and 2006 were $13.5 million and $4.3 million, respectively.

As of September 30, 2007, there was $22.2 million of total unrecognized compensation expense related to non-vested stock-based compensation awards granted under the 1997 Plan. That expense is expected to be recognized ratably over a weighted-average period of 3.9 years (i.e., the remaining requisite service period).

Fair Value Disclosure

The Company uses the Black-Scholes option pricing model to calculate the fair-value of each option grant. The expected volatility for the nine months ended September 30, 2007 is based on historical volatility of the Company's common stock. The Company elected to use the simplified method for estimating the expected term as allowed by Staff Accounting Bulletin No. 107. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. Forfeitures are estimated at the date of grant based on historical experience. The weighted-average fair values of stock options granted have been estimated utilizing the following assumptions:

	Nine Months Ended September 30,	
	2007	**2006**
Risk-free interest rate	4.7%	4.8%
Expected term (in years)	6.5	6.5
Dividend yield	0%	0%
Expected volatility	72%	92%
Weighted-average volatility	72%	92%

Stock-Based Compensation Expense

The following table represents the stock-based compensation expense that was included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Cost of revenues	$ 169	$ 97	$ 491	$ 303
Operating expenses:				
Sales and marketing	304	266	846	807
Research, development and engineering	186	149	543	413
General and administrative	1,209	995	3,420	3,073
	$ 1,868	$ 1,507	$ 5,300	$ 4,596

Restricted Stock

The Company has awarded restricted shares of common stock to members of its Board of Directors and to management pursuant to the 1997 Plan. Compensation expense resulting from restricted stock grants is measured at

fair value on the date of grant and is recognized as stock-based compensation expense over a five-year vesting period. The Company granted 112,800 shares of restricted stock to newly hired and existing members of management pursuant to the 1997 Plan during the nine months ended September 30, 2007 and recognized approximately $0.9 million of related compensation expense in the nine months ended September 30, 2007 related to restricted stock awards. As of September 30, 2007, the Company has unrecognized stock-based compensation cost of approximately $7.0 million associated with these awards. The cost is expected to be recognized over a weighted-average period of 3.8 years.

Restricted stock activity for the nine months ended September 30, 2007 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2007	307,840	$ 19.32
Granted	112,800	31.55
Vested	(46,834)	19.02
Canceled	(12,006)	22.10
Nonvested at September 30, 2007	361,800	23.08

(b) Employee Stock Purchase Plan

The 2001 Employee Stock Purchase Plan (the “Purchase Plan”) provides for stock purchases by all eligible employees. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of the Company’s common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 90% of the lower of the fair market value of the common stock on the commencement date of each three-month offering period or the specified purchase date. Effective May 1, 2006, the Company’s Board of Directors removed the compensatory features of the Purchase Plan by changing the purchase price of a share of common stock for each offering period to 95% of its fair market value at the end of the offering period. For the nine months ended September 30, 2007 and 2006, 7,003 and 17,333 shares were purchased under the plan, respectively. Cash received upon the issuance of common stock under the Purchase Plan was $0.2 million and $0.4 million for the nine months ended September 30, 2007 and 2006, respectively.

(c) Section 409A Tax Compensation

In connection with the restatements of the Company’s 2005 and prior period financial statements, which are more fully described in Note 3 of the Notes to Consolidated Financial Statements included in the Company’s 2006 Annual Report on Form 10-K, the Company modified the terms of certain stock options as discussed below.

In December 2006 the Company offered each named executive officer and director the option to increase the exercise price of certain of their stock options in order to avoid potential inadvertent taxation under Internal Revenue Code Section 409A (“Section 409A”). During the nine months ended September 30, 2007 the Company made an aggregate compensating payment to such option holders of $0.5 million. For the same purpose, the Company increased the exercise price of certain options held by all other employees during the nine months ended September 30, 2007 and will make a compensating payment to these employees of approximately $0.1 million no later than the first quarter of 2008. The Company has accrued $0.1 million as of September 30, 2007 with respect to this compensating payment of which approximately $32,000 was paid to employees during the nine months ended September 30, 2007 and the remaining amount remains accrued for payments to employees no later than the first quarter of 2008.

In addition, to the extent employees and directors have already incurred a tax liability under Section 409A, the Company plans to reimburse such individuals for that liability plus a gross-up for income taxes owed as a result of such reimbursement. The estimated impact of these reimbursements was included in general and administrative

expense in the condensed consolidated statement of operations for the fourth quarter of 2006 and amounted to $0.7 million, net of tax.

9. Earnings Per Share

Basic earnings per share is computed on the basis of the weighted-average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted-average number of common shares outstanding plus the dilutive effect of common stock equivalents using the "treasury stock" method. The components of basic and diluted earnings per share are as follows (in thousands, except share and per share data):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator for basic and diluted net earnings per common share:				
Net earnings	$ 18,088	$ 12,790	$ 51,605	$ 38,300
Denominator:				
Weighted-average outstanding shares of common stock	49,215,250	49,218,918	49,050,697	49,272,631
Dilutive effect of:				
Employee stock options	1,734,217	1,795,721	1,752,336	1,716,251
Restricted stock	126,490	92,723	120,103	84,106
Common stock and common stock equivalents	51,075,957	51,107,362	50,923,136	51,072,988
Net earnings per share:				
Basic	$ 0.37	$ 0.26	$ 1.05	$ 0.78
Diluted	$ 0.35	$ 0.25	$ 1.01	$ 0.75

10. Comprehensive Income

The components of comprehensive income were net earnings and accumulated other comprehensive income. The change in accumulated other comprehensive income for all periods presented resulted from foreign translation gains and losses. Comprehensive income for the three and nine months ended September 30, 2007 and 2006 is as follows (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Net earnings	$ 18,088	$ 12,790	$ 51,605	$ 38,300
Foreign currency translation adjustment	1,234	(73)	2,040	2,646
Comprehensive income	$ 19,322	$ 12,717	$ 53,645	$ 40,946

11. Geographic Information

The Company maintains operations in the United States, Canada, Ireland, the United Kingdom and other international territories. Geographic information about the United States and international territories for the reporting periods is presented below. Such information attributes revenues based on the location of a customer's Direct Inward Dial ("DID") number for services using such a number or a customer's residence for other services (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Revenue:				
United States	$ 48,287	$ 40,833	$ 143,758	$ 117,882
All other countries	7,459	5,058	20,109	14,293
	$ 55,746	$ 45,891	$ 163,867	$ 132,175

	September 30, 2007	December 31, 2006
Long-lived assets:		
United States	$ 18,622	$ 17,377
All other countries	2,667	1,574
	$ 21,289	$ 18,951

12. Supplemental Cash Flow Information

Cash paid for interest during the nine months ended September 30, 2007 and 2006 approximated $7,000 and $22,000, respectively, substantially all of which related to long-term debt.

The Company paid approximately $10.1 million and $19.2 million for income taxes during the nine months ended September 30, 2007 and 2006, respectively.

During the nine months ended September 30, 2007, the Company acquired property and equipment and intangible assets for approximately $648,000 and $3.6 million, respectively, which have not yet been paid at September 30, 2007.

Through the nine months ended September 30, 2007 and 2006, the Company recorded the tax benefit from the exercise of non-qualified stock options and the vesting of restricted stock as a reduction of its income tax liability in the amount of approximately $5.2 million and $1.4 million, respectively.

As a result of the implementation of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of approximately $18.6 million, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

13. Acquisition

On July 13, 2007, the Company acquired YAC Limited ("YAC"), an Ireland-based provider of messaging services whose customers are predominantly located in the United Kingdom. In connection with the acquisition, the Company paid an immaterial amount of cash in exchange for all outstanding shares of capital stock. Pro forma information has not been presented as the historical results of operations of YAC are not material.

14. Subsequent Event

On October 24, 2007, at a Special Meeting of Stockholders, the Company's stockholders approved the Company's adoption of a new 2007 Stock Plan, which replaces the 1997 Plan that expires in November 2007. The 2007 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards, as defined, covering up to 4.5 million shares.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

j2 Global Communications, Inc. ("j2 Global", "the Company", "our", or "we") is a Delaware corporation founded in 1995. By leveraging the power of the Internet, we provide outsourced, value-added messaging and communications services to individuals and businesses throughout the world. We offer fax, voicemail, email and call handling services and bundled suites of certain of these services. We market our services principally under the brand names eFax®, eFax Corporate®, Fax.com™, Send2Fax®, eFax Broadcast™, jBlast®, jConnect®, Onebox®, Onebox Receptionist™, eVoice®, eVoice Receptionist™, YAC® and Electric Mail®.

We deliver many of our services through our global telephony/Internet Protocol ("IP") network, which spans more than 2,900 cities in 42 countries across five continents. We have created this network, and continuously seek to expand it, through negotiating with U.S. and foreign telecommunications and co-location providers for telephone numbers (also referred to as Direct Inward Dial numbers or "DIDs"), Internet bandwidth and co-location space for our equipment. We maintain and seek to grow an inventory of telephone numbers to be assigned to new customers. Most of these numbers are "local" (as opposed to toll-free), which enables us to provide our paying subscription customers telephone numbers with a geographic identity. In addition to growing our business internally, we have used small acquisitions to grow our customer base, enhance our technology and acquire skilled personnel.

Our core services include fax, voicemail, email and call handling, as well as bundled suites of certain of these services. These are business services that make our customers more efficient, more mobile, more cost-effective and more secure than traditional alternatives. We generate substantially all of our revenue from subscribers that pay activation, subscription and usage fees. Activation and subscription fees are referred to as "fixed" revenues, while usage fees are referred to as "variable" revenues. We also generate revenues from patent licensing fees, advertising and revenue share from our customers' use of premium rate telephone numbers. Of the 11.7 million telephone numbers deployed as of September 30, 2007, more than one million were serving paying subscribers, with the balance deployed to free subscribers, including those with premium rate telephone numbers. We operate in one reportable segment: value-added messaging and communications services, which provides for the delivery of fax, voice and email messages via the telephone and/or Internet networks.

During the past three years, we have derived a substantial portion of our revenues from the sale of our eFax and jConnect paid services, including eFax Corporate®, eFax Plus®, eFax Pro™ and jConnect Premier®. These services are deployed through DIDs. As a result, we believe that paying DIDs and the revenues associated therewith are an important metric for understanding our business. It has been and continues to be our objective to increase the number of paying DIDs through a variety of distribution channels and marketing arrangements and by enhancing our brand awareness. In addition, we continuously seek to increase revenues through a combination of stimulating use by our customers of usage-based services, introducing new services and instituting appropriate price increases to our fixed monthly subscription and other fees.

For the past three years, 90% or more of our total revenues have been produced by our DID-based services. DID-based annual revenues have increased from $100 million to $168 million from fiscal 2004 through fiscal 2006. The primary reason for this increase was a 64% increase in the number of paid DIDs over this period. We expect that DID-based revenues will continue to be a dominant driver of total revenues.

The following table sets forth our key operating metrics for the three and nine months ended September 30, 2007 and 2006 (in thousands, except for percentages and average revenue per paying telephone number):

	September 30, 2007	September 30, 2006
Free service telephone numbers	10,706	10,619
Paying telephone numbers	1,018	888
Total active telephone numbers	11,724	11,507

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Subscriber revenues:				
Fixed	$ 41,362	$ 32,179	$ 118,779	$ 90,572
Variable	12,667	12,312	38,156	37,152
Total subscriber revenues	$ 54,029	$ 44,491	$ 156,935	$ 127,724
Percentage of total subscriber revenues:				
Fixed	76.6%	72.3%	75.7%	70.9%
Variable	23.4%	27.7%	24.3%	29.1%
Revenues:				
DID-based	$ 51,209	$ 42,832	$ 149,423	$ 122,233
Non-DID-based	4,537	3,059	14,444	9,942
Total revenues	$ 55,746	$ 45,891	$ 163,867	$ 132,175
Average monthly revenue per paying telephone number(1)	$ 16.47	$ 15.98	$ 16.66	$ 16.14

(1) See calculation of average monthly revenue per paying telephone number at the end of this section, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions. The Company’s critical accounting policies are described in the Company’s 2006 Annual Report on Form 10-K filed with the SEC on March 12, 2007. During the nine months ended September 30, 2007, we updated our critical accounting policies as follows:

Income Taxes

Effective January 1, 2007, we adopted Financial Accounting Standard Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109, *Accounting for Income Taxes*. We utilize a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. See Note 6 to the accompanying financial statements for information regarding the effects of adopting FIN 48.

Results of Operations for the Three and Nine Months Ended September 30, 2007

Revenues

Subscriber Revenues. Subscriber revenues consist of both a fixed monthly recurring subscription component and a variable component which is driven by the actual usage of our service offerings. Over the past three years, the fixed portion of our subscriber revenues has consistently contributed approximately 70% to our subscriber revenues. Subscriber revenues were $54.0 million and $44.5 million for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, subscriber revenues were $156.9 million and $127.7 million, respectively. The increase in subscriber revenues was due to an increase in our paying subscribers and a price increase discussed below, net of decreased usage discussed below. The increase in our base of paying subscribers was primarily the result of new sign-ups derived from subscribers coming directly to our websites, free-to-paid subscriber upgrades, small to mid-sized corporate and enterprise sales, direct large enterprise and government sales, direct marketing costs for acquisition of paying subscribers and international sales, net of cancellations.

During the third quarter of 2006, we began implementing a price increase to new and existing domestic eFax individual subscribers. The monthly subscription fee was increased from $12.95 to $16.95 and annual programs were increased as well. As of September 30, 2007, the price change implementation was substantially complete.

During the third quarter of 2007, our revenues were negatively impacted by lower usage of our service offerings among business customers affected by the deterioration in domestic credit markets. Although the majority of our customers have not been affected, softness in usage revenues from credit-sensitive customers may persist in future periods.

Other Revenues. Other revenues were $1.7 million and $1.4 million for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, other revenues were $6.9 million and $4.5 million, respectively. Other revenues consist primarily of patent licensing revenues and advertising revenues generated by delivering email messages to our free customers on behalf of advertisers. Other revenues for the three months ended September 30, 2007 remained relatively consistent compared to the same period in the prior year. The increase in other revenues for the nine months ended September 30, 2007 resulted primarily from an increase in patent licensing revenues of approximately $2 million from a license agreement with CallWave, Inc. entered into during the first quarter of 2007.

Stock-Based Compensation

The following table represents the stock-based compensation expense that was included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Cost of revenues	$ 169	$ 97	$ 491	$ 303
Sales and marketing	304	266	846	807
Research, development and engineering	186	149	543	413
General and administrative	1,209	995	3,420	3,073
	$ 1,868	$ 1,507	$ 5,300	$ 4,596

Cost of Revenues

Cost of revenues is primarily comprised of costs associated with data and voice transmission, telephone numbers, network operations, customer service, on-line processing fees and equipment depreciation. Cost of revenues was \$11.2 million, or 20% of total revenues, and \$9.6 million, or 21% of total revenues, for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, cost of revenues was $32.4 million, or 20% of total revenues and $27.9 million, or 21% of total revenues, respectively. The cost of revenues as a percentage of revenues for the three and nine months ended September 30, 2007 improved primarily due to the price increase as discussed above which has little or no cost associated with it as well as enhanced utilization of network capacity. In addition, the increase in other revenues for the nine months ended September 30, 2007 discussed above had minimal associated cost of revenues resulting in cost of revenues as a percentage of revenues declining period over period.

Operating Expenses

Sales and Marketing. Our sales and marketing costs consist primarily of Internet-based advertising, sales and marketing personnel costs and other business development-related expenses. Sales and marketing expenses were $10.2 million, or 18% of total revenues, and $8.1 million, or 18% of total revenues, for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, sales and marketing expenses were $28.7 million, or 18% of total revenues, and $22.5 million, or 17% of total revenues, respectively. The increase in sales and marketing expenses for the three and nine months ended September 30, 2007 was primarily due to international marketing and testing of new forms of domestic marketing.

Research, Development and Engineering. Our research, development and engineering costs consist primarily of personnel-related expenses. Research, development and engineering costs were $3.0 million, or 5% of total revenues, and $2.1 million, or 5% of total revenues, for the three months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007 and 2006, research, development and engineering costs were $8.7 million, or 5% of total revenues, and $6.0 million, or 5% of total revenues, respectively. The increase in research, development and engineering costs for the three and nine months ended September 30, 2007 compared to the same periods in the prior year was primarily due to an increase in personnel costs to maintain our existing services, accommodate our service enhancements, develop and implement additional service features and functionality and continue to bolster our infrastructure security.

General and Administrative. Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, stock-based compensation expense, bad debt expense and insurance costs. General and administrative costs were $10.0 million, or 18% of total revenues, and $10.2 million, inclusive of $1.1 million in investigation costs associated with the prior year restatement of September 30, 2005 financial statements, or 22% of total revenues, for the three months ended September 30, 2007 and 2006, respectively. General and administrative costs were $28.8 million, or 18% of total revenues, and $26.5 million, inclusive of $1.1 million in investigation costs, or 20% of total revenues, for the nine months ended September 30, 2007 and 2006, respectively. General and administrative expenses as a percentage of revenue for the three and nine months ended September 30, 2007 have decreased compared to the same period in the prior year primarily due to lower professional fees, including fees associated with the special investigation in the prior year.

Interest and Other Income, Net. Our interest and other income, net, is generated primarily from interest earned on cash, cash equivalents and short- and long-term investments. Interest and other income, net, was $2.6 million and $1.6 million for the three months ended September 30, 2007 and 2006, respectively, and $6.7 million and $3.9 million for the nine months ended September 30, 2007 and 2006, respectively. The increase in interest and other income, net, was primarily due to higher cash and investment balances and higher interest rates period over period.

Income Taxes. Our effective tax rate is based on pre-tax income, statutory tax rates, tax regulations and different tax rates in the various jurisdictions in which we operate. Income tax expense amounted to approximately $5.8 million and $4.6 million for the three months ended September 30, 2007 and 2006, respectively. Income tax expense for the nine months ended September 30, 2007 and 2006 was $20.4 million and $14.9 million, respectively. Income tax expense for the nine months ended September 30, 2007 is based on a worldwide estimated effective tax rate for 2007 of approximately 28% compared to our estimated effective tax rate of 28% for the nine months ended September 30,

2006. We expect our fiscal 2007 effective tax rate to be approximately 28% compared to an effective tax rate for fiscal 2006 of approximately 27%. This expected increase in our annual effective income tax rate is primarily attributable to an expected increase in the proportion of our taxable income being sourced in the U.S. with higher tax rates than in foreign jurisdictions, offset in part by the favorable impact of the lapse of a statute of limitations, which caused a reduction in our liability for unrecognized tax benefits of approximately $1.1 million for the three and nine months ended September 30, 2007.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At September 30, 2007, we had cash and investments of $239.8 million, consisting of cash and cash equivalents of $132.1 million, short-term investments of $97.7 million and long-term investments of $10.0 million. Our investments are comprised primarily of readily marketable corporate debt securities, U.S. government agency securities, auction rate debt and preferred securities. For financial statement presentation, we classify our investments primarily as held-to-maturity, and thus, they are reported as short-term and long-term based upon their maturity dates. Short-term investments primarily mature within one year of the date of the financial statements and long-term investments mature between one and five years from the date of the financial statements. We classify auction rate securities as short-term investments as the established interest rate reset periods are less than one year.

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 $68.4 million and $47.1 million for the nine months ended September 30, 2007 and 2006, 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. Our cash and cash equivalents and short-term investments were $229.8 million at September 30, 2007.

Net cash used in investing activities was approximately $28.3 million and $3.8 million for the nine months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007, net cash used in investing activities was primarily attributable to net purchases of investments, acquisitions of businesses, purchases of property and equipment, and purchases of intangible assets. For the nine months ended September 30, 2006, net cash used in investing activities was primarily attributable to acquisitions of businesses, purchases of property and equipment and purchases of intangible assets, offset by net purchases and redemption of investments.

Net cash used in financing activities was approximately $5.0 million and $7.7 million for the nine months ended September 30, 2007 and 2006, respectively. For the nine months ended September 30, 2007, net cash used in financing activities was primarily comprised of the repurchase of our common stock, repurchases of our restricted stock and repayment of long-term debt, offset by proceeds from the exercise of stock options and common shares issued under our employee stock purchase plan and excess tax benefits resulting from stock option exercises. For the nine months ended September 30, 2006, net cash used in financing activities was primarily comprised of the repurchase of our common stock, offset by excess tax benefits resulting from stock option exercises and proceeds from the exercise of stock options and common shares issued under our employee stock purchase plan.

Stock Repurchase Program

In March 2006, our Board of Directors approved a program authorizing the repurchase of up to 2,000,000 shares of our common stock through December 2008. During the three months ended March 31, 2007, we repurchased a total of 400,000 shares at an aggregated cost of approximately $10.2 million (including commission fees of $12,000), representing an average price per share of $25.43. The Company did not make any common stock repurchases during the three months ended June 30, 2007. During the three months ended September 30, 2007, we repurchased a total of 142,278 shares at an aggregated cost of approximately $4.8 million (including commission fees of $4,300), representing an average price per share of $33.47. As of September 30, 2007, there were 986,822 shares of our common stock available for repurchase under this program.

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 and capital expenditures, investment requirements, commitments and repurchases of our common stock for at least the next 12 months.

Forward-Looking Information

In addition to historical information, the foregoing 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 below, the risk factors discussed in Part II, Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006 (together, the "Risk Factors"), and the factors discussed in the section in this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures About Market Risk". Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

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

o Sustain growth or profitability;

o Continue to maintain, expand and retain our customer base;

o Compete with other similar providers with regard to price, service and functionality;

o Cost-effectively procure and retain large quantities of telephone numbers in desired locations in the United States and abroad;

o Achieve business and financial objectives in light of burdensome telecommunications or Internet regulation or higher-than-expected tax rates or exposure to additional income tax liabilities;

o Successfully manage our cost structure, including but not limited to our telecommunication- and personnel-related expenses;

o Successfully adapt to technological changes in the messaging, communications and document management industries;

o Successfully protect our intellectual property and avoid infringing upon the proprietary rights of others;

o Adequately manage growth in terms of managerial and operational resources;

o Maintain and upgrade our systems and infrastructure to deliver acceptable levels of service quality and security of customer data and messages;

o Not incur unanticipated tax liabilities and accurately estimate the assumptions underlying our effective worldwide tax rate;

o Introduce new services and achieve acceptable levels of returns-on-investment for those new services;
and

o Recruit and retain key personnel.

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

Calculation of Average Monthly Revenue per Paying Telephone Number:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands except average monthly revenue per paying telephone number)			
DID-based revenues	$ 51,209	$ 42,832	$ 149,423	$ 122,233
Less other revenues	2,040	1,508	5,099	3,977
Total paying telephone number revenues	$ 49,169	$ 41,324	$ 144,324	$ 118,256
Average paying telephone number monthly revenue (total divided by number of months)	$ 16,390	$ 13,775	$ 16,036	$ 13,140
Number of paying telephone numbers				
Beginning of period	973	837	907	740
End of period	1,018	888	1,018	888
Average of period	995	862	962	814
Average monthly revenue per paying telephone number[1]	$ 16.47	$ 15.98	$ 16.66	$ 16.14

[1] Due to rounding, individual numbers may not add. In addition, for average monthly revenue per paying telephone number ("ARPU"), the average number of paid DIDs for the nine-month period will differ from the average of the first three quarterly average paid DIDs calculations resulting in a different ARPU for the nine months compared to the average of the ARPU for the first three quarterly periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements.

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 tax-exempt and taxable instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of September 30, 2007, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations. None of our investments is held for trading purposes.

Our short- and long-term investments are comprised primarily of readily marketable corporate debt securities, debt instruments of the U.S. government and its agencies, auction rate debt, preferred securities and certificates of deposits. Investments in fixed rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates. Our interest income is sensitive to changes in the general level of U.S. and foreign countries' interest rates. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates. As of September 30, 2007, we had investments in debt securities with effective maturities between three months and one year of approximately $97.7 million. Such investments had a weighted-average yield of approximately 4.6%. As of September 30, 2007, we had investments in debt securities with effective maturities between one and five years of approximately $10.0 million. Such investments had a weighted average yield of approximately 5.2%. Based on our cash and cash equivalents and short-term and long-term investment holdings as of September 30, 2007, an immediate 100 basis point decline in interest rates would decrease our annual interest income by approximately $2.4 million.

Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada and the European Union. Our primary exposure to foreign currency risk relates to investment in foreign subsidiaries that transact business in a functional currency other than the U.S. Dollar, primarily the Canadian Dollar, Euro and British Pound Sterling. However, the exposure is mitigated by our practice of generally reinvesting profits from international operations in order to grow that business.

As we increase our operations in international markets we become increasingly exposed to changes in currency exchange rates. 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. Historically, we have not hedged translation risks because cash flows from international operations were generally reinvested locally.

Foreign exchange gains and losses were not material to our earnings for the nine months ended September 30, 2007. For the nine months ended September 30, 2007, translation adjustments amounted to approximately $2.0 million. As of September 30, 2007, cumulative translation adjustments included in other comprehensive income amounted to approximately $3.2 million. We periodically review our strategy for hedging transaction risks. 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.

We do not have derivative financial instruments for hedging, speculative or trading purposes.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

j2 Global's management, with the participation of our principal executive officer and principal financial officer, performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("Exchange Act")) as of the end of the period covered by this report. Our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management to allow their timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the third quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Overview of Patent Litigation

As part of our continuing effort to prevent the unauthorized use of our intellectual property, we have initiated litigation against the following two companies, among others, for infringing our patents relating to Internet fax and other messaging technologies: Venali, Inc. ("Venali") and Protus IP Solutions, Inc.

Overview of Legal Proceedings Against Us

From time to time, we are involved in litigation and other disputes or regulatory inquiries that arise in the ordinary course of our business. Many of these actions are filed in response to patent actions filed by us against the plaintiffs. The number and significance of these disputes and inquiries are increasing as our business expands and our company grows larger. Any claims or regulatory actions against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources.

In February 2004 and July 2005, we filed two lawsuits against Venali in the United States District Court for the Central District of California for infringement of several of our U.S. patents. On June 21, 2006, Venali filed suit against us and our affiliate in the United States District Court for the Southern District of Florida, alleging violations of antitrust law and various related claims arising out of our procurement and enforcement of our patents. In lieu of any response to Venali's complaint, the parties reached an agreement whereby Venali dismissed its complaint without prejudice and re-filed certain of its claims as counterclaims in the patent infringement actions in California. On December 27, 2006, Venali filed amended counterclaims in the July 2005 action alleging several violations of antitrust law (fraudulent procurement of patents, fraudulent enforcement of patents, tying and attempted monopolization) as well as tortious interference with business relationships, trademark infringement and unfair and deceptive trade practices. Venali is seeking damages, including treble damages for the antitrust claims, injunctive relief, attorneys' fees and costs. Venali's claims relate in substantial part to the patent infringement claims by us against Venali. On April 13, 2007, the court granted in part our motion to dismiss Venali's counterclaims, dismissing the tying claim with leave to amend. Venali has agreed that it will not replead the tying counterclaim and has also stipulated to the dismissal of its Lanham Act and tortious interference counterclaims.

On December 12, 2006, Venali filed suit against us in the United States District Court for the Southern District of Florida, alleging infringement of U.S. Patent Number 7,114,004 (the " '004 Patent"). Venali is seeking damages in the amount of lost profits or a reasonable royalty, a permanent injunction against continued infringement, treble damages, attorneys' fees, interest and costs. On March 6, 2007, we filed an answer to the complaint denying liability. On May 17, 2007, we filed a request with the U.S. Patent & Trademark Office for reexamination of the '004 Patent, which request was granted on July 27, 2007. On August 13, 2007, we moved to stay the action pending the reexamination. On August 20, 2007, the court granted the motion and stayed the action pending reexamination of the patent.

On May 9, 2007, Bear Creek Technologies, Inc. ("Bear Creek") filed suit against us in the United States District Court for the Eastern District of Texas, alleging infringement of U.S. Patent Number 6,685,494. Bear Creek is seeking damages in, at least, the amount of a reasonable royalty, a permanent injunction against continued infringement, treble damages, attorneys' fees, interest and costs. On June 29, 2007, we filed an answer to the complaint denying liability, asserting affirmative defenses, and asserting counterclaims of non-infringement and invalidity. On September 21, 2007, Bear Creek filed its reply to our counterclaims, denying each one. The claim construction hearing is set for April 28, 2008, and jury selection for trial in the matter is set for April 7, 2009.

On June 21, 2007, Integrated Global Concepts, Inc. ("IGC") filed a lawsuit against us, certain of our current and former officers and/or directors, one of our affiliates, and several other parties in the United States District Court for the Northern District of Illinois. The suit purports to allege violations of antitrust law, the Racketeer Influenced and Corrupt Organizations Act and various related statutory and common law claims arising out of our procurement and enforcement of our patents and our acquisition of certain companies. IGC's claims relate in substantial part to a patent infringement action by our affiliate against IGC. The suit seeks damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys' fees and costs. On October 31, 2007, the Court stayed this action pending resolution of the related case in the Northern District of Georgia described below.

On October 11, 2007, IGC filed substantially the same claims it previously filed in the Northern District of Illinois as counterclaims in a pending patent infringement case in the United States District Court for the Northern District of Georgia brought against IGC by our affiliate. Like the prior lawsuit, IGC's counterclaims name us, certain of our current and former officers and/or directors, one of our affiliates, and several other parties, and purport to allege violations of antitrust law, the Racketeer Influenced and Corrupt Organizations Act and various related statutory and common law claims arising out of our procurement and enforcement of our patents and our acquisition of certain companies. The counterclaims seek damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys' fees and costs. We have not yet responded to the counterclaim.

On June 29, 2007, a purported class action was filed by Justin Lynch as the named plaintiff in the United States District Court for the Central District of California alleging that we have attempted to monopolize and/or monopolized the market for Internet facsimile services to home and small offices in violation of Section 2 of the Sherman Act. The claims relate in substantial part to the patent infringement actions by us against various companies. The suit seeks treble damages, injunctive relief, attorneys' fees and costs. On August 24, 2007, we filed an answer to the complaint denying liability.

We do not believe, based on current knowledge, that any of the foregoing legal proceedings or claims is likely to have a material adverse effect on our 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 our business, financial position, results of operations or cash flows in a particular period.

Item 1A. Risk Factors

In addition to the other information set forth in this report, before deciding to invest in our Company or to maintain or increase your investment, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006 (the "10-K Risk Factors"). If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K Risk Factors are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. Except as set forth below, there are no material changes from the 10-K Risk Factors.

The current weakness in the financial markets has adversely affected segments of our customers, which has and could continue to result in a decrease in usage levels by these customers and, therefore, a decrease in our average variable revenue per subscriber and a resulting decrease in our rate of revenue growth.

Certain segments of our customers - those whose business activity is tied to the health of the credit markets and the broader economy, such as banks, brokerage firms and those in the real estate industry - have been and may continue to be adversely affected by the current turmoil in the credit markets and weakness in the broader mortgage market and the general economy. To the extent our customers' businesses have been adversely affected by these economic factors and their usage levels of our services declined, we have experienced a decrease in our average usage per subscriber and, therefore, a decrease in our average variable revenue per subscriber. We may continue to experience this adverse impact in future periods. These factors have in turn led to, and may continue to cause, a decrease in our rate of revenue growth. Since the vast majority of our revenues are fixed (i.e., subscription fee based) versus variable (i.e., usage based), our exposure to this decrease in our rate of revenue growth has been, and we would expect it to continue to be limited.

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

Issuer Purchases of Equity Securities

In March 2006, our Board of Directors approved a common stock repurchase program whereby we were authorized to repurchase up to 2,000,000 shares of our common stock through December 2008. On April 26, 2006, we entered into a Rule 10b5-1 trading plan with a broker to facilitate the repurchase program.

The following table details the repurchases that were made under the program during the three months ended September 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
July 1, 2007 - July 31, 2007	—	—	870,900	1,129,100
August 1, 2007 - August 31, 2007	24,778	$ 32.31	895,678	1,104,322
September 1, 2007 - September 30, 2007	117,500	$ 33.71	1,013,178	986,822

(1) Average price per share excludes commissions.

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Items 3, 4 and 5 are not applicable and have been omitted.

SIGNATURE

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

	j2 Global Communications, Inc.	
Date: November 9, 2007	By:	/s/ KATHLEEN M. GRIGGS Kathleen M. Griggs Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
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