J2 GLOBAL, INC.
Form 10-Q
May 10, 2018

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 0-25965

j2 GLOBAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	47-1053457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6922 Hollywood Boulevard, Suite 500
Los Angeles, California 90028
(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 ý No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act). (Check one):
Large accelerated filer ý Accelerated filer o Non-Accelerated filer o Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of May 7, 2018, the registrant had 49,109,804 shares of common stock outstanding.

j2 GLOBAL, INC. AND SUBSIDIARIES

FOR THE QUARTER ENDED MARCH 31, 2018

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
j2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands except share and per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$331,367	$350,945
Restricted cash	402	—
Accounts receivable, net of allowances of $9,850 and $8,701, respectively	174,411	234,195
Prepaid expenses and other current assets	31,588	35,287
Total current assets	537,768	620,427
Long-term investments	64,947	57,722
Property and equipment, net	85,852	79,773
Trade names, net	127,450	123,947
Patent and patent licenses, net	9,879	10,871
Customer relationships, net	202,973	193,606
Goodwill	1,257,521	1,196,611
Other purchased intangibles, net	154,287	157,327
Other assets	11,541	12,809
TOTAL ASSETS	$2,452,218	$2,453,093
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$127,713	$169,837
Deferred revenue, current	113,940	95,255
Other current liabilities	291	10
Total current liabilities	241,944	265,102
Long-term debt	1,004,796	1,001,944
Deferred revenue, non-current	8,018	47
Income taxes payable, non-current	43,781	43,781
Liability for uncertain tax positions	53,311	52,216
Deferred income taxes	33,691	38,264
Other long-term liabilities	35,509	31,434
TOTAL LIABILITIES	1,421,050	1,432,788
Commitments and contingencies	—	—
Preferred stock - Series A, $0.01 par value. Authorized 6,000; total issued and outstanding zero	—	—
Preferred stock - Series B, $0.01 par value. Authorized 20,000; total issued and outstanding zero	—	—
Common stock, $0.01 par value. Authorized 95,000,000; total issued and outstanding 47,893,150 and 47,854,510 shares, respectively	479	479
Additional paid-in capital	332,407	325,854
Retained earnings	723,562	723,062
Accumulated other comprehensive loss	(25,280)	(29,090)
TOTAL STOCKHOLDERS' EQUITY	1,031,168	1,020,305
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,452,218	$2,453,093

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, in thousands except share and per share data)

	Three Months Ended March 31,	
	2018	2017
Total revenues	$280,623	$254,669
Cost of revenues [1]	48,145	40,810
Gross profit	232,478	213,859
Operating expenses:		
Sales and marketing [1]	86,311	77,477
Research, development and engineering [1]	12,210	11,752
General and administrative [1]	87,799	76,655
Total operating expenses	186,320	165,884
Income from operations	46,158	47,975
Interest expense, net	15,751	12,410
Other expense, net	4,519	323
Income before income taxes	25,888	35,242
Income tax expense	7,017	9,422
Net income	$18,871	$25,820
Net income per common share:		
Basic	$0.39	$0.54
Diluted	$0.38	$0.52
Weighted average shares outstanding:		
Basic	47,873,007	47,463,231
Diluted	48,706,717	48,766,031
Cash dividends paid per common share	$0.4050	$0.3650
[1] Includes share-based compensation expense as follows:		
Cost of revenues	$121	$117
Sales and marketing	365	378
Research, development and engineering	432	238
General and administrative	5,502	2,881
Total	$6,420	$3,614

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	$18,871	$25,820
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	6,310	3,582
Change in fair value on available-for-sale investments, net of tax expense (benefit) of zero and zero for the three months ended March 31, 2018 and 2017	(2,500)	—
Other comprehensive income, net of tax	3,810	3,582
Comprehensive income	$22,681	$29,402

See Notes to Condensed Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$18,871	$25,820
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	42,618	39,323
Amortization of financing costs and discounts	2,852	2,853
Share-based compensation	6,420	3,614
Provision for doubtful accounts	4,134	2,640
Deferred income taxes, net	354	(2,361)
Changes in fair value of contingent consideration	4,100	400
Loss on equity securities	3,678	—
Decrease (increase) in:		
Accounts receivable	59,647	25,110
Prepaid expenses and other current assets	2,574	(291)
Other assets	2,132	162
Increase (decrease) in:		
Accounts payable and accrued expenses	(45,144)	(53,566)
Income taxes payable	(1,721)	4,795
Deferred revenue	3,210	2,384
Liability for uncertain tax positions	933	573
Other long-term liabilities	(748)	(265)
Net cash provided by operating activities	103,910	51,191
Cash flows from investing activities:		
Purchases of investments	(13,403)	(5)
Purchases of property and equipment	(13,165)	(9,660)
Acquisition of businesses, net of cash received	(80,223)	(3,563)
Purchases of intangible assets	(175)	(142)
Net cash used in investing activities	(106,966)	(13,370)
Cash flows from financing activities:		
Proceeds from line of credit, net	—	44,981
Repurchase and retirement of common stock	(611)	(314)
Issuance of common stock under employee stock purchase plan	64	67
Exercise of stock options	594	695
Dividends paid	(19,884)	(17,575)
Deferred payments for acquisitions	(189)	(2,299)
Other	(54)	(26)
Net cash (used in) provided by financing activities	(20,080)	25,529
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3,960	109
Net change in cash, cash equivalents and restricted cash	(19,176)	63,459
Cash, cash equivalents and restricted cash at beginning of period	350,945	123,950
Cash, cash equivalents and restricted cash at end of period	$331,769	$187,409

See Notes to Condensed Consolidated Financial Statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2018
(UNAUDITED)
1. Basis of Presentation

j2 Global, Inc., together with its subsidiaries ("j2 Global" or the "Company"), is a leading provider of internet services. Through our Cloud Services segment, we provide cloud services to consumers and businesses and license our intellectual property ("IP") to third parties. In addition, the Cloud Services segment includes fax, voice, backup, security and email marketing products. Our Digital Media segment specializes in the technology, gaming, lifestyle and healthcare markets, offering content, tools and services to consumers and businesses.
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 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 although the Company believes that the disclosures made are adequate to make that information not misleading. 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. It is suggested that these financial statements be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2017 included in our Annual Report (Form 10-K) filed with the SEC on March 1, 2018. 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 accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications and the reported amounts of net revenue and expenses during the reporting period. We believe that our most significant estimates are those related to the valuation of investments and assets acquired and liabilities assumed in connection with business combinations, long-lived and intangible asset impairment, contingent consideration, income taxes and contingencies and allowances for doubtful accounts. On an ongoing basis, management evaluates its estimates based on historical experience and on various other factors that the Company believes to be reasonable under the circumstances. Actual results could materially differ from those estimates.

Allowances for Doubtful Accounts

j2 Global reserves for receivables it may not be able to collect. The reserves for the Company's Cloud Services segment 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. The reserves for the Company's Digital Media segment are typically driven by past due invoices based on historical experience. On an ongoing basis, management evaluates the adequacy of these reserves.

Revenue Recognition

Accounting Standard Codification (“ASC”) Topic 605, Revenue Recognition (“Topic 605”)

j2 Global recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed and determinable and collection is probable.

Principal vs. Agent

The Company determines whether revenue should be reported on a gross or net basis by assessing whether the Company is acting as the principal or an agent in the transaction. If the Company is acting as the principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance under Topic 605 for principal-agent considerations and places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

ASC Topic 606, Revenue from Contracts with Customers (“Topic 606”, “ASC 606” or the “new revenue standard”)

j2 Global recognizes revenue when the Company satisfies its obligation by transferring control of the goods or services to its customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services (see Note 3 - Revenues).

Principal vs. Agent

The Company determines whether revenue should be reported on a gross or net basis by assessing whether the Company is acting as the principal or an agent in the transaction. If the Company is acting as the principal in a transaction, the Company reports revenue on a gross basis. If the Company is acting as an agent in a transaction, the Company reports revenue on a net basis. In determining whether the Company acts as the principal or an agent, the Company follows the accounting guidance under Topic 606 for principal-agent considerations and assesses: (i) if another party is involved in providing goods or services to the customer and (ii) whether the Company controls the specified goods or services prior to transferring control to the customer.

Sales Taxes

The Company has made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are (i) both imposed on and concurrent with a specific revenue-producing transaction and (ii) collected by the Company from a customer.

Investments

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

The Company accounts for its investments in equity securities in accordance with ASC Topic No. 321, Investments - Equity Securities (“ASC 321”) which requires the accounting for equity investments (other than those accounted for using the equity method of accounting) generally be measured at fair value for equity securities with readily determinable fair values. For equity securities without a readily determinable fair value that are not accounted for by the equity method, the Company measures the equity security using cost, less impairment, if any, and plus or minus observable price changes arising from orderly transactions in the same or similar investment from the same issuer. Any unrealized gains or losses will be reported in current earnings (see Note 5 - Investments).

Variable Interest Entities (“VIE”)

A VIE requires consolidation by the entity’s primary beneficiary. The Company evaluates its investments in entities in which it is involved to determine if the entity is a VIE and if so, whether it holds a variable interest and is the primary beneficiary. The Company has determined that it holds a variable interest in its investment as a limited partner in the OCV Fund I, LP (“OCV Fund”, “OCV” or the “Fund”). In determining whether the Company is deemed to be the primary beneficiary of the VIE, both of the following characteristics must be present:

a) the Company has the power to direct the activities of the VIE that most significantly impacts the VIEs economic performance (the power criterion); and

b) the Company has the obligation to absorb losses of the VIE, or the right to receive benefits of the VIE, that could potentially be significant to the VIE (the economic criterion).

The Company has concluded that, as a limited partner, although the obligations to absorb losses or benefit from the gains is not insignificant, the Company does not have “power” over OCV because it does not have the ability to direct the significant decisions which impact the economics of OCV. j2 believes that the OCV general partner, as a single decision maker, holds the ability to make the decisions about the activities that most significantly impacts the OCV Fund’s economic performance. As a result, the Company has concluded that it will not consolidate OCV, as it is not the primary beneficiary of the OCV Fund, and will account for this investment under the equity-method of accounting.

Fair Value Measurements

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

As of March 31, 2018, the carrying value of cash and cash equivalents, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable, customer deposits and long-term debt are reflected in the financial statements at cost. With the exception of certain investments and long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company’s outstanding debt was determined using the quoted market prices of available debt instruments with similar terms and maturities. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to j2 Global.

Property and Equipment

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

Debt Issuance Costs and Debt Discount

j2 Global capitalizes costs incurred with borrowing and issuance of debt securities and records debt issuance costs and discounts as a reduction to the debt amount. These costs and discounts are amortized and included in interest expense over the life of the borrowing or term of the credit facility using the effective interest method.

Contingent Consideration

j2 Global measures the contingent earn-out liabilities in connection with acquisitions at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (see Note 6 - Fair Value Measurements). The Company may use various valuation techniques depending on the terms and conditions of the contingent consideration including a Monte-Carlo simulation. This simulation uses a probability distribution for each significant input to produce hundreds or thousands of possible outcomes, and the results are analyzed to determine probabilities of different outcomes occurring. Significant increases or decreases to these inputs in isolation would result in a significantly higher or lower liability with a higher liability capped by the contractual maximum of the contingent earn-out obligation. Ultimately, the liability will be equivalent to the amount paid, and the difference between the fair value estimate and the amount paid will be recorded in earnings. The amount paid that is less than or equal to the liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the liability on the acquisition date is reflected as cash used in operating activities.

j2 Global reviews and re-assesses the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could be materially different from the initial estimates or prior quarterly amounts. Changes in the estimated fair value of our contingent earn-out liabilities are reported in operating income, except for the time component of the present value calculation which is reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

Self-Insurance Program

j2 Global is self-insured for certain subsidiaries providing health and dental insurance plans to its employees through a self-insurance structure. The Company has reinsurance which is a two tiered stop-loss coverage that limits the exposure arising from any claims made. Self-insurance claims filed and claims incurred but not reported are accrued based on management’s estimate of the discounted ultimate costs for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could materially differ from recorded self-insurance liabilities.

Segment Reporting

Accounting guidance establishes standards for the way that public business enterprises report information about operating segments in their annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. Accounting guidance also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company operates as two segments: (1) Cloud Services and (2) Digital Media.

Reclassifications

Certain prior year reported amounts have been reclassified to conform to the 2018 presentation.

2.Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company has adopted this ASU and other related ASUs as of January 1, 2018 (the “adoption date”) using the cumulative effect method which applied to those contracts which were not completed as of the adoption date. Results for reporting periods beginning after the adoption date are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605 as noted above (see Note 3 - Revenues).

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the practical expedient exception. An entity may elect to measure an equity security without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such these investments may be measured at cost. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has adopted this ASU on a prospective basis and has determined that investments within the scope of the standard will be recorded at fair value with changes in fair value recognized in earnings which may lead to increased volatility in other expense.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company expects that the adoption of this ASU will have a material effect on its condensed consolidated balance sheet and disclosures. The Company currently has both capital and operating leases, both domestically and internationally, with varying expiration dates through 2025 in the aggregate amount of $85.9 million for the period ended March 31, 2018.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019. The adoption of this standard is not expected to have a material impact on our financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The amendments in this ASU reduce the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company has adopted this ASU on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings and has determined that there is no impact on our financial statements and related disclosures as of January 1, 2018.

In January 2017, the FASB issued 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this ASU provide a robust framework to use in determining when a set of assets and activities is a business. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and the standard should be applied prospectively. The Company has adopted this ASU on a prospective basis and has determined that there is no impact on our financial statements and related disclosures.

In January 2017, the FASB issued 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this ASU simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test and eliminating the requirement for a reporting unit with a zero or negative carrying amount to perform a qualitative assessment. Instead, under this pronouncement, an entity would perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and would recognize an impairment change for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized is not to exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects will be considered, if applicable. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted and should be adopted on a prospective basis. The Company does not expect the adoption of this ASU to have a material impact on our financial statements and related disclosures.

In May 2017, the FASB issued 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this ASU provide guidance about which changes to the terms or conditions of share-based payment award require an entity to apply modification accounting in Topic 718. Specifically, an entity should account for the effects of a modification unless all the following are met: (1) The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. This ASU is effective for those fiscal years, beginning after December 15, 2017. Early adoption is permitted and should be adopted on a prospective basis. The Company has adopted this ASU on a prospective basis and has determined that there is no impact on our financial statements and related disclosures.

In February 2018, the FASB issued 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. federal tax legislation, the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). Consequently, the amendments eliminate the stranded tax effects resulting from the 2017 Tax Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the 2017 Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. This ASU is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the 2017 Tax Act is recognized. The Company is currently evaluating the effect of this ASU on our financial statements and related disclosures.

In February 2018, the FASB issued 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU clarify certain aspects of the guidance issued in ASU 2016-01, Financial Instruments - Overall. As is consistent with other clarifying standards, the amendments are not expected to have a significant effect on the current accounting practice. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods beginning after June 15, 2018. Public entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt these amendments until the interim period beginning after June 15, 2018. Early adoption is permitted and should be adopted in conjunction with ASU 2016-01. The Company has adopted this ASU on a prospective basis and have determined that investments within the scope of the standard will be recorded at fair value with changes in fair value recognized in earnings which may lead to increased volatility in other expense.

In March 2018, the FASB issued 2018-04, Investments-Debt Securities (Topic 620) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273. The amendments in this ASU update SEC paragraphs pursuant to SEC Staff Accounting Bulletin 117 and better align the interpretive guidance with ASU 2016-01. The Company has adopted this ASU on a prospective basis and has determined that there is no impact on our financial statements and related disclosures.

In March 2018, the FASB issued 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB" or "SAB 118") (issued in December 2017). The amendments in this ASU add SEC interpretive guidance pursuant to SEC Staff Accounting Bulletin No. 118 which assists registrants address any diversity of views in applying Topic 740 in the reporting period in which the 2017 Tax Cuts and Jobs Act ("2017 Tax Act") was enacted. Specifically, the ASU provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects where (i) the accounting for the income tax effect of the 2017 Tax Act is complete and reported in the 2017 Tax Act's enactment period; (ii) the accounting for the income tax effect of the 2017 Tax Act is incomplete and reported as provisional amounts based on reasonable estimates (to the extent determinable) subject to adjustments during a limited measurement period until complete; and (iii) accounting for the income tax effect of the 2017 Tax Act is not reasonably estimable (no related provisional amounts are reported in the enactment period) and entities would continue to apply accounting based on tax law provisions in effect prior to the 2017 Tax Act enactment until provisional amounts are reasonably estimable. The Company has adopted this ASU on a prospective basis and has complied with SAB 118 (see Note 10 - Income Taxes).

3.Revenues

Digital Media

Digital Media revenues are earned primarily from the delivery of advertising services and from subscriptions to services and information.

Revenue is earned from the delivery of advertising services on the Company's owned and operated websites and on those websites that are part of Digital Media's advertising network. Depending on the individual contracts with the customer, revenue for these services are recognized over the contract period when any of the following performance obligations are satisfied: (i) when an advertisement is placed for viewing, (ii) when a qualified sales lead is delivered, (iii) when a visitor "clicks through" on an advertisement or (iv) when commissions are earned upon the sale of an advertised product.

Revenue from subscriptions is earned through the granting of access to, or delivery of, certain data products or services to customers. Subscriptions cover video games and related content, health information, data and other copyrighted material. Revenues under such agreements are recognized over the contract term for use of the service. Revenues are also earned from listing fees, subscriptions to online publications, and from other sources. Subscription revenues are recognized over time.

j2 Global also generates Digital Media revenues through the license of certain assets to clients. Assets are licensed for clients' use in their own promotional materials or otherwise. Such assets may include logos, editorial reviews, or other copyrighted material. Revenues under such license agreements are recognized over the contract term for use of the asset. Technology assets are also licensed to clients. These assets are recognized over the term of the access period. The Digital Media business also generates other types of revenues, the sale and publishing of digital games, marketing and production services, and from other sources. Such other revenues are generally recognized over the period in which the products or services are delivered.

The Company records revenue on a gross basis with respect to revenue generated (i) by the Company serving online display and video advertising across its owned and operated web properties, on third-party sites or on unaffiliated advertising networks, (ii) through the Company's lead-generation business and (iii) through the Company's subscriptions. The Company records revenue on a net basis with respect to revenue paid to the Company by certain third-party advertising networks who serve online display and video advertising across the Company's owned-and-operated web properties and certain third-party sites.

Cloud Services

The Company's Cloud Services revenues substantially consist of monthly recurring subscription and usage-based fees, which are primarily paid in advance by credit card. The Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance of the satisfaction of performance obligations and recognizes them in the period earned.

Along with our numerous proprietary Cloud Services solutions, the Company also generates revenues by reselling various third-party solutions, primarily through our email security and online backup lines of business. These third-party solutions, along with our proprietary products, allow the Company to offer customers a variety of solutions to better meet their needs. The Company records revenue on a gross basis with respect to reseller revenue because the Company has control of the specified good or service prior to transferring control to the customer.

j2 Global’s Cloud Services also include patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to j2 Global in exchange for the grant of non-exclusive, retroactive and future licenses to our intellectual property, including patented technology. Patent revenues may also consist of revenues generated from the sale of patents. Patent license arrangements are evaluated to determine if they grant the customer a right to access the Company’s intellectual property which is generally recognized over the life of the arrangement or a right to use the Company’s intellectual property which is generally recognized at the point in time the license is granted. With regard to royalty-bearing license arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

The Cloud Services business also generates revenues by licensing certain technology to third parties. Generally, revenue is recognized over time as the third party uses the licensed technology over the period.

The cumulative effect of the changes made to our consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606 is as follows (in thousands):

	January 1, 2018	Adjustments due to ASU 2014-09	December 31, 2017
Balance Sheet			
Assets			
Accounts receivable, net	$234,195	$ —	$234,195
Liabilities			
Deferred revenue, current	93,656	(1,599)	95,255
Deferred revenue, non-current	47	—	47
Equity			
Retained earnings	$724,661	$ 1,599	$723,062

The following tables summarize the impact of adopting Topic 606 on the Company's consolidated financial statements (in thousands):

	March 31, 2018		
	As Reported	Adjustments	Balances Without Adoption of ASC 606
Balance Sheet			
Assets			
Accounts receivable, net	$174,411	$ —	$174,411
Liabilities			
Deferred revenue, current	113,940	(416)	113,524
Deferred revenue, non-current	8,018	—	8,018
Equity			
Retained earnings	$723,562	$ 416	$723,978

	Three Months Ended March 31, 2018		
	As Reported	Adjustments	Balances Without Adoption of ASC 606
Statement of Income			
Revenues			
Total revenues	$280,623	$ 2,015	$282,638
Expenses			
Total expenses	261,752	—	$261,752
Net income	18,871	2,015	20,886

Diluted EPS impact	$0.38	$ 0.04	$0.42

Revenues from external customers classified by revenue source are as follows (in thousands):

	Three Months Ended March 31,	
Digital Media	2018	2017
Advertising	$96,338	$92,488
Subscription	29,350	13,401
Other	5,473	7,242
Total Digital Media revenues	$131,161	$113,131
Cloud Services		
Subscription	$149,322	$140,332
Other	163	1,212
Total Cloud Services revenues	149,485	141,544
Corporate	$1	$—
Elimination of inter-segment revenues	(24)	(6)
Total Revenues	$280,623	$254,669
Timing of revenue recognition		
Point in time	$1,075	$4,619
Over time	279,548	250,050
Total	$280,623	$254,669

The Company has recorded $38.9 million of revenue in the current period included in the contract liability balance as of the adoption date. In connection with the acquisition of ThreatTrack Security Holdings, Inc. (see Note 4 - Business Acquisitions), the Company acquired $23.9 million of deferred revenue (subject to any purchase accounting adjustments).

Performance Obligations

The Company’s contracts with customers may include multiple performance obligations. For such arrangements, revenues are allocated to each performance obligation based on its relative standalone selling price.

The Company satisfies its performance obligations within the Digital Media segment upon delivery of services to its customers. Payments for these services are typically due shortly after they have been provided. In addition, the Company provides content to its advertising partners which the Company sells to its partners’ customer base and receives a revenue share based on the terms of the agreement.

The Company satisfies its performance obligations within the Cloud Services segment upon delivery of services to its customers. Payment terms vary by type and location of our customers and the services offered. The term between invoicing and when payment is due is not significant. For certain services and customer types, we require payment before services are delivered to the customer. Due to the nature of the services provided, there are no obligations for returns.

Significant Judgments

In determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation.

Performance Obligations Satisfied Over Time

The Company's Digital Media segment consists primarily of performance obligations that are satisfied over time. This was determined based on a review of the contracts and the nature of the services offered, where the customer simultaneously receives and consumes the benefit of the services provided. Satisfaction of these performance obligations is evidenced in the following way:

Advertising

- Website reporting by the Company, the customer, or a third-party contains the delivery evidence needed to satisfy the performance obligations within the advertising contract
- Successfully delivered leads are evidenced by either delivery reports from the Company's internal lead management systems or through e-mail communication and/or other evidence of delivery showing acceptance of leads by the customer
- Commission is evidenced by direct site reporting from the affiliate or via direct confirmation from the customer

Subscription

- Evidence of delivery is contained in the Company's systems or from correspondence with the customer which tracks when a customer accepts delivery of any assets, digital keys or download links

The Company has concluded revenue is recognized based on delivery of services over the contract period for advertising and on a straight-line basis over the contract period for subscriptions. The Company believes that the methods described are a faithful depiction of the transfer of goods and services.

The Company's Cloud Services segment consists primarily of performance obligations that are satisfied over time. This has been determined based on the fact that the nature of services offered are subscription based and include fax, voice, backup, security and email marketing products where the customer simultaneously receives and consumes the benefit of the services provided regardless of whether the customer uses the services or not. As a result, the Company has concluded that the best measure of progress toward the complete satisfaction of the performance obligation over time is a time-based measure. The Company recognizes revenue on a straight-line basis throughout the subscription period and believes that the method used is a faithful depiction of the transfer of goods and services.

Performance Obligations Satisfied at a Point in Time

The Company's Digital Media segment has technology subscriptions where the performance obligations are satisfied at a point in time. This is evidenced once a digital key is delivered to the customer. Once the key is delivered to the customer, the customer has full control of the technology and the Company has no further performance obligations. The Company has concluded that revenue is recognized once the digital key is delivered. The Company believes that this method is a faithful depiction of the transfer of goods and services.

Practical Expedients

Existence of a Significant Financing Component in a Contract

As a practical expedient, the Company has not assessed whether a contract has a significant financing component because the Company expects at contract inception that the period between payment by the customer and the transfer of promised goods or services by the Company to the customer will be one year or less. In addition, the Company has determined that the payment terms that the Company provides to its customers are structured primarily for reasons other than the provision of finance to the Company. The Company typically charges a single upfront amount for the services because other payment terms would affect the nature of the risk assumed by the Company to provide service given the costs of the customer acquisition and the highly competitive and commoditized nature of the business we operate which allows customers to easily move from one provider to another. This additional risk may make it uneconomical to provide the service.

Costs to Fulfill a Contract

The Company’s revenues are primarily generated from customer contracts that are for one year or less. Costs primarily consist of incentive compensation paid based on the achievements of sales targets in a given period for related revenue streams and are recognized in the month when the revenue is earned. As a practical expedient, for amortization periods which are determined to be one year or less, the Company expenses any incremental costs of obtaining the contract with a customer when incurred. For those customer contracts greater than one year, the Company capitalizes and amortizes the expenses over the appropriate contract periods.

4.Business Acquisitions

The Company uses acquisitions as a strategy to grow its customer base by increasing its presence in new and existing markets, expand and diversify its service offerings, enhance its technology, acquire skilled personnel and enter into other jurisdictions.

The Company completed the following acquisitions during the first three months of fiscal 2018, paying the purchase price in cash in each transaction: (a) a share purchase of the entire issued capital of ThreatTrack Security Holdings, Inc., acquired on January 26, 2018, a Florida based provider of cybersecurity solutions; and (b) an other immaterial acquisition of a digital health business.

The condensed consolidated statement of income since the date of each acquisition and balance sheet as of March 31, 2018, reflect the results of operations of all 2018 acquisitions. For the three months ended March 31, 2018, these acquisitions contributed $4.4 million to the Company’s revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global’s integration activities and is impracticable to provide. Total consideration for these transactions was $77.0 million, net of cash acquired and assumed liabilities and is subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

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

Assets and Liabilities	Valuation
Cash [(1)]	$886
Accounts receivable	2,931
Prepaid expenses and other current assets	1,292
Property and equipment	2,335
Trade names	6,400
Customer relationships	24,076
Goodwill	59,068
Other intangibles	10,337
Accounts payable and accrued expenses	(2,920)
Other current liabilities	(286)
Deferred revenue	(23,890)
Deferred tax liability	(819)
Other long-term liabilities	(1,540)
Total	$77,870

[(1)] Cash contains an immaterial amount of restricted cash associated with a pre-acquisition relationship with a vendor expected to be released during the second quarter 2018.

During the three months ended March 31, 2018, the purchase price accounting has been finalized for the following acquisitions: (i) WeCloud AB; and (ii) an other immaterial email security business. The initial accounting for all 2018 acquisitions is incomplete and subject to change, which may be significant. j2 Global has recorded provisional amounts which may be based upon past acquisitions with similar attributes for certain intangible assets (including trade names, software and customer relationships), preliminary acquisition date working capital and related tax items.

During the three months ended March 31, 2018, the Company recorded adjustments to prior period acquisitions due to the finalization of purchase accounting in the Cloud Services segment which resulted in a net decrease in goodwill of $(1.0) million. Such adjustments had an immaterial impact to the amortization expense within the condensed consolidated statement of income for the three months ended March 31, 2018.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with these acquisitions during the three months ended March 31, 2018 is $59.1 million, of which $1.0 million is expected to be deductible for income tax purposes.

5.Investments

Investments consist of certificates of deposits, equity and debt securities.

The Company has adopted ASU 2016-01 during the first quarter 2018 (see Note 2 - Recent Accounting Pronouncements) and determined that the equity securities that were received as part of the consideration for the sale of Tea Leaves Health, LLC (“Tea Leaves”) in fiscal year 2017 are without a readily determinable fair value because these securities are privately held, not traded on any public exchanges and not an investment in a mutual fund or similar investment. As a result, management has elected to alternatively measure this investment at cost, less impairment, adjusted for subsequent observable price changes to estimate fair value. The Company will make a “reasonable effort” to identify any observable price changes for identical or similar investments with the issuer that are known are can be reasonably known. The adoption of ASU 2016-01 was done on a prospective basis and any changes in the carrying value of the equity securities will be reported in our current earnings as Other expense, net. In addition, the Company determined that the shares of redeemable preferred stock that was also received as part of the consideration for the sale of Tea Leaves are corporate debt securities and are classified as available-for-sale securities.

The following table summarizes the Company’s investments (in thousands):

	March 31, 2018	December 31, 2017
Equity securities	$44,702	$ 34,977
Corporate debt securities	20,245	22,745
Total	$64,947	$ 57,722

The following table summarizes the gross unrealized gains and losses and estimated fair values for the Company’s securities without a readily determinable fair value (in thousands):

	Cost	Impairment	Adjustments	Fair Value
March 31, 2018				
Equity securities	$34,977	—	(3,678)	$31,299
Total	$34,977	—	(3,678)	$31,299
December 31, 2017				
Equity securities	$34,977	—	—	$34,977
Total	$34,977	—	—	$34,977

During the current period, the Company recorded an unrealized loss to earnings because an observable price for a similar instrument was observed in the market at an amount that was below the original carrying price of the investment (see Note 6 - Fair Value Measurements).

The following table summarizes the gross unrealized gains and losses and fair values for investments classified as available-for-sale investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Corporate debt securities	$ 22,745	$ —	$ (2,500)	$ 20,245
Total	$ 22,745	$ —	$ (2,500)	$ 20,245
December 31, 2017				
Corporate debt securities	$ 22,745	$ —	$ —	$ 22,745
Total	$ 22,745	$ —	$ —	$ 22,745

At March 31, 2018, the Company's available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a component of stockholders' equity.

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

	March 31, 2018	December 31, 2017
Due within 1 year	$—	$ —
Due within more than 1 year but less than 5 years	20,245	22,745
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	—	—
Total	$ 20,245	$ 22,745

Recognition and Measurement of Other-Than-Temporary Impairment

Regardless of the classification of the securities as available-for-sale or held-to-maturity, the Company has assessed each position for impairment. j2 Global regularly reviews and evaluates each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income for available-for-sale securities.

Factors considered in determining whether a loss is temporary include:

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

j2 Global's review for impairment generally entails:

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

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

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

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

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

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 31, 2018 and December 31, 2017, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands):

	As of March 31, 2018					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	$20,245	$(2,500)	$—	$—	$20,245	$(2,500)
Total	$20,245	$(2,500)	$—	$—	$20,245	$(2,500)

	As of December 31, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	$22,745	$—	$—	$—	$22,745	$—
Total	$22,745	$—	$—	$—	$22,745	$—

As of March 31, 2018 and December 31, 2017, we did not recognize any other-than-temporary impairment losses.

On September 25, 2017, the Company entered into a commitment to invest $200 million (approximately 66.7% of equity) in the OCV Fund. The total expected commitment to the OCV Fund is expected to be approximately $300 million. The primary purpose of the Fund is to provide a limited number of select investors with the opportunity to realize long-term appreciation from public and private companies, with a particular focus on the technology and life science industries. The general activities of the OCV Fund is to buy, sell, hold and otherwise invest in securities of every kind and nature and rights and options with respect thereto, including, without limitation, stock, notes, bonds, debentures and evidence of indebtedness; to exercise all rights, powers, privileges and other incidents of ownership or possession with respect to securities held or owned by the OCV Fund; to enter into, make and perform all contracts and other undertakings; and to engage in all activities and transactions as may be necessary, advisable or desirable to carry out the foregoing.

The manager and general partner of the Fund are entities with respect to which Richard S. Ressler, Chairman of the Board of Directors (the “Board”) of the Company, is indirectly the majority equity holder and a related party. As a limited partner in the Fund, the Company will pay an annual management fee to the manager equal to 2.0% (reduced by 10% each year beginning with the sixth year) of capital commitments. In addition, subject to the terms and conditions of the Fund’s limited partnership agreement, once the Company has received distributions equal to its invested capital, the Fund’s general partner would be entitled to a carried interest equal to 20%. The Fund has a six year investment period, subject to certain exceptions. The commitment was approved by the Audit Committee of the Board in accordance with the Company’s related-party transaction approval policy.

During the first quarter of 2018, the Company received capital call notices from the management of OCV Management, LLC. for $13.4 million, inclusive of certain management fees.

The following table discloses the carrying amount for the Company's equity method investment (in thousands):

	March 31, 2018	December 31, 2017
Equity securities	$ 13,403	$ —

As a limited partner, the Company's maximum exposure to loss is $13.4 million and is limited to its proportional ownership in the partnership. In addition, the Company's is not required to contribute capital in an aggregate amount in excess of its capital commitment and any expected losses will not be in excess of the Capital Account. Finally, there are no call or put options, or other types of arrangements, which limit the Company's ability to participate in losses and returns of the Fund.

6.Fair Value Measurements

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

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

- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

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

The Company's money market funds are classified within Level 1. The Company values these Level 1 investments using quoted market prices.

The Company's debt securities are classified within Level 2. The Company values these Level 2 investments based on model-driven valuations using significant inputs derived from or corroborated by observable market data.

The fair value of our senior notes (8.0% senior unsecured notes at December 31, 2017 and 6.0% senior unsecured notes at March 31, 2018) (see Note 8 - Long-Term Debt) is determined using quoted market prices or dealer quotes for instruments with similar maturities and other terms and credit ratings, which are Level 2 inputs. The fair value of long-term debt at March 31, 2018 and December 31, 2017 was $1.2 billion and $1.2 billion, respectively.

In addition, the Convertible Notes contain terms that may require the Company to pay contingent interest on the Convertible Notes which is accounted for as a derivative with fair value adjustments being recorded to interest expense (see Note 8 - Long Term Debt). This derivative is fair valued using a binomial lattice convertible bond pricing model using historical and implied market information, which are Level 2 inputs.

The Company classifies its contingent consideration liability in connection with acquisitions within Level 3 because factors used to develop the estimated fair value are unobservable inputs, such as volatility and market risks, and are not supported by market activity. The fair value of the contingent consideration liability was determined using option based approaches. This methodology was utilized because the distribution of payments is not symmetric and amounts are only payable upon certain earnings before interest, tax, depreciation and amortization ("EBITDA") thresholds being reached. Such valuation approach included a Monte-Carlo simulation for the contingency since the financial metric driving the payments is path dependent. Significant increases or decreases in either of the inputs noted above in isolation would result in a significantly lower or higher fair value measurement.

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

March 31, 2018	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	$45,608	$—	$—	$45,608
Corporate debt securities	—	20,245	—	20,245
Total assets measured at fair value	$45,608	$20,245	$—	$65,853
Liabilities:				
Contingent consideration	$—	$—	$23,800	$23,800
Contingent interest derivative	—	768	—	768
Total liabilities measured at fair value	$—	$768	$23,800	$24,568

December 31, 2017	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	$453	$—	$—	$453
Corporate debt securities	—	22,745	—	22,745
Total assets measured at fair value	$453	$22,745	$—	$23,198
Liabilities:				
Contingent consideration	$—	$—	$20,477	$20,477
Contingent interest derivative	—	768	—	768
Total liabilities measured at fair value	$—	$768	$20,477	$21,245

During the quarter ended March 31, 2018, the Company completed a level 3 nonrecurring fair value determination of its securities without a readily determinable fair value in the amount of $31.3 million (see Note 5 - Investments).

At the end of each reporting period, management reviews the inputs to the fair value measurements of financial and non-financial assets and liabilities to determine when transfers between levels are deemed to have occurred. For the three months ended March 31, 2018, there were no transfers that have occurred between levels.

The following table presents a reconciliation of the Company's derivative instruments (in thousands):

	Amount	Affected line item in the Statement of Income
Derivative Liabilities:		
Level 2:		
Balance as of January 1, 2018	$ 768	
Balance as of March 31, 2018	$ 768	

The following table presents a reconciliation of the Company's Level 3 financial assets or liabilities that are measured at fair value on a recurring basis (in thousands):

	Level 3	Affected line item in the Statement of Income
Balance as of January 1, 2018	$20,477	
Total fair value adjustments reported in earnings	4,100	General and administrative
Contingent consideration payments	(777)	Not applicable
Balance as of March 31, 2018	$23,800	

In connection with the acquisition of Humble Bundle, on October 13, 2017, contingent consideration of up to an aggregate of $40.0 million may be payable upon achieving certain future income thresholds and had a fair value of $23.8 million and $19.7 million at March 31, 2018 and December 31, 2017, respectively.

In connection with the acquisition of blackfriday.com, on November 7, 2017, the Company achieved certain earnings targets and, as a result, contingent consideration of $0.8 million was paid to the seller during the first quarter 2018 in connection with this acquisition.

During the three months ended March 31, 2018, the Company recorded an increase in the fair value of the contingent consideration of $4.1 million and reported such increase in general and administrative expenses.

7.Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the acquisition 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, trade names and patent lives. These determinations are primarily based upon the Company's historical experience and expected benefit of each intangible asset. If it is determined that such assumptions are not accurate, then the resulting change will impact the fair value of the intangible asset. Identifiable intangible assets are amortized over the period of estimated economic benefit, which ranges from one to 20 years.

The changes in carrying amounts of goodwill for the three months ended March 31, 2018 are as follows (in thousands):

	Cloud Services	Digital Media	Consolidated
Balance as of January 1, 2018	$603,753	$592,858	$1,196,611
Goodwill acquired (Note 4)	58,033	1,035	59,068
Purchase accounting adjustments [1]	(1,014)	10	(1,004)
Foreign exchange translation	2,993	(147)	2,846
Balance as of March 31, 2018	$663,765	$593,756	$1,257,521

[1] Purchase accounting adjustments relate to adjustments to goodwill in connection with prior year business acquisitions (see Note 4 - Business Acquisitions).

Intangible Assets with Indefinite Lives:

Intangible assets are summarized as of March 31, 2018 and December 31, 2017 as follows (in thousands):

	March 31, 2018	December 31, 2017
Trade name	$ 27,379	$ 27,379
Other	4,306	5,432
Total	$ 31,685	$ 32,811

Intangible Assets Subject to Amortization:

As of March 31, 2018, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	11.2 years	$154,571	$ 54,500	$100,071
Patent and patent licenses	6.6 years	67,895	58,016	9,879
Customer relationships [(1)]	9.1 years	473,619	270,646	202,973
Other purchased intangibles	4.8 years	230,371	80,390	149,981
Total		$926,456	$ 463,552	$462,904

[(1)] Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

As of December 31, 2017, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	11.2 years	$147,997	$ 51,429	$96,568
Patent and patent licenses	6.6 years	67,724	56,853	10,871
Customer relationships [(1)]	8.9 years	447,070	253,464	193,606
Other purchased intangibles	4.8 years	218,628	66,733	151,895
Total		$881,419	$ 428,479	$452,940

[(1)] Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace in which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

Amortization expense, included in general and administrative expense, approximated $33.1 million and $30.9 million for the three months ended March 31, 2018 and 2017, respectively. Amortization expense is estimated to approximate $151.8 million, $104.1 million, $55.2 million, $40.4 million and $33.5 million for fiscal years 2018 through 2022, respectively, and $111.1 million thereafter through the duration of the amortization period.

8. Long-Term Debt

6.0% Senior Notes

On June 27, 2017, j2 Cloud Services, LLC ("j2 Cloud") and j2 Cloud Co-Obligor (the "Co-Issuer" and together with j2 Cloud, the "Issuers"), wholly-owned subsidiaries of the Company, completed the issuance and sale of $650 million aggregate principal amount of their 6.0% senior notes due in 2025 (the “6.0% Senior Notes”) in a private placement offering exempt from the registration requirements of the Securities Act of 1933. The 6.0% Senior Notes are presented as long-term debt, net of deferred issuance costs, on the condensed consolidated balance sheets as of March 31, 2018.

The 6.0% Senior Notes bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2018. The 6.0% Senior Notes mature on July 15, 2025, and are senior unsecured obligations of the Issuers and are guaranteed on an unsecured basis by certain subsidiaries of j2 Cloud (as defined in the Indenture agreement dated June 27, 2017, the “Indenture”). If j2 Cloud or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an insignificant subsidiary (as defined in the Indenture), after the issue date, or any insignificant subsidiary ceases to fit within the definition of insignificant subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Issuers’ obligations under the 6.0% Senior Notes.

The Issuers may redeem some or all of the 6.0% Senior Notes at any time on or after July 15, 2020 at specified redemption prices plus accrued and unpaid interest, if any, to, but excluding the redemption date. Before July 15, 2020, in connection with certain equity offerings, the Issuers also may redeem up to 35% of the 6.0% Senior Notes at a price equal to 106.0% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding the redemption date. In addition, at any time prior to July 15, 2020, the Issuers may redeem some or all of the 6.0% Senior Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus an applicable “make-whole” premium.

The Indenture contains certain restrictive and other covenants applicable to j2 Cloud and subsidiaries designated as restricted subsidiaries including, but not limited to, restrictions on (i) paying dividends or making distributions on j2 Cloud’s membership interests or repurchasing j2 Cloud’s membership interests; (ii) making certain restricted payments; (iii) creating liens or entering into sale and leaseback transactions; (iv) entering into transactions with affiliates; (v) merging or consolidating with another company; and (vi) transferring and selling assets. These covenants include certain exceptions. Violation of these covenants could result in a default which could result in the acceleration of outstanding amounts if such default is not cured or waived within the time periods outlined in the Indenture. Restricted payments, specifically dividend payments, are applicable only if j2 Cloud and subsidiaries designated as restricted subsidiaries has a leverage ratio of greater than 3.0 to 1.0. In addition, if such leverage ratio is in excess of 3.0 to 1.0, the restriction on restricted payments is subject to various exceptions, including an exception for the payment of restricted payments up to $75 million. These contractual provisions did not, as of March 31, 2018, restrict j2 Cloud’s ability to pay dividends to j2 Global, Inc. The company is in compliance with its debt covenants as of March 31, 2018.

As of March 31, 2018, the estimated fair value of the 6.0% Senior Notes was approximately $667.9 million and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the 6.0% Senior Notes which are Level 2 inputs (see Note 6 - Fair Value Measurements).

3.25% Convertible Notes

On June 10, 2014, j2 Global issued $402.5 million aggregate principal amount of 3.25% convertible senior notes due June 15, 2029 (the “Convertible Notes”). The Convertible Notes bear interest at a rate of 3.25% per annum, payable semiannually in arrears on June 15 and December 15 of each year. Beginning with the six-month interest period commencing on June 15, 2021, the Company must pay contingent interest on the Convertible Notes during any six-month interest period if the trading price per $1,000 principal amount of the Convertible Notes for each of the five trading days immediately preceding the first day of such interest period equals or exceeds $1,300. Any contingent interest payable on the Convertible Notes will be in addition to the regular interest payable on the Convertible Notes.

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Holders may surrender their Convertible Notes for conversion at any time prior to the close of business on the business day immediately preceding the maturity date only if one or more of the following conditions is satisfied: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the closing sale price of j2 Global common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs is more than 130% of the applicable conversion price of the Convertible Notes on each such trading day; (ii) during the five consecutive business day period following any ten consecutive trading day period in which the trading price for the Convertible Notes for each such trading day was less than 98% of the product of (a) the closing sale price of j2 Global common stock on each such trading day and (b) the applicable conversion rate on each such trading day; (iii) if j2 Global calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the business day prior to the redemption date; (iv) upon the occurrence of specified corporate events; or (v) during either the period beginning on, and including, March 15, 2021 and ending on, but excluding, June 20, 2021 or the period beginning on, and including, March 15, 2029 and ending on, but excluding, the maturity date. j2 Global will settle conversions of Convertible Notes by paying or delivering, as the case may be, cash, shares of j2 Global common stock or a combination thereof at j2 Global’s election. The Company currently intends to satisfy its conversion obligation by paying and delivering a combination of cash and shares of the Company’s common stock, where cash will be used to settle each $1,000 of principal and the remainder, if any, will be settled via shares of the Company’s common stock.

As of March 31, 2018, the conversion rate is 14.6153 shares of j2 Global common stock for each $1,000 principal amount of Convertible Notes, which represents a conversion price of approximately $68.42 per share of j2 Global common stock. The conversion rate is subject to adjustment for certain events as set forth in the indenture governing the Convertible Notes, but will not be adjusted for accrued interest. In addition, following certain corporate events that occur on or prior to June 20, 2021, j2 Global will increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such a corporate event.

j2 Global may not redeem the Convertible Notes prior to June 20, 2021. On or after June 20, 2021, j2 Global may redeem for cash all or part of the Convertible Notes at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Convertible Notes.

Holders have the right to require j2 Global to repurchase for cash all or part of their Convertible Notes on each of June 15, 2021 and June 15, 2024 at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the relevant repurchase date. In addition, if a fundamental change, as defined in the indenture governing the Convertible Notes, occurs prior to the maturity date, holders may require j2 Global to repurchase for cash all or part of their Convertible Notes at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Convertible Notes are the Company’s general senior unsecured obligations and rank: (i) senior in right of payment to any of the Company’s future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; (ii) equal in right of payment to the Company’s existing and future unsecured indebtedness that is not so subordinated; (iii) effectively junior in right of payment to any of the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all existing and future indebtedness (including trade payables) incurred by the Company’s subsidiaries.

Accounting for the Convertible Notes

In accordance with ASC 470-20, Debt with Conversion and Other Options, convertible debt that can be settled for cash is required to be separated into the liability and equity component at issuance, with each component assigned a value. The value assigned to the liability component is the estimated fair value, as of the issuance date, of similar debt without the conversion feature. The difference between the cash proceeds and estimated fair value of the liability component, representing the value of the conversion premium assigned to the equity component, is recorded as a debt discount on the issuance date. This debt discount is amortized to interest expense using the effective interest method over the period from the issuance date through the first stated repurchase date on June 15, 2021.

j2 Global estimated the borrowing rates of similar debt without the conversion feature at origination to be 5.79% for the Convertible Notes and determined the debt discount to be $59.0 million. As a result, a conversion premium after tax of $37.7 million was recorded in additional paid-in capital. The aggregate debt discount is amortized as interest expense over the period from the issuance date through the first stated repurchase date on June 15, 2021, which management believes is the expected life of the Convertible Notes using an interest rate of 5.81%. As of March 31, 2018, the remaining period over which the unamortized debt discount will be amortized is 3.2 years.

The Convertible Notes are carried at face value less any unamortized debt discount and debt issuance costs. The fair value of the Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the Convertible Notes, which are Level 1 inputs (see Note 6 - Fair Value Measurements). If such information is not available, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature. As of March 31, 2018 and December 31, 2017, the estimated fair value of the Convertible Notes was approximately $512.6 million and $504.5 million, respectively.

Long-term debt as of Mar