

# J2 GLOBAL, INC.

## FORM 10-K (Annual Report)

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2013  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 0-25965  
**j2 GLOBAL, INC.**  
(Exact name of registrant as specified in its charter)

**Delaware** **51-0371142**  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
**6922 Hollywood Boulevard, Suite 500, Los Angeles, California 90028, (323) 860-9200**  
(Address and telephone number of principal executive offices)  
**Securities registered pursuant to Section 12(b) of the Act:**  
None  
**Securities registered pursuant to Section 12(g) of the Act:**  
Common Stock, \$0.01 par value  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of the common stock held by non-affiliates, based upon the closing price of the common stock as quoted by the NASDAQ Global Select Market was \$1,094,593,306. Shares of common stock held by executive officers, directors and holders of more than 5% of the outstanding common stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 25, 2014, the registrant had 47,306,782 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held May 6, 2014 are incorporated by reference into Part III of this Form 10-K.

This Annual Report on Form 10-K includes 97 pages with the Index to Exhibits located on page 93.

## TABLE OF CONTENTS

	<u>Page</u>	
<b>PART I.</b>		
Item 1.	Business	3
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	22
Item 2.	Properties	22
Item 3.	Legal Proceedings	22
Item 4.	Mine Safety Disclosures	24
<b>PART II.</b>		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	29
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 8.	Financial Statements and Supplementary Data	46
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	91
Item 9A.	Controls and Procedures	91
Item 9B.	Other Information	93
<b>PART III.</b>		
Item 10.	Directors, Executive Officers and Corporate Governance	93
Item 11.	Executive Compensation	93
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	93
Item 13.	Certain Relationships and Related Transactions, and Director Independence	93
Item 14.	Principal Accounting Fees and Services	93
<b>PART IV.</b>		
Item 15.	Exhibits and Financial Statement Schedules	93

**Item 1. Business****Overview**

j2 Global, Inc., together with its subsidiaries (“j2 Global”, “our”, “us” or “we”), is a global provider of Internet services. Through our Business Cloud Services Division, we provide cloud services to businesses of all sizes, from individuals to enterprises, and license our intellectual property (“IP”) to third parties. Our Digital Media Division operates a portfolio of web properties providing technology, gaming and lifestyle content, and an innovative data-driven platform connecting advertisers with visitors to those properties and to visitors of third party websites that are part of the Division's advertising network.

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

In addition to growing our business organically, we use acquisitions to grow our customer bases, expand and diversify our service offerings, enhance our technology and acquire skilled personnel. On November 9, 2012, we acquired Ziff Davis, Inc. (“Ziff Davis”), a company with extensive digital content holdings within the technology vertical. This acquisition expanded our operations into the digital media market and resulted in the creation of our Digital Media Division. Through a combination of organic growth and 2013 acquisitions, including most notably the February 1, 2013 acquisition of IGN Entertainment, Inc., we have grown this Division into the leading U.S. digital media company in terms of page views in the technology, gaming and men's lifestyle verticals. For additional information on our acquisitions, see Note 3 - Business Acquisitions of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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

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

**Business Cloud Services**

We believe that businesses of all sizes are increasingly purchasing cloud services to meet their communication, messaging, data backup, customer relationship management and other needs. Cloud-based services represent a model for delivering and consuming, independent of location, real time business technology services, resources and solutions over the Internet. Their goal is to reduce or eliminate costs, increase sales and enhance productivity, mobility, business continuity and security. Our *eFax*® and *MyFax*® online fax services enable users to receive faxes into their email inboxes and to send faxes via the Internet. *eVoice*® and *Onebox*® provide our customers a virtual phone system with various available enhancements. *KeepItSafe*® enables our customers to securely back up their data and dispose of tape or other physical systems. Our *FuseMail*® service provides our customers email, archival and perimeter protection solutions, while *Campaigner*® provides our customers enhanced email marketing solutions. *CampaignerCRM*® provides customer relationship management solutions designed to increase our customers' sales and increase efficiency. We believe these services represent more efficient and less expensive solutions than many existing alternatives, and provide increased security, privacy, flexibility and mobility.

We generate substantially all of our Business Cloud Services revenues from “fixed” subscription revenues for basic customer subscriptions and “variable” usage revenues generated from actual usage by our subscribers. We also generate Business Cloud Services revenues from patent licensing and sales and advertising. We categorize our Business Cloud Services and solutions into two basic groups: direct inward-dial number (“DID”) -based, which are services provided in whole or in part through a telephone number, and non-DID-based, which are our other cloud services for business. As of December 31, 2013, we had DIDs issued to approximately 2.2 million paying subscribers, with additional DIDs in inventory.

We market our Business Cloud Services offerings to a broad spectrum of prospective business customers including sole proprietors, small to medium-sized businesses and, enterprises and government organizations. Our marketing efforts include

enhancing brand awareness; utilizing online advertising, search engines and affiliate programs; selling through both a telesales and direct sales force; and cross-selling. We continuously seek to extend the number of distribution channels through which we acquire paying customers and improve the cost and volume of customers obtained through our current channels.

We offer the following cloud services and solutions:

### **Fax**

*eFax*® is the leading brand in the global online fax market. Various tiers of service provide increasing levels of features and functionality to sole proprietors, small and medium-sized businesses, and enterprises around the world. Our most popular services allow individuals to receive and send faxes as email attachments. In addition to *eFax*®, we offer online fax services under a variety of alternative brands including *MyFax*®, *eFax Plus*®, *eFax Pro*™, *eFax Corporate*™ and *eFax Developer*™.

### **Voice and Unified Communications**

*eVoice*® is a virtual phone system that provides small and medium-sized businesses on-demand voice communications services, featuring a toll-free or local company DID, auto-attendant and menu tree. With these services, a subscriber can assign departmental and individual extensions that can connect to multiple U.S. or Canadian DIDs, including land-line and mobile phones and IP networks, and can enhance reachability through “find me/follow me” capabilities. These services also include advanced integrated voicemail for each extension, effectively unifying mobile, office and other separate voicemail services and improving efficiency by delivering voicemails in both native audio format and as transcribed text.

*Onebox*® is a full-featured unified communications suite. It combines the features of many of our other branded services, plus added functionality, to provide a full virtual office. *Onebox* includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.

### **Online Backup**

*KeptSafe*® provides fully managed and monitored online backup solutions for businesses, using its ISO-certified platform. By securing critical digital assets via the Internet to highly secure data vaults, customers enjoy peace of mind knowing they have reliable and cost effective backups, and equally importantly rapid restores of the data that keeps their businesses operating. The software installs simply and provides full server imaging and proven off-site data recovery capabilities without costly investments. Company data is protected from human error, file corruption and other harmful factors.

*LiveDrive*®, which we acquired on February 10, 2014, provides online backup with added file sync features for professionals and individuals.

### **Email and Customer Relationship Management**

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

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

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

## **IP Licensing**

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

## **Global Network and Operations**

Our Business Cloud Services business operates multiple physical Points of Presence (“POPs”) worldwide, a central data center in Los Angeles and several remote disaster recovery facilities. We connect our POPs to our central data centers via redundant, and often times diverse, Virtual Private Networks (“VPNs”) using the Internet. Our network is designed to deliver value-added user applications, customer support and billing services for our customers anywhere in the world and a local presence for our DID-based service customers from thousands of cities in 49 countries on six continents. We offer DIDs covering all major metropolitan areas in the U.S., U.K. and Canada, and such other major cities as Berlin, Hong Kong, Madrid, Manila, Mexico City, Milan, Paris, Rome, Singapore, Sydney, Taipei, Tokyo and Zurich. We have customers located throughout the world.

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

## **Customer Support Services**

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

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

## **Competition**

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

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

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

## **Digital Media**

Our Digital Media business segment consists of the web properties and business operations of Ziff Davis. The Ziff Davis portfolio of web properties - including *PCMag.com*, *ExtremeTech.com*, *Geek.com*, *ComputerShopper.com*, *LogicBuy.com*, *Toolbox.com* and *TechBargains.com* - features trusted reviews of technology products, technology-oriented news and commentary, professional networking tools for IT professionals and online deals and discounts for consumers. With Ziff Davis' February 2013 acquisition of IGN Entertainment, Inc., its portfolio of web properties expanded to include leading sites in the gaming and men's lifestyle vertical, including *IGN.com* and *AskMen.com*. We generate Digital Media revenues from the sale of display advertising targeted to in-market technology buyers and from the sale of customer leads to online merchants and business-to-business leads to IT vendors. We also generate revenue through the license of logos and copyrighted material to clients.

During 2013, our Digital Media web properties attracted 2.2 billion visits and 7.3 billion page views.

We continue to seek opportunities to acquire additional web properties, both within and outside of the technology, gaming and men's lifestyle verticals, with the goal of monetizing their audiences and content through application of our proprietary technologies and insight.

### **Web Properties**

Our Digital Media properties and services include the following:

#### Technology

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

*Toolbox.com* is a network of online communities that allows experienced technology professionals to share collective knowledge and collaborate to resolve problems more efficiently. *Toolbox.com* includes professional networking tools, blogs, collaboration tools and reference guides.

*Geek.com* is an online technology resource and community for technology enthusiasts and professionals. *Geek.com* features the latest in technology news as well as product reviews and online forums.

*LogicBuy.com* and *TechBargains.com* are destinations for the best deals and discounts on the web. These properties curate up-to-the-minute deals and coupons on electronics, hardware, software and more.

#### Gaming

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

#### Men's Lifestyle

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

### **Display and Video Advertising**

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

## **Affiliate Marketing**

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

## **Licensing**

We license the right to use *PCMag's* "Editors' Choice" logo and other copyrighted editorial content to businesses whose products have earned such distinction. These businesses use the licensed content in their own respective promotional materials.

## **Competition**

Competition in the digital media space is fierce and continues to intensify. Our digital media business competes with advertising networks, exchanges, demand side platforms and other platforms, such as Google AdSense, DoubleClick Ad Exchange, AOL's Ad.com and Microsoft Media Network, as well as traditional media companies, for a share of advertisers' marketing budgets and in the development of the tools and systems for managing and optimizing advertising campaigns.

We believe that the primary competitive factors determining our success in the market for our digital media include Ziff Davis's reputation as a trusted source of objective information and our ability to attract Internet users and advertisers to our web properties.

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

## **Patents and Proprietary Rights**

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

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

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

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

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

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

### ***Government Regulation***

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

### ***Seasonality and Backlog***

Our Business Cloud Services subscriber revenues are impacted by the number of effective business days in a given period. We experience no material backlog in sales orders or the provisioning of customer orders. We traditionally experience lower than average Business Cloud Services usage and customer sign-ups in the fourth quarter. Revenues associated with our Digital Media operations are subject to seasonal fluctuations, becoming most active during the fourth quarter holiday period due to increased online retail activity.

### ***Research and Development***

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

We devote significant resources to develop new services and service enhancements. Our research, development and engineering expenditures were \$25.5 million, \$18.6 million and \$16.4 million for the fiscal years ended December 31, 2013, 2012 and 2011, respectively. For more information regarding the technological risks that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

### ***Employees***

As of December 31, 2013, we had approximately 1,130 employees, the majority of whom are in the U.S.

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

### ***Web Availability of Reports***

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

## Item 1A. Risk Factors

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

### **Risks Related To Our Business**

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

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

#### **Our financial results may be adversely impacted by higher-than-expected income tax rates or exposure to additional income tax liabilities.**

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our provision for income taxes is based on a jurisdictional mix of earnings, statutory rates and enacted tax rules, including transfer pricing. Significant judgment is required in determining our provision for income taxes and in evaluating our tax positions on a worldwide basis. It is possible that these positions may be challenged or we may find tax-beneficial intercompany transactions to be uneconomical, either of which may have a significant impact on our effective tax rate.

A number of factors affect our income tax rate and the combined effect of these factors could result in an increase in our effective income tax rate. An increase in future effective income tax rates would adversely affect net income in future periods. We operate in different countries that have different income tax rates. Effective tax rates could be adversely affected by earnings being lower than anticipated in countries having lower statutory rates or higher than anticipated in countries having higher statutory rates, by changes in the valuation of deferred tax assets or liabilities or by changes in tax laws or interpretations thereof.

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. We are currently under audit by the California Franchise Tax Board ("FTB") for tax years 2005 through 2007 and by other state taxing authorities for various periods. The FTB has also issued Information Document Requests regarding the 2004 and 2008 tax years, although no formal notice of audit for these years has been provided. The Company is also under audit by the IRS for 2009 and 2010 income taxes and by the Canada Revenue Agency ("CRA") for 2008 through 2010 income taxes and 2009 through 2011 for Goods and Services Tax. Our future income tax returns are likely to become the subject of audits by these or other taxing authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax reserves and expense. If our reserves are not sufficient to cover these contingencies, such inadequacy could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

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

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

In addition, the application of other indirect taxes (such as sales and use tax, value added tax (“VAT”), goods and services tax, business tax and gross receipt tax) to e-commerce businesses such as j2 Global and our users is a complex and evolving issue. In November 2007, the U.S. federal government enacted legislation extending the moratorium on states and other local authorities imposing access or discriminatory taxes on the Internet through November 2014. This moratorium does not prohibit federal, state or local authorities from collecting taxes on our income or from collecting taxes that are due under existing tax rules. The application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business. We are currently under audit for indirect taxes in several states and municipalities. We currently have no financial reserves established with respect to indirect taxes, as we have determined that the liability is not probable and estimable. As a result, if a material indirect tax liability associated with prior periods were to be recorded, it could materially affect our financial results for the period in which it is recorded.

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

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

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

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

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

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

The effectiveness of our advertising platform is dependent on the optimization of data to collect, score and organize buying signals in order to efficiently target potential buyers. If the optimization of buyer data becomes less effective, advertisers may pay reduced rates. In most cases, our agreements with advertisers have a term of less than one year and may be terminated at any time by the advertiser or by us. Marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast display revenue accurately. In addition, our expense levels are based in part on expectations of future revenue. The state of the global economy and availability of capital has impacted and could further impact the advertising spending patterns of existing and potential advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

**If we are unable to develop or commission compelling content in our digital media business at acceptable prices, our expenses may increase, the number of visitors to our online properties may not grow as anticipated, or may decline, and/or visitors' level of engagement with our websites may decline, any of which could harm our operating results.**

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

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

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

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

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

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

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

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

Our total indebtedness is approximately \$250 million consisting of our 8.0% Senior Notes due 2020 (the "Senior Notes") issued on July 26, 2012. We also have approximately \$40 million of unused availability under our revolving credit facility. Our level of indebtedness could have significant effects on our business. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the Senior Notes and any other indebtedness we may incur in the future;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- require us to repatriate cash for debt service from our foreign subsidiaries resulting in tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments;
- restrict us from exploiting business opportunities;
- make it more difficult to satisfy our financial obligations, including payments on the Senior Notes;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the credit agreement related to our revolving credit facility and the indenture governing the Senior Notes do, and the agreements evidencing or governing other future indebtedness may, contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

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

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

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

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

**The terms of the credit agreement related to our revolving credit facility and the indenture governing the Senior Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.**

The credit agreement related to our revolving credit facility and the indenture governing the Senior Notes contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to plan for or react to market conditions, meet capital needs or make acquisitions, or otherwise restrict our activities or business plans. These include restrictions on our ability to:

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

In addition, the restrictive covenants in the credit agreement related to our revolving credit facility require us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control.

A breach of the covenants under the indenture governing the Senior Notes or under the credit agreement related to our revolving credit facility could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies. In addition, an event of default under the credit agreement related to our revolving credit facility would permit the lenders under that facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay any amounts due and payable under our revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or the holders of our Senior Notes accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness or our other indebtedness.

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

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

Our Digital Media segment faces significant competition from online media companies as well as from social networking sites, traditional print and broadcast media, general purpose and vertical search engines and various e-commerce sites.

Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content. We compete against these and other companies to attract and retain users, advertisers and developers. We also compete with social media and networking sites which are attracting a substantial and increasing share of users and users' online time, and may continue to attract an increasing share of online advertising dollars.

In addition, several competitors offer products and services that directly compete for users with our digital media offerings. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad networks, demand side platforms, ad serving technologies and sponsored search offerings. We also compete with traditional print and broadcast media companies to attract advertising spending. Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market. Some of the competitors for our Business Cloud Services segment in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

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

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

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

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

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

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

Our success depends in part upon our proprietary technology. We rely on a combination of patents, trademarks, trade secrets, copyrights and contractual restrictions to protect our proprietary technology. However, these measures provide only limited

protection, and we may not be able to detect unauthorized use or take appropriate steps to enforce our intellectual property rights, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the U.S. While we have been issued a number of patents and other patent applications are currently pending, there can be no assurance that any of these patents will not be challenged, invalidated or circumvented, or that any rights granted under these patents will in fact provide competitive advantages to us.

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

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

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

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

**We may be subject to risks from international operations.**

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

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

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

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

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

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

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

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

**Our business is highly dependent on our billing systems.**

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

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

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

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

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

Our success depends on the skills, experience and performance of executive officers, senior management and other key personnel. The loss of the services of one or more of our executive officers, senior managers or other key employees could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. Our future success also

depends on our continuing ability to attract, integrate and retain highly qualified technical, sales and managerial personnel. Competition for these people is intense, and there can be no assurance that we can retain our key employees or that we can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future.

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

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

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

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

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

**Risks Related To Our Industries**

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

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

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

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

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

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

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

**We are subject to a variety of new and existing laws and regulations which could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.**

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

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

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

federal, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business.

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the “CAN-SPAM Act”), which allows for penalties that run into the millions of dollars, requires commercial emails to include identifying information from the sender and a mechanism for the receiver to opt out of receiving future emails. Several states have enacted additional, more restrictive and punitive laws regulating commercial email. We believe that our email practices comply with the requirements of the CAN-SPAM Act and other state laws. If we were ever found to be in violation of the CAN-SPAM Act or any other state law, our business, financial condition, operating results and cash flows could be materially adversely affected.

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

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

Our business is dependent on the ability of our cloud services customers and visitors to our digital media properties to access our services and applications over broadband Internet connections. While we have not encountered any material difficulties with regard to such access, increased network congestion in the future may result in broadband Internet access providers engaging in actions that would either reduce the quality of the services we provide today, or impede our ability to offer new services that use more bandwidth. In late 2010, the Federal Communications Commission (FCC) adopted so-called net neutrality rules intended, in part, to prevent network operators from discriminating against legal traffic that transverse their networks. Recently, the U.S. Court of Appeals for the District of Columbia struck down the FCC’s net neutrality rules and it is currently uncertain how the FCC will respond to this decision. To the extent network operators attempt to use this ruling to extract fees from us to deliver our traffic or otherwise engage in discriminatory practices, our business could be adversely impacted. As we continue to expand internationally, government regulation concerning the Internet, and in particular, network neutrality, may be nascent or non-existent. Within such a regulatory environment, coupled with potentially significant political and economic power of local network operators, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Risks Related To Our Stock**

**Quarterly dividends may not continue or could decrease.**

We may not continue to issue quarterly dividends or we could decrease the amount of any future dividends. We paid our first quarterly dividend of \$0.20 per share of common stock on September 19, 2011. We have declared increasing dividends in each subsequent quarter. Future dividends are subject to Board approval and certain restrictions within our Credit Agreement (the "Credit Agreement") with Union Bank, N.A. ("Lender"), as amended, and the Indenture governing our Senior Notes. We cannot assure that the Company will continue to pay a dividend in the future or the amount of any future dividends.

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

As of February 25, 2014, substantially all of our outstanding shares of common stock were available for resale, subject to volume and manner of sale limitations applicable to affiliates under SEC Rule 144. Sales of a substantial number of shares of common stock in the public market or the perception of such sales could cause the market price of our common stock to decline. These sales also might make it more difficult for us to sell equity securities in the future at a price that we think is appropriate, or at all.

**Anti-takeover provisions could negatively impact our stockholders.**

Provisions of Delaware law and of our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire control of us. For example, we are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of Directors. Additionally, our certificate of incorporation authorizes our Board of Directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third-party to acquire us even if an acquisition might be in the best interest of our stockholders.

**Our stock price may be volatile or may decline.**

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

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

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stocks of technology and other companies, particularly communications and Internet companies. These broad market fluctuations have previously resulted in a material decline in the market price of our common stock. In the

past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources, which could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

As of December 31, 2013, we are leasing approximately 40,000 square feet of office space for our global headquarters in Los Angeles, California under a lease that expires on January 31, 2020. The Digital Media business is headquartered in New York City, where it leases approximately 43,000 square feet of office space under a lease that expires on May 31, 2019. Additionally, we have smaller leased office facilities in Arizona, California, Illinois, Massachusetts, Australia, Canada, Hong Kong, Ireland, Japan, New Zealand, The Netherlands and the United Kingdom.

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

#### **Item 3. Legal Proceedings**

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

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

On August 5, 2011, j2 Global and one of its affiliates filed suit in the United States District Court for the Central District of California (the "Central District of California") against Nextiva, alleging infringement of U.S. Patents Nos. 6,208,638 (the "'638 Patent"), 6,350,066 (the "'066 Patent") and 7,020,132 (the "'132 Patent"). On July 23, 2013, j2 Global filed an amended complaint, adding a claim for infringement of U.S. Patent No. 6,020,980 (the "'980 Patent"). On November 15, 2013, Nextiva filed its second amended answer and counterclaims for non-infringement and invalidity of the '638, '066, '132 and '980 Patents; unenforceability of the '980 Patent; unfair competition in violation of California's Business & Professions Code § 17200, *et. seq.*; and prohibited restraints on competition and unfair practices in violation of California's Business & Professions Code §§ 16720, *et. seq.* and 17000, *et. seq.* On December 6, 2013, j2 Global and its affiliate moved to dismiss Nextiva's counterclaims for prohibited restraints on competition and unfair practices. On February 7, 2014, this action was dismissed pursuant to a settlement agreement.

On September 23, 2011, j2 Global and one of its affiliates filed suit against Vitelity in the Central District of California, alleging infringement of the '638 and '066 Patents. On June 15, 2012, Vitelity filed counterclaims for invalidity and non-infringement of the '638 and '066 Patents. On September 13, 2013, the Court entered its Claim Construction Order. Discovery is ongoing. The fact discovery cutoff is currently set for February 28, 2014 and trial is set for October 14, 2014.

On February 21, 2012, EC Data filed a complaint against j2 Global and one of its affiliates in the United District Court for the District of Colorado, seeking declaratory judgment of non-infringement of the '638 and '066 Patents. On April 9, 2012, j2 Global filed an answer to the complaint and counterclaims asserting that EC Data infringes these and other patents. On October 25, 2013, EC Data filed an amended complaint asserting claims for declaratory judgments of non-infringement and invalidity of the '638, '132, and '066 Patents, and U.S. Patent No. 6,597,688 (the "'688 Patent"). On August 29, 2012, the Court granted j2 Global's motion to transfer the case to the Central District of California. On September 13, 2013, the Court entered its Claim Construction Order. Discovery is ongoing. The fact discovery cutoff is currently set for February 28, 2014 and trial is set for November 18, 2014. On May 31, 2012, EC Data submitted a request to the United States Patent and Trademark Office ("USPTO") to submit the '132 Patent into *inter-partes* reexamination proceedings. On April 25, 2013, the USPTO issued an Action Closing

Prosecution and on July 26, 2013 a second Action Closing Prosecution. On November 27, 2013, j2 filed a Notice of Appeal. On January 27, 2014, j2 filed its brief in support of its appeal with the Patent Trial and Appeal Board.

On June 28, 2013, j2 Global filed suit against EC Data in the Central District of California, alleging infringement of the '980 Patent. On October 4, 2013, EC Data filed its amended answer and counterclaims for non-infringement and invalidity of the '980 Patent.

On October 16, 2013, one of j2 Global's affiliates entered its appearance as a plaintiff in a multi-district litigation proceeding entitled *In re: Unified Messaging Solutions LLC and Advanced Messaging Technologies, Inc. Patent Litigation* (N.D. Ill. Master Docket No. 12 C 6286). In that litigation, a company with certain rights to assert patents owned by the j2 Global affiliate has asserted those patents against a number of defendants, and those defendants have filed counterclaims for, *inter alia*, non-infringement, unenforceability, and invalidity of U.S. Patent Nos. 6,857,074; 7,836,141; 7,895,306; 7,895,313 and 7,934,148.

On August 28, 2013, Phyllis A. Huster ("Huster") filed suit in the United States District Court for the Northern District of Illinois against Unified Messaging Solutions, LLC, Acacia Patent Acquisition LLC ("Acacia"), Charles R. Bobo, II ("Bobo"), j2 Global, and one of j2 Global's affiliates for correction of inventorship of the '066 Patent and U.S. Patents Nos. 5,675,507; 5,870,549; 6,564,321; 6,857,074; 7,895,306; 7,836,141; 7,895,313 and 7,934,148. Huster seeks a declaration that she was the inventor of the patents at issue, an order directing the USPTO to substitute or add Huster as inventor of the patents at issue, an order that the defendants pay to Huster at least half of all earnings from licensing and sales of rights in the patents at issue, and costs and attorneys' fees. On October 28, 2013, j2 Global, the j2 Global affiliate, and the other defendants in the case filed a motion to dismiss Huster's action on the basis of improper venue and on the basis that Huster's action is barred by laches. The defendants also filed a motion to strike certain portions of Huster's prayer for relief. On the same day, j2 Global filed a motion to dismiss on the basis that it is not a proper party to Huster's action; Bobo filed a motion to dismiss for lack of personal jurisdiction; and Acacia filed a motion to dismiss on the basis of lack of subject matter jurisdiction. Those motions remain pending.

On September 15, 2006, one of j2 Global's affiliates filed a patent infringement suit against IGC in the United States District Court for the Northern District of Georgia (the "Northern District of Georgia"). On May 13, 2008, IGC filed counterclaims alleging violations of Section 2 of the Sherman Act and breach of contract. IGC is seeking damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, and attorneys' fees and costs. On February 18, 2009, the Court granted the j2 Global affiliate's motion to stay the case pending the conclusion of the j2 Global affiliate's appeal of a summary judgment ruling of non-infringement in another case involving the same patents and issues as this action. On January 22, 2010, the United States Court of Appeals for the Federal Circuit affirmed the non-infringement ruling in the other case and on June 7, 2010 the Court lifted the stay. On September 2, 2011, the Northern District of Georgia Court granted the j2 Global affiliate's motion to dismiss IGC's breach of contract counterclaim and one portion of IGC's antitrust counterclaim. On October 21, 2011, IGC filed a motion to strike certain of the affirmative defenses asserted by the j2 Global affiliate, which the Northern District of Georgia Court granted in part on July 26, 2012, striking certain of the affirmative defenses at issue. Following additional discovery, on June 20, 2012, the j2 Global affiliate filed a motion to dismiss its infringement claims and IGC's counterclaims for declaratory relief. On July 27, 2012, the Northern District of Georgia Court granted the j2 Global affiliate's motion to dismiss, dismissing the j2 Global affiliate's infringement claims and IGC's related declaratory judgment counterclaims. On June 28, 2013, the Court bifurcated discovery, with the first stage of discovery limited to the issue of whether the j2 Global affiliate's infringement claims were objectively baseless. The period for discovery into that issue ended on February 3, 2014. Also on February 3, 2014, IGC moved for leave to file amended counterclaims to assert a breach of contract claim. That motion remains pending.

On July 2, 2012, IGC filed suit against j2 Global and one of its affiliates in the United States District Court for the Northern District of California ("Northern District of California"), alleging that j2 Global - through filing suit in the Central District of California - breached a contract not to sue IGC. IGC seeks monetary damages, attorneys' fees, costs, injunctive relief and specific performance of the alleged covenant not to sue IGC. On August 24, 2012, j2 Global filed a motion to dismiss or alternatively to transfer the case to the Central District of California. The motion was heard on October 26, 2012; the Court denied the motion on March 29, 2013. On April 12, 2013, j2 Global filed its answer and asserted counterclaims for infringement of the '638, '066, '688, and '132 Patents. On May 3, 2013, IGC asserted counterclaims seeking declaratory judgments of invalidity, unenforceability and non-infringement of the '638, '066, '688, and '132 Patents, implied license and exhaustion, punitive damages, attorneys' fees and costs. On June 28, 2013, the Court granted in part and denied in part j2 Global's motion to dismiss certain of IGC's counterclaims, dismissing the claims for declaratory judgment of exhaustion and punitive damages. Discovery is underway, and the Court has set a trial date of April 21, 2014 on the issue of interpretation of the contract that IGC alleges j2 Global breached. On January 31, 2014, j2 moved for summary judgment on IGC's breach of contract claim. That motion remains pending.

On June 27, 2013, j2 Global filed suit against IGC in the Northern District of California, alleging infringement of the '980 Patent. On August 29, 2013, IGC filed counterclaims for declarations of invalidity, unenforceability, and non-infringement

of the '980 Patent; an implied license to the '980 Patent; and breach and specific enforcement of an alleged covenant not to sue IGC. On September 26, 2013, j2 moved to dismiss IGC's counterclaims for unenforceability and an implied license of the '980 Patent and for breach and specific performance of the contract not to sue. That motion remains pending. On October 18, 2013, the Court consolidated IGC's breach of contract counterclaim with the other case pending in the Northern District of California and stayed j2 Global's patent infringement claims pending resolution of the breach of contract claims.

On February 17, 2011, Emmanuel Pantelakis ("Pantelakis") filed suit against j2 Global Canada, Inc., carrying on business as Protus IP Solutions ("j2 Canada"), in the Ontario Superior Court of Justice, alleging that Protus breached a contract with Pantelakis in connection with Protus's e-mail marketing services. Pantelakis is seeking damages, attorneys' fees, interest, and costs. j2 Canada filed a responsive pleading on March 23, 2011. On July 16, 2012, j2 Canada filed its responses to undertakings. On July 24, 2012, Pantelakis moved for an order granting him leave to file a second amended statement of claim re-framing his lawsuit as a negligence action. On September 27, 2012, the Court granted in part Pantelakis's motion, permitting him to plead claims for negligence and breach of contract, but limited the scope of discovery, awarded j2 Canada its costs associated with its amended statement of defence and reserved a further award of costs for the trial court. On November 6, 2012, Pantelakis filed his second amended statement of claim. j2 Canada filed its amended statement of defence on April 8, 2013. A pre-trial was held on October 23, 2013, at which time the Court allowed additional discovery and set a new time table. Following the pre-trial, Pantelakis expressed a desire to bring a motion seeking to remove Ontario counsel for j2 Canada due to an alleged conflict of interest. The Court has ordered a timeline for the motion which will be argued on June 24, 2014. The proceedings are suspended pending determination of this motion.

On January 18, 2013, Paldo Sign and Display Company ("Paldo"), filed an amended complaint adding j2 Global, j2 Canada, and a former j2 Canada employee, Tyler Eyamie ("Eyamie"), as additional defendants in an existing purported class action pending in the United States District Court for the Northern District of Illinois. The amended complaint alleged violations of the Telephone Consumer Protection Act ("TCPA"), the Illinois Consumer Fraud and Deceptive Business Practices Act ("ICFA"), and common law conversion, arising from a customer's alleged use of the j2 Canada system to send unsolicited facsimile transmissions. On August 23, 2013, Paldo filed a second amended complaint to add a second plaintiff, Sabon, Inc. ("Sabon"). j2 Global and j2 Canada filed a motion to dismiss the ICFA and conversion claims, which was granted. Paldo and Sabon seek statutory damages, costs, attorneys' fees and injunctive relief for the remaining TCPA claims. Eyamie has filed a motion to dismiss for lack of personal jurisdiction, which motion is pending. Discovery will not commence until the Eyamie motion is resolved.

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

On December 16, 2013, Anthony Jenkins ("Jenkins") filed a purported class action against j2 Global, carrying on business as eFax, in the Central District of California. The complaint includes causes of action for breach of contract, state statutory violations, unjust enrichment and conversion. As the potential class representative, Jenkins is seeking damages, statutory damages, restitution, attorneys' fees, interest, costs and injunctive relief on behalf of himself and a purported nationwide class of persons allegedly similarly situated. j2 Global has yet to file a responsive pleading to the complaint.

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

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

#### Market Information

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

	<u>High</u>	<u>Low</u>
Year ended December 31, 2013		
First Quarter	39.21	31.14
Second Quarter	42.83	37.41
Third Quarter	52.48	42.20
Fourth Quarter	55.74	43.92
Year ended December 31, 2012		
First Quarter	30.62	26.95
Second Quarter	28.35	23.62
Third Quarter	32.82	25.73
Fourth Quarter	33.09	28.67

#### Holders

We had 308 registered stockholders as of February 25, 2014. That number excludes the beneficial owners of shares held in "street" name or held through participants in depositories.

#### Dividends

We initiated a quarterly cash dividend program in August, 2011 with a payment of \$0.20 per share of common stock on September 19, 2011. We have paid an increasing quarterly cash dividend in each subsequent calendar quarter. The following is a summary of each dividend declared during fiscal year 2013:

<u>Declaration Date</u>	<u>Dividend per Common Share</u>	<u>Record Date</u>	<u>Payment Date</u>
February 12, 2013	\$ 0.2325	February 25, 2013	March 4, 2013
May 7, 2013	\$ 0.24	May 20, 2013	June 4, 2013
August 7, 2013	\$ 0.2475	August 19, 2013	September 3, 2013
November 5, 2013	\$ 0.255	November 18, 2013	December 4, 2013

On February 11, 2014, our Board of Directors approved a quarterly cash dividend of \$0.2625 per share of common stock payable on March 10, 2014 to all stockholders of record as of the close of business on February 24, 2014 (See Note 22 - Subsequent Events). Future dividends are subject to Board approval and certain restrictions within our Credit Agreement, as amended (the "Credit Agreement"), with Union Bank, N.A. ("Lender"), and the Indenture governing our Senior Notes. See Note 10 - Commitments and Contingencies - for further details regarding the Credit Agreement and Note 8 - Long-Term Debt - for further details regarding the Indenture.

#### Treasury Stock

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

## Recent Sales of Unregistered Securities

Not applicable.

## Issuer Purchases of Equity Securities

Effective February 15, 2012, our Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program") (See Note 22 - Subsequent Events - for discussion regarding the extension of the 2012 Program to February 20, 2015). At December 31, 2013, we repurchased 2.1 million shares under the 2012 Program at an aggregated cost of \$58.6 million (including an immaterial amount of commission fees).

The following table details the repurchases that were made under and outside the 2012 Program during the three months ended December 31, 2013 :

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Program
October 1, 2013 - October 31, 2013	409	\$ 55.11	—	2,873,920
November 1, 2013 - November 30, 2013	919	\$ 55.06	—	2,873,920
December 1, 2013 - December 31, 2013	—	\$ —	—	2,873,920
Total	<u>1,328</u>		<u>—</u>	<u>2,873,920</u>

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

## Equity Compensation Plan Information

The following table provides information as of December 31, 2013 regarding shares outstanding and available for issuance under j2 Global's existing equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	1,175,657	\$ 21.21	2,527,542
Equity compensation plans not approved by security holders	—	—	—
Total	<u>1,175,657</u>	<u>\$ 21.21</u>	<u>2,527,542</u>

The number of securities remaining available for future issuance includes 887,343 and 1,640,199 under our 2007 Stock Plan and 2001 Employee Stock Purchase Plan, respectively. Please refer to Note 13 to the accompanying consolidated financial statements for a description of these Plans as well as our Second Amended and Restated 1997 Stock Option Plan, which terminated in 2007.

## Performance Graph

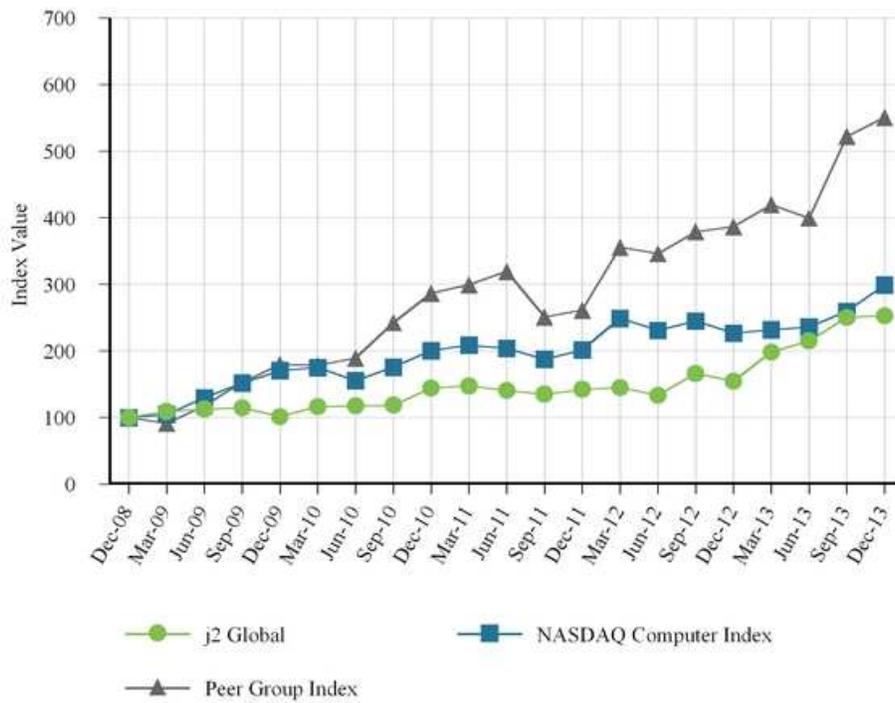
This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of j2 Global under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

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

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

Measurement points are December 31, 2008 and the last trading day in each of j2 Global's fiscal quarters through the end of fiscal 2013. The graph assumes that \$100 was invested on December 31, 2008 in j2 Global's common stock and in each of the indices, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Measurement Date	j2 Global	NASDAQ Computer Index	Peer Group Index
Dec-08	100.00	100.00	100.00
Mar-09	109.26	104.82	91.14
Jun-09	112.59	130.05	118.02
Sep-09	114.82	151.95	152.97
Dec-09	101.57	170.82	179.71
Mar-10	116.59	175.15	178.36
Jun-10	117.45	155.54	189.09
Sep-10	118.72	175.81	242.59
Dec-10	144.51	200.62	286.54
Mar-11	147.29	208.80	299.40
Jun-11	140.92	203.98	319.23
Sep-11	135.10	187.77	250.84
Dec-11	142.34	201.60	261.22
Mar-12	145.07	249.11	355.61
Jun-12	133.64	231.05	346.21
Sep-12	166.01	244.99	379.08
Dec-12	154.78	226.76	386.59
Mar-13	198.33	231.83	419.70
Jun-13	215.02	236.21	399.47
Sep-13	250.48	259.57	521.97
Dec-13	252.96	299.19	550.58



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## Item 6. Selected Financial Data

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except for share and per share amounts)				
Statement of Income Data:					
Revenues	\$ 520,801	\$ 371,396	\$ 330,159	\$ 255,394	\$ 245,571
Cost of revenues	86,893	67,013	60,613	44,086	44,730
Gross profit	433,908	304,383	269,546	211,308	200,841
Operating expenses:					
Sales and marketing	131,317	62,825	59,066	46,332	37,006
Research, development and engineering	25,485	18,624	16,373	12,827	11,657
General and administrative	101,683	60,772	58,157	48,226	45,275
Loss on disposal of long-lived asset	—	—	—	—	2,442
Total operating expenses	258,485	142,221	133,596	107,385	96,380
Income from operations	175,423	162,162	135,950	103,923	104,461
Other-than-temporary impairment losses	—	—	—	—	9,343
Interest expense (income), net	21,254	7,650	(629)	(2,033)	(1,359)
Other expense (income), net	11,472	(410)	(537)	(4,681)	(1,302)
Income before income taxes	142,697	154,922	137,116	110,637	97,779
Income tax expense	35,175	33,259	22,350	27,590	30,952
Net income	\$ 107,522	\$ 121,663	\$ 114,766	\$ 83,047	\$ 66,827
Less net income attributable to noncontrolling interest	—	83	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	\$ 107,522	\$ 121,580	\$ 114,766	\$ 83,047	\$ 66,827
Net income per common share:					
Basic	\$ 2.31	\$ 2.63	\$ 2.46	\$ 1.86	\$ 1.52
Diluted	\$ 2.28	\$ 2.61	\$ 2.43	\$ 1.81	\$ 1.48
Weighted average shares outstanding:					
Basic	45,548,767	45,459,712	45,799,615	44,578,036	43,936,194
Diluted	46,140,019	45,781,658	46,384,848	45,941,843	45,138,001
Cash dividends declared per common share	\$ 0.98	\$ 0.87	\$ 0.41	\$ —	\$ —
<b>December 31,</b>					
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 207,801	\$ 218,680	\$ 139,359	\$ 64,752	\$ 197,411
Working capital	274,133	298,572	155,099	57,610	227,538
Total assets	1,153,789	995,170	651,171	532,623	414,001
Other long-term liabilities	1,458	1,557	2,342	3,302	2,094
Total stockholders' equity	706,418	594,595	554,375	431,745	336,172

See Note 3 - Business Acquisitions for a discussion of the acquisition of Ziff Davis, Inc. on November 9, 2012.

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

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

### **Overview**

j2 Global, Inc., together with its subsidiaries ("j2 Global", "our", "us" or "we"), is a global provider of Internet services. Through our Business Cloud Services Division, we provide cloud services to businesses of all sizes, from individuals to enterprises, and license our intellectual property ("IP") to third parties. Our Digital Media Division operates a portfolio of web properties providing technology, gaming and lifestyle content, and an innovative data-driven platform to connect advertisers with visitors to those properties and to visitors of third party websites that are part of the Division's advertising network.

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

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

On November 9, 2012, we acquired Ziff Davis, Inc. ("Ziff Davis"), a company with extensive digital content holdings within the technology vertical. This acquisition expanded our operations into the digital media market and resulted in the creation of our Digital Media Division. Through a combination of organic growth and 2013 acquisitions, including most notably the February 1, 2013 acquisition of IGN Entertainment, Inc., we have grown this Division into the leading U.S. digital media company in terms of page views in the technology, gaming and men's lifestyle verticals. For additional information on our acquisitions, see Note 3 - Business Acquisitions of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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

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

The following table sets forth certain operating metrics for our Business Cloud Services segment as of or for the years ended December 31, 2013, 2012 and 2011 (in thousands, except for percentages):

	December 31,		
	2013	2012	2011
Paying telephone numbers	2,234	2,094	2,003

	Year Ended December 31,		
	2013	2012	2011 (1)
Subscriber revenues:			
Fixed	\$ 296,457	\$ 286,720	\$ 266,575
Variable	74,631	65,798	61,378
Total subscriber revenues	\$ 371,088	\$ 352,518	\$ 327,953
Percentage of total subscriber revenues:			
Fixed	79.9%	81.3%	81.3%
Variable	20.1%	18.7%	18.7%
Subscriber revenues:			
DID-based	\$ 340,438	\$ 326,940	\$ 304,904
Non-DID-based	30,650	25,578	23,049
Total subscriber revenues	\$ 371,088	\$ 352,518	\$ 327,953

(1) The amounts above reflect the change in estimate relating to the remaining service obligations to annual eFax® subscribers (See Note 2 – Basis of Presentation and Summary of Significant Accounting Policies), which reduced subscriber revenues for the year ended ended December 31, 2011 by \$10.3 million.

Our Digital Media web properties attracted 2.2 billion and 345 million visits, and 7.3 billion and 1.1 billion page views, for 2013 and 2012, respectively.

### Critical Accounting Policies and Estimates

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results and require management’s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### Revenues .

##### Business Cloud Services

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

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

arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes as revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

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

#### Digital Media

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

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

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

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

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

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

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

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

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

We have assessed whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable and noted no indicators of potential impairment for the years ended December 31, 2013, 2012 and 2011, respectively.

*Goodwill and Purchased Intangible Assets* . We evaluate our goodwill and intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), which provides that goodwill and other intangible assets with indefinite lives are not amortized but tested for impairment annually or more frequently if circumstances indicate potential impairment. In connection with the annual impairment test for goodwill, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it was more likely than not that the fair value of the reporting unit is less than its carrying amount, then we perform the impairment test upon goodwill. In connection with the annual impairment test for intangible assets, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of is less than its carrying amount, then we perform the impairment test upon intangible assets. The impairment test is comprised of two steps: (1) a reporting unit's fair value is compared to its carrying value; if the fair value is less than its carrying value, impairment is indicated; and (2) if impairment is indicated in the first step, it is measured by comparing the implied fair value of goodwill and intangible assets to their carrying value at the reporting unit level. We completed the required impairment review at the end of 2013, 2012 and 2011 and noted no impairment. Consequently, no impairment charges were recorded.

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

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

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

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Our

estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities. In addition, we may be subject to examination of our tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities.

We are currently under audit by the California Franchise Tax Board ("FTB") for tax years 2005 through 2007 and during the second quarter of 2013 were notified that the FTB will be also be auditing the Company for tax years 2009 through 2011. The FTB has also issued Information Document Requests regarding the 2004 and 2008 tax years, although no formal notice of audit for these years has been provided. During 2013, we were notified by the Illinois Department of Revenue that we will be audited for income tax for tax years 2008 and 2009. During 2013, we were notified by the New York City Department of Finance that we will be audited for income tax for tax years 2009 through 2011.

We are also under income tax audits by the IRS for tax years 2009 and 2010 and during the second quarter of 2013 were notified that the IRS will also be auditing the Company for tax year 2011. We have appealed the IRS tax examiner's decision regarding transfer pricing for tax years 2009 and 2010 with the IRS appeals office and the process remains ongoing.

In addition, we are under income tax audit by the Canada Revenue Agency ("CRA") for tax years 2010 and 2011. During 2013, we were notified by the CRA that the income tax audit for tax years 2008 and 2009 had concluded with no changes and that tax year 2011 would be subject to an income tax audit. We are also under audit by the CRA for Goods and Services Tax for tax period beginning on October 1, 2008 and ending on September 30, 2012.

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

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

As of December 31, 2013, we had no non-income tax related contingent liabilities on our balance sheet. However, it is reasonably possible that we will incur a liability associated with such taxes and, in that case, we would be required to record an expense for such liability in the period in which the liability becomes probable and estimable, which could materially impact our financial results. The estimates that we make in accounting for contingencies and the gains and losses that we record upon the ultimate resolution of these uncertainties could have a significant effect on the liabilities and expenses in our financial statements.

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

## **Recent Accounting Pronouncements**

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

## **Results of Operations**

### ***Years Ended December 31, 2013, 2012 and 2011***

#### ***Business Cloud Services Segment***

Assuming a stable or improving economic environment, subject to our risk factors, we expect the revenue and profits as included in the results of operations below in our Business Cloud Services segment to continue to increase for the foreseeable

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

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

#### *Digital Media Segment*

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

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

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

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

We expect operating profit as a percentage of revenues to generally decline in the future as we expect our less profitable Digital Media segment and the expected increasing pressure on margins as described above to grow at a faster rate than our more profitable Businesses Cloud Services segment, excluding the impact of any future acquisitions and partially offset by improved Digital Media segment margins due to economies of scale.

The following table sets forth, for the years ended December 31, 2013, 2012 and 2011, information derived from our statements of income as a percentage of revenues. This information should be read in conjunction with the accompanying financial statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenues	100%	100%	100%
Cost of revenues	17	18	18
Gross profit	83	82	82
Operating expenses:			
Sales and marketing	25	17	18
Research, development and engineering	5	5	5
General and administrative	20	16	18
Total operating expenses	50	38	41
Income from operations	34	44	41
Interest expense (income), net	4	2	(1)
Other expense (income), net	2	—	—
Income before income taxes	28	42	42
Income tax expense	7	9	7
Net income	21%	33%	35%
Less net income attributable to noncontrolling interest	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	21%	33%	35%

**Revenues**

(in thousands, except percentages)	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>Percentage Change 2013 versus 2012</b>	<b>Percentage Change 2012 versus 2011</b>
<b>Revenues</b>	\$ 520,801	\$ 371,396	\$ 330,159	40%	12%

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

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

- Our acquisitions in the Digital Media segment;

- As it relates to fiscal year 2012, increase in our Business Cloud Services IP licensing revenues as a result of the \$27 million patent license agreement secured with Open Text during fiscal year 2013, resulting in approximately \$12.6 million of revenues during that year as associated with past damages; and
- Growth in our Business Cloud Services subscriber base due to business acquisitions and new customer signups, net of cancellations.

### Cost of Revenues

(in thousands, except percentages)	2013	2012	2011	Percentage Change 2013 versus 2012	Percentage Change 2012 versus 2011
Cost of revenue	\$ 86,893	\$ 67,013	\$ 60,613	30%	11%
As a percent of revenue	17%	18%	18%		

Cost of revenues is primarily comprised of costs associated with data and voice transmission, DIDs, network operations, customer service, editorial and production costs, online processing fees and equipment depreciation. The increase in cost of revenues for the year ended December 31, 2013 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2012 that resulted in additional editorial and production costs, network operations, customer service and processing fees. The increase in cost of revenues from 2011 to 2012 was primarily due to an increase in costs associated with businesses acquired in and subsequent to 2011 that resulted in additional network operations, customer service and editorial and production costs, partially offset by reduced processing fees.

### Operating Expenses

#### Sales and Marketing.

(in thousands, except percentages)	2013	2012	2011	Percentage Change 2013 versus 2012	Percentage Change 2012 versus 2011
Sales and Marketing	\$ 131,317	\$ 62,825	\$ 59,066	109%	6%
As a percent of revenue	25%	17%	18%		

Our sales and marketing costs consist primarily of Internet-based advertising, sales and marketing, personnel costs and other business development-related expenses. Our Internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Advertising cost for the year ended December 31, 2013, 2012 and 2011 was \$55.4 million, \$48.1 million and \$45.4 million, respectively. The increase in sales and marketing expenses from 2012 to 2013 was primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2012 as acquisitions within the Digital Media Division tend to have lower operating profit margins than acquisitions within the Business Cloud Services Division, primarily due to the additional sales and marketing expense required to operate in that industry. The increase in sales and marketing expenses from 2011 to 2012 was primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2011.

#### Research, Development and Engineering .

(in thousands, except percentages)	2013	2012	2011	Percentage Change 2013 versus 2012	Percentage Change 2012 versus 2011
Research, Development and Engineering	\$ 25,485	\$ 18,624	\$ 16,373	37%	14%
As a percent of revenue	5%	5%	5%		

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs from 2012 to 2013 was primarily due to an increase in personnel costs associated with businesses acquired in and subsequent to 2012. The increase in research, development and engineering costs from 2011 to 2012 was primarily

due to an increase in personnel costs associated with businesses acquired in and subsequent to 2011 and additional expenses for professional services.

*General and Administrative.*

(in thousands, except percentages)	2013	2012	2011	Percentage Change 2013 versus 2012	Percentage Change 2012 versus 2011
<b>General and Administrative</b>	\$ 101,683	\$ 60,772	\$ 58,157	67%	4%
<b>As a percent of revenue</b>	20%	16%	18%		

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, share-based compensation expense, bad debt expense, professional fees, severance and insurance costs. The increase in general and administrative expense from 2012 to 2013 was primarily due to personnel costs relating to acquisitions closed during 2012 and 2013 and an increase in amortization of intangible assets. The increase in general and administrative expense from 2011 to 2012 was primarily due to an increase in amortization of intangible assets and personnel costs relating to acquisitions closed during 2011 and 2012 and an increase in professional fees, partially offset by a decrease in bad debt expense.

**Share-Based Compensation**

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of income for the year ended December 31, 2013, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Cost of revenues	\$ 756	\$ 844	\$ 982
Operating expenses:			
Sales and marketing	1,855	1,543	1,431
Research, development and engineering	434	459	477
General and administrative	6,675	6,286	6,103
<b>Total</b>	<b>\$ 9,720</b>	<b>\$ 9,132</b>	<b>\$ 8,993</b>

**Non-Operating Income and Expenses**

*Interest expense (income), net.* Our interest expense (income), net is generated primarily from interest expense due to outstanding debt and the recognition of the interest portion of a loss on extinguishment of debt of \$1.6 million in connection with the December 31, 2013 reorganization of Ziff Davis, Inc. into Ziff Davis, LLC and the Company's acquisition of all of the minority holders' equity interests in Ziff Davis, Inc., and interest earned on cash, cash equivalents and short-term and long-term investments. Interest expense (income), net was \$21.3 million, \$7.7 million, and \$(0.6) million for the years ended December 31, 2013, 2012 and 2011, respectively. The increase from 2012 to 2013 was primarily due to interest expense following the July 2012 issuance of the Senior Notes. The increase from 2011 to 2012 was primarily due to additional interest expense following the July 2012 issuance of the Senior Notes partially offset by interest income from higher cash and investment balances.

*Other expense (income), net.* Our other expense (income), net is generated primarily from miscellaneous items, gain or losses on currency exchange and the sale of investments. Other expense (income), net was \$11.5 million, \$(0.4) million, and \$(0.5) million for the years ended December 31, 2013, 2012 and 2011, respectively. The increase from 2012 to 2013 was primarily due to the recognition of the other expense portion of a loss on extinguishment of debt of \$12.9 million in connection with the December 31, 2013 reorganization of Ziff Davis, Inc. into Ziff Davis, LLC and the Company's acquisition of all of the minority holders' equity interests in Ziff Davis, Inc. The decrease from 2011 to 2012 is primarily due to a lower gain on sale of investments partially offset by other various items.

## ***Income Taxes***

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

As of December 31, 2013, we had federal and state (California) net operating loss carryforwards (“NOLs”) of \$22.9 million and \$0.7 million, respectively, after considering substantial restrictions on the utilization of these NOLs due to “ownership changes”, as defined in the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). We estimate that all of the above-mentioned federal NOLs and a portion of the state NOLs will be available for use before their expiration. However, we expect a substantial portion of the state NOL to not be utilizable and thus recorded a valuation allowance against it as of December 31, 2013. These NOLs expire through the year 2028 for the federal and 2030 for the state. In addition, as of December 31, 2013 and 2012, we had available unrecognized state research and development tax credits of \$0.9 million and \$0.4 million, respectively, which last indefinitely. As of December 31, 2013, we also had state enterprise zone tax credits of \$0.5 million, which last indefinitely.

Income tax expense amounted to \$35.2 million, \$33.3 million and \$22.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. Our effective tax rates for 2013, 2012 and 2011 were 25%, 21% and 16%, respectively.

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

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

The increase in our annual effective income tax rate from 2011 to 2012 was primarily attributable to the following:

1. a reversal during 2011 of approximately \$15.2 million of uncertain income tax positions as a result of expiring statutes of limitations, offset by return to provision adjustments, and
2. an increase during 2012 in the valuation allowance for foreign tax credit carryforwards;  
partially offset by:
3. a decrease during 2012 in return to provision adjustments, and
4. a decrease during 2012 in the portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.

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

## ***Segment Results***

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

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

## Business Cloud Services

Prior to the acquisition of Ziff Davis, Inc, on November 9, 2012, we operated as one segment which has been named Business Cloud Services. The following segment results are presented for fiscal year 2013 and 2012 (in thousands):

	<u>2013</u>		<u>2012</u>		<u>Change</u>	
External net sales	\$ 390,104	100.0%	\$ 361,684	100.0%	\$ 28,420	7.9%
Intersegment net sales	—	—	—	—	—	—%
Segment net sales	390,104	100.0	361,684	100.0	28,420	7.9%
Cost of revenues	69,911	17.9	65,056	18.0	4,855	7.5%
Gross profit	320,193	82.1	296,628	82.0	23,565	7.9%
Operating expenses	121,258	31.1	109,268	30.2	11,990	11.0%
Segment operating income	<u>\$ 198,935</u>	<u>51.0%</u>	<u>\$ 187,360</u>	<u>51.8%</u>	<u>\$ 11,575</u>	<u>6.2%</u>

Segment net sales of \$390.1 million in 2013 increased \$28.4 million , or 7.9% , from 2012 primarily due to an increase in our subscriber base and an increase in patent and technology related licensing revenues.

Segment gross profit of \$320.2 million in 2013 increased \$23.6 million from 2012 primarily due to an increase in net sales between the periods. The gross profit as a percentage of revenues for 2013 was consistent with the prior comparable period.

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

As a result of these factors, segment operating earnings of \$198.9 million in 2013 increased \$11.6 million , or 6.2% , from 2012.

## Digital Media

As our Digital Media segment was established as a result of the acquisition of Ziff Davis, Inc. on November 9, 2012, the increase from 2012 to 2013 is due to a full year of activity in fiscal year 2013. The following segment results are presented for fiscal year 2013 and 2012 (in thousands):

	<u>2013</u>		<u>2012</u>		<u>Change</u>	
External net sales	\$ 130,697	99.7%	9,712	100.0%	\$ 120,985	1,245.7%
Intersegment net sales	449	0.3	—	—	449	—
Segment net sales	131,146	100.0	9,712	100.0	121,434	1,250.4
Cost of revenues	16,982	12.9	1,956	20.1	15,026	768.2
Gross profit	114,164	87.1	7,756	79.9	106,408	1,371.9
Operating expenses	107,432	81.9	4,867	50.1	102,565	2,107.4
Segment operating income	<u>\$ 6,732</u>	<u>5.1%</u>	<u>\$ 2,889</u>	<u>29.7%</u>	<u>\$ 3,843</u>	<u>133.0%</u>

## Liquidity and Capital Resources

### *Cash and Cash Equivalents and Investments*

At December 31, 2013, we had cash and investments of \$345.9 million compared to \$343.6 million at December 31, 2012. The increase resulted primarily from cash provided by operations and the exercise of stock options, partially offset by business acquisitions, dividends, purchase of property, plant and equipment, interest payments and purchase of intellectual property. At December 31, 2013, cash and investments consisted of cash and cash equivalents of \$207.8 million, short-term investments of \$90.8 million and long-term investments of \$47.4 million. Our investments are comprised primarily of readily marketable corporate and governmental debt securities, money-market accounts, equity securities and time deposits. For financial statement presentation, we classify our investments primarily as available-for-sale; thus, they are reported as short- and long-term based upon their maturity dates. Short-term investments mature within one year of the date of the financial statements and long-term investments mature one year or more from the date of the financial statements. Short-term investments include restricted balances which the Company may not liquidate until maturity, generally within 12 months. Restricted balances included in short-term investments were \$8.2 million at December 31, 2013. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of December 31, 2013, cash and investments held within foreign and domestic jurisdictions were \$182.4 million and \$163.5 million, respectively. If we were to repatriate funds held within foreign jurisdictions, we would incur U.S. income tax on the repatriated amount at the federal statutory rate of 35% and the state statutory rate where applicable, net of a credit for foreign taxes paid on such amounts.

The Company's Board of Directors approved four quarterly cash dividends during the year ended December 31, 2013, totaling \$0.975 per share of common stock. On February 11, 2014, our Board of Directors approved a quarterly cash dividend of \$0.2625 per share of common stock payable on March 10, 2014 to all stockholders of record as of the close of business on February 24, 2014. Future dividends are subject to Board approval and certain restrictions within the Credit Agreement, as amended (the "Credit Agreement"), with Union Bank, N.A. (the "Lender") and within the Indenture relating to the debt issuance referenced below, a copy of which the Company filed with the SEC as an exhibit to its Current Report on Form 8-K on July 26, 2012.

As referenced above, on July 26, 2012, the Company completed the sale in a private offering of \$250 million in aggregate principal amount of 8.0% senior unsecured notes due 2020. The net proceeds of the sale were \$243.7 million after deducting the initial purchaser's discounts, commissions and expenses of the offering. The Company is using the net proceeds from the offering for general corporate purposes, including acquisitions.

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

### *Cash Flows*

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents and short-term investments. Net cash provided by operating activities was \$193.3 million, \$169.9 million, and \$150.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Our operating cash flows resulted primarily from cash received from our subscribers offset by cash payments we made to third parties for their services, employee compensation and tax payments. The increase in our net cash provided by operating activities in 2013 compared to 2012 was primarily attributable to cash received from our customers, the impact of a 2012 non-cash change in estimate relating to deferred revenue and higher year-end accounts payable and accrued expense balances. The increase in our net cash provided by operating activities in 2012 compared to 2011 was primarily attributable to cash received from our subscribers, a tax benefit from the exercise of stock options and a change in the liability for uncertain tax positions during the year. Certain tax payments are prepaid during the year and included within prepaid expenses and other current assets on the consolidated balance sheet. Our prepaid tax payments were \$11.3 million and \$9.0 million at December 31, 2013 and 2012, respectively. Our cash and cash equivalents and short-term investments were \$298.6 million, \$323.7 million and \$177.9 million at December 31, 2013, 2012 and 2011, respectively.

Net cash used in investing activities was approximately \$(167.4) million, \$(249.5) million and \$(76.2) million for the years ended December 31, 2013, 2012 and 2011, respectively. Net cash used in investing activities in 2013 was primarily attributable to business acquisitions, purchase of available-for-sale investments and certificates of deposit, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments and maturity of certificates of deposit. Net cash used in investing activities in 2012 was primarily attributable to business acquisitions, purchase of available-for-sale investments and certificates of deposit, purchases of property and equipment and investments in intangible assets, partially

offset by the sale of available-for-sale investments and maturity of certificates of deposit. Net cash used in investing activities in 2011 was primarily attributable to the purchase of available-for-sale investments.

Net cash (used in) provided by financing activities was approximately \$(35.7) million, \$158.4 million and \$0.3 million for the year ended December 31, 2013, 2012 and 2011, respectively. Net cash used in financing activities in 2013 was primarily attributable to dividends paid and the repurchase of stock, partially offset by the exercise of stock options and excess tax benefit from share-based compensation. Net cash provided by financing activities in 2012 was primarily attributable to the proceeds from the sale of long-term debt and from the exercise of stock options and excess tax benefit from share-based compensation, partially offset by the repurchase of stock and dividends paid. Net cash provided by financing activities in 2011 was primarily attributable from the exercise of stock options and excess tax benefit from share-based compensation, partially offset by dividends paid.

#### **Stock Repurchase Program**

Effective February 15, 2012, our Board of Directors authorized the repurchase of up to five million shares of our common stock through February 20, 2013 (See Note 22 - Subsequent Events for discussion regarding the extension of the share repurchase program to February 20, 2015).

#### **Contractual Obligations and Commitments**

The following table summarizes our contractual obligations and commitments as of December 31, 2013 :

<b>Contractual Obligations</b>	<b>Payment Due by Period (in thousands)</b>				
	<b>1 Year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>More than 5 Years</b>	<b>Total</b>
Long-term debt - principal (a)	\$ —	\$ —	\$ —	\$ 250,000	\$ 250,000
Long-term debt - interest (b)	20,000	40,000	40,000	39,722	139,722
Operating leases (c)	6,674	11,859	7,183	2,549	28,265
Mandatorily redeemable financial instrument - dividends (d)	—	—	—	—	—
Mandatorily redeemable financial instrument - redemption (e)	—	—	—	—	—
Telecom services and co-location facilities (f)	1,949	1,720	304	—	3,973
Holdback payment (g)	6,436	447	—	—	6,883
Other (h)	890	240	—	—	1,130
<b>Total</b>	<b>\$ 35,949</b>	<b>\$ 54,266</b>	<b>\$ 47,487</b>	<b>\$ 292,271</b>	<b>\$ 429,973</b>

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

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

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

(d) These amounts represent the non-controlling interest portion of dividends accrued on the mandatorily redeemable financial instrument.

(e) These amounts represent the non-controlling interest portion of the redemption amount with respect to the mandatorily redeemable financial instrument.

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

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

(h) These amounts primarily represent certain consulting and Board of Director fee arrangements and software license commitments.

As of December 31, 2013, our liability for uncertain tax positions was \$43.9 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

*Credit Agreement*

On January 5, 2009, we entered into a Credit Agreement with Union Bank, N.A. in order to further enhance our liquidity in the event of potential acquisitions or other corporate purposes. The Credit Agreement was amended on August 16, 2010, July 13, 2012 and November 9, 2012. The July 13, 2012 amendment was entered into in connection with the issuance of the Senior Notes as discussed in Note 8 - Long-Term Debt - and extended the Revolving Credit Commitment Termination Date (as defined in the Credit Agreement) to November 14, 2013. The November 9, 2012 amendment was entered into in connection with the acquisition of Ziff Davis, Inc. as discussed in Note 3 - Business Acquisitions. The November 19, 2013 amendment extended the revolving credit commitment termination date to November 14, 2016 and amended certain definitions and covenants. We have not drawn down any amounts under the Credit Agreement. See Note 10 - Commitments and Contingencies for further details regarding the Credit Agreement, as amended.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

*The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. j2 Global undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Readers should carefully review the risk factors described in this document as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2014.*

### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We maintain an investment portfolio of various holdings, types and maturities. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2013, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

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

As of December 31, 2013, we had investments in debt securities with effective maturities greater than one year of approximately \$47.4 million. Such investments had a weighted average yield of approximately 0.2%. As of December 31, 2013 and December 31, 2012, we had cash and cash equivalent investments in time deposits and money market funds with maturities of three months or less of \$207.8 million and \$218.7 million, respectively. Based on our cash and cash equivalents and short- and long-term investment holdings as of December 31, 2013, an immediate 100 basis point decline in interest rates would decrease our annual interest income to approximately zero.

We are parties to the Credit Agreement with the Lender, as amended. If we were to borrow under the Credit Agreement we would be subject to the prevailing interest rates and could be exposed to interest rate fluctuations.

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

### Foreign Currency Risk

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

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

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

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

Foreign exchange gains and (losses) were not material to our earnings in 2013, 2012 or 2011. For the years ended December 31, 2013, 2012 and 2011, net foreign currency transaction gain/(loss) amounted to \$0.4 million, \$0.1 million and zero, respectively. During the year ended December 31, 2013 and 2012, cumulative translation adjustments included in other comprehensive income amounted to \$0.1 million and \$1.4 million, respectively.

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

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of j2 Global, Inc. and subsidiaries (collectively, the “Company”) as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule of j2 Global, Inc. listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of j2 Global, Inc. and subsidiaries as of December 31, 2013 and 2012 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), j2 Global, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992, and our report dated February 28, 2014 expressed an unqualified opinion on the effectiveness of j2 Global Inc. and subsidiaries' internal control over financial reporting.

/s/ SingerLewak LLP  
Los Angeles, California

February 28, 2014

**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2013 and 2012  
(In thousands, except share amounts)

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 207,801	\$ 218,680
Short-term investments	90,789	105,054
Accounts receivable, net of allowances of \$4,105 and \$3,213, respectively	67,245	37,285
Prepaid expenses and other current assets	20,064	15,388
Deferred income taxes	3,126	1,092
Total current assets	389,025	377,499
Long-term investments	47,351	19,841
Property and equipment, net	31,200	19,599
Trade names, net	83,108	71,409
Patent and patent licenses, net	28,530	19,329
Customer relationships, net	100,980	64,723
Goodwill	457,422	407,825
Other purchased intangibles, net	10,915	9,855
Deferred income taxes	1,845	1,852
Other assets	3,413	3,238
<b>Total assets</b>	<b>\$ 1,153,789</b>	<b>\$ 995,170</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued expenses	\$ 69,570	\$ 39,874
Income taxes payable	1,569	3,037
Deferred revenue	36,326	30,493
Liability for uncertain tax positions	5,535	5,523
Deferred income taxes	1,892	—
Total current liabilities	114,892	78,927
Long-term debt	245,670	245,194
Liability for uncertain tax positions	38,329	32,155
Deferred income taxes	35,833	32,393
Deferred revenue, non-current	11,189	1,609
Other long-term liabilities	1,458	1,557
Mandatorily redeemable financial instrument	—	8,740
Total liabilities	447,371	400,575
Commitments and contingencies	—	—
Preferred stock - Series A, \$0.01 par value. Authorized 6,000 and zero at December 31, 2013 and 2012, respectively; total issued and outstanding 5,064 and zero at December 31, 2013 and 2012, respectively.	—	—
Preferred stock - Series B, \$0.01 par value. Authorized 20,000 and zero at December 31, 2013 and 2012, respectively; total issued and outstanding 4,155 and zero at December 31, 2013 and 2012, respectively.	—	—
Common stock, \$0.01 par value. Authorized 95,000,000 at December 31, 2013 and 2012; total issued and outstanding 46,105,076 and 45,094,191 shares at December 31, 2013 and 2012, respectively;	461	451
Additional paid-in capital	216,872	169,542
Retained earnings	484,850	424,790
Accumulated other comprehensive income (loss)	4,235	(88)
Total j2 Global Inc., stockholders' equity	706,418	594,695
Noncontrolling interests	—	(100)
Total stockholders' equity	706,418	594,595
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,153,789</b>	<b>\$ 995,170</b>

See Notes to Consolidated Financial Statements

**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2013, 2012 and 2011**  
**(In thousands, except share and per share data)**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenues:			
Total revenues	520,801	371,396	330,159
Cost of revenues (including share-based compensation of \$756, \$844 and \$982 in 2013, 2012 and 2011, respectively)	86,893	67,013	60,613
Gross profit	<u>433,908</u>	<u>304,383</u>	<u>269,546</u>
Operating expenses:			
Sales and marketing (including share-based compensation of \$1,855, \$1,543 and \$1,431 in 2013, 2012 and 2011, respectively)	131,317	62,825	59,066
Research, development and engineering (including share-based compensation of \$434, \$459 and \$477 in 2013, 2012 and 2011, respectively)	25,485	18,624	16,373
General and administrative (including share-based compensation of \$6,675, \$6,286 and \$6,103 in 2013, 2012 and 2011, respectively)	101,683	60,772	58,157
Total operating expenses	<u>258,485</u>	<u>142,221</u>	<u>133,596</u>
Income from operations	175,423	162,162	135,950
Interest expense (income), net	21,254	7,650	(629)
Other expense (income), net	11,472	(410)	(537)
Income before income taxes	<u>142,697</u>	<u>154,922</u>	<u>137,116</u>
Income tax expense	35,175	33,259	22,350
Net income	<u>107,522</u>	<u>121,663</u>	<u>114,766</u>
Less net income attributable to noncontrolling interest	—	83	—
Net income attributable to j2 Global, Inc. common shareholders	<u>\$ 107,522</u>	<u>\$ 121,580</u>	<u>\$ 114,766</u>
Net income per common share:			
Basic	<u>\$ 2.31</u>	<u>\$ 2.63</u>	<u>\$ 2.46</u>
Diluted	<u>\$ 2.28</u>	<u>\$ 2.61</u>	<u>\$ 2.43</u>
Weighted average shares outstanding:			
Basic	45,548,767	45,459,712	45,799,615
Diluted	46,140,019	45,781,658	46,384,848
Cash dividends paid per common share	\$ 0.98	\$ 0.87	\$ 0.41

**See Notes to Consolidated Financial Statements**

**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years Ended December 31, 2013, 2012 and 2011**  
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net Income	\$ 107,522	\$ 121,663	\$ 114,766
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment, net of tax (benefit) of (\$122), \$196 and (\$198) for the year ended 2013, 2012 and 2011, respectively	78	1,435	(840)
Unrealized gain (loss) on available-for-sale investments, net of tax (benefit) of \$2,447, \$646 and (\$142) for the year ended 2013, 2012 and 2011, respectively	4,245	1,954	(602)
Other comprehensive income (loss), net of tax	<u>4,323</u>	<u>3,389</u>	<u>(1,442)</u>
Comprehensive Income	\$ 111,845	\$ 125,052	\$ 113,324
Net income attributable to noncontrolling interest	<u>—</u>	<u>83</u>	<u>—</u>
Comprehensive income attributable to j2 Global, Inc.	<u>\$ 111,845</u>	<u>\$ 124,969</u>	<u>\$ 113,324</u>

**See Notes to Consolidated Financial Statements**

**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2013, 2012 and 2011**  
(In thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:			
Net earnings	\$ 107,522	\$ 121,663	\$ 114,766
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	39,788	22,164	19,756
Amortization of discount or premium of investments	1,796	1,603	941
Amortization of financing costs and discounts	613	249	—
Share-based compensation	9,720	9,132	8,968
Excess tax benefits from share-based compensation	(2,695)	(961)	(13,561)
Provision for doubtful accounts	3,135	4,289	6,900
Deferred income taxes	250	1,150	6,822
Loss on disposal of fixed assets	8	54	117
(Gain) loss on available-for-sale investments	66	(266)	(552)
Loss on extinguishment of debt and related interest expense	14,437	—	—
Changes in assets and liabilities, net of effects of business combinations:			
Decrease (increase) in:			
Accounts receivable	(9,588)	(5,417)	(9,509)
Prepaid expenses and other current assets	149	(2,028)	4,261
Other assets	168	(243)	204
Increase (decrease) in:			
Accounts payable and accrued expenses	9,126	5,138	847
Income taxes payable	667	4,139	9,679
Deferred revenue	12,368	1,612	8,664
Liability for uncertain tax positions	6,186	7,601	(7,786)
Other liabilities	(392)	32	231
Net cash provided by operating activities	<u>193,324</u>	<u>169,911</u>	<u>150,748</u>
Cash flows from investing activities:			
Maturity of certificates of deposit	42,615	8,000	—
Purchase of certificates of deposit	(22,071)	(34,673)	(8,000)
Sales of available-for-sale investments	140,126	138,709	29,777
Purchase of available-for-sale investments	(168,901)	(151,989)	(82,879)
Purchases of property and equipment	(18,627)	(5,061)	(6,844)
Proceeds from sale of assets	1	156	4
Acquisition of businesses, net of cash received	(126,341)	(198,341)	(3,926)
Purchases of intangible assets	(14,200)	(6,295)	(4,312)
Net cash used in investing activities	<u>(167,398)</u>	<u>(249,494)</u>	<u>(76,180)</u>
Cash flows from financing activities:			
Issuance of long-term debt	—	245,000	—
Debt issuance costs	(47)	(1,384)	—
Repurchases of common stock and restricted stock	(4,587)	(60,282)	(1,281)
Issuance of common stock under employee stock purchase plan	213	157	142
Exercise of stock options	13,604	5,646	7,090
Mandatorily redeemable financial instrument	—	8,557	—
Dividends paid	(45,134)	(40,263)	(19,174)
Excess tax benefits from share-based compensation	2,695	961	13,561
Other	(2,437)	—	—
Net cash (used in) provided by financing activities	<u>(35,693)</u>	<u>158,392</u>	<u>338</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(1,112)</u>	<u>512</u>	<u>(299)</u>
Net change in cash and cash equivalents	<u>(10,879)</u>	<u>79,321</u>	<u>74,607</u>
Cash and cash equivalents at beginning of period	<u>218,680</u>	<u>139,359</u>	<u>64,752</u>
Cash and cash equivalents at end of period	<u>\$ 207,801</u>	<u>\$ 218,680</u>	<u>\$ 139,359</u>

See Notes to Condensed Consolidated Financial Statements

**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**Year Ended December 31, 2013, 2012 and 2011**  
**(in thousands, except share amounts)**

	Common stock		Preferred Series A		Preferred A Additional paid-	Preferred Series B		Preferred B Additional paid-	Additional paid-in	Treasury stock		Retained	Accumulated other comprehensive	j2 Global, Inc.	Non-	Total	
	Shares	Amount	Shares	Amount	in capital	Shares	Amount	in capital	capital	Shares	Amount	earnings	income/(loss)	Stockholders' equity	Controlling interest	Stockholders' equity	
<b>Balance, January 1, 2011</b>	53,700,629	\$ 537	—	\$ —	—	—	\$ —	\$ —	—	164,769	(8,680,568)	\$(112,671)	\$ 381,145	\$ (2,035)	\$ 431,745	\$ —	\$ 431,745
Net income	—	—	—	—	—	—	—	—	—	—	—	114,766	—	114,766	—	114,766	
Other comprehensive income, net of tax (benefit) of (\$340)	—	—	—	—	—	—	—	—	—	—	—	—	(1,442)	(1,442)	—	(1,442)	
Dividends	—	—	—	—	—	—	—	—	—	—	—	(19,199)	—	(19,199)	—	(19,199)	
Exercise of stock options	1,820,678	18	—	—	—	—	—	—	14,404	—	—	—	—	14,422	—	14,422	
Issuance of shares under Employee Stock Purchase Plan	5,235	—	—	—	—	—	—	—	142	—	—	—	—	142	—	142	
Vested restricted stock	155,024	1	—	—	—	—	—	—	(1)	—	—	—	—	—	—	—	
Retirement of common shares	(248,152)	(2)	—	—	—	—	—	—	(3,616)	—	—	(4,142)	—	(7,760)	—	(7,760)	
Repurchase of restricted stock	(43,778)	—	—	—	—	—	—	—	(853)	—	—	—	—	(853)	—	(853)	
Share based compensation	—	—	—	—	—	—	—	—	8,968	—	—	25	—	8,993	—	8,993	
Excess tax benefit on share based compensation	—	—	—	—	—	—	—	—	13,561	—	—	—	—	13,561	—	13,561	
<b>Balance, December 31, 2011</b>	55,389,636	\$ 554	—	\$ —	—	—	\$ —	\$ —	—	197,374	(8,680,568)	\$(112,671)	\$ 472,595	\$ (3,477)	\$ 554,375	\$ —	\$ 554,375
Net income	—	—	—	—	—	—	—	—	—	—	—	121,580	—	121,580	83	121,663	
Other comprehensive income, net of tax of \$842	—	—	—	—	—	—	—	—	—	—	—	—	3,389	3,389	—	3,389	
Dividends	—	—	—	—	—	—	—	—	—	—	—	(40,263)	—	(40,263)	(183)	(40,446)	
Exercise of stock options	357,234	4	—	—	—	—	—	—	5,642	—	—	—	—	5,646	—	5,646	
Issuance of shares under Employee Stock Purchase Plan	5,797	—	—	—	—	—	—	—	157	—	—	—	—	157	—	157	
Vested restricted stock	204,052	2	—	—	—	—	—	—	(2)	—	—	—	—	—	—	—	
Retirement of common shares	(10,806,648)	(108)	—	—	—	—	—	—	(42,580)	8,680,568	112,671	(129,171)	—	(59,188)	—	(59,188)	
Repurchase of restricted stock	(55,880)	(1)	—	—	—	—	—	—	(1,093)	—	—	—	—	(1,094)	—	(1,094)	
Share based compensation	—	—	—	—	—	—	—	—	9,083	—	—	49	—	9,132	—	9,132	
Excess tax benefit on share based compensation	—	—	—	—	—	—	—	—	961	—	—	—	—	961	—	961	
<b>Balance, December 31, 2012</b>	45,094,191	\$ 451	—	\$ —	—	—	\$ —	\$ —	—	169,542	—	\$ —	\$ 424,790	\$ (88)	\$ 594,695	\$ (100)	\$ 594,595
Net income	—	—	—	—	—	—	—	—	—	—	—	107,522	—	107,522	—	107,522	
Other comprehensive income, net of tax of \$2,325	—	—	—	—	—	—	—	—	—	—	—	—	4,323	4,323	—	4,323	
Dividends	—	—	—	—	—	—	—	—	—	—	—	(45,135)	—	(45,135)	—	(45,135)	
Purchase of mandatorily redeemable financial instrument	234,025	2	5,064	—	4,774	4,155	—	6,575	22,900	—	—	—	—	22,902	100	23,002	
Exercise of stock options	569,204	6	—	—	—	—	—	—	13,598	—	—	—	—	13,604	—	13,604	
Issuance of shares under Employee Stock Purchase Plan	5,402	—	—	—	—	—	—	—	213	—	—	—	—	213	—	213	
Vested restricted stock	308,082	3	—	—	—	—	—	—	(3)	—	—	—	—	—	—	—	
Retirement of common shares	(29,950)	—	—	—	—	—	—	—	(684)	—	—	(2,395)	—	(3,079)	—	(3,079)	
Repurchase of restricted stock	(75,878)	(1)	—	—	—	—	—	—	(1,506)	—	—	—	—	(1,507)	—	(1,507)	
Share based compensation	—	—	—	—	—	—	—	—	9,585	—	—	68	—	9,653	—	9,653	
Excess tax benefit on share based compensation	—	—	—	—	—	—	—	—	3,227	—	—	—	—	3,227	—	3,227	
<b>Balance, December 31, 2013</b>	46,105,076	\$ 461	5,064	\$ —	4,774	4,155	\$ —	\$ 6,575	\$ 216,872	—	\$ —	\$ 484,850	\$ 4,235	\$ 706,418	\$ —	\$ 706,418	



**j2 GLOBAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 , 2011 and 2010**

**1. The Company**

j2 Global, Inc., together with its subsidiaries ("j2 Global" or the "Company"), is a global provider of Internet services. Through our Business Cloud Services Division, the Company provides cloud services to businesses of all sizes, from individuals to enterprises, and license our intellectual property ("IP") to third parties. The Digital Media Division operates a portfolio of web properties providing technology, gaming and lifestyle content, and an innovative data-driven platform connecting advertisers with visitors to those properties and to visitors of third party websites that are part of the Division's advertising network.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

*(a) Principles of Consolidation*

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

*(b) Use of Estimates*

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications, and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, management evaluates its estimates based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

In the first quarter of 2011, the Company made a change in estimate regarding the remaining service obligations to its annual eFax® subscribers. As a result of system upgrades, the Company is now basing the estimate on the actual remaining service obligations to these customers. Due to this change, the Company recorded a one-time, non-cash increase to deferred revenues of \$10.3 million with an equal offset to revenues. This change in estimate reduced net income by approximately \$7.6 million, net of tax, and reduced basic and diluted earnings per share for the year ended December 31, 2011 by \$0.17 and \$0.16, respectively.

*(c) Allowances for Doubtful Accounts*

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

*(d) Revenue Recognition*

Business Cloud Services

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

j2 Global's Business Cloud Services also include patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to j2 Global in exchange for the grant of non-exclusive, retroactive and future licenses to our intellectual property, including patented technology. Patent revenues may also consist of revenues generated from the sale of patents. Patent license revenues are recognized when earned over the term of the license agreements. With regard to fully paid-up license arrangements, the Company recognizes as revenue in the period the license agreement is executed the portion of the payment attributable to past use of the intellectual property and amortizes the remaining

portion of such payments on a straight-line basis over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes as revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

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

#### Digital Media

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

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

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

#### *(e) Fair Value Measurements*

j2 Global complies with the provisions of Financial Accounting Standards Board ("FASB") ASC Topic No. 820, Fair Value Measurements and Disclosures ("ASC 820"), in measuring fair value and in disclosing fair value measurements. ASC 820 provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities.

As of December 31, 2013 and December 31, 2012, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable, customer deposits and long-term debt are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company's senior unsecured notes was determined using the quoted market prices of debt instruments with similar terms and maturities. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to j2 Global.

#### *(f) Cash and Cash Equivalents*

j2 Global considers cash equivalents to be only those investments that are highly liquid, readily convertible to cash and with maturities of three months or less at the purchase date.

#### *(g) Investments*

j2 Global accounts for its investments in debt and equity securities in accordance with FASB ASC Topic No. 320, Investments - Debt and Equity Securities ("ASC 320"). Debt investments are typically comprised of corporate and governmental debt securities. Equity securities recorded as available-for-sale represent strategic equity investments. j2 Global determines the appropriate classification of its investments at the time of acquisition and evaluates such determination at each balance sheet date. Held-to-maturity securities are those investments which the Company has the ability and intent to hold until maturity and are recorded at amortized cost. Available-for-sale securities are those investments j2 Global does not intend to hold to maturity and can be sold. Available-for-sale securities are carried at fair value with unrealized gains and losses included in other comprehensive income. Trading securities are carried at fair value, with unrealized gains and losses included in investment income. All securities are accounted for on a specific identification basis.

*(h) Debt Issuance Costs and Debt Discount*

j2 Global capitalizes costs incurred with borrowing and issuance of debt securities and records debt discounts as a reduction to the debt amount. j2 Global capitalized costs incurred in connection with its sale of senior unsecured notes within long-term other assets and recorded the original purchase discount as a reduction to such notes (See Note 8 - Long Term Debt). These costs and discounts are amortized and included in interest expense over the life of the borrowing or term of the credit facility using the interest method.

*(i) Concentration of Credit Risk*

All of the Company's cash, cash equivalents and marketable securities are invested at major financial institutions primarily within the United States, United Kingdom and Ireland. These institutions are required to invest the Company's cash in accordance with the Company's investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. The Company's investment policy also requires that investments in marketable securities be in only highly rated instruments, with limitations on investing in securities of any single issuer. However, these investments are not insured against the possibility of a total or near complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks. At December 31, 2013 and December 31, 2012, the Company's cash and cash equivalents were maintained in accounts that are insured up to the limit determined by the applicable governmental agency. The Company's deposits held in qualifying financial institutions in Ireland are fully insured through March 28, 2018 to the extent on deposit prior to March 28, 2013. With respect to the Company's deposits with financial institutions in other jurisdictions, the insured amount held in other institutions is immaterial in comparison to the total amount of the Company's cash and cash equivalents held by these institutions which is not insured. These institutions are primarily in the United States and United Kingdom, however, the Company has accounts within several other countries including Australia, Austria, China, France, Germany, Italy, Japan, New Zealand, the Netherlands and Poland.

*(j) Foreign Currency*

Some of j2 Global's foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. Dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive income/(loss). Net translation gain/ (loss) were \$0.1 million, \$1.4 million and \$(0.8) million for the years ended December 31, 2013, 2012 and 2011, respectively. Realized gains and losses from foreign currency transactions are recognized within other expense (income) net. Net transaction gain/ (loss) was \$0.4 million, \$(0.1) million and zero for the years ended December 31, 2013, 2012 and 2011, respectively.

*(k) Property and Equipment*

Property and equipment are stated at cost. Equipment under capital leases is stated at the present value of the minimum lease payments. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment range from one to 10 years. Fixtures, which are comprised primarily of leasehold improvements and equipment under capital leases, are amortized on a straight-line basis over their estimated useful lives or for leasehold improvements, the related lease term, if less. The Company has capitalized certain internal use software and website development costs which are included in property and equipment. The estimated useful life of costs capitalized is evaluated for each specific project and ranges from 1 to 5 years.

*(l) Long-Lived Assets*

j2 Global accounts for long-lived assets, which include property and equipment and identifiable intangible assets with finite useful lives (subject to amortization), in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment ("ASC 360"), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected future net cash flows generated by the asset. If it is determined that the asset may not be recoverable, and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference.

j2 Global assessed whether events or changes in circumstances have occurred that potentially indicate the carrying amount of long-lived assets may not be recoverable. No impairment was recorded in fiscal year 2013, 2012 and 2011.

*(m) Goodwill and Intangible Assets*

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. Intangible assets subject to amortization are amortized over the period of estimated economic benefit ranging from 1 to 20 years. In accordance with FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), goodwill and other intangible assets with indefinite lives are not amortized but tested annually for impairment or more frequently if j2 Global believes indicators of impairment exist. In connection with the annual impairment test for goodwill, the Company has the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it was more likely than not that the fair value of the reporting unit is less than its carrying amount, then it performs the impairment test upon goodwill. In connection with the annual impairment test for intangible assets, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value is less than its carrying amount, then we perform the impairment test upon intangible assets. The impairment test involves a two-step process. The first step involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company generally determines the fair value of its reporting units using the income approach methodology of valuation. If the carrying value of a reporting unit exceeds the reporting unit's fair value, j2 Global performs the second step of the test to determine the amount of impairment loss. The second step involves measuring the impairment by comparing the implied fair values of the affected reporting unit's goodwill and intangible assets with the respective carrying values. j2 Global completed the required impairment review at the end of 2013, 2012 and 2011 and concluded that there were no impairments. Consequently, no impairment charges were recorded.

*(n) Income Taxes*

j2 Global's income is subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. j2 Global establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. j2 Global adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

j2 Global accounts for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. The valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, j2 Global reviews historical and future expected operating results and other factors, including its recent cumulative earnings experience, expectations of future taxable income by taxing jurisdiction and the carryforward periods available for tax reporting purposes, to determine whether it is more likely than not that deferred tax assets are realizable.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax benefit is required to meet before it can be recognized in the financial statements and applies to all income tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. j2 Global recognized accrued interest and penalties related to uncertain income tax positions in income tax expense on its consolidated statement of income.

*(o) Share-Based Compensation*

j2 Global accounts for share-based awards in accordance with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation ("ASC 718"). Accordingly, j2 Global measures share-based compensation expense at the grant date, based on the fair value of the award, and recognizes the expense over the employee's requisite service period using the straight-line method. The measurement of share-based compensation expense is based on several criteria, including but not limited to the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining share-based compensation expense and the actual factors, which become known over time, j2 Global may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact the Company's results of operations in the period in which the changes are made and in periods thereafter. Beginning in the first quarter 2012, the Company estimates the expected term based upon the historical exercise behavior of our employees. Previously, the Company elected to use the simplified method for estimating the expected term. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option.

j2 Global accounts for option grants to non-employees in accordance with FASB ASC Topic No. 505, Equity, whereby the fair value of such options is determined using the Black-Scholes option pricing model at the earlier of the date at which the non-employee's performance is complete or a performance commitment is reached.

*(p) Earnings Per Common Share*

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

Basic EPS is calculated by dividing net distributed and undistributed earnings allocated to common shareholders, excluding participating securities and the net income attributable to noncontrolling interest, by the weighted-average number of common shares outstanding. The Company's participating securities consist of its unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method.

*(q) Research, Development and Engineering*

Research, development and engineering costs are expensed as incurred. Costs for software development incurred subsequent to establishing technological feasibility, in the form of a working model, are capitalized and amortized over their estimated useful lives. To date, software development costs incurred after technological feasibility has been established have not been material.

*(r) Segment Reporting*

FASB ASC Topic No. 280, Segment Reporting ("ASC 280"), establishes standards for the way that public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers. As a result of the acquisition of Ziff Davis, Inc. as described in Note 3 - Business Acquisitions, the Company operates as two segments: (1) Business Cloud Services and (2) Digital Media.

*(s) Advertising Costs*

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2013, 2012 and 2011 was \$55.4 million, \$48.1 million and \$45.4 million, respectively.

(t) *Sales Taxes*

The Company may collect sales taxes from certain customers which are remitted to governmental authorities as required and are excluded from revenues.

(u) *Recent Accounting Pronouncements*

In July 2012, the FASB issued ASU No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, which simplifies how entities test indefinite-lived intangible assets other than goodwill for impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The Company adopted this guidance and did not have a significant impact on the Company's consolidated financial position or results of operations.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU is effective for fiscal years beginning after December 15, 2013. The Company is currently assessing the impact, if any, from this update with the principal potential impact expected to be related to the presentation of unrecognized tax benefits on the condensed consolidated balance sheet.

*Reclassifications*

Certain prior year reported amounts have been reclassified to conform with the 2013 presentation.

**3. Business Acquisitions**

The Company acquired the following companies during fiscal 2013, in each case for cash: (a) IGN Entertainment, Inc. ("IGN"), an online publisher of video games, entertainment and men's lifestyle content; (b) MetroFAX, Inc., a provider of online faxing services and advanced features; (c) Backup Connect BV, an online backup provider based in the Netherlands; (d) NetShelter, the largest community of technology publishers dedicated to consumer electronics, computing and mobile communications; (e) Email Protection Agency Limited, a UK-based provider of email security, email management and network security services; (f) TechBargains.com, the leading deal aggregation website for electronic products; and (g) other immaterial share and asset acquisitions in the Business Cloud Services segment.

The consolidated statement of income, since the date of each acquisition, and balance sheet, as of December 31, 2013, reflect the results of operations of all 2013 acquisitions. For the year ended December 31, 2013, these acquisitions contributed \$98.1 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global's integration activities. Total consideration for these transactions was \$163.5 million, net of cash acquired and including \$15.7 million in assumed liabilities consisting primarily of deferred revenues, trade accounts payable, other accrued liabilities and net deferred tax liabilities.

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

<b>Asset</b>	<b>Valuation</b>	
Accounts Receivable	\$	24,658
Property and Equipment		3,274
Other Assets		2,703
Deferred Tax Asset		2,058
Software		3,031
Content		2,460
Trade Name		18,581
Customer Relationship		40,275
Advertiser Relationship		11,770
Other Intangibles		168
Goodwill		54,472
Total	\$	<u>163,450</u>

The initial accounting for these acquisitions is incomplete and subject to change, which may be significant. j2 Global has recorded provisional amounts for certain property and equipment, intangible assets (including trade names and software), preliminary working capital and related tax items with a corresponding net decrease to goodwill in the amount of \$2.0 million related to IGN. The Company also recorded an adjustment to initial working capital related to the acquisition of Ziff Davis, Inc., which increased assumed liabilities with a corresponding increase to goodwill in the amount of \$1.7 million. Actual amounts recorded upon finalization of the purchase accounting may differ materially from the information presented in this Annual Report on Form 10-K.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with these acquisitions during the year ended December 31, 2013 is \$54.5 million, of which \$36.6 million is expected to be deductible for income tax purposes.

#### *Pro Forma Financial Information for 2013 Acquisitions*

The following unaudited pro forma supplemental information is based on estimates and assumptions, which j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and the acquired businesses been combined companies during the periods presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1, 2012 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and its 2013 acquisitions as if each acquisition had occurred on January 1, 2012 (in thousands, except per share amounts):

	<b>Year ended</b>	
	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	(unaudited)	(unaudited)
Revenues	\$ 545,952	\$ 470,190
Net Income	\$ 108,600	\$ 122,187
EPS - Basic	\$ 2.34	\$ 2.64
EPS - Diluted	\$ 2.31	\$ 2.62

2012

*Ziff Davis*

The Company acquired substantially all of the outstanding capital stock of Ziff Davis on November 9, 2012 for a cash purchase price of approximately \$163.1 million , net of cash acquired and assumed liabilities of \$28.8 million and subject to certain post-closing adjustments.

The consolidated statement of income, since the date of the acquisition, and balance sheet as of December 31, 2012 reflect the results of operations of Ziff Davis. For the year ended December 31, 2012, Ziff Davis contributed \$9.7 million to the Company's revenues and \$1.6 million to its net income.

The following table summarizes the allocation of the purchase consideration (including the portion allocable to the minority interest) as follows (in thousands):

<b>Asset</b>	<b>Valuation</b>
Accounts Receivable	\$ 14,450
Property and Equipment	842
Software	4,780
Other Assets	1,283
Deferred Tax Asset	1,139
Trade Name	37,730
Customer Relationship	5,380
Advertiser Relationship	14,500
Licensing Relationship	4,910
Other Intangibles	2,540
Goodwill	112,882
Total	<u>\$ 200,436</u>

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with the acquisition of Ziff Davis during the year ended December 31, 2012 is 112.9 million , of which \$12.9 million is expected to be deductible for income tax purposes.

*Other 2012 Acquisitions*

The consolidated statement of income, since the date of the applicable acquisitions, and balance sheet as of December 31, 2012 reflect the results of operations of all six 2012 acquisitions, including Ziff Davis as noted above. For the year ended December 31, 2012, the five acquisitions other than Ziff Davis (the "other acquisitions") contributed \$16.9 million to the Company's revenues. Net income contributed by the other acquisitions was not separately identifiable due to j2 Global's integration activities. Total consideration for the other acquisitions was \$32.9 million , net of cash acquired. The financial impact to j2 Global for each of the other acquisitions, individually and in the aggregate, is immaterial as of the date of each acquisition.

*Pro Forma Financial Information for 2012 Acquisitions*

The following unaudited pro forma supplemental information is based on estimates and assumptions, which j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and the acquired businesses been combined companies during the period presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1 for the year ended December 31, 2011 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and its 2012 acquisitions as if each acquisition had occurred on January 1, 2011 (in thousands, except per share amounts):

	<b>Year ended</b>	
	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	(unaudited)	(unaudited)
Revenues	\$ 417,250	\$ 385,974
Net Income	\$ 120,210	\$ 114,889
EPS - Basic	\$ 2.60	\$ 2.47
EPS - Diluted	\$ 2.58	\$ 2.44

#### **2011**

In July 2011, the Company purchased for cash Data Haven Limited, an Ireland-based provider of online data backup services for businesses, and certain assets of the virtual PBX business of Buzz Networks Limited, a UK-based provider of voice services. In October 2011, the Company purchased for cash C Infinity, an Ireland-based provider of online data backup and hosting services for businesses. The financial impact to j2 Global for these transactions is immaterial as of the date of each acquisition. The consolidated statement of income, since the date of the applicable acquisition, and balance sheet as of December 31, 2011 reflect the results of operations of the acquisitions closed in 2011. Total consideration for these 2011 transactions was \$3.8 million, net of cash acquired.

#### **4. Investments**

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

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

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Due within 1 year	\$ 46,339	\$ 46,681
Due within more than 1 year but less than 5 years	44,865	17,209
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	2,486	2,633
Total	<u>\$ 93,690</u>	<u>\$ 66,523</u>

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

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
Trading	\$ —	\$ 3
Available-for-sale	123,737	90,017
Total	<u>\$ 123,737</u>	<u>\$ 90,020</u>

The following table summarizes the gross unrealized gains and losses and fair values for investments as of December 31, 2013 and December 31, 2012 aggregated by major security type (in thousands):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2013</b>				
Debt Securities	\$ 93,569	\$ 158	\$ (37)	\$ 93,690
Equity Securities	20,610	9,558	(121)	30,047
Total	<u>\$ 114,179</u>	<u>\$ 9,716</u>	<u>\$ (158)</u>	<u>\$ 123,737</u>
<b>December 31, 2012</b>				
Debt Securities	\$ 66,541	\$ 149	\$ (167)	\$ 66,523
Equity Securities	20,610	3,251	(367)	23,494
Total	<u>\$ 87,151</u>	<u>\$ 3,400</u>	<u>\$ (534)</u>	<u>\$ 90,017</u>

At December 31, 2013 and 2012, corporate and governmental debt securities were recorded as available-for-sale. These debt securities have a fixed interest rate. There have been no significant changes in the maturity dates and average interest rates for the Company's debt investment portfolio and debt obligations subsequent to December 31, 2013. At December 31, 2013, equity securities were recorded as available-for-sale and primarily represent a strategic investment in Carbonite, Inc. On August 31, 2012, j2 Global submitted a preliminary non-binding proposal to acquire all outstanding shares for cash consideration of \$10.50 per fully diluted share, representing a substantial premium to the market trading price of the shares on such date. At December 31, 2013, the Company's available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of stockholders' equity. Short-term investments include restricted balances which the Company may not liquidate until maturity, generally within 12 months. Restricted balances included in short-term investments were \$8.2 million at December 31, 2013. For the year ended December 31, 2013, the Company recorded gain from the sale of investments of approximately \$0.1 million. For the year ended December 31, 2012, the Company recorded gain from the sale of investments of approximately \$0.3 million, which included a reversal of unrealized gains from accumulated other comprehensive income of approximately \$0.1 million.

Investments that have been in an unrealized loss position as of December 31, 2013 and December 31, 2012 had a fair value of \$37.3 million and \$31.8 million, respectively, and have been in a continuous unrealized loss for less than 12 months. Investments in a continuous unrealized loss for 12 months and longer as of December 31, 2013 and December 31, 2012 had a fair value of \$2.0 million and \$2.2 million, respectively, which are determined to be temporary in nature.

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

j2 Global regularly reviews and evaluates each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost.

Regardless of the classification of the securities as available-for-sale or held-to-maturity, the Company has assessed each position for impairment.

Factors considered in determining whether a loss is temporary include:

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

j2 Global's review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;

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

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

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

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

## 5. Fair Value Measurements

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

- § Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- § Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.
- § Level 3 – Unobservable inputs which are supported by little or no market activity.

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

The Company measures its cash equivalents and investments at fair value. j2 Global's cash equivalents, short-term investments and other debt securities are primarily classified within Level 1. Cash equivalents and marketable securities are valued primarily using quoted market prices utilizing market observable inputs. The fair value of the senior unsecured notes (See Note 8 - Long-Term Debt) was determined using the quoted market prices of debt instruments with similar terms, credit rating and maturities, which are considered Level 2 inputs. The total carrying value of long-term debt was \$245.7 million and \$245.2 million, and the corresponding fair value was approximately \$283.3 million and \$275.5 million, at December 31, 2013 and December 31, 2012, respectively.

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

<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Cash equivalents:				
Money market and other funds	101,232	—	—	101,232
Time deposits	22,773	—	—	22,773
Certificates of Deposit	14,402	—	—	14,402
Equity securities	30,047	—	—	30,047
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	23,702	—	—	23,702
Debt securities issued by states of the United States and political subdivisions of the states	3,296	—	—	3,296
Debt securities issued by foreign governments	—	—	—	—
Corporate debt securities	66,692	—	—	66,692
Total	<u>\$ 262,144</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 262,144</u>
<b>December 31, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Cash equivalents:				
Money market and other funds	99,351	—	—	99,351
Time deposits	22,093	—	—	22,093
Certificates of Deposit	34,876	—	—	34,876
Equity securities	23,497	—	—	23,497
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	6,450	—	—	6,450
Debt securities issued by states of the United States and political subdivisions of the states	11,658	—	—	11,658
Debt securities issued by foreign governments	3,589	—	—	3,589
Corporate debt securities	44,826	—	—	44,826
Total	<u>\$ 246,340</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 246,340</u>

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

## 6. Property and Equipment

Property and equipment, stated at cost, at December 31, 2013 and 2012 consisted of the following (in thousands):

	<b>2013</b>	<b>2012</b>
Computers and related equipment	\$ 79,576	\$ 61,471
Furniture and equipment	1,405	1,300
Leasehold improvements	5,718	3,938
	<u>86,699</u>	<u>66,709</u>
Less: Accumulated depreciation and amortization	(55,499)	(47,110)
Total property and equipment, net	<u>\$ 31,200</u>	<u>\$ 19,599</u>

Depreciation and amortization expense was \$9.6 million , \$6.2 million and \$6.3 million for the year ended December 31, 2013 , 2012 and 2011 , respectively.

Total disposals of long-lived assets for the year ended December 31, 2013 , 2012 and 2011 was \$0.9 million , \$0.9 million and \$0.3 million , respectively.

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

The changes in carrying amounts of goodwill for the year ended December 31, 2013 and 2012 are as follows (in thousands):

Balance as of January 1, 2012	\$	279,016
Goodwill acquired		128,532
Foreign Exchange Translation		277
Balance as of December 31, 2012	\$	<u>407,825</u>
Goodwill acquired		54,472
Purchase Accounting Adjustments		(5,324)
Foreign exchange translation		449
Balance as of December 31, 2013	\$	<u><u>457,422</u></u>

See Note 3 - Business Acquisitions - for a discussion related to purchase accounting adjustments.

Intangible assets are summarized as of December 31, 2013 and 2012 as follows (in thousands):

### Intangible Assets with Indefinite Lives:

	<u>2013</u>	<u>2012</u>
Trade name	\$ 27,379	\$ 27,379
Other	5,432	5,433
Total	<u>\$ 32,811</u>	<u>\$ 32,812</u>

In accordance with ASC 350, the Company performed the annual impairment test for goodwill for fiscal year 2013 using a qualitative assessment primarily taking into consideration macroeconomic, industry and market conditions, overall financial performance and any other relevant company-specific events. The Company performed the annual impairment test for intangible assets with indefinite lives for fiscal 2013 using a quantitative assessment primarily taking into consideration a discounted cash flow analysis of the relief of royalty payments. j2 Global concluded that there were no impairments in 2013, 2012 and 2011. The Company determined that a certain trade name no longer had an indefinite life as of the second quarter 2012. Accordingly, the Company reclassified \$0.9 million from intangible assets with indefinite lives to intangible assets subject to amortization during fiscal year 2012. The Company has determined that this intangible asset had a remaining useful life of 1.5 years and is being amortized accordingly.

Intangible Assets Subject to Amortization:

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

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

As of December 31, 2012 , intangible assets subject to amortization relate primarily to the following (in thousands):

	<b>Weighted-Average Amortization Period</b>	<b>Historical Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trade names	17.7 years	\$ 50,257	\$ 6,227	\$ 44,030
Patent and patent licenses	8.2 years	44,048	24,719	19,329
Customer relationships	7.0 years	86,473	21,750	64,723
Other purchased intangibles	4.4 years	13,322	8,900	4,422
Total		<u>\$ 194,100</u>	<u>\$ 61,596</u>	<u>\$ 132,504</u>

Expected amortization expense for intangible assets subject to amortization at December 31, 2013 are as follows (in thousands):

Fiscal Year:	
2014	\$ 34,743
2015	30,186
2016	26,506
2017	23,023
2018	16,118
Thereafter	60,146
Total expected amortization expense	<u>\$ 190,722</u>

Amortization expense was \$30.2 million , \$16.0 million and \$13.4 million for the years ended December 31, 2013 , 2012 and 2011 , respectively.

## 8. Long-Term Debt

On July 26, 2012, j2 Global issued in a private offering exempt from the registration requirements of the Securities Act of 1933, as amended, \$250 million aggregate principal amount of 8.0% senior unsecured notes (the "Notes") due August 1, 2020. j2 Global received proceeds of \$245 million in cash, net of initial purchaser's discounts and commissions of \$5 million. As of December 31, 2013, the unamortized discount on long-term debt was approximately \$4.3 million. Other fees of approximately \$1.2 million were incurred in connection with the issuance of the Notes and recorded in long-term other assets. The net proceeds were available for general corporate purposes, including acquisitions. Interest is payable semi-annually on February 1 and August 1 of each year beginning on February 1, 2013. j2 Global has the option to call the Notes in whole or in part after August 1, 2016, subject to certain premiums as defined in the indenture governing the Notes plus accrued and unpaid interest. In addition, at any time before August 1, 2016, j2 Global may redeem the Notes in whole or in part at a "make-whole" redemption price specified in the indenture plus accrued and unpaid interest, if any, to (but not including) the redemption date. Also, j2 Global may redeem up to 35% of the aggregate principal amount of the Notes using proceeds from certain public offerings of its equity securities at a price equal to 108% of the principal amount plus accrued and unpaid interest, if any, prior to August 1, 2015. Upon a change in control, the holders may put the Notes at 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to the repurchase date. The Notes are not guaranteed by any of the j2 Global's subsidiaries as of December 31, 2013, because, as of such date, all of j2 Global's existing domestic restricted subsidiaries are deemed insignificant subsidiaries (as that term is defined in the indenture). If j2 Global or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an insignificant subsidiary, after the issue date, or any insignificant subsidiary ceases to fit within the definition of insignificant subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, j2 Global's obligations under the Notes.

The indenture to the Notes contain certain restrictive and other covenants applicable to j2 Global and subsidiaries designated as restricted subsidiaries including, but not limited to, limitations on debt and disqualified or preferred stock, restricted payments, liens, sale and leaseback transactions, dividends and other payment restrictions, asset sales and transactions with affiliates. As of December 31, 2013, j2 Global was in compliance with all such covenants. Violation of these covenants could result in a default which could result in the acceleration of outstanding amounts if such default is not cured or waived within the time periods outlined in the indenture agreement.

The amount recorded in long-term debt in the consolidated balance sheet for the Notes is equal to the aggregate principal amount of the Notes, net of initial purchaser's discounts. The estimated fair value of the Notes was \$283.3 million as of December 31, 2013 and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the Notes as of December 31, 2013.

Long-term debt as of December 31, 2013 consists of the following (in thousands):

Notes	\$	245,670
Total long-term debt	\$	245,670
Less: Current portion		—
Total long-term debt, less current portion	\$	245,670

At December 31, 2013, future principal payments for debt were as follows (in thousands):

Year Ended December 31,		
2014	\$	—
2015		—
2016		—
2017		—
2018		—
Thereafter		250,000
	\$	250,000

## 9. Mandatorily Redeemable Financial Instrument

On November 9, 2012, the Company acquired substantially all of the issued and outstanding capital stock of Ziff Davis, Inc. ("Ziff Davis"). In connection with the acquisition, the issued and outstanding capital stock was exchanged for shares of Series A Cumulative Participating Preferred Stock ("Series A Stock") of Ziff Davis. Ziff Davis is accounted for as a consolidated subsidiary as of the date of acquisition. Certain minority interest holders received an ownership in Series A Stock which has been accounted for as a non-controlling interest. On December 31, 2013, in connection with a reorganization of Ziff Davis, Inc. to Ziff Davis, LLC (the "Reorganization"), the Company acquired all of the minority interest holders' equity interests, including their Series A Stock.

The Series A Stock bore a 15% annual cumulative dividend, compounded quarterly, whether or not earned or declared and whether or not there are funds legally available for payment of dividends. The Series A Stock was subject to mandatory repayment or redemption on November 9, 2017, which Ziff Davis could repay or redeem the Series A at its option prior to the mandatory repayment or redemption date. The repayment amount represented \$1,000 for each share of Series A Stock and all accrued but unpaid dividends, subject to certain reduction when repaid. The redemption amount represented \$1,000 for each share of Series A Stock and all accrued but unpaid dividends plus the fair market value of a notional number of shares of Ziff Davis common stock on a basis of 485 5/7 common shares per share of Series A Stock.

The Series A Stock met the definition of a mandatorily redeemable financial instrument which requires liability classification and remeasurement at each reporting period on the consolidated subsidiaries financial statements. As the fair value of the Series A Stock was less than the mandatory redemption amount at issuance, periodic accretions using the interest method were made so that the carrying amount equaled the redemption amount on the mandatory redemption date.

In connection with Reorganization, the Company issued to the minority holders shares of j2 common stock, j2 Series A Preferred Stock and j2 Series B Preferred Stock equal to the fair market value of the minority holders' Series A Stock (see Note 12 - Stockholders' Equity). As a result of the Reorganization, the Series A Stock was extinguished, resulting in loss on extinguishment of debt and related interest expense of \$14.4 million within the consolidated statement of income, in accordance with ASC 480, *Distinguishing Liabilities from Equity*.

## 10. Commitments and Contingencies

### *Litigation*

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

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

On August 5, 2011, j2 Global and one of its affiliates filed suit in the United States District Court for the Central District of California (the "Central District of California") against Nextiva, alleging infringement of U.S. Patents Nos. 6,208,638 (the "'638 Patent"), 6,350,066 (the "'066 Patent") and 7,020,132 (the "'132 Patent"). On July 23, 2013, j2 Global filed an amended complaint, adding a claim for infringement of U.S. Patent No. 6,020,980 (the "'980 Patent"). On November 15, 2013, Nextiva filed its second amended answer and counterclaims for non-infringement and invalidity of the '638, '066, '132 and '980 Patents; unenforceability of the '980 Patent; unfair competition in violation of California's Business & Professions Code § 17200, *et. seq.*; and prohibited restraints on competition and unfair practices in violation of California's Business & Professions Code §§ 16720, *et. seq.* and 17000, *et. seq.* On December 6, 2013, j2 Global and its affiliate moved to dismiss Nextiva's counterclaims for prohibited restraints on competition and unfair practices. On February 7, 2014, this action was dismissed pursuant to a settlement agreement.

On September 23, 2011, j2 Global and one of its affiliates filed suit against Vitelity in the Central District of California, alleging infringement of the '638 and '066 Patents. On June 15, 2012, Vitelity filed counterclaims for invalidity and non-infringement of the '638 and '066 Patents. On September 13, 2013, the Court entered its Claim Construction Order. Discovery is ongoing. The fact discovery cutoff is currently set for February 28, 2014 and trial is set for October 14, 2014.

On February 21, 2012, EC Data filed a complaint against j2 Global and one of its affiliates in the United District Court for the District of Colorado, seeking declaratory judgment of non-infringement of the '638 and '066 Patents. On April 9, 2012, j2 Global filed an answer to the complaint and counterclaims asserting that EC Data infringes these and other patents. On October 25, 2013, EC Data filed an amended complaint asserting claims for declaratory judgments of non-infringement and invalidity of the '638, '132, and '066 Patents, and U.S. Patent No. 6,597,688 (the "'688 Patent"). On August 29, 2012, the Court granted j2 Global's motion to transfer the case to the Central District of California. On September 13, 2013, the Court entered its Claim Construction Order. Discovery is ongoing. The fact discovery cutoff is currently set for February 28, 2014 and trial is set for November 18, 2014. On May 31, 2012, EC Data submitted a request to the United States Patent and Trademark Office ("USPTO") to submit the '132 Patent into *inter-partes* reexamination proceedings. On April 25, 2013, the USPTO issued an Action Closing Prosecution and on July 26, 2013 a second Action Closing Prosecution. On November 27, 2013, j2 filed a Notice of Appeal. On January 27, 2014, j2 filed its brief in support of its appeal with the Patent Trial and Appeal Board.

On June 28, 2013, j2 Global filed suit against EC Data in the Central District of California, alleging infringement of the '980 Patent. On October 4, 2013, EC Data filed its amended answer and counterclaims for non-infringement and invalidity of the '980 Patent.

On October 16, 2013, one of j2 Global's affiliates entered its appearance as a plaintiff in a multi-district litigation proceeding entitled *In re: Unified Messaging Solutions LLC and Advanced Messaging Technologies, Inc. Patent Litigation* (N.D. Ill. Master Docket No. 12 C 6286). In that litigation, a company with certain rights to assert patents owned by the j2 Global affiliate has asserted those patents against a number of defendants, and those defendants have filed counterclaims for, *inter alia*, non-infringement, unenforceability, and invalidity of U.S. Patent Nos. 6,857,074; 7,836,141; 7,895,306; 7,895,313 and 7,934,148.

On August 28, 2013, Phyllis A. Huster ("Huster") filed suit in the United States District Court for the Northern District of Illinois against Unified Messaging Solutions, LLC, Acacia Patent Acquisition LLC ("Acacia"), Charles R. Bobo, II ("Bobo"), j2 Global, and one of j2 Global's affiliates for correction of inventorship of the '066 Patent and U.S. Patents Nos. 5,675,507; 5,870,549; 6,564,321; 6,857,074; 7,895,306; 7,836,141; 7,895,313 and 7,934,148. Huster seeks a declaration that she was the inventor of the patents at issue, an order directing the USPTO to substitute or add Huster as inventor of the patents at issue, an order that the defendants pay to Huster at least half of all earnings from licensing and sales of rights in the patents at issue, and costs and attorneys' fees. On October 28, 2013, j2 Global, the j2 Global affiliate, and the other defendants in the case filed a motion to dismiss Huster's action on the basis of improper venue and on the basis that Huster's action is barred by laches. The defendants also filed a motion to strike certain portions of Huster's prayer for relief. On the same day, j2 Global filed a motion to dismiss on the basis that it is not a proper party to Huster's action; Bobo filed a motion to dismiss for lack of personal jurisdiction; and Acacia filed a motion to dismiss on the basis of lack of subject matter jurisdiction. Those motions remain pending.

On September 15, 2006, one of j2 Global's affiliates filed a patent infringement suit against IGC in the United States District Court for the Northern District of Georgia (the "Northern District of Georgia"). On May 13, 2008, IGC filed counterclaims alleging violations of Section 2 of the Sherman Act and breach of contract. IGC is seeking damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, and attorneys' fees and costs. On February 18, 2009, the Court granted the j2 Global affiliate's motion to stay the case pending the conclusion of the j2 Global affiliate's appeal of a summary judgment ruling of non-infringement in another case involving the same patents and issues as this action. On January 22, 2010, the United States Court of Appeals for the Federal Circuit affirmed the non-infringement ruling in the other case and on June 7, 2010 the Court lifted the stay. On September 2, 2011, the Northern District of Georgia Court granted the j2 Global affiliate's motion to dismiss IGC's breach of contract counterclaim and one portion of IGC's antitrust counterclaim. On October 21, 2011, IGC filed a motion to strike certain of the affirmative defenses asserted by the j2 Global affiliate, which the Northern District of Georgia Court granted in part on July 26, 2012, striking certain of the affirmative defenses at issue. Following additional discovery, on June 20, 2012, the j2 Global affiliate filed a motion to dismiss its infringement claims and IGC's counterclaims for declaratory relief. On July 27, 2012, the Northern District of Georgia Court granted the j2 Global affiliate's motion to dismiss, dismissing the j2 Global affiliate's infringement claims and IGC's related declaratory judgment counterclaims. On June 28, 2013, the Court bifurcated discovery, with the first stage of discovery limited to the issue of whether the j2 Global affiliate's infringement claims were objectively baseless. The period for discovery into that issue ended on February 3, 2014. Also on February 3, 2014, IGC moved for leave to file amended counterclaims to assert a breach of contract claim. That motion remains pending.

On July 2, 2012, IGC filed suit against j2 Global and one of its affiliates in the United States District Court for the Northern District of California ("Northern District of California"), alleging that j2 Global - through filing suit in the Central District of California - breached a contract not to sue IGC. IGC seeks monetary damages, attorneys' fees, costs, injunctive relief and specific performance of the alleged covenant not to sue IGC. On August 24, 2012, j2 Global filed a motion to dismiss or alternatively to transfer the case to the Central District of California. The motion was heard on October 26, 2012; the Court denied the motion on

March 29, 2013. On April 12, 2013, j2 Global filed its answer and asserted counterclaims for infringement of the '638, '066, '688, and '132 Patents. On May 3, 2013, IGC asserted counterclaims seeking declaratory judgments of invalidity, unenforceability and non-infringement of the '638, '066, '688, and '132 Patents, implied license and exhaustion, punitive damages, attorneys' fees and costs. On June 28, 2013, the Court granted in part and denied in part j2 Global's motion to dismiss certain of IGC's counterclaims, dismissing the claims for declaratory judgment of exhaustion and punitive damages. Discovery is underway, and the Court has set a trial date of April 21, 2014 on the issue of interpretation of the contract that IGC alleges j2 Global breached. On January 31, 2014, j2 moved for summary judgment on IGC's breach of contract claim. That motion remains pending.

On June 27, 2013, j2 Global filed suit against IGC in the Northern District of California, alleging infringement of the '980 Patent. On August 29, 2013, IGC filed counterclaims for declarations of invalidity, unenforceability, and non-infringement of the '980 Patent; an implied license to the '980 Patent; and breach and specific enforcement of an alleged covenant not to sue IGC. On September 26, 2013, j2 moved to dismiss IGC's counterclaims for unenforceability and an implied license of the '980 Patent and for breach and specific performance of the contract not to sue. That motion remains pending. On October 18, 2013, the Court consolidated IGC's breach of contract counterclaim with the other case pending in the Northern District of California and stayed j2 Global's patent infringement claims pending resolution of the breach of contract claims.

On February 17, 2011, Emmanuel Pantelakis ("Pantelakis") filed suit against j2 Global Canada, Inc., carrying on business as Protus IP Solutions ("j2 Canada"), in the Ontario Superior Court of Justice, alleging that Protus breached a contract with Pantelakis in connection with Protus's e-mail marketing services. Pantelakis is seeking damages, attorneys' fees, interest, and costs. j2 Canada filed a responsive pleading on March 23, 2011. On July 16, 2012, j2 Canada filed its responses to undertakings. On July 24, 2012, Pantelakis moved for an order granting him leave to file a second amended statement of claim re-framing his lawsuit as a negligence action. On September 27, 2012, the Court granted in part Pantelakis's motion, permitting him to plead claims for negligence and breach of contract, but limited the scope of discovery, awarded j2 Canada its costs associated with its amended statement of defence and reserved a further award of costs for the trial court. On November 6, 2012, Pantelakis filed his second amended statement of claim. j2 Canada filed its amended statement of defence on April 8, 2013. A pre-trial was held on October 23, 2013, at which time the Court allowed additional discovery and set a new time table. Following the pre-trial, Pantelakis expressed a desire to bring a motion seeking to remove Ontario counsel for j2 Canada due to an alleged conflict of interest. The Court has ordered a timeline for the motion which will be argued on June 24, 2014. The proceedings are suspended pending determination of this motion.

On January 18, 2013, Paldo Sign and Display Company ("Paldo"), filed an amended complaint adding j2 Global, j2 Canada, and a former j2 Canada employee, Tyler Eyamie ("Eyamie"), as additional defendants in an existing purported class action pending in the United States District Court for the Northern District of Illinois. The amended complaint alleged violations of the Telephone Consumer Protection Act ("TCPA"), the Illinois Consumer Fraud and Deceptive Business Practices Act ("ICFA"), and common law conversion, arising from a customer's alleged use of the j2 Canada system to send unsolicited facsimile transmissions. On August 23, 2013, Paldo filed a second amended complaint to add a second plaintiff, Sabon, Inc. ("Sabon"). j2 Global and j2 Canada filed a motion to dismiss the ICFA and conversion claims, which was granted. Paldo and Sabon seek statutory damages, costs, attorneys' fees and injunctive relief for the remaining TCPA claims. Eyamie has filed a motion to dismiss for lack of personal jurisdiction, which motion is pending. Discovery will not commence until the Eyamie motion is resolved.

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

On December 16, 2013, Anthony Jenkins ("Jenkins") filed a purported class action against j2 Global, carrying on business as eFax, in the Central District of California. The complaint includes causes of action for breach of contract, state statutory violations, unjust enrichment and conversion. As the potential class representative, Jenkins is seeking damages, statutory damages, restitution, attorneys' fees, interest, costs and injunctive relief on behalf of himself and a purported nationwide class of persons allegedly similarly situated. j2 Global has yet to file a responsive pleading to the complaint.

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

to these legal proceedings because unfavorable outcomes are not considered by management to be probable or the amount of any losses reasonably estimable.

#### *Credit Agreement*

On January 5, 2009, the Company entered into a Credit Agreement with Union Bank, N.A. in order to further enhance its liquidity in the event of potential acquisitions or other corporate purposes (the "Credit Agreement"). The Credit Agreement was amended on August 16, 2010, July 13, 2012, November 9, 2012 and November 19, 2013. The July 13, 2012 amendment was entered into in connection with the issuance of senior unsecured notes as discussed in Note 8 - Long-Term Debt - and extended the Revolving Credit Commitment Termination Date (as defined in the Credit Agreement) to November 14, 2013. The November 9, 2012 amendment was entered into in connection with the acquisition of Ziff Davis, Inc. as discussed in Note 3 - Business Acquisitions. The November 19, 2013 amendment extended the revolving credit commitment termination date to November 14, 2016 and amended certain definitions and covenants. The Credit Agreement provides for a \$40.0 million revolving line of credit with a \$10.0 million letter of credit sublimit. The facility is unsecured (except to the limited extent described below) and has never been drawn upon. Revolving loans may be borrowed, repaid and re-borrowed until November 14, 2016, on which date all outstanding principal of, together with accrued interest on, any revolving loans will be due. j2 Global may prepay the loans and terminate the commitments at any time, with generally no premium or penalty.

Loans will bear interest at the election of j2 Global at either:

- LIBOR plus a margin depending on the current Leverage Ratio (as defined in the Credit Agreement) equal to a range of 1.5% to 2% for interest periods of 1, 2, 3 or 6 months (the "Fixed Interest Rate"); or
- the "Base Rate", defined as the highest of (i) the reference rate in effect as determined per the Credit Agreement, (ii) the federal funds rate in effect as determined per the Credit Agreement plus a margin equal to 0.5% , and (iii) the 1 month LIBOR rate plus 1.50% plus a margin depending on the current Leverage Ratio (as defined in the Credit Agreement) equal to a range of 0.5% to 1% .

The Company is also obligated to pay closing fees, letter of credit fees and commitment fees customary for a credit facility of this size and type.

Interest on the loan is payable quarterly or, if accruing at a Fixed Interest Rate, on the last day of the applicable interest rate period, or for interest rate periods longer than 3 months, at the end of each 3-month period in the applicable interest rate period.

Pursuant to the Credit Agreement, as amended, significant subsidiaries organized under the laws of any state in the U.S., excluding Ziff Davis and subsidiaries, are required to guaranty j2 Global's obligations under the Credit Agreement. "Significant Domestic Subsidiary" is defined as a domestic subsidiary (excluding any "Unrestricted Subsidiary" as defined in the Senior Notes Indenture) that has total assets in excess of 4% of the total consolidated assets of j2 Global and its "Restricted Subsidiaries" (as defined in the Senior Notes Indenture) as of the end of the most recent fiscal quarter or had EBITDA (on a stand-alone basis)(as defined in the Credit Agreement) that exceeds 4% of j2 Global and its "Restricted Subsidiaries" for four fiscal quarters then most recently ended; provided that no such domestic subsidiary (excluding any "Unrestricted Subsidiary" and any Subsidiaries of any such Unrestricted Subsidiary) shall fail to be designated as a significant domestic subsidiary if such subsidiary, together with all other such domestic subsidiaries (excluding any "Unrestricted Subsidiary" as defined in the Senior Notes Indenture and any Subsidiaries of any such Unrestricted Subsidiary) that are otherwise not deemed to be significant domestic subsidiaries would represent, in the aggregate (1) 8% or more of the total consolidated assets of j2 Global and its "Restricted Subsidiaries" at the end of the most recently ended fiscal year or (2) 8% or more of EBITDA of j2 Global and its Restricted Subsidiaries for the most recently ended four quarter period. "Significant Foreign Subsidiary" is defined as a subsidiary that either (1) had net income for the fiscal quarter then most recently ended in excess of 10% of EBITDA for such fiscal quarter or (2) had assets in excess of 10% of the total assets of j2 Global and its subsidiaries on a consolidated basis as at the end of the fiscal quarter then most recently ended. Also pursuant to the Credit Agreement, the Company entered into a Security Pledge Agreement whereby j2 Global granted to Lender a security interest in 65% of the issued stock of j2 Global Holdings Limited, a wholly owned Irish subsidiary of j2 Global. j2 Global will also be required to grant a security interest to Lender in 65% of the issued stock of any future non-U.S. based significant subsidiary.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict j2 Global's ability to, among other things, grant liens, dispose of assets, incur indebtedness, guaranty obligations, merge or consolidate, acquire another company, make loans or investments or repurchase stock, in each case subject to exceptions customary for a credit facility of this size and type.

The Credit Agreement also contains financial covenants that establish minimum EBITDA and Leverage Ratio.

The Credit Agreement includes customary events of default that include, among other things, payment defaults, inaccuracy of representations and warranties, covenant defaults, material bankruptcy and insolvency events, judgments and failure to comply with judgments, tax defaults, change of control and cross defaults, in each case subject to exceptions and/or thresholds customary for a credit facility of this size and type. The occurrence of an event of default could result in the acceleration of j2 Global's repayment obligations under the Credit Agreement.

#### *Leases*

j2 Global leases certain facilities and equipment under non-cancelable operating leases which expire at various dates through 2020. Future minimum lease payments at December 31, 2013 under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows (in thousands):

	<b>Operating Leases</b>
Fiscal Year:	
2014	\$ 6,674
	2015 6,167
	2016 5,692
	2017 3,838
	2018 3,344
Thereafter	2,550
Total minimum lease payments	<u>\$ 28,265</u>

Rental expense for the years ended December 31, 2013 , 2012 and 2011 was \$7.7 million , \$3.2 million and \$2.9 million , respectively.

#### *Non-Income Related Taxes*

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

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

The Company is currently under audit for indirect taxes in several states and municipalities. The Company currently has no reserves established for these matters, as the Company has determined that the liability is not probable and estimable. However, it is reasonably possible that such a liability could be incurred, which would result in additional expense, which could materially impact our financial results.

## 11. Income Taxes

The provision for income tax consisted of the following (in thousands):

	Years Ended December 31,		
	2013	2012	2011
Current:			
Federal	\$ 22,834	\$ 20,759	\$ 3,673
State	2,676	(289)	412
Foreign	9,415	11,639	11,443
Total current	<u>34,925</u>	<u>32,109</u>	<u>15,528</u>
Deferred:			
Federal	3,678	2,427	6,761
State	(235)	314	2,012
Foreign	(3,193)	(1,591)	(1,951)
Total deferred	<u>250</u>	<u>1,150</u>	<u>6,822</u>
Total provision	<u>\$ 35,175</u>	<u>\$ 33,259</u>	<u>\$ 22,350</u>

A reconciliation of the statutory federal income tax rate with j2 Global's effective income tax rate is as follows:

	Years Ended December 31,		
	2013	2012	2011
Statutory tax rate	35 %	35 %	35 %
State income taxes, net	0.3	0.5	0.9
Foreign rate differential	(17.9)	(17.4)	(16)
Reserve for uncertain tax positions	4.3	4.9	(5.7)
Valuation Allowance	1.9	3.2	(0.1)
IRC Section 199 deductions	(0.5)	(3.4)	—
Other	1.6	(1.3)	2.2
Effective tax rates	<u>24.7 %</u>	<u>21.5 %</u>	<u>16.3 %</u>

The Company's effective rate for each year is normally lower than the 35% U.S. federal statutory plus applicable state income tax rates primarily due to earnings of j2 Global's subsidiaries outside of the U.S. in jurisdictions where the effective tax rate is lower than in the U.S.

Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Deferred tax assets:		
Net operating loss carryforwards	9,596	2,890
Tax credit carryforwards	9,233	7,600
Accrued expenses	1,196	821
Allowance for bad debt	1,423	1,028
Share-based compensation expense	4,917	5,990
Basis difference in fixed assets	1,266	—
Impairment of investments	161	355
Gain on sale of intangible assets	123	137
Deferred revenue	812	270
State taxes	1,451	1,534
	<u>30,178</u>	<u>20,625</u>
Less: Valuation Allowance	<u>(8,493)</u>	<u>(5,918)</u>
Total deferred tax assets	<u>21,685</u>	<u>14,707</u>
Deferred tax liabilities:		
Basis difference in fixed assets	—	(84)
Basis difference in intangible assets	(47,711)	(38,864)
Prepaid insurance	(369)	(224)
Other	(6,359)	(5,018)
Total deferred tax liabilities	<u>(54,439)</u>	<u>(44,190)</u>
Net deferred tax assets	<u>(32,754)</u>	<u>(29,483)</u>

The Company had approximately \$21.7 million and \$14.7 million in deferred tax assets as of December 31, 2013 and 2012, respectively, related primarily to tax credit carryforwards, net operating loss carryforwards and differences in share-based compensation between its financial statements and its tax returns. Based on the weight of available evidence, the Company assesses whether it is more likely than not that some portion or all of a deferred tax asset will not be realized. If necessary, j2 Global records a valuation allowance sufficient to reduce the deferred tax asset to the amount that is more likely that not to be realized. The deferred tax assets should be realized through future operating results and the reversal of temporary differences.

As of December 31, 2013, the Company had federal and state (California) net operating loss carryforwards (“NOLs”) of \$22.9 million and \$0.7 million, respectively, after considering substantial restrictions on the utilization of these NOLs due to “ownership changes” as defined in the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). j2 Global current estimates that all of the above-mentioned federal and a portion of the state NOLs will be available for use before their expiration. However, the Company expects a substantial portion of the state NOL to not be utilizable and thus recorded a valuation allowance against it as of December 31, 2013. These NOLs expire through the year 2028 for the federal and 2030 for the state. In addition, as of December 31, 2013 and 2012, the Company had state research and development tax credits of \$0.9 million and \$0.4 million, respectively, which last indefinitely. In addition, as of December 31, 2013, the Company had state enterprise zone tax credits of \$0.5 million, which last indefinitely.

Certain tax payments are prepaid during the year and included within prepaid expenses and other current assets on the consolidated balance sheet. The Company's prepaid tax payments were \$11.3 million and \$9.0 million at December 31, 2013 and 2012, respectively.

### Uncertain Income Tax Positions

j2 Global accrues liabilities for uncertain income tax positions in accordance with the requirements of ASC 740. During 2013, j2 Global recognized a net increase of \$7.1 million in liabilities related to positions taken during 2013. The Company also had a net decrease of \$(1.6) million related to the reversal of positions taken in prior years. Accordingly, the Company had \$43.9 million in liabilities for uncertain income tax positions at December 31, 2013. Included in this liability amount were \$3.0 million accrued for related interest, net of federal income tax benefits and penalties recorded in income tax expense on j2 Global's consolidated statement of income.

A reconciliation of the Company's unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

Balance at January 1, 2013	\$	35,421
Decreases related to positions taken during a prior period		(1,646)
Increases related to positions taken in the current period		7,113
Balance at December 31, 2013	\$	<u>40,888</u>

Uncertain income tax positions are reasonably possible to significantly change during the next 12 months as a result of completion of income tax audits and expiration of statutes of limitations. At this point it is not possible to provide an estimate of the amount, if any, of significant changes in reserves for uncertain income tax positions as a result of the completion of income tax audits that are reasonably possible to occur in the next 12 months. In addition, the Company cannot currently estimate the amount of, if any, uncertain income tax positions which will be released in the next 12 months as a result of expiration of statutes of limitations due to ongoing audits. As a result of ongoing federal, state and foreign income tax audits (discussed below), it is reasonably possible that our entire reserve for uncertain income tax positions for the periods under audit will be released. It is also reasonably possible that the Company's reserves will be inadequate to cover the entire amount of any such income tax liability.

The Company has not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2013 because it intends to permanently reinvest such earnings outside the U.S. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability may be reduced by any foreign income taxes previously paid on these earnings and would generate foreign tax credits that would reduce the federal tax liability. As of December 31, 2013, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$389.5 million. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Income before income taxes included income from domestic operations of \$61.0 million, \$54.2 million and \$60.5 million for the year ended December 31, 2013, 2012 and 2011, respectively, and income from foreign operations of \$81.7 million, \$100.7 million and \$76.6 million for the year ended December 31, 2013, 2012 and 2011, respectively.

During 2013, 2012 and 2011, the Company recorded tax benefits of \$7.1 million, \$3.3 million and \$15.8 million from the exercise of non-qualifying stock options, restricted stock and disqualifying dispositions of incentive stock options as a reduction of j2 Global's income tax liability and an increase in equity, respectively.

#### Income Tax Audits:

j2 Global is currently under audit by the California Franchise Tax Board ("FTB") for tax years 2005 through 2007 and during the second quarter of 2013 were notified that the FTB will be auditing it for tax years 2009 through 2011. The FTB has also issued Information Document Requests regarding the 2004 and 2008 tax years, although no formal notice of audit for these years has been provided. During 2013, the Company was notified by the Illinois Department of Revenue that it will be audited for income tax for tax years 2008 and 2009. During 2013, the Company was notified by the New York City Department of Finance that it will be audited for income tax for tax years 2009 through 2011.

The Company is also under audit by the U.S. Internal Revenue Service ("IRS") for tax years 2009 and 2010 and during the second quarter of 2013 received notice that the IRS will be auditing it for tax year 2011. The Company has appealed the IRS tax examiner's decision regarding transfer pricing for tax years 2009 and 2010 with the IRS appeals office and the process remains on-going.

In addition, the Company is under income tax audit by the Canada Revenue Agency ("CRA") for tax years 2010 through 2011. During 2013, we were notified by the CRA that the income tax audit for tax years 2008 and 2009 has concluded with no changes and that tax year 2011 would be subject to an income tax audit. The Company is also under audit by the CRA for Goods and Services Tax for tax period beginning on October 1, 2008 and ending on September 30, 2012.

It is reasonably possible that these audits may conclude in the next 12 months and that the uncertain tax positions the Company has recorded in relation to these tax years may change compared to the liabilities recorded for these periods. If the recorded uncertain tax positions are inadequate to cover the associated tax liabilities, the Company would be required to record additional tax expense in the relevant period, which could be material. If the recorded uncertain tax positions are adequate to cover the associated tax liabilities, the Company would be required to record any excess as reduction in tax expense in the relevant period, which could be material. However, it is not currently possible to estimate the amount, if any, of such change.

## **12. Stockholders' Equity**

### *j2 Preferred Stock*

In connection with the December 31, 2013 reorganization of Ziff Davis, Inc. ("ZD Inc.") into Ziff Davis, LLC ("ZD LLC") and the Company's acquisition of all of the minority holders' equity interests in ZD Inc., the Company issued j2 Series A Preferred Stock ("j2 Series A Stock") and j2 Series B Preferred Stock ("j2 Series B Stock").

### *j2 Series A Stock*

Each share of j2 Series A Stock has a stated value of \$1,000 and the aggregate stated value of all shares of Series A Stock is \$5,064,000. The j2 Series A Stock is not convertible into any other securities. In the event ZD LLC pays any dividends or distributions to the Company in respect of the Company's membership interests in ZD LLC (subject to certain exceptions in respect of senior interests), holders of the j2 Series A Stock will be entitled to receive a dividend in the aggregate with respect to all j2 Series A Stock equal to 2.4449% of such ZD LLC dividend (but only to the extent such dividend and all other dividends paid in respect of the series A preferred stock does not exceed a compounded annual rate of 15% on the stated value of the j2 Series A Stock).

The j2 Series A Stock has a liquidation preference over the j2 Series B Stock and a liquidation preference over j2 common stock in an amount up to, with respect to all shares of j2 Series A Stock, 2.4449% of the assets of ZD LLC and its subsidiaries legally available for distribution to the Company, after reduction in respect of certain senior interests (the "series A minority portion"), but in no event in an amount that exceeds the stated value of the j2 Series A Stock increased at a compounded annual rate of 15% (the "series A cap") and in no event in an amount that exceeds the lesser of the Company's assets available for distribution and 2.4449% of the assets of ZD LLC and its subsidiaries legally available for distribution to the Company.

On or after January 2, 2019, the j2 Series A Stock will be mandatorily redeemable by the Company upon the occurrence of certain contingent liquidity events such as a sale, initial public offering or spin-off transactions involving ZD, LLC. Any or all of the j2 Series A Stock is subject to redemption by the Company at its option at any time. If the redemption occurs in connection with certain sale, initial public offering or spin-off transactions involving ZD LLC, the redemption price will be equal to an allocable portion of the enterprise value of ZD, LLC implied by such transaction with respect to the series A minority portion and based on certain factors to be determined by the Company's Board of Directors in its sole good faith judgment, but in no event in an amount that would exceed the series A cap. If not in connection with such a transaction, the redemption price will be the series A cap.

### *j2 Series B Stock*

The j2 Series B Stock is not convertible into any other securities. In the event ZD LLC pays any dividends or distributions to the Company in respect of the Company's membership interests in ZD LLC (subject to certain exceptions in respect of senior interests and the j2 Series A Stock), holders of the j2 series B preferred stock will be entitled to receive a dividend in the aggregate with respect to all j2 Series B Stock equal to 9.5579% of such ZD LLC dividend.

The j2 Series B Stock will have a liquidation preference junior to the liquidation preference of the j2 Series A Stock and a liquidation preference over the j2 common stock in an amount up to, with respect to all shares of j2 Series B Stock, 9.5579% of the assets of ZD LLC and its subsidiaries legally available for distribution to the Company, after reduction in respect of the j2 Series A Stock and certain other senior interests (the "series B minority portion"), but in no event in an amount that exceeds the lesser of the Company's assets available for distribution and 9.5579% of the assets of ZD LLC and its subsidiaries legally available for distribution to the Company.

On or after January 2, 2019, the j2 Series B Stock will be mandatorily redeemable by the Company upon the occurrence of certain contingent liquidity events such as a sale, initial public offering or spin-off transactions involving ZD LLC. Any or all of the j2 Series B Stock is subject to redemption by the Company at its option at any time. If the redemption occurs in connection

with certain sale, initial public offering or spin-off transactions involving ZD LLC, the redemption price will be equal to an allocable portion of the enterprise value of ZD LLC implied by such transaction with respect to the series B minority portion and based on certain factors to be determined by the Board of Directors of the Company in its sole good faith judgment. Otherwise, the redemption price will be equal to the fair market value of such share as determined by the Company's Board of Directors in its sole good faith judgment.

The terms of the j2 Series A Stock and j2 Series B Stock are more fully described in the Certificates of Designation establishing the terms of such securities which are included as Exhibits 3.1 and 3.2 to the Current Report on Form 8-K filed by the Company on January 3, 2014.

#### *Non-Controlling Interest*

Non-controlling interests represents equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to j2 Global (i.e., minority interests). Non-controlling interests includes the minority equity holders' proportionate share of the equity of Ziff Davis, Inc.

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

In connection with the December 31, 2013 reorganization of ZD, Inc. into ZD, LLC, the Company acquired all of the minority holders' equity interests in ZD, Inc. As a result, on December 31, 2013, ZD LLC became a wholly-owned subsidiary of j2 Global, Inc. and the non-controlling interest was no longer outstanding.

#### *Common Stock Repurchase Program*

In February 2012, the Company's Board of Directors approved a program authorizing the repurchase of up to five million shares of j2 Global common stock through February 20, 2013 (See Note 22 - Subsequent Events - for a discussion regarding the extension of the share repurchase program through February 20, 2015). On February 15, 2012, the Company entered into a Rule 10b5-1 trading plan with a broker to facilitate the repurchase program. At December 31, 2013, 2.1 million shares were repurchased at an aggregate cost of \$58.6 million (including an immaterial amount of commission fees).

Periodically, participants in j2 Global's stock plans surrender to the Company shares of j2 Global stock to pay the exercise price or to satisfy tax withholding obligations arising upon the exercise of stock options or the vesting of restricted stock. During the year ended December 31, 2013, the Company purchased 105,828 shares from plan participants for this purpose.

#### *Dividends*

The following is a summary of each dividend declared during fiscal year 2013:

<b>Declaration Date</b>	<b>Dividend per Common Share</b>	<b>Record Date</b>	<b>Payment Date</b>
February 12, 2013	\$ 0.2325	February 25, 2013	March 4, 2013
May 7, 2013	\$ 0.24	May 20, 2013	June 4, 2013
August 7, 2013	\$ 0.2475	August 19, 2013	September 3, 2013
November 5, 2013	\$ 0.255	November 18, 2013	December 4, 2013

On February 11, 2014, the Company's Board of Directors approved a quarterly cash dividend of \$0.2625 per share of common stock payable on March 10, 2014 to all stockholders of record as of the close of business on February 24, 2014 (See Note 21 - Subsequent Events). Future dividends will be subject to Board approval.

*Treasury Stock*

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

**13. Stock Options and Employee Stock Purchase Plan**

j2 Global's share-based compensation plans include the Second Amended and Restated 1997 Stock Option Plan, 2007 Stock Plan and 2001 Employee Stock Purchase Plan (each is described below).

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

In November 1997, j2 Global's Board of Directors adopted the j2 Global Communications, Inc. 1997 Stock Option Plan, which was twice amended and restated (the "1997 Plan"). The 1997 Plan terminated in 2007, although stock options and restricted stock issued under the 1997 Plan continue to be governed by it. A total of 12,000,000 shares of common stock were authorized to be used for 1997 Plan purposes. An additional 840,000 shares were authorized for issuance upon exercise of options granted outside the 1997 Plan.

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

At December 31, 2013, 2012 and 2011, options to purchase 845,198 , 1,132,365 and 1,155,335 shares of common stock were exercisable under and outside of the 2007 Plan and the 1997 Plan combined, at weighted average exercise prices of \$20.35 , \$21.94 and \$19.80 , respectively. Stock options generally expire after 10 years and vest over a 5 -year period.

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

Stock Options

Stock option activity for the years ended December 31, 2013, 2012 and 2011 is summarized as follows:

	<u>Number of Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Life (In Years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at December 31, 2010	3,794,394	\$ 14.40		
Granted	163,319	\$ 29.42		
Exercised	(1,820,678)	\$ 7.92		
Canceled	(49,340)	\$ 24.76		
Options outstanding at December 31, 2011	<u>2,087,695</u>	\$ 20.99		
Granted	67,000	\$ 27.26		
Exercised	(357,234)	\$ 15.81		
Canceled	(32,000)	\$ 31.34		
Options outstanding at December 31, 2012	<u>1,765,461</u>	\$ 22.08		
Granted	—	\$ —		
Exercised	(569,204)	\$ 23.90		
Canceled	(20,600)	\$ 21.79		
Options outstanding at December 31, 2013	<u>1,175,657</u>	\$ 21.21	4.0	\$33,858,816
Exercisable at December 31, 2013	<u>845,198</u>	\$ 20.35	3.1	\$25,068,917
Vested and expected to vest at December 31, 2013	<u>1,132,886</u>	\$ 21.01	3.9	\$32,856,049

The Company did not grant any options to purchase shares of common stock during the year ended December 31, 2013 .

The per share weighted-average grant-date fair values of options granted during the years 2012 and 2011 were \$7.92 and \$12.54 , respectively.

The total intrinsic values of options exercised during the years ended December 31, 2013 , 2012 and 2011 were \$11.9 million , \$4.5 million and \$41.4 million , respectively. The total fair value of options vested during the years ended December 31, 2013 , 2012 and 2011 was \$3.1 million , \$4.7 million and \$4.6 million , respectively.

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2013 , 2012 and 2011 was \$13.6 million , \$5.6 million and \$7.1 million , respectively. The actual tax benefit realized for the tax deductions from option exercises under the share-based payment arrangements totaled \$3.9 million , \$1.6 million and \$14.2 million , respectively, for the years ended December 31, 2013 , 2012 and 2011 .

At December 31, 2013 , the exercise prices of options granted under and outside the 2007 Plan and the 1997 Plan ranged from \$9.55 to \$34.73 , with a weighted-average remaining contractual life of 4.03 years .

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2013 :

Range of Exercise Prices	Options Outstanding			Exercisable Options	
	Number Outstanding December 31, 2013	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2013	Weighted Average Exercise Price
\$9.55	200,000	0.23 years	\$ 9.55	200,000	\$ 9.55
13.74 - 15.65	7,911	0.93 years	15.57	7,911	15.57
17.19	150,420	5.18 years	17.19	43,280	17.19
18.77	172,925	1.67 years	18.77	172,925	18.77
20.15 - 21.67	157,504	4.86 years	21.21	130,152	21.15
21.88 - 23.11	119,228	6.13 years	22.85	65,244	22.78
23.40 - 29.34	203,169	6.52 years	28.25	94,686	28.32
29.53 - 31.07	47,500	8.00 years	30.26	14,000	30.52
32.45	102,000	3.59 years	32.45	102,000	32.45
34.73	15,000	3.56 years	34.73	15,000	34.73
<b>\$9.55 - \$34.73</b>	<b>1,175,657</b>	<b>4.03 years</b>	<b>\$ 21.21</b>	<b>845,198</b>	<b>\$ 20.35</b>

At December 31, 2013 , there were 887,343 additional shares underlying options, shares of restricted stock and other share-based awards available for grant under the 2007 Plan, and no additional shares available for grant under or outside of the 1997 Plan.

As of December 31, 2013 , there was \$2.0 million of total unrecognized compensation expense related to nonvested share-based compensation awards granted under the 2007 Plan and the 1997 Plan. That expense is expected to be recognized ratably over a weighted average period of 1.44 years (i.e., the remaining requisite service period).

#### Fair Value Disclosure

j2 Global uses the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility is based on historical volatility of the Company's common stock. Beginning in the first quarter 2012, the Company estimates the expected term based upon the historical exercise behavior of our employees. Previously, the Company elected to use the simplified method for estimating the expected term. 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. Prior to the initial declaration of a cash dividend on August 1, 2011, the fair value of stock options, restricted stock and restricted stock units were measured based upon an expected dividend yield of 0.0% , as the Company did not historically pay cash dividends on its common stock. For awards granted on or subsequent to August 1, 2011, the Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 14.4% , 14.6% and 14.9% as of December 31, 2013 , 2012 and 2011 , respectively.

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

	Year Ended December 31,	
	2012	2011
Risk-free interest rate	1.1%	2.3%
Expected term (in years)	5.7	6.5
Dividend yield	3.2%	2.6%
Expected volatility	41.6%	41.8%

*Share-Based Compensation Expense*

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cost of revenues	\$ 756	\$ 844	\$ 982
Operating expenses:			
Sales and marketing	1,855	1,543	1,431
Research, development and engineering	434	459	477
General and administrative	6,675	6,286	6,103
	<u>\$ 9,720</u>	<u>\$ 9,132</u>	<u>\$ 8,993</u>

*Restricted Stock*

j2 Global has awarded restricted stock and restricted stock units to its Board of Directors and senior staff pursuant to the 1997 Plan and the 2007 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Beginning in fiscal year 2012 vesting periods are approximately one year for awards to members of the Company's Board of Directors and five years for senior staff. The Company granted 729,137, 390,210 and 130,212 shares of restricted stock and restricted units during the years ended December 31, 2013, 2012 and 2011, respectively, and recognized \$7.1 million, \$5.2 million and \$3.9 million, respectively of related compensation expense. As of December 31, 2013, the Company had unrecognized share-based compensation cost of \$20.2 million associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.0 years for awards and 3.6 years for units. The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2013, 2012 and 2011 was \$6.4 million, \$4.3 million and \$3.2 million, respectively. The actual tax benefit realized for the tax deductions from the vesting of restricted stock awards and units totaled \$1.4 million, \$0.3 million and \$0.3 million, respectively, for the years ended December 31, 2013, 2012 and 2011. In accordance with ASC 718, share-based compensation is recognized on dividends paid related to nonvested restricted stock not expected to vest, which amounted to approximately \$68,000 for the year ended December 31, 2013.

Restricted stock award activity for the year ended December 31, 2013 is set forth below:

	<b>Shares</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Nonvested at January 1, 2013	828,475	\$ 23.08
Granted	690,762	13.57
Vested	(296,966)	21.46
Canceled	(43,900)	24.46
Nonvested at December 31, 2013	<u>1,178,371</u>	<u>\$ 17.86</u>

Restricted stock unit activity for the year ended December 31, 2013 is set forth below:

	<b>Number of Shares</b>	<b>Weighted-Average Remaining Contractual Life (in Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2012	32,750		
Granted	91,166		
Vested	(1,700)		
Canceled	(6,750)		
Outstanding at December 31, 2012	<u>115,466</u>		
Granted	38,375		
Vested	(11,116)		
Canceled	(33,000)		
Outstanding at December 31, 2013	<u>109,725</u>	2.2	\$ 5,487,347
Vested and expected to vest at December 31, 2013	<u>74,509</u>	1.9	\$ 3,726,174

#### *Ziff Davis, Inc. Equity Incentive Plan*

In November 2012, Ziff Davis, Inc. ("ZD, Inc.") established the Ziff Davis, Inc. 2012 Equity Incentive Plan (the "Ziff Davis Plan"), providing incentives to selected directors, officers, employees and consultants. The Ziff Davis Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. The number of authorized shares of common stock that may be used for the Ziff Davis Plan purposes is 15,000,000. In addition, certain stockholders have put rights under certain circumstances in which the stockholder may elect to cause ZD, Inc. to purchase any or all of the shares of common stock (to the extent vested pursuant to the terms of the Ziff Davis Plan) and preferred stock owned by such stockholder. ZD, Inc. also has the option to call under certain circumstances the common stock issued pursuant to the Ziff Davis Plan (to the extent vested pursuant to the terms of the Ziff Davis Plan) and shares of preferred stock. Management has determined that the circumstances in which the put right held by the stockholder is exercisable are within the control of the Company. Accordingly, management determined that liability classification is not required.

ZD, Inc. granted 13,035,000 shares of restricted stock during the year ended December 31, 2012 to its senior staff pursuant to the Ziff Davis Plan, which shares vest evenly over a 5 year period. Based upon the terms of the Ziff Davis Series A Stock discussed in Note 9 - Mandatorily Redeemable Financial Instrument, the Company determined at the relevant grant date that the fair value of the ZD, Inc. restricted stock was zero. Accordingly, no compensation expense was recorded for the ZD, Inc. restricted stock for the year ended December 31, 2012.

In connection with the December 31, 2013 reorganization of ZD, Inc. into Ziff Davis, LLC, the Company acquired all of the minority holders' equity interests in ZD, Inc. As a result, on December 31, 2013, Ziff Davis LLC became a wholly-owned subsidiary of j2 Global, Inc. No further securities are issuable under the Ziff Davis Plan.

#### *Employee Stock Purchase Plan*

In May of 2001, j2 Global established the j2 Global, Inc. 2001 Employee Stock Purchase Plan, as amended (the "Purchase Plan"), which provides for the issuance of a maximum of 2,000,000 shares of common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of j2 Global's common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period. During 2013, 2012 and 2011, 5,402, 5,797 and 5,235 shares, respectively were purchased under the Purchase Plan at price ranging from \$52.23 to \$30.23 per share. As of December 31, 2013, 1,640,199 shares were available under the Purchase Plan for future issuance.

#### **14. Defined Contribution 401(k) Savings Plan**

j2 Global has two significant 401(k) Savings Plans covering the employees of j2 Global, Inc. and its consolidated subsidiary Ziff Davis, Inc. Eligible employees may contribute through payroll deductions. The Company may make annual contributions to the j2 Global 401(k) Savings Plan at the discretion of j2 Global's Board of Directors and employees within the Ziff Davis, Inc. 401(k) Savings Plan receive 50% of the first 4% of eligible compensation with a maximum of 2% of salary. For the years ended

December 31, 2013 and 2012, the Company accrued \$0.1 million and \$0.1 million, respectively, for contributions to the 401(k) Savings Plans.

## 15. Earnings Per Share

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

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Numerator for basic and diluted net income per common share:			
Net income attributable to j2 Global, Inc. common shareholders	\$ 107,522	\$ 121,580	\$ 114,766
Net income available to participating securities (a)	(2,105)	(2,075)	(1,932)
Net income available to j2 Global, Inc. common shareholders	<u>105,417</u>	<u>119,505</u>	<u>112,834</u>
Denominator:			
Weighted-average outstanding shares of common stock	45,548,767	45,459,712	45,799,615
Dilutive effect of:			
Dilutive effect of equity incentive plans	<u>591,252</u>	<u>321,946</u>	<u>585,233</u>
Common stock and common stock equivalents	<u>46,140,019</u>	<u>45,781,658</u>	<u>46,384,848</u>
Net income per share:			
Basic	<u>\$ 2.31</u>	<u>\$ 2.63</u>	<u>\$ 2.46</u>
Diluted	<u>\$ 2.28</u>	<u>\$ 2.61</u>	<u>\$ 2.43</u>

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

For the years ended December 31, 2013, 2012 and 2011, there were zero, 527,319 and 421,319 options outstanding, respectively, which were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common shares.

## 16. Segment Information

The Company's business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. j2 Global's reportable business segments are: (i) Business Cloud Services; and (ii) Digital Media. Segment accounting policies are the same as described in Note 2 - Basis of Presentation and Summary of Significant Policies.

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

	<b>Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenue by segment:			
Business Cloud Services	\$ 390,104	\$ 361,684	\$ 330,159
Digital Media	131,146	9,712	—
Elimination of inter-segment revenues	(449)	—	—
Total revenue	<u>520,801</u>	<u>371,396</u>	<u>330,159</u>
Direct costs by segment <sup>(1)</sup> :			
Business Cloud Services	191,169	174,324	165,833
Digital Media	<u>124,413</u>	<u>6,823</u>	<u>—</u>
Direct costs by segment <sup>(1)</sup> :	315,582	181,147	165,833
Business Cloud Services operating income	198,935	187,360	164,326
Digital Media operating income	6,733	2,889	—
Segment operating income	<u>205,668</u>	<u>190,249</u>	<u>164,326</u>
Global operating costs <sup>(2)</sup>	<u>30,245</u>	<u>28,087</u>	<u>28,376</u>
Income from operations	<u>\$ 175,423</u>	<u>\$ 162,162</u>	<u>\$ 135,950</u>

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

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

	<u>2013</u>	<u>2012</u>
Assets:		
Business Cloud Services	\$ 818,722	\$ 788,828
Digital Media	333,286	204,244
Total assets from reportable segments	<u>1,152,008</u>	<u>993,072</u>
Corporate	1,781	2,098
Total assets	<u>\$ 1,153,789</u>	<u>\$ 995,170</u>

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital expenditures:			
Business Cloud Services	10,979	4,240	6,320
Digital Media	6,635	380	—
Total from reportable segments	<u>\$ 17,614</u>	<u>\$ 4,620</u>	<u>\$ 6,320</u>
Corporate	1,012	441	524
Total capital expenditures	<u>\$ 18,626</u>	<u>\$ 5,061</u>	<u>\$ 6,844</u>

Depreciation and amortization:			
Business Cloud Services	24,148	20,473	19,342
Digital Media	14,963	1,167	—
Total from reportable segments	<u>\$ 39,111</u>	<u>\$ 21,640</u>	<u>\$ 19,342</u>
Corporate	677	512	415
Total depreciation and amortization	<u>\$ 39,788</u>	<u>\$ 22,152</u>	<u>\$ 19,757</u>

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

	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>			
United States	\$ 369,507	\$ 233,585	\$ 203,153
Canada	73,130	79,656	83,066
Ireland	41,398	41,248	42,652
All other countries	36,766	16,907	1,288
Total	<u>\$ 520,801</u>	<u>\$ 371,396</u>	<u>\$ 330,159</u>

	<u>December 31,</u>	<u>December 31,</u>
	<u>2013</u>	<u>2012</u>
<b>Long-lived assets:</b>		
United States	\$ 170,247	\$ 105,549
All other countries	51,675	46,554
Total	<u>\$ 221,922</u>	<u>\$ 152,103</u>

Revenues for the year ended December 31, 2011 reflect a first quarter 2011 change in estimate of the remaining service obligation to eFax® annual subscribers in the amount of \$10.3 million which reduced 2011 subscriber revenues predominately in the United States. See Note 2 – Basis of Presentation and Summary of Significant Accounting Policies - for further details.

## 17. Related Party Transactions

### (a) Lease and Expense Reimbursement

Until the fourth quarter of 2011, the Company leased its headquarters office from a company that was affiliated with the Company's Chairman of the Board. That company sold its interest in our headquarters to a third-party during the fourth quarter 2011. For fiscal years 2013, 2012 and 2011, j2 Global paid zero, zero and \$1.2 million, respectively, in rent to this company. j2 Global believes this lease was entered into at prevailing market rates, and that all expense reimbursements were based on actual amounts paid to third parties without markup or markdown.

## 18. Supplemental Cash Flows Information

Cash paid for interest during the years ended December 31, 2013, 2012 and 2011 was \$21.1 million, \$0.4 million and \$0.1 million, respectively, substantially all of which related to interest on outstanding debt, foreign taxes and interest on settled acquisition holdback.

Cash paid for income taxes net of refunds received was \$28.3 million, \$20.4 million and \$13.5 million during the years ended December 31, 2013, 2012 and 2011, respectively.

The Company acquired property and equipment for \$0.9 million, \$0.6 million and \$0.8 million during the years ended December 31, 2013, 2012 and 2011, respectively, which had not been yet paid at the end of each such year.

During the years ended December 31, 2013, 2012 and 2011, j2 Global recorded the tax benefit from the exercise of stock options and restricted stock as a reduction of its income tax liability of \$7.1 million, \$3.3 million and \$15.8 million, respectively.

Included in the purchase prices of the acquisitions closed during the years ended December 31, 2013, 2012 and 2011 were contingent holdbacks of \$7.0 million, \$2.5 million and \$1.0 million, respectively. These are recorded as current accrued expenses or other long-term liabilities with a maturity equal to the expected holdback release date.

In connection with the December 31, 2013 reorganization of Ziff Davis, Inc. into Ziff Davis, LLC, the Company acquired, in a non-cash transaction, all of the minority holders' equity interests in ZD, Inc., which included shares of Ziff Davis, Inc. Series A Preferred Stock and Ziff Davis, Inc. common stock. In this transaction, the Company issued the minority holders an aggregate fair market value of j2 common stock, j2 Series A Preferred Stock and j2 Series B Preferred Stock equal to the fair market value of the minority holders' shares in ZD, Inc. (see Note 12 - Stockholders' Equity). As a result of this reorganization, on December 31, 2013, the Ziff Davis Series A Preferred Stock and Ziff Davis common stock was extinguished, resulting in loss on extinguishment of debt and related interest expense of \$14.4 million within the consolidated statement of income, in accordance with ASC 480, *Distinguishing Liabilities from Equity*.

## 19. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the year ended December 31, 2013 (in thousands):

	<u>Unrealized Gains (Losses) on Investments</u>	<u>Foreign Currency Translation</u>	<u>Total</u>
Beginning balance	\$ 1,811	\$ (1,899)	\$ (88)
Other comprehensive income before reclassifications	4,236	(10)	4,226
Amounts reclassified from accumulated other comprehensive income	9	88	97
Net current period other comprehensive income	4,245	78	4,323
Ending balance	<u>\$ 6,056</u>	<u>\$ (1,821)</u>	<u>\$ 4,235</u>

The following table provides details about reclassifications out of accumulated other comprehensive income for the year ended December 31, 2013 (in thousands):

<u>Details about Accumulated Other Comprehensive Income Components</u>	<u>Amount Reclassified from Accumulated Other Comprehensive Income</u>	<u>Affected Line Item in the Statement of Income</u>
	<u>Year Ended December 31, 2013</u>	
Cumulative translation adjustment	\$ 116	Other expense (income), net
	116	Total, before income taxes
	(28)	Income tax expense (benefit)
	88	Total, net of tax
Unrealized gain (loss) on available-for-sale investments	14	Other expense (income), net
	14	Total, before income taxes
	(5)	Income tax expense (benefit)
	9	Total, net of tax
Total reclassifications for the period	<u>\$ 97</u>	Total, net of tax

## 20. Quarterly Results (unaudited)

The following tables contain selected unaudited statement of income information for each quarter of 2013 and 2012 (in thousands, except share and per share data). j2 Global believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Year Ended December 31, 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 138,035	\$ 127,788	\$ 141,361	\$ 113,617
Gross profit	115,857	105,987	118,682	93,382
Net income attributable to j2 Global, Inc. common shareholders	20,754	27,806	36,040	22,922
Net income per common share:				
Basic	\$ 0.45	\$ 0.60	\$ 0.78	\$ 0.50
Diluted	\$ 0.44	\$ 0.59	\$ 0.77	\$ 0.49
Weighted average shares outstanding				
Basic	45,867,769	45,729,171	45,428,230	45,160,140
Diluted	46,382,363	46,291,631	46,018,245	45,668,167

	Year Ended December 31, 2012			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	\$ 102,033	\$ 93,246	\$ 89,465	\$ 86,652
Gross profit	83,375	76,943	73,278	70,788
Net income attributable to j2 Global, Inc. common shareholders	30,203	31,650	31,188	28,539
Net income per common share:				
Basic	\$ 0.66	\$ 0.69	\$ 0.68	\$ 0.61
Diluted	\$ 0.65	\$ 0.69	\$ 0.67	\$ 0.60
Weighted average shares outstanding				
Basic	45,071,204	45,002,565	45,373,930	46,400,441
Diluted	45,423,502	45,340,111	45,569,564	46,794,603

## 21. Unrestricted Subsidiaries (unaudited)

As of December 31, 2013, the Company's Board of Directors had designated the following entities as "Unrestricted Subsidiary" under the indenture governing j2 Global's Notes:

Ziff Davis, LLC and subsidiaries.

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

The consolidated financial position of the Unrestricted Subsidiaries as of December 31, 2013 is as follows (in thousands):

	<b>December 31, 2013</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 16,506
Accounts receivable	47,804
Prepaid expenses and other current assets	3,090
Deferred income taxes	2,704
Total current assets	<u>70,104</u>
Property and equipment, net	13,358
Trade names, net	49,701
Customer relationships, net	53,169
Goodwill	140,740
Other purchased intangibles, net	3,208
Deferred income taxes	1,463
Other assets	1,543
<b>Total assets</b>	<u><u>\$ 333,286</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Accounts payable and accrued expenses	\$ 23,087
Income taxes payable	3,294
Deferred revenue	2,743
Deferred income taxes	679
Total current liabilities	<u>29,803</u>
Deferred income taxes	21,696
Total liabilities	<u>51,499</u>
Additional paid-in capital	297,390
Retained earnings	(15,366)
Accumulated other comprehensive loss	(237)
Total stockholders' equity	<u>281,787</u>
Total equity	<u>281,787</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>\$ 333,286</u></u>

The consolidated results of operations of the Unrestricted Subsidiaries for the year ended December 31, 2013 is as follows (in thousands):

	<b>Year Ended December 31, 2013</b>
Revenues	\$ 131,146
Cost of revenues	16,982
Gross profit	114,164
Operating expenses:	
Sales and marketing	64,923
Research, development and engineering	5,427
General and administrative	37,082
Total operating expenses	107,432
Income from operations	6,732
Other income (expenses):	
Interest expense (income), net	11,215
Other expense (income), net	12,229
Loss before income taxes	(16,712)
Income tax (benefit) expense	(265)
Net loss	(16,447)
Less net income attributable to noncontrolling interest	—
Net loss attributable to common stockholders	\$ (16,447)

## 22.. Subsequent Events

On February 10, 2014, in a cash transaction the Company acquired LiveDrive Holdings, Ltd., a UK-based provider of online backup with added file sync features for professionals and individuals.

On February 11, 2014, the Company's Board of Directors approved a quarterly cash dividend of \$0.2625 per share of common stock payable on March 10, 2014 to all stockholders of record as of the close of business on February 24, 2014.

On February 11, 2014, the Company's Board of Directors extended by one year the Company's share repurchase program set to expire February 20, 2014 to February 20, 2015.

**Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, j2 Global's management, with the participation of Nehemia Zucker, our principal executive officer, and Kathleen Griggs, our principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, Mr. Zucker and Ms. Griggs concluded that these disclosure controls and procedures were effective as of the end of the period covered in this Annual Report on Form 10-K.

(b) Management's Report on Internal Control Over Financial Reporting

j2 Global's management is responsible for establishing and maintaining adequate internal control over financial reporting for j2 Global. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) using the 1992 framework. Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on its assessment, management has concluded that j2 Global's internal control over financial reporting was effective as of December 31, 2013. Management's report on internal control over financial reporting was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission.

(c) Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited j2 Global, Inc. and subsidiaries' (collectively, the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. j2 Global, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, j2 Global, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and the financial schedule of j2 Global, Inc. and its subsidiaries, and our report dated February 28, 2014 expressed an unqualified opinion.

/s/ SingerLewak LLP  
Los Angeles, California  
February 28, 2014

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated by reference to the information to be set forth in our proxy statement (“2013 Proxy Statement”) for the 2014 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013 .

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference to the information to be set forth in our 2013 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference to the information to be set forth in our 2013 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference to the information to be set forth in our 2013 Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated by reference to the information to be set forth in our 2013 Proxy Statement.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) 1. Financial Statements.

The following financial statements are filed as a part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets  
Consolidated Statements of Income  
Consolidated Statements of Comprehensive Income  
Consolidated Statements of Stockholders' Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

2. Financial Statement Schedule

The following financial statement schedule is filed as part of this Annual Report on Form 10-K:

Schedule II-Valuation and Qualifying Accounts

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

### 3. Exhibits

The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference as indicated below (numbered in accordance with Item 601 of Regulation S-K). We shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

#### Exhibit No. Exhibit Title

- 2.1 Stock Purchase Agreement, dated as of February 1, 2013, by and among Ziff Davis, Inc., IGN Entertainment, Inc., Fox Interactive Media, Inc., Hearst Communications, Inc. and News America Incorporated (15)
- 3.1 Certificate of Incorporation, as amended and restated (1)
  - 3.1.1 Certificate of Designation of Series B Convertible Preferred Stock (2)
  - 3.1.2 Certificate of Amendment to Amended and Restated Certificate of Incorporation (3)
  - 3.1.3 Certificate of Amendment to Amended and Restated Certificate of Incorporation (6)
  - 3.1.4 Certificate of Amendment to Amended and Restated Certificate of Incorporation (6)
  - 3.1.5 Certificate of Amendment to Amended and Restated Certificate of Incorporation (8)
  - 3.1.6 Certificate of Ownership and Merger (12)
  - 3.1.7 Certificate of Designation of Series A Preferred Stock (17)
  - 3.1.8 Certificate of Designation of Series B Preferred Stock (17)
- 3.2 Amended and Restated By-laws (14)
- 4.1 Specimen of Common Stock Certificate (12)
- 4.2 Indenture dated as of July 26, 2012 (13)
- 4.3 Registration Rights Agreement (13)
  - 10.1 j2 Global, Inc. Second Amended and Restated 1997 Stock Option Plan (5)
    - 10.1.1 Amendment No. 1 to j2 Global, Inc. Second Amended and Restated 1997 Stock Option Plan (8)
    - 10.2 j2 Global, Inc. 2007 Stock Plan (9)
  - 10.3 Amended and Restated j2 Global, Inc. 2001 Employee Stock Purchase Plan (7)
  - 10.4 Letter Agreement dated April 1, 2001 between j2 Global, Inc. and Orchard Capital Corporation (4)
    - 10.4.1 Amendment dated December 31, 2001 to Letter Agreement dated April 1, 2001 between j2 Global, Inc. and Orchard Capital Corporation (6)
  - 10.5 Employment Agreement for Nehemia Zucker, dated March 21, 1997 (1)
  - 10.6 Registration Rights Agreement dated as of June 30, 1998 with the investors in the June and July 1998 placements (1)
  - 10.7 Registration Rights Agreement dated as of March 17, 1997 with Orchard/JFAX Investors, LLC, Boardrush LLC (Boardrush Media LLC), Jaye Muller, John F. Rieley, Nehemia Zucker and Anand Narasimhan (1)
- 10.8 Credit Agreement dated as of January 5, 2009 with Union Bank N.A (10)
  - 10.8.1 Amendment No. 1 dated August 16, 2010 to the Credit Agreement dated January 5, 2009 with Union Bank N.A. (11)
  - 10.8.2 Amendment No. 4 dated November 19, 2013 to the Credit Agreement dated January 5, 2009 with Union Bank N.A. (16)
- 21 List of subsidiaries of j2 Global, Inc.
- 23.1 Consent of Independent Registered Public Accounting Firm – SingerLewak LLP
- 31.1 Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to j2 Global's Registration Statement on Form S-1 filed with the Commission on April 16, 1999, Registration No. 333-76477.
- (2) Incorporated by reference to j2 Global's Annual Report on Form 10-K filed with the Commission on March 30, 2000.
- (3) Incorporated by reference to j2 Global's Registration Statement on Form S-3 with the Commission on December 29, 2000, Registration No. 333-52918.
- (4) Incorporated by reference to j2 Global's Annual Report on Form 10-K/A filed with the Commission on April 30, 2001.
- (5) Incorporated by reference to j2 Global's Amended Registration Statement on Form S-8 filed with the Commission on July 17, 2001, Registration No. 333-55402.
- (6) Incorporated by reference to j2 Global's Annual Report on Form 10-K filed with the Commission on April 1, 2002.
- (7) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on May 3, 2006.
- (8) Incorporated by reference to j2 Global's Quarterly Report on Form 10-Q filed with the Commission on March 12, 2007.
- (9) Incorporated by reference to j2 Global's proxy statement on Schedule 14A filed with the Commission on September 18, 2007.
- (10) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on January 9, 2009.
- (11) Incorporated by reference to j2 Global's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2010.
- (12) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on December 7, 2011.
- (13) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on July 27, 2012.
- (14) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on December 19, 2012.
- (15) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on February 7, 2013.
- (16) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on November 25, 2013.
- (17) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on January 3, 2014.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) 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, on February 28, 2014 .

**j2 Global, Inc.**

By: /s/ NEHEMIA ZUCKER  
Nehemia Zucker  
Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated, in each case on February 28, 2014 .

<b>Signature</b>	<b>Title</b>
<u>/s/ NEHEMIA ZUCKER</u> <b>Nehemia Zucker</b>	Chief Executive Officer (Principal Executive Officer)
<u>/s/ KATHLEEN M. GRIGGS</u> <b>Kathleen M. Griggs</b>	Chief Financial Officer (Principal Financial Officer)
<u>/s/ STEVE P. DUNN</u> <b>Steve P. Dunn</b>	Chief Accounting Officer
<u>/s/ RICHARD S. RESSLER</u> <b>Richard S. Ressler</b>	Chairman of the Board and a Director
<u>/s/ DOUGLAS Y. BECH</u> <b>Douglas Y. Bech</b>	Director
<u>/s/ ROBERT J. CRESCI</u> <b>Robert J. Cresci</b>	Director
<u>/s/ WILLIAM B. KRETZMER</u> <b>William B. Kretzmer</b>	Director
<u>/s/ STEPHEN ROSS</u> <b>Stephen Ross</b>	Director
<u>/s/ MICHAEL P. SCHULHOF</u> <b>Michael P. Schulhof</b>	Director

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**  
(In thousands)

<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Additions: Charged to Costs and Expenses</b>	<b>Deductions: Write-offs (1) and recoveries</b>	<b>Balance at End of Period</b>
Year Ended December 31, 2013:				
Allowance for doubtful accounts	3,213	3,134	(2,242)	4,105
Deferred tax asset valuation allowance	5,918	3,661	(1,086)	8,493
Year Ended December 31, 2012:				
Allowance for doubtful accounts	3,404	4,289	(4,480)	3,213
Deferred tax asset valuation allowance	515	5,536	(133)	5,918
Year Ended December 31, 2011:				
Allowance for doubtful accounts	2,588	6,900	(6,084)	3,404
Deferred tax asset valuation allowance	1,091	196	(772)	515

(1) Represents specific amounts written off that were considered to be uncollectible.

**List of Subsidiaries of  
j2 Global, Inc.**

<b>Name</b>	<b>State or Other Jurisdiction of Incorporation</b>
Electric Mail (Ireland) Limited	Ireland
j2 Global Holdings Limited	Ireland
j2 Global Ireland Limited	Ireland
j2 Global Canada, Inc.	Ontario, Canada
Ziff Davis, LLP	United States
IGN Entertainment, Inc.	United States

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement (No. 333-31064, 333-64986, 333-55402, 333-87504, 333-135340 and 333-149641) on Form S-8 of j2 Global, Inc. and subsidiaries of our reports dated February 28, 2014 , relating to our audits of the consolidated financial statements, the financial statement schedule and internal control over financial reporting, which appear in this Annual Report on Form 10-K of j2 Global, Inc. and subsidiaries for the year ended December 31, 2013 .

/s/ SingerLewak LLP

Los Angeles, California  
February 28, 2014

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nehemia Zucker, certify that:

1. I have reviewed this Annual Report on Form 10-K of j2 Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ NEHEMIA ZUCKER

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Nehemia Zucker  
Chief Executive Officer  
(Principal Executive Officer)

Dated: February 28, 2014

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathleen M. Griggs, certify that:

1. I have reviewed this Annual Report on Form 10-K of j2 Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KATHLEEN M. GRIGGS

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Kathleen M. Griggs

Dated: February 28, 2014

Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of j2 Global, Inc. (the "Company") for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Nehemia Zucker, as Chief Executive Officer (Principal Executive Officer) of the Company, and Kathleen M. Griggs, as Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, respectively, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2014

By: /s/ NEHEMIA ZUCKER  
Nehemia Zucker  
Chief Executive Officer  
(Principal Executive Officer)

Dated: February 28, 2014

By: /s/ KATHLEEN M. GRIGGS  
Kathleen M. Griggs  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to j2 Global, Inc. and will be retained by j2 Global, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.