

J2 GLOBAL, INC.
Form 10-K
March 01, 2013

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, 2012

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):

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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 \$657,029,680. 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, 2013, the registrant had 45,952,601 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 7, 2013 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 88.

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PART I

Item 1. Business

Overview

j2 Global, Inc., together with its subsidiaries (“j2 Global”, “our”, “us” or “we”), is a leading provider of services delivered through the Internet. We provide cloud services to businesses of all sizes, from individuals to enterprises. Through our portfolio of technology-focused web properties, we provide consumers with trusted product reviews and advertisers with an innovative data-driven platform to connect with targeted audiences.

We generate revenues primarily from subscription and usage fees for our business cloud services and selling targeted advertising through our web properties. We also generate revenues from intellectual property licensing and sales.

In addition to growing our business organically, we have used acquisitions to grow our customer base, expand and diversify our service offerings, enhance our technology and acquire skilled personnel. Since December 31, 2000, and including the one acquisition closed thus far in 2013, we have completed 41 acquisitions.

On November 9, 2012, we acquired Ziff Davis, Inc. (“Ziff Davis”), a company with extensive digital content holdings within the technology vertical. This acquisition expands our operations into the digital media market, an area we believe provides attractive acquisition opportunities. For additional information on our acquisitions, see Note 3 - Business Acquisitions - and Note 21 - Subsequent Events of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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. Our FuseMail® service provides our customers email, archival and perimeter protection solutions, while Campaigner® provides our customers enhanced email marketing solutions. KeepItSafe® enables our customers to securely backup their data and dispose of tape or other physical systems. Our CampaignerCRM® business 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, 2012, we had DIDs issued to approximately 2.1 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.

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.

Online Backup

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

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.

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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 and Toolbox.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 2012, Digital Media web properties attracted 345 million visits and 1.1 billion page views. With the acquisition of IGN Entertainment, Inc., the Digital Media business now attracts more than 53 million global monthly unique visitors.

We are seeking 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.

Our Digital Media properties and services include the following:

Web Properties

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 2,000 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 is a destination for the best deals and discounts on the web. LogicBuy.com curates up-to-the-minute deals and coupons on electronics, hardware, software and more.

The IGN Entertainment, Inc. web properties acquired in February 2013 include gaming site IGN.com and men's lifestyle site AskMen.com.

Display Advertising

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

Lead Generation

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. Three 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, Fusemail, KeepItSafe, Onebox and PCMag, 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”, “campaigner.com”, “fusemail.com”, “keepitsafe.com”, “landslip.com”, “onebox.com”, “pcmag.com”, “logicbuy.com”, “geek.com”, and “toolbox.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. Our February 2013 acquisition of IGN Entertainment, Inc. brings additional trademark and domain name rights.

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 \$18.6 million, \$16.4 million and \$12.8 million for the fiscal years ended December 31, 2012, 2011 and 2010, 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, 2012, we had approximately 680 employees, the majority of whom are in the U.S.

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

Web Availability of Reports

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

Item 1A. Risk Factors

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

Risks Related To Our Business

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 current weakness in the general economy. 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.

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

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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.

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 2008 tax year, although no formal notice of audit for 2008 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.

A substantial portion of our cash and investments are 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.

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.

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 requested 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, including efax.com and various international extensions, evoice.com, fax.com, onebox.com, pcmag.com, ign.com, askmen.com, toolbox.com and others. 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.

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.

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, 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 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.

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 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.

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

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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.

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 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 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 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.

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 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. 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 enter into new, or preserve existing, relationships with the third-parties whose content or services we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our third-party providers may increase the prices at which they offer their content and services to us and potential providers may not offer their content or services to us at all, or may offer them on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers could harm our operating results and financial

condition. Further, many of our content and services licenses with third parties are non-exclusive. Accordingly, other media providers may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate our properties from other businesses. If we are unable to develop compelling content of our own, we may be required to engage freelance services or obtain licensed content which may not be at reasonable prices which could harm our operating results.

We may be subject to legal liability associated with providing online services or content.

We host and provide a wide variety of services and technology products that enable product and service advertising and engagement in various online activities, both domestically and internationally. As a publisher of original content, we may be subject to claims such as libel, defamation or improper use of publicity rights, as well as infringement claims such as plagiarism. The law relating to the liability of online service providers for activities of their users is currently unsettled both within the U.S. and internationally. Claims have been threatened and brought against the Digital Media segment for defamation, negligence, breaches of contract, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, or other theories based on the nature and content of information which we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, the Digital Media segment have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates laws in domestic and international jurisdictions. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

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.

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

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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

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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. The FCC “open Internet” or “network neutrality” rules became effective on November 20, 2011. These rules generally prohibit broadband Internet access providers from blocking lawful content, applications, services or non-harmful devices, subject to reasonable network management, and prevent providers from unreasonably discriminating in the transmission of lawful traffic over a consumer's broadband Internet access service connection. A number of parties have appealed these rules to the U.S. Court of Appeals for the District of Columbia. We cannot predict whether these rules will withstand appeal in whole or in part, nor can we predict what impact such rules will have on our business at this time.

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.

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. 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.

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

As of February 25, 2013, 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, 2012, we were leasing approximately 40,000 square feet of office space for our headquarters in Los Angeles, California under a lease that expires on January 31, 2020. Additionally, we have smaller leased office facilities in Ontario, British Columbia, Quebec, California, New York, Florida, Illinois, Hong Kong, Japan and Ireland.

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

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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 ongoing litigation against several companies for infringing its patents relating to online fax, voice and other messaging technologies, including, but not limited to OpenText Corporation ("Open Text") and its subsidiary EasyLink Services International Corporation ("EasyLink") and RingCentral, Inc. ("RingCentral"). Three of the patents at issue in some of these lawsuits have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office (the "USPTO").

j2 Global's ongoing patent infringement cases involving U.S. Patent Nos. 6,208,638 (the "638 Patent"), 6,350,066 (the "066 Patent"), 6,597,688 (the "688 Patent"), and 7,020,132 (the "132 Patent") against OpenText and EasyLink are being litigated in the United States District Court for the Central District of California ("Central District of California") before the same judge. Discovery in the cases is continuing. In all three cases, the Company is seeking a permanent injunction against continued infringement, a finding of willfulness, compensatory and treble damages, attorneys' fees, interest and costs. Both defendants filed counterclaims against j2 Global, including seeking declaratory judgments of non-infringement and invalidity and unenforceability of the patents asserted. On March 4, 2011, the Court issued a Markman Order covering two of the patents asserted and on October 20, 2011, the Court issued a second Markman Order covering the two other patents asserted. In both Markman Orders, the Court adopted a claim construction either identical to or consistent with j2 Global's proposed construction for every disputed claim term in all four patents asserted. On October 11, 2012, EasyLink and OpenText filed requests for leave to amend their counterclaims to add counterclaims for tortious interference and unfair competition. j2 Global filed its opposition to the motion on October 29, 2012. The Court has not yet ruled on the motion. On December 19, 2012, the Court disqualified OpenText and EasyLink's lead counsel. As a result, the Court vacated all dates on calendar, including the trial date. A new trial date has not yet been set.

On September 14, 2012, j2 Global filed suit against OpenText and EasyLink in the Central District of California. The complaint alleges infringement of U.S. Patent No. 6,020,980 (the "980 Patent"). j2 Global is seeking a permanent injunction against continued infringement, compensatory damages and interest, and costs. On November 21, 2012, OpenText and Easylink filed amended counterclaims for declaratory judgments of non-infringement and invalidity of the '980 Patent, tortious interference with prospective business advantage and unfair competition in violation of California's Business & Professions Code § 17200 et. seq. In addition to declarations of non-infringement and invalidity, OpenText and EasyLink are seeking compensatory, exemplary and punitive damages; an injunction barring j2 Global from engaging in unfair competition and misrepresenting its patent rights; and attorneys' fees and costs. On January 11, 2013, j2 Global filed a motion to dismiss OpenText and EasyLink's tortious interference and unfair competition claims. That motion is currently pending. On September 14, 2012, j2 Global submitted a request to the USPTO to reexamine the '980 Patent; on November 19, 2012, the USPTO granted the reexamination request as to claims 1 and 13 of the '980 Patent. On January 31, 2013, the USPTO issued a non-final office action rejecting claims 1 and 13 of the '980 Patent.

On June 1, 2011, j2 Global and one of its affiliates filed suit against RingCentral in the Central District of California. The complaint alleges infringement of the '638, '066, and '132 Patents. j2 Global and its affiliate are seeking a permanent injunction against continued infringement, a finding of willfulness, compensatory and treble damages, attorneys' fees and interest and costs. On October 11, 2011, RingCentral filed an answer and counterclaims, alleging

infringement of U.S. Patent Number 7,702,669 (the “’669 Patent”) and unfair competition in violation of California's Business & Professions Code § 17200 et. seq. RingCentral seeks a declaratory judgment of non-infringement and invalidity of the '638, '066 and '132 Patents, and requests damages, injunctive relief, interest and attorneys' fees and costs for the alleged infringement of the '669 Patent. On December 8, 2011, j2 Global submitted a request to the USPTO to submit the '669 Patent into reexamination proceedings. On January 25, 2012, the USPTO accepted the reexamination request and rejected all claims of the '669 Patent. On March 13, 2012, the Court entered an order staying RingCentral's patent counterclaim pending conclusion of the reexamination proceedings. The Court also referred questions relating to RingCentral's unfair competition claim to the Federal Communications Commission (“FCC”) and stayed the unfair competition claim pending resolution by the FCC. On May 3, 2012, the USPTO issued an action closing the prosecution of the reexamination proceedings with all claims of the '669 Patent rejected. After further filings by RingCentral and j2 Global, on January 10, 2013, the USPTO issued another action closing prosecution. The Court has scheduled a Markman hearing on the '638, '066, and '132 Patents on April 12, 2013 and trial on January 21, 2014.

On February 21, 2012, EC Data Systems, Inc. (“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 2, 2012, j2 Global filed a motion to transfer the case to the Central District of California. On April 9, 2012, j2 Global filed an answer to the complaint and counterclaims asserting that EC Data infringes these patents as well as the '699 and '132 patents. On May 14, 2012, EC Data filed an answer to j2 Global's counterclaims and asserted counterclaims for declaratory judgments of non-infringement and invalidity of the '132 Patent and non-infringement of 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 May 31, 2012, EC Data submitted a request to the USPTO to submit the '132 Patent into inter-partes reexamination proceedings. On August 22, 2012, the USPTO granted EC Data's reexamination request and issued a non-final office action rejecting certain of the '132 Patent's claims; j2 Global filed its response on October 22, 2012. On November 19, 2012, EC Data filed its comments replying to j2 Global's response.

On September 15, 2006, one of j2 Global's affiliates filed a patent infringement suit against Integrated Global Concepts, Inc. ("IGC") in the United States District Court for the Northern District of Georgia ("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 j2 Global'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 Northern District of Georgia Court's 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 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 j2 Global, 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, j2 Global's 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 affiliate's infringement claims and IGC's related counterclaims. Discovery is ongoing.

On April 20, 2012, j2 Global and a different affiliate filed suit against IGC in the Central District of California. The complaint alleges infringement of the '638, '066, '688, and '132 Patents. j2 Global and its affiliate are seeking a permanent injunction against continued infringement, a finding of willfulness, compensatory and treble damages, attorneys' fees, interest and costs. On July 2, 2012, IGC filed a motion to dismiss the complaint or stay the action on the basis that the case is governed by a forum selection clause in a contract between a predecessor entity of j2 Global and IGC that allegedly mandates the United States District Court for the Northern District of California ("Northern District of California") as the venue. On July 9, 2012, j2 Global filed its opposition to IGC's motion to dismiss. On August 7, 2012, the Court granted in part IGC's motion to dismiss and stayed the case pending a ruling by the Northern District of California on j2 Global's motion to dismiss or transfer in IGC's lawsuit against j2 Global in the Northern District of California.

On July 2, 2012, IGC filed suit against j2 Global and one of its affiliates in the 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, fees and 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 took the motion under submission.

On March 7, 2011, Xpedite Systems, LLC, a subsidiary of Easylink ("Xpedite"), filed suit against j2 Global in the Northern District of Georgia, Atlanta Division. The complaint alleges infringement of U.S. Patent Numbers 5,872,640 (the "640 Patent") and 7,804,823 (the "823 Patent"). Xpedite is seeking a permanent injunction against continued infringement, damages, treble damages, an accounting of sales and profits, interest and costs. In July 2011, j2 Global submitted requests to put both patents at issue into reexamination proceedings. On September 8, 2011, the USPTO granted j2 Global's reexamination request with respect to the '823 Patent; then on September 9, 2011, the USPTO closed the prosecution and affirmed all of the patent's claims. On October 1, 2011, the USPTO granted the reexamination request with respect to the '640 Patent. On October 14, 2011, j2 Global filed a motion to stay the case

in chief while the '640 Patent reexamination proceeding is pending. The Court granted the motion to stay on December 21, 2011, staying the litigation until the final resolution of the reexamination proceedings. On February 7, 2012, the USPTO issued an Ex Parte Reexamination Certificate confirming all claims of the '640 Patent. On March 13, 2012, Xpedite filed a motion to lift the stay. On March 30, 2012, j2 Global filed a second ex parte reexamination request with respect to the '640 Patent and filed its opposition to the motion to lift the stay - which motion remains pending. On June 1, 2012, the USPTO issued an order granting j2 Global's second reexamination request. On August 16, 2012, the USPTO issued an office action in the reexamination of the '640 Patent rejecting most of the patent's claims and confirming the patentability of others. On September 14, 2012, j2 Global filed a further request for reexamination of the '640 Patent with the USPTO, seeking reexamination of the claims the patentability of which the USPTO had confirmed. On September 17, 2012, the owner of the '640 Patent filed its response to the USPTO's rejection of certain claims. On May 21, 2012, j2 Global filed an appeal with the Board of Patent Appeals and Interferences (BPAI) of the Examiner's decision to close the prosecution of the '823 Patent and affirm all of the claims. On June 21, 2012, the respondent's

brief was filed with the BPAI. On October 1, 2012, the USPTO filed its answer to j2 Global's appeal, which was a mere endorsement of the August 16, 2012 office action. On November 19, 2012, j2 Global filed a Request for Oral Hearing in the appeal of the inter-partes reexamination of the '823 Patent in front of the BPAI.

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 certain of 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.

	High	Low
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
Year ended December 31, 2011		
First Quarter	29.61	26.53
Second Quarter	29.54	26.88
Third Quarter	31.72	25.38
Fourth Quarter	30.94	25.32

Holders

We had 293 registered stockholders as of February 25, 2013. 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 2012:

Declaration Date	Dividend per Common Share	Record Date	Payment Date
February 14, 2012	\$0.21	February 27, 2012	March 12, 2012
May 2, 2012	\$0.215	May 16, 2012	May 30, 2012
July 31, 2012	\$0.22	August 13, 2012	August 29, 2012
October 31, 2012	\$0.225	November 12, 2012	November 26, 2012

On February 12, 2013, our Board of Directors approved a quarterly cash dividend of \$0.2325 per share of common stock payable on March 4, 2013 to all stockholders of record as of the close of business on February 25, 2013 (See Note 21 - 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, 2012.

Recent Sales of Unregistered Securities

j2 Global did not issue any unregistered securities during the fourth quarter of 2012.

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 21 - Subsequent Events - for discussion regarding the extension of the 2012 Program to February 20, 2014). During the year ended December 31, 2012, 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, 2012:

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, 2012 - October 31, 2012	419	\$29.90	—	2,873,920
November 1, 2012 - November 30, 2012	271	\$30.04	—	2,873,920
December 1, 2012 - December 31, 2012	—	\$—	—	2,873,920
Total	690		—	2,873,920

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2012 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	1,765,461	\$ 22.08	3,241,481

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Equity compensation plans not approved by security holders	—	—	—
Total	1,765,461	\$ 22.08	3,241,481

The number of securities remaining available for future issuance includes 1,595,880 and 1,645,601 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., Vocus, Inc. and Websense, Inc.

Measurement points are December 31, 2007 and the last trading day in each of j2 Global's fiscal quarters through the end of fiscal 2012. The graph assumes that \$100 was invested on December 31, 2007 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		NASDAQ	Peer
Date	j2 Global	Computer Index	Group Index
Dec-07	100.00	100.00	100.00
Mar-08	105.41	79.85	81.06
Jun-08	108.62	83.75	89.83
Sep-08	110.29	70.74	77.66
Dec-08	94.64	53.31	54.83
Mar-09	103.40	55.88	49.55
Jun-09	106.56	69.33	64.76
Sep-09	108.66	81.00	82.34
Dec-09	96.12	91.06	96.19
Mar-10	110.34	93.37	96.77
Jun-10	111.15	82.92	101.38
Sep-10	112.35	93.72	128.57
Dec-10	136.76	106.95	151.71
Mar-11	139.40	111.31	158.91
Jun-11	133.37	108.74	169.74
Sep-11	127.86	100.10	132.75
Dec-11	134.71	107.47	138.37
Mar-12	137.29	132.8	187.49
Jun-12	126.47	123.17	182.20
Sep-12	157.11	130.60	198.60
Dec-12	146.48	120.88	202.36

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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,				
	2012	2011	2010	2009	2008
	(In thousands, except for share and per share amounts)				
Statement of Income Data:					
Revenues	\$371,396	\$330,159	\$255,394	\$245,571	\$241,513
Cost of revenues	67,013	60,613	44,086	44,730	46,250
Gross profit	304,383	269,546	211,308	200,841	195,263
Operating expenses:					
Sales and marketing	62,825	59,066	46,332	37,006	41,270
Research, development and engineering	18,624	16,373	12,827	11,657	12,031
General and administrative	60,772	58,157	48,226	45,275	44,028
Loss on disposal of long-lived asset	—	—	—	2,442	—
Total operating expenses	142,221	133,596	107,385	96,380	97,329
Income from operations	162,162	135,950	103,923	104,461	97,934
Other income and expenses:					
Other-than-temporary impairment losses	—	—	—	(9,343)) —
Interest and other income	1,805	1,313	6,818	3,100	4,778
Interest and other expense	(9,045)) (147)) (104)) (439)) (559)
Total other income and expenses	(7,240)) 1,166	6,714	(6,682)) 4,219
Income before income taxes	154,922	137,116	110,637	97,779	102,153
Income tax expense	33,259	22,350	27,590	30,952	29,591
Net income	\$121,663	\$114,766	\$83,047	\$66,827	\$72,562
Less net income attributable to noncontrolling interest	83	—	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	\$121,580	\$114,766	\$83,047	\$66,827	\$72,562
Net income per common share:					
Basic	\$2.63	\$2.46	\$1.86	\$1.52	\$1.63
Diluted	\$2.61	\$2.43	\$1.81	\$1.48	\$1.58
Weighted average shares outstanding:					
Basic	45,459,712	45,799,615	44,578,036	43,936,194	44,609,174
Diluted	45,781,658	46,384,848	45,941,843	45,138,001	45,937,506
Cash dividends declared per common share	\$0.87	\$0.41	\$—	\$—	\$—

	December 31, 2012	2011	2010	2009	2008
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$218,680	\$139,359	\$ 64,752	\$ 197,411	\$ 150,780
Working capital	298,572	155,099	57,610	227,538	142,123
Total assets	995,170	651,171	532,623	414,001	322,040
Other long-term liabilities	3,166	2,342	3,302	2,094	1,022
Total stockholders' equity	594,595	554,375	431,745	336,172	249,980

See Note 3 - Business Acquisitions for discussion related to the acquisition of Protus on December 3, 2010 and 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 leading provider of services delivered through the Internet. We provide cloud services to businesses of all sizes, from individuals to enterprises. Through our portfolio of technology-focused web properties, we provide consumers with trusted product reviews and advertisers with an innovative data-driven platform to connect with targeted audiences.

We generate revenues primarily from subscription and usage fees for our business cloud services and selling targeted advertising through our web properties. We also generate revenues from intellectual property licensing and sales. In addition to growing our business organically, we have used acquisitions to grow our customer base, expand and diversify our service offerings, enhance our technology and acquire skilled personnel. Since December 31, 2000, and including the one acquisition closed thus far in 2013, we have completed 41 acquisitions.

On November 9, 2012, we acquired Ziff Davis, Inc. ("Ziff Davis"), a company with extensive digital content holdings within the technology vertical. This acquisition expands our operations into the digital media market, an area we believe provides attractive acquisition opportunities. For additional information on our acquisitions, see Note 3 - Business Acquisitions - and Note 21 - Subsequent Events of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

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, 2012, 2011 and 2010 (in thousands, except for percentages):

	December 31,		
	2012	2011	2010
Paying telephone numbers	2,094	2,003	1,905
	Year Ended December 31,		
	2012	2011 (1)	2010
Subscriber revenues:			
Fixed	\$286,720	\$266,575	\$205,476
Variable	65,798	61,378	47,016
Total subscriber revenues	\$352,518	\$327,953	\$252,492
Percentage of total subscriber revenues:			
Fixed	81.3	% 81.3	% 81.4
Variable	18.7	% 18.7	% 18.6
Subscriber revenues:			
DID-based	\$326,940	\$304,904	\$242,025
Non-DID-based	25,578	23,049	10,467
Total subscriber revenues	\$352,518	\$327,953	\$252,492

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

During 2012, Digital Media web properties attracted 345 million visits and 1.1 billion page views. With the acquisition of IGN Entertainment, Inc. on February 1, 2013 (See Note 21 - Subsequent Events), the Digital Media business now attracts more than 53 million global monthly unique visitors.

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 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 generally recognizes as revenue in the period the license agreement is executed the portion of the payment attributable to past use of the patented technology and amortize the remaining portion of such payments

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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 revenue generated from the sale of advertising campaigns that are targeted to our proprietary websites. Revenue for these advertising campaigns is recognized as earned either when an ad is placed for viewing by a visitor to the appropriate web page or when the customer "clicks through" on the ad, depending upon the terms with the individual advertiser.

Revenue for Digital Media business-to-business operations consists of lead-generation campaigns for IT vendors and is 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. Revenue under such license agreements is recognized when the assets are delivered to the client. The Digital Media business also generates other types of revenue, 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, 2012, 2011 and 2010, 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 2012, 2011 and 2010 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

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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 and other domestic and foreign tax authorities. We are currently under audit by the California FTB for tax years 2005 through 2007. The FTB has also issued Information Document Requests regarding the 2008 tax year, although no formal notice of audit for 2008 has been provided. We are also under income tax audits by the IRS for tax years 2009 and 2010 and by the Canada Revenue Agency ("CRA") for tax years 2008 through 2010. 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 federal, state and local taxing authorities for non-income related taxes, including the Canada Revenue Agency regarding an audit for Goods and Services Tax for tax years 2009 through 2011. 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.

The amounts recorded may differ from the actual income or expense that occurs when the uncertainty is resolved. 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. As of December 31, 2012, we had \$0.1 million of non-income tax related contingent liabilities.

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, 2012, 2011 and 2010

The following table sets forth, for the years ended December 31, 2012, 2011 and 2010, information derived from our statements of income as a percentage of revenues. This information should be read in conjunction with the accompanying financial statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,		
	2012	2011	2010
Revenues	100%	100%	100%
Cost of revenues	18	18	17
Gross profit	82	82	83
Operating expenses:			
Sales and marketing	17	18	18
Research, development and engineering	5	5	5
General and administrative	16	18	19
Total operating expenses	38	41	42
Income from operations	44	41	41
Interest and other income	—	1	3
Interest and other expense	(2)	—	—
Income before income taxes	42	42	44
Income tax expense	9	7	11
Net income	33%	35%	33%
Less net income attributable to noncontrolling interest	—	—	—
Net income attributable to j2 Global, Inc. common shareholders	33%	35%	33%

Revenues

(in thousands, except percentages)	2012	2011	2010	Percentage Change 2012 versus 2011	Percentage Change 2011 versus 2010
Revenues	\$371,396	\$330,159	\$255,394	12%	29%

We generate revenues from several sources within each of our operating segments. Business Cloud Services revenues primarily consist of 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. 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 an increase in our Business Cloud Services subscriber base. The increase in our subscriber base resulted from new subscribers due to business acquisitions and subscribers coming directly to our websites; corporate, enterprise and government sales; and free-to-paid subscriber upgrades, in each case net of cancellations.

Cost of Revenues

(in thousands, except percentages)	2012	2011	2010	Percentage Change 2012	Percentage Change 2011
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				versus 2011	versus 2010
Cost of revenue	\$67,013	\$60,613	\$44,086	11%	37%
As a percent of revenue	18%	18%	17%		

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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, 2012 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2011 that resulted in additional network operations, customer service and editorial and production costs, partially offset by reduced processing fees. The increase in cost of revenues from 2010 to 2011 was primarily due to an increase in costs associated with businesses acquired in and subsequent to 2010 that resulted in additional network operations and customer service costs.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)	2012	2011	2010	Percentage Change 2012 versus 2011	Percentage Change 2011 versus 2010
Sales and Marketing	\$62,825	\$59,066	\$46,332	6%	27%
As a percent of revenue	17%	18%	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, 2012, 2011 and 2010 was \$48.1 million, \$45.4 million and \$36.3 million, respectively. 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. The increase in sales and marketing expenses from 2010 to 2011 was primarily due to increased marketing worldwide for recently acquired brands and increased personnel associated with businesses acquired in and subsequent to 2010.

Research, Development and Engineering.

(in thousands, except percentages)	2012	2011	2010	Percentage Change 2012 versus 2011	Percentage Change 2011 versus 2010
Research, Development and Engineering	\$18,624	\$16,373	\$12,827	14%	28%
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 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. The increase in research, development and engineering costs from 2010 to 2011 was primarily due to an increase in personnel costs associated with businesses acquired in and subsequent to 2010, including associated integration work, and the development of new features and system enhancements.

General and Administrative.

(in thousands, except percentages)	2012	2011	2010	Percentage Change 2012 versus 2011	Percentage Change 2011 versus 2010
General and Administrative	\$60,772	\$58,157	\$48,226	4%	21%

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As a percent of revenue	16%	18%	19%
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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 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. The increase in general and administrative expense from 2010 to 2011 was primarily due to an increase in bad

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debt expense, amortization of intangible assets relating to acquisitions closed during 2010 and 2011, and an increase in personnel costs associated with businesses acquired in and subsequent to 2010, partially offset by a decrease in professional fees.

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, 2012, 2011 and 2010 (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Cost of revenues	\$844	\$982	\$1,217
Operating expenses:			
Sales and marketing	1,543	1,431	1,826
Research, development and engineering	459	477	815
General and administrative	6,286	6,103	7,079
Total	\$9,132	\$8,993	\$10,937

Non-Operating Income and Expenses

Interest and Other Income. Our interest and other income is generated primarily from interest earned on cash, cash equivalents and short-term and long-term investments, gain on sale of investments and gains from foreign currency transactions. Interest and other income was \$1.8 million, \$1.3 million, and \$6.8 million for the years ended December 31, 2012, 2011 and 2010, respectively. The increase in interest and other income from 2011 to 2012 was primarily due to additional interest income from higher cash and investment balances following our July 2012 debt issuance. The decrease in interest and other income from 2010 to 2011 was primarily due to an approximately \$4.4 million gain on sale of investments recognized in 2010 and reduced interest income in 2011 due to lower cash and investment balances following an acquisition in the fourth quarter of 2010.

Interest and Other Expense. Our interest and other expense was \$9.0 million, \$0.1 million, and \$0.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest and other expense in 2012 is primarily due to interest accrued on our July 2012 debt issuance.

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, 2012, the Company had federal and state (California) net operating loss carryforwards (“NOLs”) of \$5.9 million each, 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 estimates that all of the above-mentioned federal NOL will be available for use before its expiration. However, the Company does not expect the state NOL to be utilizable and thus recorded a full valuation allowance against it as of December 31, 2012. These NOLs expire through the year 2028 for the federal and 2017 for the state. In addition, as of December 31, 2012 and 2011, the Company had state research and development tax credits of \$0.4 million and \$0.2 million, which last indefinitely. As of December 31, 2012, the Company also had state enterprise zone tax credits of \$0.5 million, which

last indefinitely.

Income tax expense amounted to \$33.3 million, \$22.4 million and \$27.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our effective tax rates for 2012, 2011 and 2010 were 21.5%, 16.3% and 24.9%, respectively.

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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.

The decrease in our annual effective income tax rate from 2010 to 2011 was primarily attributable to the following:

1. a reversal during the first quarter 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;
 2. an increase during 2011 in foreign tax credits and our ability to offset such credits against Subpart F income;
 3. an increase during 2011 in the portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.; and
 4. a decrease during 2011 in state income taxes, net of the federal income tax benefits, partially offset by:
 5. a 2010 book but not tax gain on the sale of an impaired auction rate security, resulting in a significant portion of the valuation allowance being reversed;
 6. an increase during 2011 in return to provision adjustments; and
 7. a reversal in 2010 of certain income tax contingencies allowed to be recognized as a result of effectively settling the transfer pricing portion of the Internal Revenue Service's audit of our income tax returns for 2004 through 2008.
- 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. It is possible that these positions may be challenged, which may have a significant impact on our effective tax rate.

The amount of income tax we pay is subject to audit by federal, state and foreign tax authorities. 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. We believe that we have adequately provided for reasonably foreseeable outcomes related to these matters in accordance with ASC 740. We recorded a liability for unrecognized tax benefits of \$7.6 million in accordance with ASC 740 for the year ended December 31, 2012. We are currently under audit by the California ("FTB") for tax years 2005 through 2007. The FTB has also issued Information Document Requests regarding the 2008 tax year, although no formal notice of audit for 2008 has been provided. The Company is also under audit by the IRS for tax years 2009 and 2010 and the Canada Revenue Agency ("CRA") for tax years 2008 through 2010. In addition, the Company is under audit by the CRA for Goods and Services Tax for tax years 2009 through 2011. Our future results may include material favorable or unfavorable adjustments to the estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate.

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

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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 2012 and 2011 (in thousands):

	2012			2011			Change		
External net sales	\$361,684	100.0	%	330,159	100.0	%	\$31,525	9.5	%
Intersegment net sales	—	—		—	—		—	—	%
Segment net sales	361,684	100.0		330,159	100.0		31,525	9.5	%
Cost of revenues	65,056	18.0		60,613	18.4		4,443	7.3	%
Gross profit	296,628	82.0		269,546	81.6		27,082	10.0	%
Operating expenses	109,268	30.2		105,220	31.9		4,048	3.8	%
Segment operating income	\$187,360	51.8	%	\$164,326	49.8	%	\$23,034	14.0	%

Segment net sales of \$361.7 million in 2012 increased \$31.5 million, or 9.5%, from 2011 primarily due to an increase in our subscriber base, the impact of our first quarter 2011 change in estimate relating to remaining service obligations to eFax® annual subscribers (See Note 2 – Basis of Presentation and Summary of Significant Accounting Policies) which reduced revenues for the year ended December 31, 2011 by \$10.3 million, and an increase in patent and technology related licensing revenues.

Segment gross profit of \$296.6 million in 2012 increased \$27.1 million from 2011 primarily due to an increase in net sales between the periods. The gross profit as a percentage of revenues for 2012 was consistent with the prior comparable period.

Segment operating expenses of \$109.3 million in 2012 increased \$4.0 million from 2011 primarily due to (a) additional research, development and engineering costs as a result of increased personnel costs associated with businesses acquired in and subsequent to 2011, (b) additional expenses for professional services and (c) an increase in sales and marketing costs primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2011.

As a result of these factors, segment operating earnings of \$187.4 million in 2012 increased \$23.0 million, or 14.0%, from 2011.

Digital Media

As our Digital Media segment was established as a result of the acquisition of Ziff Davis, Inc. on November 9, 2012, the following segment results are presented with no period prior to 2012 (in thousands):

	2012		
External net sales	\$9,712	100	%
Intersegment net sales	—	—	
Segment net sales	9,712	100	
Cost of revenues	1,956	20.1	
Gross profit	7,756	79.9	
Operating expenses	4,867	50.1	
Segment operating income	\$2,889	29.7	%

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At December 31, 2012, we had cash and investments of \$343.6 million compared to \$220.9 million at December 31, 2011. The increase resulted primarily from the proceeds from our issuance of \$250 million of debt in July 2012 and cash provided by operations, partially offset by share repurchases, dividends and business acquisitions. At December 31, 2012, cash and investments consisted of cash and cash equivalents of \$218.7 million, short-term investments of \$105.1 million and long-term investments of \$19.8 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 \$34.9 million at December 31, 2012. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of December 31, 2012, cash and investments held within foreign and domestic jurisdictions were \$160.5 million and \$183.1 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, 2012, totaling \$0.87 per share of common stock. On February 12, 2013, our Board of Directors approved a quarterly cash dividend of \$0.2325 per share of common stock payable on March 4, 2013 to all stockholders of record as of the close of business on February 25, 2013. 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 \$169.9 million, \$150.7 million, and \$96.4 million for the years ended December 31, 2012, 2011 and 2010, 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 2012 compared to 2011 was primarily attributable to cash received from our subscribers, the tax benefit from the exercise of stock options and the change in the liability for uncertain tax positions during the year. The increase in our net cash provided by operating activities in 2011 compared to 2010 was primarily attributable to cash received from our

subscribers and the tax benefit from the exercise of stock options 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 \$9.0 million and \$11.0 million at December 31, 2012 and 2011, respectively. Our cash and cash equivalents and short-term investments were \$323.7 million, \$177.9 million and \$78.8 million at December 31, 2012, 2011 and 2010, respectively.

Net cash used in investing activities was approximately \$(249.5) million, \$(76.2) million and \$(231.1) million for the years ended December 31, 2012, 2011 and 2010, respectively. 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 investing activities in 2010 was primarily attributable to cash acquisition of businesses and purchase of available-for-sale investments.

Net cash provided by financing activities was approximately \$158.4 million, \$0.3 million and \$2.7 million for the year ended December 31, 2012, 2011 and 2010, respectively. 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. Net cash provided by financing activities in 2010 was primarily attributable from the exercise of options and excess tax benefit from share-based compensation, partially offset by the repurchases of our common stock.

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 21 - Subsequent Events for discussion regarding the extension of the share repurchase program to February 20, 2014).

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2012:

Contractual Obligations	Payment Due by Period (in thousands)				Total
	1 Year	2-3 Years	4-5 Years	More than 5 Years	
Long-term debt - principal (a)	\$—	\$—	\$—	\$250,000	\$250,000
Long-term debt - interest (b)	20,000	40,000	40,000	60,000	160,000
Operating leases (c)	4,471	6,720	3,723	3,503	18,417
Mandatorily redeemable financial instrument - dividends (d)	1,466	2,567	2,567	—	6,600
Mandatorily redeemable financial instrument - redemption (e)	—	—	8,556	—	8,556
Telecom services and co-location facilities (f)	3,044	772	385	—	4,201
Holdback payment (g)	2,740	458	—	—	3,198
Other (h)	657	264	120	—	1,041
Total	\$32,378	\$50,781	\$55,351	\$313,503	\$452,013

(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, 2012, our liability for uncertain tax positions was \$37.7 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 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. 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.

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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 2013.

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, 2012, 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 pr