

J2 GLOBAL COMMUNICATIONS INC
Form 10-Q
August 05, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

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

Delaware
(State or other jurisdiction
of incorporation or organization)

51-0371142
(I.R.S. Employer
Identification No.)

6922 Hollywood Boulevard, Suite 500
Los Angeles, California 90028
(Address of principal executive offices)

(323) 860-9200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No (Not Applicable)

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

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

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

As of July 31, 2009, the registrant had 45,062,060 shares of common stock outstanding.

j2 GLOBAL COMMUNICATIONS, INC.

FOR THE QUARTER ENDED JUNE 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

j2 Global Communications, Inc.
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

| | June 30, 2009 | December 31, 2008 |
|---|------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 192,576 | \$ 150,780 |
| Short-term investments | 21 | 14 |
| Accounts receivable, net of allowances of \$3,104 and \$2,896 respectively | 13,905 | 14,083 |
| Prepaid expenses and other current assets | 8,497 | 6,683 |
| Deferred income taxes | 2,958 | 2,958 |
| Total current assets | 217,957 | 174,518 |
| Long-term investments | 2,207 | 11,081 |
| Property and equipment, net | 16,551 | 18,938 |
| Goodwill | 81,151 | 72,783 |
| Other purchased intangibles, net | 38,526 | 36,791 |
| Deferred income taxes | 9,008 | 7,787 |
| Other assets | 109 | 142 |
| Total assets | \$365,509 | \$ 322,040 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable and accrued expenses | \$ 17,675 | \$ 16,915 |
| Income taxes payable | 1,451 | 1,800 |
| Deferred revenue | 13,168 | 13,680 |
| Total current liabilities | 32,294 | 32,395 |
| Accrued income tax liability | 41,996 | 38,643 |
| Other long-term liabilities | 881 | 1,022 |
| Total liabilities | 75,171 | 72,060 |
| Commitments and contingencies | — | — |
| Preferred stock, \$0.01 par value. Authorized 1,000,000 and none issued | — | — |
| Common stock, \$0.01 par value. Authorized 95,000,000 at June 30, 2009 and December 31, 2008; total issued 52,698,217 and 52,305,293 shares at June 30, 2009 and December 31, 2008, respectively, and total outstanding 44,017,649 and 43,624,725 shares at June 30, 2009 and December 31, 2008, respectively | 527 | 523 |
| Additional paid-in capital | 139,876 | 131,185 |
| Treasury stock, at cost (8,680,568 shares at June 30, 2009 and December 31, 2008) | (112,671) | (112,671) |
| Retained earnings | 264,632 | 234,843 |
| Accumulated other comprehensive loss | (2,026) | (3,900) |
| Total stockholders' equity | 290,338 | 249,980 |
| Total liabilities and stockholders' equity | \$365,509 | \$ 322,040 |

See Notes to Condensed Consolidated Financial Statements

j2 Global Communications, Inc.
Condensed Consolidated Statements of Operations

(Unaudited, in thousands except share and per share data)

| | Three Months Ended June | | Six Months Ended June 30, | |
|--|-------------------------|-------------|---------------------------|------------|
| | 2009 | 30, 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Subscriber | \$61,049 | \$59,537 | \$120,689 | \$116,752 |
| Other | 1,415 | 1,140 | 2,166 | 2,573 |
| | 62,464 | 60,677 | 122,855 | 119,325 |
| Cost of revenues (including share-based compensation of \$331 and \$612 for the three and six months of 2009, respectively, and \$212 and \$387 for the three and six months of 2008, respectively) | 11,600 | 11,725 | 22,992 | 23,356 |
| Gross profit | 50,864 | 48,952 | 99,863 | 95,969 |
| Operating expenses: | | | | |
| Sales and marketing (including share-based compensation of \$484 and \$861 for the three and six months of 2009, respectively, and \$328 and \$666 for the three and six months of 2008, respectively) | 9,211 | 10,585 | 18,096 | 20,799 |
| Research, development and engineering (including share-based compensation of \$221 and \$417 for the three and six months of 2009, respectively, and \$191 and \$405 for the three and six months of 2008, respectively) | 2,880 | 3,011 | 5,823 | 6,158 |
| General and administrative (including share-based compensation of \$1,870 and \$3,311 for the three and six months of 2009, respectively, and \$1,243 and \$2,543 for the three and six months of 2008, respectively) | 11,209 | 11,292 | 21,915 | 22,449 |
| Total operating expenses | 23,300 | 24,888 | 45,834 | 49,406 |
| Operating earnings | 27,564 | 24,064 | 54,029 | 46,563 |
| Other-than-temporary impairment losses | (9,193) | — | (9,193) | — |
| Interest and other income, net | 315 | 563 | 457 | 1,891 |
| Earnings before income taxes | 18,686 | 24,627 | 45,293 | 48,454 |
| Income tax expense | 7,549 | 7,897 | 15,504 | 14,930 |
| Net earnings | \$11,137 | \$16,730 | \$29,789 | \$33,524 |
| Net earnings per common share: | | | | |
| Basic | \$0.25 | \$0.38 | \$0.68 | \$0.73 |
| Diluted | \$0.25 | \$0.37 | \$0.66 | \$0.71 |
| Weighted average shares outstanding: | | | | |
| Basic | 43,762,333 | 44,142,748 | 43,695,076 | 45,700,933 |
| Diluted | 45,044,005 | 45,688,869 | 44,806,260 | 47,026,104 |

See Notes to Condensed Consolidated Financial Statements

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

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net earnings | \$29,789 | \$33,524 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,363 | 6,340 |
| Share-based compensation | 5,201 | 4,001 |
| Excess tax benefits from share-based compensation | (2,723) | (443) |
| Provision for doubtful accounts | 593 | 1,614 |
| Deferred income taxes | (1,221) | (1,062) |
| Loss on disposal of fixed assets | 15 | 28 |
| Gain on trading securities | (8) | — |
| Other-than-temporary impairment losses | 9,193 | — |
| Decrease (increase) in: | | |
| Accounts receivable | (516) | (1,134) |
| Prepaid expenses and other current assets | 436 | 1,576 |
| Other assets | 33 | 46 |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | 579 | 5,106 |
| Income taxes payable | 189 | (616) |
| Deferred revenue | (777) | (767) |
| Accrued income tax liability | 3,354 | 3,067 |
| Other | 14 | (29) |
| Net cash provided by operating activities | 51,514 | 51,251 |
| Cash flows from investing activities: | | |
| Sales of available-for-sale investments | — | 36,170 |
| Redemptions/Sales of held-to-maturity investments | — | 27,883 |
| Purchases of property and equipment | (938) | (1,265) |
| Acquisition of businesses, net of cash received | (11,910) | (33,278) |
| Proceeds from sale of assets | 1,011 | — |
| Purchases of intangible assets | (2,272) | (1,664) |
| Net cash (used in) provided by investing activities | (14,109) | 27,846 |
| Cash flows from financing activities: | | |
| Repurchases of common stock | — | (97,336) |
| Repurchase of restricted stock | (92) | (82) |
| Issuance of common stock under employee stock purchase plan | 61 | 112 |
| Exercise of stock options | 802 | 973 |
| Excess tax benefits from share-based compensation | 2,723 | 443 |
| Net cash provided by (used in) financing activities | 3,494 | (95,890) |
| Effect of exchange rate changes on cash and cash equivalents | 897 | 1,357 |

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| | | |
|--|------------|------------|
| Net increase (decrease) in cash and cash equivalents | 41,796 | (15,436) |
| Cash and cash equivalents at beginning of period | 150,780 | 154,220 |
| Cash and cash equivalents at end of period | \$ 192,576 | \$ 138,784 |

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(UNAUDITED)

1. Basis of Presentation

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

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

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), including those for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2008 included in our Annual Report on Form 10-K filed with the SEC on February 25, 2009 as amended on March 5, 2009. Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

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

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications, and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts and the valuation of deferred income taxes, tax contingencies, non-income tax contingencies, share-based compensation expense, long-lived and intangible assets and goodwill. These estimates are based on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

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. As of June 30, 2009 and December 31, 2008, our accounts receivable reserves were \$3.1 million and \$2.9 million respectively. We believe these reserves to be reasonable under the circumstances.

Revenue Recognition

Our subscriber revenues substantially consist of monthly recurring subscription and usage-based fees, which are primarily paid in advance by credit card. In accordance with GAAP and SEC issued Staff Accounting Bulletin No. 104, Revenue Recognition, which clarifies certain existing accounting principles for the timing of revenue recognition and classification of revenues in the financial statements, we defer the portions of monthly recurring subscription and usage-based fees collected in advance and recognize them in the period earned. Additionally, we defer and recognize subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

Our advertising revenues (included in "other revenues") primarily consist of revenues derived by delivering email messages to our customers on behalf of advertisers. Revenues are recognized in the period in which the advertising services are performed, provided that no significant j2 Global obligations remain and the collection of the resulting receivable is reasonably assured.

Our patent revenues (included in "other revenues") consist of patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to us in exchange for the grant of a non-exclusive, retroactive and future license to our patented technology. Patent revenues also consist of the sale of patents. Patent license revenues are recognized when earned over the term of the license agreement. With regard to fully paid-up license arrangements, we generally recognize as revenue in the period the agreement is executed the portion of the payment attributable to past use of the patented technology and amortize the remaining portion of such payments on a straight line basis over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, we recognize revenue of license fees earned during the applicable period.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements. SFAS 157 applies to all accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. For fiscal years beginning after November 15, 2007, companies are required to implement SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. The FASB provided a one-year deferral for the implementation of SFAS 157 for other nonfinancial assets and liabilities. On January 1, 2008, we adopted SFAS 157.

As of June 30, 2009 and December 31, 2008, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable and customer deposits approximates fair value due to the short-term nature of such instruments. The carrying value of other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to j2 Global.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities - Including an Amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. Furthermore, under SFAS 159 entities shall report unrealized gains and losses on eligible items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. As permitted by SFAS 159, we have elected not to use the fair value option to measure our available-for-sale and held-to-maturity securities under SFAS 159 and will continue to report them under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115") because the nature of our financial assets and liabilities are not of such complexity that they would benefit from a change in valuation to fair value.

Concentration of Credit Risk

All of our cash, cash equivalents and marketable securities are invested at major financial institutions. These institutions are required to invest our cash in accordance with our investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. Our investment policy also requires that investments in marketable securities be in only highly rated instruments, with limitations on investing in securities of any single issuer. However, these investments are not insured against the possibility of a complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks as existed during late 2007 to the present. At June 30, 2009 and December 31, 2008, our cash and cash equivalents, were maintained in accounts that are insured up to the limit determined by the appropriate governmental agency. The amount insured, however, is immaterial in comparison to the total amount of our cash and cash equivalents held by these institutions.

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Income Taxes

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

We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We believe that we will ultimately recover a substantial majority of the deferred tax assets recorded on our consolidated condensed balance sheets. However, should there be a change in our ability to recover our deferred tax assets, our tax provision would increase in the period in which we determined that the recovery was not likely.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. In accordance with FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" ("FIN 48"), and related guidance, we recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. If we determine that a tax position will more likely than not be sustained on audit, then the second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Reclassifications

Certain prior year reported amounts have been reclassified to conform with the 2009 presentation. We reclassified certain cash flows within operating activities in the consolidated statements of cash flows.

2. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141(R)"). SFAS 141(R) establishes principles and requirements for how the acquirer of a business (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures in its financial statements the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. Accordingly, we applied SFAS 141(R) for acquisitions effected subsequent to the date of adoption.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 requires that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheets within equity, but separate from the parent's equity. In addition, the amount of consolidated net income attributable to the parent and to the noncontrolling interest must be clearly identified and presented on the face of the consolidated

statement of operations. SFAS 160 also requires that changes in the parent's ownership interest be accounted for as equity transactions if a subsidiary is deconsolidated and that any retained noncontrolling equity investment be measured at fair value. Furthermore, SFAS 160 requires that sufficient disclosures be provided that clearly identify and distinguish between the interests of the parent and noncontrolling owners. The provisions of SFAS 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The impact of the adoption of SFAS 160 was not significant to our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced disclosures about a company's derivative and hedging activities. These enhanced disclosures will discuss (i) how and why a company uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations and (iii) how derivative instruments and related hedged items affect a company's financial position, results of operations and cash flows. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. The impact of the adoption of SFAS 161 was not significant to our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The impact of the adoption of FSP 142-3 was not significant to our consolidated financial statements.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN No. 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP applies to credit derivatives within the scope of Statement 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP is effective for reporting periods (annual or interim) ending after November 15, 2008. The impact of the adoption of this FSP was not significant to our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force (“EITF”) Issue No. 08-6, Equity Method Investment Accounting Considerations (“EITF 08-6”). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We do not currently have any investments that are accounted for under the equity method. The impact of the adoption of this EITF was not significant to our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-7, Accounting for Defensive Intangible Assets (“EITF 08-7”). EITF 08-7 clarifies the accounting for certain separately identifiable intangible assets which an acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. EITF 08-7 requires an acquirer in a business combination to account for a defensive intangible asset as a separate unit of accounting which should be amortized to expense over the period the asset diminishes in value. EITF 08-7 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The impact of the adoption of this EITF was not significant to our consolidated financial statements.

In April 2009, the FASB issued three related FASB Staff Positions: (i) FSP FAS No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (“FSP FAS 115-2 and FAS 124-2”); (ii) FSP FAS No. 107-1 and Accounting Principles Board Opinion (“APB”) No. 28-1, Interim Disclosures about Fair Value of Financial Instruments (“FSP FAS 107-1 and APB 28-1”), and; (iii) FSP FAS No. 157-4, Determining the Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (“FSP FAS 157-4”), which are effective for interim and annual reporting periods ending after June 15, 2009. FSP FAS 115-2 and FAS 124-2 amend the other-than-temporary impairment guidance in GAAP for debt securities to modify the requirement for recognizing other-than-temporary impairments, change the existing impairment model and modify the presentation and frequency of related disclosures. FSP FAS 107-1 and APB 28-1 require disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. FSP FAS 157-4 provides additional guidance for estimating fair value in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If we were to conclude that there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value and we may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate in accordance with SFAS No. 157. See Note 4 – Investments and Note 5 – Fair Value Measurements.

In April 2009, the FASB issued FSP SFAS No. 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP SFAS 141R-1 amends the guidance in SFAS 141R relating to the initial recognition and measurement, subsequent measurement and accounting and disclosures of assets and liabilities arising from contingencies in a business combination. FSP SFAS 141R is effective for fiscal years beginning after December 15, 2008. We adopted FSP SFAS 141R as of the beginning of fiscal 2009. We will apply the requirements of FSP FAS 141R-1 prospectively to any future acquisitions.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (“SFAS 165”), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS 165 are effective for interim and annual reporting periods ending after June 15, 2009. The impact of the adoption of SFAS 165 was not significant to our consolidated financial

statements.

In June 2009, the FASB approved the FASB Accounting Standards Codification (“Codification”), which launched on July 1, 2009, and will be effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Codification is not expected to change GAAP, but will combine all authoritative standards into a comprehensive, topically organized online database. After the Codification launch on July 1, 2009 only one level of authoritative GAAP exists, other than guidance issued by the SEC. All other accounting literature excluded from the Codification will be considered non-authoritative. We are currently evaluating the potential effect on the financial statements.

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3. Business Acquisition

On February 20, 2009, we acquired the digital faxing business of CallWave, Inc., a provider of Internet unified communications solutions. This acquisition is designed to be accretive and provides us additional customers in the fax market. The consolidated statement of operations and balance sheet as of June 30, 2009 reflects the results of operations of this acquisition. Total consideration for this transaction was \$11.9 million in cash including, \$0.1 million in assumed liabilities consisting strictly of deferred revenue. The operations of this acquired business are individually immaterial to our financial position as of the date of the acquisition.

The following table summarizes the allocation of the aggregate purchase price as follows (in thousands):

| Asset | Valuation |
|----------------------------|-----------|
| Patents and Patent License | \$ 1,824 |
| Customer Relationships | 1,952 |
| Goodwill | 7,858 |
| Other Intangible Assets | 307 |
| Other Assets | 70 |
| Deferred Revenue | (106) |
| Total | \$ 11,905 |

Patents and Patent License have weighted-average useful lives between twelve and seventeen years from the date of acquisition and no residual. Customer relationships have weighted-average useful lives of ten years from the date of acquisition and no residual. Other intangible assets have weighted-average useful lives between two and three years from the date of acquisition and no residual value. Other assets have weighted-average useful lives between zero and two years and no residual value.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. We expect to deduct 100% of goodwill for income tax purposes over the next 15 years. There was no research and development acquired or written off in connection with the business acquisition. Transaction costs from this acquisition consist of \$7,000 for third party valuation fees expensed in the six month period ended June 30, 2009 to General and Administrative expense.

4. Investments

We account for our investments in debt securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and FASB Staff Position Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (“FAS 115-1 and FAS 124-1”) and FSP FAS 115-2 and FAS 124-2. These investments are typically comprised of readily marketable corporate debt securities and auction rate debt and preferred securities. We determine the appropriate classification of our investments at the time of acquisition and evaluate such determination at each balance sheet date. Held-to-maturity securities are those investments which we have the ability and intent to hold until maturity and are recorded at amortized cost. Available-for-sale securities are those investments we do not intend to hold to maturity and can be sold. Available-for-sale securities are carried at fair value. Trading securities are carried at fair value, with unrealized gains and losses included in investment income. All securities are accounted for on a specific identification basis.

The following table summarizes our short and long-term investments designated as trading and available-for-sale classified by the contractual maturity date of the security (in thousands):

| | June 30, 2009 | December 31, 2008 |
|---|------------------|-------------------------|
| Due within 1 year | \$21 | \$14 |
| Due within more than 1 year but less than 5 years | — | — |
| Due within more than 5 years but less than 10 years | 778 | — |
| Due 10 years or after | 1,429 | — |
| Total | \$2,228 | \$14 |

The following table summarizes our long-term investments designated as held-to-maturity classified by the contractual maturity date of the security (in thousands):

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| | June 30, 2009 | December 31, 2008 |
|---|------------------|-------------------------|
| Due within 1 year | \$— | \$— |
| Due within more than 1 year but less than 5 years | — | — |
| Due within more than 5 years but less than 10 years | — | 4,669 |
| Due 10 years or after | — | 6,412 |
| Total | \$— | \$11,081 |

The following table categorizes our investments designated as trading, available-for-sale and held-to-maturity (in thousands):

| | June 30, 2009 | December 31, 2008 |
|--------------------|------------------|-------------------------|
| Trading | \$21 | \$14 |
| Available-for-sale | 2,207 | — |
| Held-to-maturity | — | 11,081 |
| Total | \$2,228 | \$11,095 |

The following table shows the gross unrealized gains and losses and fair values for investments as of June 30, 2009 and December 31, 2008 aggregated by major security type (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2009 | | | | |
| Auction Rate and other Debt Securities | \$ 2,207 | \$ — | \$ — | \$ 2,207 |
| December 31, 2008 | | | | |
| Auction Rate and other Debt Securities | \$ 11,081 | \$ — | \$ 9,224 | \$ 1,857 |

At December 31, 2008, corporate and auction rate debt and preferred securities were recorded as held-to-maturity. The debt securities have stated maturities through 2037. The preferred securities have no stated maturity dates. The auction rate securities have interest rates that reset periodically at established intervals of 90 days or less. The corporate debt securities have a fixed interest rate. Certain of these securities are illiquid due to failed auctions or conversion following failed auctions into other illiquid instruments. As of June 30, 2009, we determined that as a result of continued deterioration in the creditworthiness of the issuers of these securities, we intend to sell these securities. Accordingly, we reclassified these securities to available-for-sale. There have been no significant changes in the maturity dates and average interest rates for our investment portfolio and debt obligations subsequent to June 30, 2009. At June 30, 2009, our long-term available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of stockholders' equity.

The table below shows the fair value of investments in held-to-maturity and available-for-sale that have been in an unrealized loss position for less than 12 months or longer as of June 30, 2009 and December 31, 2008 (in thousands):

| | Less than 12 months | | 12 months or longer | | Total | Gross unrealized losses |
|--|---------------------|-------------------------|---------------------|-------------------------|------------|-------------------------|
| | Fair Value | Gross unrealized losses | Fair Value | Gross unrealized losses | Fair Value | |
| June 30, 2009 | | | | | | |
| Debt securities available-for-sale | | | | | | |
| Auction rate and other Debt securities | \$— | \$— | \$2,207 | \$— | \$2,207 | \$— |
| Total debt securities available-for-sale | \$— | \$— | \$2,207 | \$— | \$2,207 | \$— |
| December 31, 2008 | | | | | | |
| Debt securities held-to-maturity | | | | | | |
| Auction rate and other Debt securities | \$— | \$— | \$1,857 | \$9,224 | \$1,857 | \$9,224 |
| Total debt securities held-to-maturity | \$— | \$— | \$1,857 | \$9,224 | \$1,857 | \$9,224 |

Recognition and Measurement of Other-Than-Temporary Impairment

We regularly review and evaluate each investment that has an unrealized loss, in accordance with FSP FAS 115-1 and FSP FAS 115-2. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities, while such losses related to held-to-maturity securities are not recorded, as these investments are carried at their amortized cost.

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

Factors considered in determining whether a loss is temporary include:

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

Our review for impairment generally entails:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;
- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and

- documentation of the results of these analyses, as required under business policies.
 - information provided by third party valuation experts

For these securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit impairment, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security.

For these securities, credit impairment is assessed using a combination of a discounted cash flow model that estimates the cash flows on the underlying securities and a market comparables method where the security is valued based upon indications from the secondary market of what discounts buyers demand when purchasing similar auction rate securities. The cash flow model incorporates actual cash flows on the auction rate securities through the current period and then projects the remaining cash flows using relevant interest rate curves over the remaining term. These cash flows are discounted using a number of assumptions, some of which include prevailing implied credit risk premiums, incremental credit spreads, and illiquidity risk premium among others.

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

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

As of June 30, 2009, we intend to sell our corporate and auction rate debt and preferred securities. We arrived at this conclusion based on the significant erosion in the credit worthiness of the issuers. Accordingly, we determined that these securities were other-than-temporarily impaired resulting in an impairment loss recognized in earnings of \$9.2 million for the three and six month period ended June 30, 2009.

5. Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements. The adoption of SFAS 157 and related positions did not have a material impact on our consolidated financial statements.

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

§Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

§Level 3 – Unobservable inputs which are supported by little or no market activity.

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

In accordance with SFAS 157, we measure our cash equivalents and marketable securities at fair value. Our cash equivalents and marketable securities are primarily classified within Level 1 with the exception of our investments in auction rate securities, which are classified within Level 3. The valuation technique used under Level 3 consists of a discounted cash flow analysis which included numerous assumptions, some of which include prevailing implied credit risk premiums, incremental credit spreads, illiquidity risk premium, among others and a market comparables model where the security is valued based upon indicators from the secondary market of what discounts buyers demand when purchasing similar auction rate securities. There was no change in the technique during the period. Cash equivalents and marketable securities are valued primarily using quoted market prices utilizing market observable inputs. Our investments in auction rate securities are classified within Level 3 because there are no active markets for the auction rate securities and therefore we are unable to obtain independent valuations from market sources. Some of the inputs to the cash flow model are unobservable in the market. The total amount of assets measured using Level 3 valuation methodologies represented approximately 1% of total assets as of June 30, 2009.

The following table provides a summary of changes in fair value of our Level 3 financial assets as of June 30, 2009 (in thousands):

| | Level 3 Financial Assets | |
|---|----------------------------------|--------------------------------|
| | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2009 |
| Beginning Balance | \$ 11,000 | \$ 11,000 |
| Total gains (losses) - realized/unrealized | | |
| Included in earnings | (9,005) | (9,005) |
| Purchases, issuances and settlements | — | — |
| Transfers in and/or out of Level 3 | — | — |
| Balance, June 30, 2009 | \$ 1,995 | \$ 1,995 |
| Total losses for the period included in earnings relating to assets still held at June 30, 2009 | \$ (9,005) | \$ (9,005) |

6. Goodwill and Intangible Assets

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

The changes in carrying amounts of goodwill and other intangible assets for the six months ended June 30, 2009 are as follows (in thousands):

| | Balance as of January 1, 2009 | Additions | Deductions | Amortization | Foreign Exchange Translation | Balance as of June 30, 2009 |
|---|-------------------------------|-----------|-------------|--------------|------------------------------|-----------------------------|
| Goodwill | \$ 72,783 | \$ 7,818 | \$ — | \$ — | \$ 550 | \$ 81,151 |
| Intangible assets with indefinite lives | 2,681 | 538 | (6) | — | — | 3,212 |
| Intangible assets subject to amortization | 34,110 | 6,070 | (1,019) | (3,963) | 116 | 35,314 |
| | \$ 109,574 | \$ 14,425 | \$ (1,025) | \$ (3,963) | \$ 666 | \$ 119,677 |

Intangible assets with indefinite lives relate primarily to certain trade names and trademarks. As of June 30, 2009, intangible assets subject to amortization relate primarily to the following (in thousands):

| | Weighted-Average Amortization Period | Historical Cost | Accumulated Amortization | Net |
|------------------------|--|--------------------|-----------------------------|----------|
| Patents | 8.2 years | \$ 26,536 | \$ 10,640 | \$15,896 |
| Technology | 5.0 years | 3,011 | 1,269 | 1,742 |
| Customer relationships | 9.2 years | 14,875 | 5,070 | 9,805 |
| Trade name | 9.5 years | 9,861 | 1,990 | 7,871 |
| Total | | \$ 54,283 | \$ 18,969 | \$35,314 |

In June 2009, j2 Global sold certain non-core intellectual property to a third party for approximately \$1.5 million (net of selling and earn-out costs of approximately \$0.5 million). Accordingly, the net proceeds in excess of net book value of the patent assets sold were recorded as other revenue in the amount of approximately \$0.7 million within the condensed consolidated statement of operations for the three and six month period ended June 30, 2009. As part of this transaction, we also obtained a fully paid up, perpetual license for use of the related patents through their remaining life.

Amortization expense, included in general and administrative expense, during the three-month periods ended June 30, 2009 and 2008 approximated \$2.0 million and \$1.4 million, respectively. Amortization expense, included in general and administrative expense, during the six-month periods ended June 30, 2009 and 2008 approximated \$4.0 million and \$2.7 million, respectively. Amortization expense is estimated to approximate \$7.4 million, \$6.0 million, \$4.0 million, \$3.5 million and \$3.3 million for fiscal years 2009 through 2013, respectively, and \$15.0 million thereafter through the duration of the amortization period.

7. Commitments and Contingencies

Litigation

We are involved with various legal matters arising from the ordinary course of business. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our future consolidated results of operations, cash flows or financial condition. For additional information on litigation matters, see Part II, Item 1. Legal Proceedings.

Credit Agreement

On January 5, 2009, we entered into a Credit Agreement (the "Credit Agreement") with Union Bank, N.A. ("Lender") in order to further enhance our liquidity in the event of potential acquisitions. The Credit Agreement provides for a \$25.0 million revolving line of credit with a \$2.5 million letter of credit sublimit. The facility is unsecured (except to the limited extent described below) and was undrawn at closing. Revolving loans may be borrowed, repaid and re-borrowed until January 5, 2011, on which date all outstanding principal of, together with accrued interest on, any revolving loans will be due. We may prepay the loans and terminate the commitments at any time, with generally no premium or penalty.

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

- LIBOR plus a margin equal to 1.50% for interest periods of 1, 2, 3 or 6 months (the "Fixed Interest Rate"); or
- the "Base Rate", defined as the highest of (i) the reference rate in effect on such date, (ii) the federal funds rate in effect on such date plus a margin equal to 0.05% and (iii) the 1 month LIBOR rate.

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

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

Pursuant to the Credit Agreement, Phone People Holdings Corporation, a wholly-owned U.S. subsidiary of j2 Global, entered into a Continuing Guaranty (the "Guaranty") in favor of Lender, pursuant to which it guaranteed all of the obligations of j2 Global under the Credit Agreement and is payable upon demand of the Lender. Future significant subsidiaries based in the U.S. will also be required to guaranty j2 Global's obligations under the Credit Agreement. "Significant subsidiary" is defined as subsidiaries that had net income for the fiscal quarter then most recently ended in excess of ten percent (10%) of EBITDA (as defined in the Credit Agreement) for such fiscal quarter or had assets in excess of ten percent (10%) of the total assets of the j2 Global and its subsidiaries on a consolidated basis as at the end of the fiscal quarter then most recently ended. Also pursuant to the Credit Agreement, we are entering into a Security Pledge Agreement whereby j2 Global grants to Lender a security interest in 65% of the issued stock of j2 Global Holdings Limited, a wholly owned Irish subsidiary of j2 Global. We will also be required to grant a security interest to Lender in 65% of the issued stock of any future non-U.S. based significant subsidiary.

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

The Credit Agreement also contains financial covenants that establish minimum EBITDA, net worth and liquid asset levels and limit the amount of operating lease obligations that may be assumed.

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

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8. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes we make a cumulative adjustment. Our annual effective tax rate is normally lower than the 35% U.S. federal statutory rate and applicable apportioned state tax rates primarily due to anticipated earnings of our subsidiaries outside of the U.S. in jurisdictions where our effective tax rate is lower than in the U.S. As of June 30, 2009, our effective tax rate was 34.2%. We do not provide for U.S. income taxes on the undistributed earnings of our foreign operations since we intend to reinvest them in our foreign jurisdictions.

We had approximately \$12.0 million in net deferred tax assets as of June 30, 2009 related primarily to net operating loss carryforwards, capital losses, and as a result of differences in share-based compensation between our financial statements and our tax returns. Based on the weight of available evidence, we assess whether it is more likely than not that some portion or all of a deferred tax asset will not be realized. If necessary, we record a valuation allowance sufficient to reduce the deferred tax asset to the amount that is more likely that not to be realized. The net deferred tax assets should be realized through future operating results and the reversal of temporary differences.

During the second quarter of 2009, we incurred a capital loss for book purposes due to the impairment of certain debt securities. This impairment resulted in a deferred tax asset of \$3.7 million. Due to the fact that a capital loss can only be offset against capital gains for tax purposes, it is more likely than not that some portion or all of the asset will not be realized. We are therefore recording a valuation allowance of \$2.9 for this asset in the period.

As of June 30, 2009 and December 31, 2008, we had \$42.0 million and \$38.6 million, respectively, in liabilities for uncertain income tax positions. Accrued interest and penalties related to unrecognized tax benefits are recognized in income tax expense on our consolidated statement of operations.

Cash paid for income taxes was \$13.3 million and \$13.6 million for the six months ended June 30, 2009 and 2008, respectively. Accrued income tax liabilities were \$42.0 million at June 30, 2009 and \$38.6 million at December 31, 2008.

We are currently under audit by the Internal Revenue Service for tax years 2004 through 2006 as well as the California Franchise Tax Board for tax years 2005 through 2007. It is possible that 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 these periods. However, it is not currently possible to estimate the amount, if any, of such change.

9. Stockholders' Equity

Common Stock Repurchase Program

In February 2008, j2 Global's Board of Directors approved a common stock repurchase program authorizing the repurchase of up to five million shares of our common stock through the end of December 2010. The Repurchase Program was completed on July 9, 2008; five million shares at an aggregated cost of \$108.0 million (including commission fees of \$0.1 million) were repurchased. We have accounted for these repurchases using the cost method. During the three months ended March 31, 2008, we repurchased 3,534,189 shares at an aggregated cost of approximately \$75.9 million (including commission fees of \$70,700). During the three months ended June 30, 2008, we repurchased 1,001,227 shares at an aggregated cost of approximately \$21.4 million (including commission fees of \$20,000). At June 30, 2009 and December 31, 2008, 8,680,568 common shares at an aggregate cost of \$112.7 million were held as treasury stock.

10. Stock Options and Employee Stock Purchase Plan

Our share-based compensation plans include our Second Amended and Restated 1997 Stock Option Plan, 2007 Stock Plan and 2001 Employee Stock Purchase Plan. Each plan is described below.

The Second Amended and Restated 1997 Stock Option Plan (the “1997 Plan”) terminated in 2007. A total of 12,000,000 shares of common stock were authorized to be used for 1997 Plan purposes. An additional 840,000 shares were authorized for issuance upon exercise of options granted outside the 1997 Plan. As of June 30, 2009, 3,501,314 shares underlying options and 251,450 shares of restricted stock were outstanding under the 1997 Plan, all of which continue to be governed by the 1997 Plan.

The 2007 Stock Plan (the “2007 Plan”), provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. 4,500,000 shares of common stock are authorized to be used for 2007 Plan purposes. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of j2 Global’s common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of j2 Global’s common stock on the date of grant for non-statutory stock options. As of June 30, 2009, 1,193,413 shares underlying options and 780,831 shares of restricted stock were outstanding under the 2007 Plan, all of which continue to be governed by the 2007 Plan.

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

Stock Options

The following table represents stock option activity for the six months ended June 30, 2009:

| | Number of Shares | Weighted- Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--|---------------------|---|---|---------------------------------|
| Outstanding at January 1, 2009 | 4,322,930 | \$ 11.73 | | |
| Granted | 808,760 | 18.05 | | |
| Exercised | (378,838) | 2.12 | | |
| Canceled | (58,125) | 30.42 | | |
| Outstanding at June 30, 2009 | 4,694,727 | 13.36 | 5.5 | \$ 47,853,888 |
| Exercisable at June 30, 2009 | 2,845,646 | 8.22 | 3.7 | \$ 42,211,000 |
| Vested and expected to vest at June 30, 2009 | 4,308,850 | \$ 12.72 | 5.2 | \$ 46,544,441 |

For the six months ended June 30, 2009, we granted 808,760 options to purchase shares of common stock pursuant to the 2007 Plan to newly hired and existing members of management. These stock options vest 20% per year and expire 10 years from the date of grant.

The per share weighted-average grant-date fair values of stock options granted during the six months ended June 30, 2009 and 2008 were \$9.89 and \$14.27, respectively.

The aggregate intrinsic values of options exercised during the six months ended June 30, 2009 and 2008 were \$7.9 million and \$1.3 million, respectively.

As of June 30, 2009 and December 31, 2008, unrecognized stock compensation related to non-vested share-based compensation awards granted under the 1997 Plan and the 2007 Plan approximated \$39.8 million and \$24.7 million, respectively. Unrecognized stock compensation expense related to non-vested share-based compensation awards granted under these plans is expected to be recognized ratably over a weighted-average period of 3.35 years (i.e., the remaining requisite service period).

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Fair Value Disclosure

We use the Black-Scholes option pricing model to calculate the fair-value of each option grant. The expected volatility for the six months ended June 30, 2009 is based on historical volatility of our common stock. We elected to use the simplified method for estimating the expected term as allowed by Staff Accounting Bulletin (“SAB”) No. 110. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. Forfeitures are estimated at the date of grant based on historical experience.

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

| | Six Months Ended June 30, | |
|-----------------------------|---------------------------|------|
| | 2009 | 2008 |
| Risk-free interest rate | 2.35% | 3.2% |
| Expected term (in years) | 6.5 | 6.5 |
| Dividend yield | 0% | 0% |
| Expected volatility | 54% | 64% |
| Weighted-average volatility | 55% | 64% |

Restricted Stock

We have awarded restricted shares of common stock to our board of directors and senior staff pursuant to the 1997 Plan and the 2007 Plan. Compensation expense resulting from restricted stock grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over a five-year vesting period. During the six months ended June 30, 2009, we granted 730,603 shares of restricted stock. We recognized \$1,019,774 and \$1,659,172 of related compensation expense in the three and six months ended June 30, 2009 related to restricted stock awards. As of June 30, 2009, we have unrecognized share-based compensation cost of approximately \$16.8 million associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.96 years.

Restricted stock activity for the six months ended June 30, 2009 is set forth below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|------------------------------|-----------|--|
| Nonvested at January 1, 2009 | 319,494 | \$ 23.75 |
| Granted | 730,603 | 17.26 |
| Vested | (15,416) | 22.44 |
| Canceled | (2,400) | 17.19 |
| Nonvested at June 30, 2009 | 1,032,281 | \$ 19.11 |

Share-Based Compensation Expense

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of operations for the three and six months ended June 30, 2009 and 2008 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|-----------------------------|----------|---------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Cost of revenues | \$ 331 | \$ 212 | \$ 612 | \$ 387 |
| Operating expenses: | | | | |
| Sales and marketing | 484 | 328 | 861 | 666 |
| Research, development and engineering | 221 | 191 | 417 | 405 |
| General and administrative | 1,870 | 1,243 | 3,311 | 2,543 |
| | \$ 2,906 | \$ 1,974 | \$ 5,201 | \$ 4,001 |

Employee Stock Purchase Plan

Our 2001 Employee Stock Purchase Plan (the "Purchase Plan"), provides for the issuance of a maximum of two million shares of common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of j2 Global's common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period. For the six months ended June 30, 2009 and 2008, 2,981 and 5,435 shares were purchased under the plan, respectively. Cash received upon the issuance of common stock under the Purchase Plan was approximately \$61,000 and \$112,000 for the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, 1,664,354 shares were available under the Purchase Plan for future issuance.

11. Earnings Per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------------|---------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator for basic and diluted net earnings per common share: | | | | |
| Net earnings | \$11,137 | \$16,730 | \$29,789 | \$33,524 |
| Denominator: | | | | |
| Weighted-average outstanding shares of common stock | 43,762,333 | 44,142,748 | 43,695,076 | 45,700,933 |
| Dilutive effect of: | | | | |
| Employee stock options | 1,083,490 | 1,484,759 | 1,028,256 | 1,303,771 |
| Restricted stock | 198,182 | 61,362 | 82,928 | 21,400 |
| Common stock and common stock equivalents | 45,044,005 | 45,688,869 | 44,806,260 | 47,026,104 |

Net earnings per share:

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| | | | | |
|---------|--------|--------|--------|--------|
| Basic | \$0.25 | \$0.38 | \$0.68 | \$0.73 |
| Diluted | \$0.25 | \$0.37 | \$0.66 | \$0.71 |

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For the six month period ended June 30, 2009 and 2008, there were 997,428 and 741,098 options outstanding, respectively, which were excluded from the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common shares.

12. Comprehensive Income

The components of comprehensive income were net earnings and accumulated other comprehensive income. Comprehensive income for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|---------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net earnings | \$ 11,137 | \$ 16,730 | \$ 29,789 | \$ 33,524 |
| Other comprehensive income, before tax: | | | | |
| Foreign currency translation adjustment | 2,443 | 62 | 1,555 | 1,621 |
| Reclass from Held-to-Maturity to Available for Sale | 306 | — | 306 | — |
| Amortization of Held-to-Maturity securities loss | 7 | 7 | 13 | 14 |
| Other comprehensive income, before tax | 2,756 | 69 | 1,874 | 1,635 |
| Income tax expense related to items of other comprehensive income | (943) | (21) | (641) | (504) |
| Other comprehensive income, net of tax | 1,813 | 48 | 1,233 | 1,131 |
| Comprehensive income | \$ 12,950 | \$ 16,778 | \$ 31,022 | \$ 34,655 |

13. Geographic Information

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------|-----------------------------|-----------|---------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue: | | | | |
| United States | \$ 53,447 | \$ 52,121 | \$ 105,077 | \$ 102,243 |
| All other countries | 9,017 | 8,556 | 17,778 | 17,082 |
| | \$ 62,464 | \$ 60,677 | \$ 122,855 | \$ 119,325 |
| | | December | | |
| | June 30, | 31, | | |
| | 2009 | 2008 | | |
| Long-lived assets: | | | | |

| | | |
|---------------------|-----------|-----------|
| United States | \$ 42,851 | \$ 43,163 |
| All other countries | 9,014 | 9,885 |
| | \$ 51,865 | \$ 53,048 |

14. Subsequent Event

On July 7, 2009, j2 Global sold certain intellectual property rights to a third party for net proceeds of \$1.8 million (net of \$0.2 million in selling costs).

In accordance with SFAS 165, Subsequent Events, management has evaluated subsequent events through August 5, 2009, which represents the date that the financial statements were issued.

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

Forward-Looking Information

In addition to historical information, the foregoing Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. These forward-looking statements involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed below, the risk factors discussed in Part II, Item 1A - "Risk Factors" of this Quarterly Report on Form 10-Q and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008 (together, the "Risk Factors"), and the factors discussed in the section in this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures About Market Risk". Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

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

- o Sustain growth or profitability, particularly in light of an uncertain U.S. or worldwide economy and the related impact on customer acquisitions, cancelations and credit and debit card payment declines;
 - o Continue to maintain, expand and retain our customer base;
 - o Compete with other similar providers with regard to price, service and functionality;
- o Cost-effectively procure and retain large quantities of telephone numbers in desired locations in the United States and abroad;
- o Achieve business and financial objectives in light of burdensome telecommunications or Internet regulation or higher-than-expected tax rates or exposure to additional income tax liabilities;
- o Successfully manage our cost structure, including but not limited to our telecommunication- and personnel-related expenses;
- o Successfully adapt to technological changes in the messaging, communications and document management industries;
 - o Successfully protect our intellectual property and avoid infringing upon the proprietary rights of others;
 - o Adequately manage growth in terms of managerial and operational resources;
- o Maintain and upgrade our systems and infrastructure to deliver acceptable levels of service quality and security of customer data and messages;
- o Not incur unanticipated tax liabilities and accurately estimate the assumptions underlying our effective worldwide tax rate;
 - o Introduce new services and achieve acceptable levels of returns-on-investment for those new services;

and

o Recruit and retain key personnel.

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

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Overview

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

We deliver many of our services through our global telephony/Internet Protocol (“IP”) network, which spans more than 3,300 cities in 46 countries across six continents. We have created this network, and continuously seek to expand it, through negotiating with U.S. and foreign telecommunications and co-location providers for telephone numbers (also referred to as Direct Inward Dial numbers or “DIDs”), Internet bandwidth and co-location space for our equipment. We maintain and seek to grow an inventory of telephone numbers to be assigned to new customers. Most of these numbers are “local” (as opposed to toll-free), which enables us to provide our paying subscribers telephone numbers with a geographic identity. In addition to growing our business internally, we have used small acquisitions to grow our customer base, enhance our technology and acquire skilled personnel.

Our core services include fax, voicemail, email and call handling, as well as bundled suites of certain of these services. These are business services that make our customers more efficient, more mobile, more cost-effective and more secure than traditional alternatives. We generate substantially all of our revenue from subscribers that pay activation, subscription and usage fees. Activation and subscription fees are referred to as “fixed” revenues, while usage fees are referred to as “variable” revenues. We also generate revenues from patent licensing and sales, advertising and revenue share from our customers’ use of premium rate telephone numbers. Of the 11.4 million telephone numbers deployed as of June 30, 2009, approximately 1.3 million were serving paying subscribers, with the balance deployed to free subscribers, including those with premium rate telephone numbers. We operate in one reportable segment: value-added messaging and communications services, which provides for the delivery of fax, voice and email messages and communications via the telephone and/or Internet networks.

We hold over 50 issued United States patents and numerous international counterparts to those patents consisting of thousands of claims covering a range of inventions that incorporate fundamental messaging and communications technologies. Over the past five years we have engaged in a program of enforcing our patents against third parties using this technology without our permission. We have also sold non-core patent assets for profit. Three of our core patents have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office: (i) U.S. Patent No. 6,350,066 covers retrieval of fax or voice messages directed to an intended recipient via an Internet browser; (ii) U.S. Patent No. 6,208,638 covers transmission of fax or voice messages to an intended recipient via electronic mail as an attachment and (iii) U.S. Patent No. 6,597,688 covers transmission of a message received via the Internet to an intended recipient via facsimile protocol. We currently have several cases involving these and other patents against several companies in the United States District Court for the Central District of California. As a result of these core patents successfully existing reexamination proceedings, the stay that had been in place in these pending cases was lifted during the second quarter of 2009. These cases are now proceeding forward and are in the discovery stage. For more information on this and other litigation involving j2 Global please see Part II, Item 1. Legal Proceedings.

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

For the past three years, 90% or more of our total revenues have been produced by our DID-based services. DID-based revenues have increased to \$229.0 million from \$167.9 million for the three-year period ended December 31, 2008. The primary reason for this increase was a 67% increase in the number of paid DIDs over this period. We expect that DID-based revenues will continue to be a dominant driver of total revenues.

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The following table sets forth our key operating metrics for the three and six months ended June 30, 2009 and 2008 (in thousands, except for percentages and average revenue per paying telephone number):

| | June 30, | | | | | |
|--|-------------------------|----------|---------------------------|-----------|---|--|
| | 2009 | 2008 | | | | |
| Free service telephone numbers | 10,134 | 10,234 | | | | |
| Paying telephone numbers | 1,274 | 1,163 | | | | |
| Total active telephone numbers | 11,408 | 11,397 | | | | |
| | Three Months Ended June | | Six Months Ended June 30, | | | |
| | 2009 | 2008 | 2009 | 2008 | | |
| Subscriber revenues: | | | | | | |
| Fixed | \$49,726 | \$46,593 | \$98,525 | \$90,852 | | |
| Variable | 11,323 | 12,944 | 22,164 | 25,900 | | |
| Total subscriber revenues | \$61,049 | \$59,537 | \$120,689 | \$116,752 | | |
| Percentage of total subscriber revenues: | | | | | | |
| Fixed | 81.5 | % 78.3 | % 81.6 | % 77.8 | % | |
| Variable | 18.5 | % 21.7 | % 18.4 | % 22.2 | % | |
| Revenues: | | | | | | |
| DID-based | \$58,904 | \$57,552 | \$116,353 | \$112,852 | | |
| Non-DID-based | 3,560 | 3,125 | 6,502 | 6,473 | | |
| Total revenues | \$62,464 | \$60,677 | \$122,855 | \$119,325 | | |
| Average monthly revenue per paying telephone number(1) | \$14.96 | \$16.29 | \$15.02 | \$16.19 | | |

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

Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions. Our critical accounting policies are described in our 2008 Annual Report on Form 10-K filed with the SEC on February 25, 2009 as amended on March 5, 2009. During the six months ended June 30, 2009, there were no significant changes in our critical accounting policies and estimates.

Results of Operations for the Three and Six Months Ended June 30, 2009

Revenues

Subscriber Revenues. Subscriber revenues consist of both a fixed monthly or annual recurring subscription component and a variable component which is driven by the actual usage of our service offerings. Over the past three calendar years the fixed portion of our subscriber revenues has contributed an increasing percentage to our total subscriber revenues. Subscriber revenues were \$61.0 million and \$59.5 million for the three months ended June 30, 2009 and 2008, respectively. Subscriber revenues were \$120.7 million and \$116.8 million for the six months ended June 30, 2009 and 2008, respectively. This increase in subscriber revenues was due to an increase in our paying subscriber base. The increase in our base of paying subscribers primarily resulted from new subscribers coming directly to our Websites, free-to-paid subscriber upgrades, small to mid-sized corporate and enterprise sales, direct large enterprise and government sales, direct marketing costs for acquisition of paying subscribers and international sales and business acquisitions, in each case net of cancellations.

Other Revenues. Other revenues were \$1.4 million and \$1.1 million for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, other revenues were \$2.2 million and \$2.6 million, respectively. Other revenues consist primarily of patent sales and licensing revenues and advertising revenues generated by delivering email messages to our customers on behalf of advertisers. The increase in other revenues resulted primarily from the sale of non-core intellectual property during the period.

Cost of Revenues

Cost of revenues is primarily comprised of costs associated with data and voice transmission, telephone numbers, sales and other non-income based taxes, network operations, customer service, on-line processing fees and equipment depreciation. Cost of revenues was \$11.6 million, or 19% of total revenues, and \$11.7 million, or 19% of total revenues, for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, cost of revenues was \$23.0 million, or 19% of total revenues, and \$23.4 million, or 20% of total revenues, respectively. The decrease in cost of revenues was primarily due to increased efficiency of network operations and sales taxes in connection with the relocation of certain network operations to a more favorable taxing locality. This reduction was partially offset by increased phone expense.

Operating Expenses

Sales and Marketing. Our sales and marketing costs consist primarily of Internet-based advertising, sales and marketing personnel costs and other business development-related expenses. 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. We have a disciplined return-on-investment approach to our Internet-based advertising and marketing spend, which causes sales and marketing costs as a percentage of total revenues to vary from period to period based upon available opportunities. Sales and marketing expenses were \$9.2 million, or 15% of total revenues, and \$10.6 million, or 17% of total revenues, for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009 and 2008, sales and marketing expenses were \$18.1 million, or 15% of total revenues, and \$20.8 million, or 17% of total revenues, respectively. The decrease in sales and marketing expenses for the three and six months ended June 30, 2009 was primarily due to increased efficiency and synergies from the integration of acquisitions and more cost effective marketing opportunities both in the United States and around the world.

Research, Development and Engineering. Our research, development and engineering costs consist primarily of personnel-related expenses. Research, development and engineering costs were \$2.9 million, or 5% of total revenues, and \$3.0 million, or 5% of total revenues, for the three months ended June 30, 2009 and 2008, respectively. For the six

months ended June 30, 2009 and 2008, research, development and engineering costs were \$5.8 million, or 5% of total revenues, and \$6.2 million, or 5% of total revenues, respectively. The decrease in research, development and engineering costs for the three and six months ended June 30, 2009 compared to the same period in the prior year was primarily due to increased efficiency and synergies from the integration of acquisitions.

General and Administrative. Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, share-based compensation expense, bad debt expense and insurance costs. General and administrative costs were \$11.2 million, or 18% of total revenues, and \$11.3 million, or 19% of total revenues, for the three months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2008 and 2007, general and administrative costs were \$21.9 million, or 18% of total revenues, and \$22.4 million, or 19% of total revenues, respectively. The decrease compared to the same period in the prior year was primarily due to reduced bad debt and legal expenses offset by increased amortization due to acquisitions and share based compensation.

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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 operations for the three and six months ended June 30, 2009 and 2008 (in thousands):

| | Three Months Ended June | | Six Months Ended June 30, | |
|---------------------------------------|-------------------------|---------|---------------------------|---------|
| | 2009 | 2008 | 2009 | 2008 |
| Cost of revenues | \$331 | \$212 | \$612 | \$387 |
| Operating expenses: | | | | |
| Sales and marketing | 484 | 328 | 861 | 666 |
| Research, development and engineering | 221 | 191 | 417 | 405 |
| General and administrative | 1,870 | 1,243 | 3,311 | 2,543 |
| | \$2,906 | \$1,974 | \$5,201 | \$4,001 |

Non-Operating Income and Expenses

Interest and Other Income, net. Our interest and other income, net is generated primarily from interest earned on cash, cash equivalents and short-term and long-term investments. Interest and other income, net, was \$0.3 million and \$0.6 million for the three months ended June 30, 2009 and 2008, respectively, and \$0.5 million and \$1.9 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in interest and other income, net, was primarily due to falling interest rates.

Other-than-temporary impairment losses. An other-than-temporary impairment occurred in connection with our securities for the three and six month period ended June 30, 2009. As a result, we recorded an impairment of \$9.2 million within the condensed consolidated statement of operations.

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. Income tax expense amounted to approximately \$7.5 million and \$7.9 million for the three months ended June 30, 2009 and 2008, respectively. Income tax expense for the six months ended June 30, 2009 and 2008 was \$15.5 million and \$14.9 million, respectively. Our effective tax rate was approximately 40.4% compared to 32.1% and 34.2% compared to 30.8% for the three and six months ended June 30, 2009 and 2008, respectively. The increase is primarily due to the impairment of debt and preferred securities in the amount of \$9.2 million which is not deductible for income tax purposes in the current period. Excluding this non-recurring impairment, our effective tax rate would have been 29.9% for the three and six months ended June 30, 2009.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At June 30, 2009, we had cash and investments of \$194.8 million compared to cash and investments of \$161.9 million at December 31, 2008. The increase in cash and investments resulted primarily from cash provided by operations offset by cash used in connection with business acquisitions. At June 30, 2009, cash and investments consisted of cash and cash equivalents of \$192.6 million, short-term investments of \$21,000 and long-term investments of \$2.2 million.

Our investments are comprised primarily of readily marketable corporate debt securities, auction rate debt and preferred securities and certificates of deposits. For financial statement presentation, we classify our investments primarily as held-to-maturity and, 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. We retain a substantial portion of our cash in foreign jurisdictions for future reinvestment. If we were to repatriate funds held overseas, we would incur U.S. income tax on the repatriated amount at an approximate blended federal and state rate of 40%.

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Our long-term investments consist primarily of corporate and auction rate debt and preferred securities. The auction rate debt and preferred securities are illiquid due to failed auctions or following failed auctions were converted into other illiquid securities. During the second quarter of 2009, we determined that as a result of continued deterioration of the creditworthiness of the issuers of these securities that we intend to sell these securities. Accordingly, we have reclassified these securities to available-for-sale. In addition, we determined that these securities were other-than-temporarily impaired and recorded an impairment of \$9.2 million to the condensed consolidated statement of operations. Based on our ability to access our cash and other short-term investments, our expected operating cash flows, and our other sources of cash, we do not anticipate the lack of liquidity of these investments to affect our ability to operate our business as usual. There have been no significant changes in the maturity dates and average interest rates for our investment portfolio and debt obligations subsequent to June 30, 2009.

We currently anticipate that our existing cash and cash equivalents and short-term investment balances and cash generated from operations will be sufficient to meet our anticipated needs for working capital and capital expenditures, and investment requirements 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 \$51.5 million and \$51.3 million for the six months ended June 30, 2009 and 2008, respectively. Our operating cash flows resulted primarily from cash received from our subscribers. Our cash and cash equivalents and short-term investments were \$192.6 million at June 30, 2009.

Net cash (used in) provided by investing activities was approximately (\$14.1) million and \$27.8 million for the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009, net cash used in investing activities was primarily attributable to business acquisitions. For the six months ended June 30, 2008, net cash used in investing activities was primarily attributable to the sales of available-for-sale investments and net redemptions and sales of held-to-maturity investments.

Net cash provided by (used in) financing activities was approximately \$3.5 million and (\$95.9) million for the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009, net cash provided by financing activities was primarily attributable to the excess tax benefits from share-based compensation. For the six months ended June 30, 2008, net cash used in financing activities was primarily attributable to the repurchase of our common stock, partially offset by excess tax benefits on stock option exercises.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of June 30, 2009:

| Contractual Obligations | Payments Due in | | | | | | Total |
|---|-----------------|----------|--------|--------|--------|------------|-----------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | |
| Operating leases | \$ 894 | \$ 432 | \$ 226 | \$ 214 | \$ 187 | \$ 690 | \$ 2,643 |
| Telecom services and co-location facilities | 4,223 | 6,103 | 709 | — | — | — | 11,035 |
| | \$ 5,117 | \$ 6,535 | \$ 935 | \$ 214 | \$ 187 | \$ 690 | \$ 13,678 |

The following table represents key drivers of our business and is provided as additional information to readers of the consolidated financial statements.

Calculation of Average Monthly Revenue per Paying Telephone Number:

| | Three Months Ended June | | Six Months Ended June 30, | |
|---|---|----------|---------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands except average monthly revenue per paying telephone number) | | | |
| DID-based revenues | \$58,904 | \$57,552 | \$116,353 | \$112,852 |
| Less other revenues | 1,715 | 2,280 | 3,243 | 4,709 |
| Total paying telephone number revenues | \$57,189 | \$55,272 | \$113,110 | \$108,143 |
| Average paying telephone number monthly revenue (total divided by number of months) | \$19,063 | \$18,424 | \$18,852 | \$18,024 |
| Number of paying telephone numbers | | | | |
| Beginning of period | 1,274 | 1,099 | 1,236 | 1,064 |
| End of period | 1,274 | 1,163 | 1,274 | 1,163 |
| Average of period | 1,274 | 1,131 | 1,254 | 1,113 |
| Average monthly revenue per paying telephone number(1) | \$14.96 | \$16.29 | \$15.02 | \$16.19 |

(1)Due to rounding, individual numbers may not add.

Credit Agreement

On January 5, 2009, we entered into a Credit Agreement (the "Credit Agreement") with Union Bank, N.A. ("Lender") in order to further enhance our liquidity in the event of potential acquisitions (see Note 7 - Commitments and Contingencies for further details).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in the forward-looking statements. 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. 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 2009.

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 June 30, 2009, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

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

As of June 30, 2009, we had investments in debt securities with effective maturities greater than one year of approximately \$2.2 million. Such investments had a weighted average yield of approximately 2.76%. Based on our cash and cash equivalents and short and long-term investment holdings as of June 30, 2009, an immediate 100 basis point decline in interest rates would decrease our annual interest income by approximately \$1.9 million.

As of January 5, 2009, we entered into a line of credit agreement to be used for working capital and general corporate purposes. If we were to borrow from this line of credit agreement we would be subject to the prevailing interest rates and could be exposed to interest rate fluctuations.

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

Foreign Currency Risk

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

As we increase our operations in international markets we become increasingly exposed to changes in currency exchange rates. The economic impact of currency exchange rate movements is often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

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As currency exchange rates change, translation of the income statements of the international businesses into U.S. Dollars affects year-over-year comparability of operating results. Historically, we have not hedged translation risks because cash flows from international operations were generally reinvested locally; however, we may do so in the future. Our objective in managing foreign exchange risk is to minimize the potential exposure to changes that exchange rates might have on earnings, cash flows and financial position.

Foreign exchange gains and losses were not material to our earnings for the three and six months ended June 30, 2009. For the three and six months ended June 30, 2009, translation adjustments amounted to approximately \$2.4 million and \$1.6 million, respectively. As of June 30, 2009, cumulative translation adjustments included in other comprehensive income amounted to approximately \$2.0 million.

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the second quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Overview of Patent Litigation and Proceedings Against Us

From time to time, we are involved in litigation and other disputes or regulatory inquiries that arise in the ordinary course of our business. Many of these actions involve or are filed in response to patent actions filed by us 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 us, 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 our continuing effort to prevent the unauthorized use of our intellectual property, we have initiated litigation against the following companies, among others, for infringing our patents relating to Internet fax and other messaging technologies: Captaris, Inc. and its parent company Open Text Corporation (“Captaris”), Integrated Global Concepts, Inc. (“IGC”), Venali, Inc. (“Venali”), Protus IP Solutions, Inc. (“Protus”) and EasyLink Services International Corp. (“EasyLink”). Three of the patents at issue in some of these lawsuits recently have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office.

Captaris, Venali, Protus and EasyLink have each filed counterclaims against us, including seeking declaratory judgments of non-infringement, invalidity and unenforceability of our patents. Captaris also asserted a counterclaim purporting to allege antitrust violations of Section 1 & 2 of the Sherman Act and Section 7 of the Clayton Act and California’s Business and Professions Code §§ 16720 and 17200. Captaris is seeking dismissal of our patent infringement claims, damages, including treble and punitive damages, an injunction against further violations, and attorneys’ fees and costs. All of these cases are being litigated in the United States District Court for the Central District of California before the same judge, who has indicated that the cases will be handled in a coordinated fashion. Since our three core patents successfully existed reexamination proceedings, the stay that had been in place in these pending cases was lifted during the second quarter of 2009, and discovery is underway.

In the July 2005, one of our affiliates filed a separate case against Venali in the United States District Court for the Central District of California, asserting infringement of several other U.S. patents. Venali filed various counterclaims against us and our affiliate on December 27, 2006, which included antitrust counterclaims based upon our enforcement of our patents related in substantial part to the patent infringement claims by us our affiliate against Venali. On May 11, 2007, the court entered a claim construction order regarding the disputed terms of the patents-in-suit. On August 12, 2008, the court granted Venali’s motion for summary judgment of non-infringement. On November 3, 2008, the court granted our summary judgment motion on Venali’s remaining counterclaims, which alleged antitrust violations based on our enforcement of our patents. We have appealed the non-infringement rulings in the 2005 case to the United States Court of Appeals for the Federal Circuit. The appeal is fully briefed but no argument date has been scheduled. Venali did not appeal the dismissal of its counterclaims.

In January 2006, we filed a complaint in the United States District Court for the Central District of California against Protus asserting causes of action for violation of the Federal Telephone Consumer Protection Act, trespass to chattels, and unfair business practices as a result of Protus sending “junk faxes” to us and our customers. We are seeking statutory and treble damages, attorneys’ fees, interest and costs, as well as a permanent injunction against Protus continuing its junk fax sending practices. In September 2007, Protus filed a counterclaim against us asserting the same causes of action as those asserted against it, as well as claims for false advertising, trade libel, tortious interference with prospective economic advantage and defamation. Protus is seeking, among other things, general and special damages, treble damages, punitive damages, attorneys’ fees, interest and costs, as well as a permanent injunction against us sending any more junk faxes. The parties are engaged in discovery. Trial is currently set for March 2, 2010.

On September 15, 2006, one of our affiliates filed a patent infringement suit against Integrated Global Concepts, Inc. (“IGC”)GC in the United States District Court for the Northern District of Georgia. On October 11, 2007, IGC filed counterclaims against us and several other parties. On April 23, 2008, the court ordered IGC to replead its counterclaims. IGC filed amended counterclaims on May 13, 2008, alleging violations of Section 2 of the Sherman Act and breach of contract. IGC is seeking damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys’ fees and costs. On June 13, 2008, we moved to dismiss the amended counterclaims and on August 28, 2008, we moved to stay the action pending the appeal in the 2005 case against Venali, described above, that involves the same patents and claims at issue in the IGC action. On February 18, 2009, the Court granted our motion to stay the case pending the conclusion of the Venali appeal.

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

On May 9, 2007, Bear Creek Technologies, Inc. (“Bear Creek”) filed suit against us in the United States District Court for the Eastern District of Texas, alleging infringement of U.S. Patent Number 6,985,494 (the “ ’494 patent”). Bear Creek is seeking damages in at least the amount of a reasonable royalty, a permanent injunction against continued infringement, treble damages,

attorneys' fees, interest and costs. On June 29, 2007, we filed an answer to the complaint denying liability, asserting affirmative defenses and asserting counterclaims of non-infringement and invalidity. On September 21, 2007, Bear Creek filed its reply to our counterclaims, denying each one. On February 11, 2008 we filed a request for reexamination of the '494 patent with the United States Patent and Trademark Office (the "USPTO"). On February 28, 2008, the Court stayed the case during the pendency of the reexamination proceedings. On April 18, 2008, the USPTO granted the reexamination request. On February 12, 2009, the USPTO finally rejected the reexamined claims, and Bear Creek failed to file a response within the prescribed timeframe. On June 16, 2009, the USPTO issued a right to appeal the Examiner's rejection. The patent owner filed a notice of appeal on July 16, 2009. An appeal brief has not yet been filed.

We do not believe, based on current knowledge, that any of the foregoing legal proceedings or claims is likely to have a material adverse effect on our 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 our consolidated financial position, results of operations or cash flows in a particular period. In accordance with SFAS 5, Accounting for Contingencies, we have not accrued for a loss contingency relating to these legal proceedings because unfavorable outcomes are not considered by management to be probable or reasonably estimable.

We hold over 50 issued United States patents and numerous international counterparts to those patents. They consist of thousands of claims covering a range of inventions that incorporate fundamental messaging and communications technologies. Over the past five years we have engaged in a program of enforcing our patents against third parties who use our technology without our permission. We have also sold noncore patent assets for profit. Three of our core patents recently have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office: (i) U.S. Patent No. 6,350,066 covers retrieval of fax or voice messages directed to an intended recipient via an Internet browser; (ii) U.S. Patent No. 6,208,638 covers transmission of fax or voice messages to an intended recipient via electronic mail as an attachment and (iii) U.S. Patent No. 6,597,688 covers transmission of a message received via the Internet to an intended recipient via facsimile protocol. We currently have several cases involving these and other patents against several companies in the United States District Court for the Central District of California. As a result of these core patents successfully exiting reexamination proceedings, the stay that had been in place in these pending cases was lifted during the second quarter of 2009. These cases are now proceeding forward and are in the discovery stage. For more information on this and other litigation involving j2 Global please see Part II, Item 1. Legal Proceedings.

Item 1A. Risk Factors

In addition to the other information set forth in this report, before deciding to invest in j2 Global or to maintain or increase your investment, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008 (the "10-K Risk Factors"). If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K Risk Factors are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. There have been no material changes from the 10-K Risk Factors.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2009 Annual Meeting of Stockholders on May 7, 2009 in Los Angeles, California. The following matters were submitted to our shareholders for a vote at the Annual Meeting:

(1) To elect the following seven director nominees to serve for the ensuing year and until their successors are elected and qualified. All nominees were elected as directors with the following vote:

| Nominee | Votes For | Withheld or Abstained |
|---------------------|------------|-----------------------|
| Douglas Y. Bech | 40,471,915 | 514,900 |
| Robert J. Cresci | 38,775,800 | 2,211,015 |
| W. Brian Kretzmer | 40,473,350 | 513,465 |
| Richard S. Ressler | 38,616,388 | 2,370,427 |
| John F. Rieley | 39,061,861 | 1,924,954 |
| Stephen Ross | 40,798,703 | 188,112 |
| Michael P. Schulhof | 40,141,115 | 845,700 |

(2) A proposal to ratify the appointment of Singer Lewak, LLP to serve as our independent auditors for fiscal 2009. This proposal was approved with the following vote:

| | |
|---------|------------|
| For | 40,899,237 |
| Against | 68,548 |
| Abstain | 19,030 |

Item 5. Other Information

None.

Item 6. Exhibits

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

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

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

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

SIGNATURE

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

j2 Global Communications, Inc.

Date August 5, 2009

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

Date August 5, 2009

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

INDEX TO EXHIBITS

| Exhibit Number | Description |
|----------------|--|
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