J2 GLOBAL COMMUNICATIONS INC
Form 10-Q
November 05, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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

Delaware	51-0371142
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

As of November 1, 2010, the registrant had 45,606,566 shares of common stock outstanding.

j2 GLOBAL COMMUNICATIONS, INC.

FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 212,700	$ 197,411
Short-term investments	16,198	31,381
Accounts receivable, net of allowances of $2,593 and $3,077, respectively	13,170	11,928
Prepaid expenses and other current assets	6,433	13,076
Deferred income taxes	2,657	2,657
Total current assets	251,158	256,453
Long-term investments	43,406	14,887
Property and equipment, net	11,413	13,366
Goodwill	113,130	81,258
Other purchased intangibles, net	44,848	39,091
Deferred income taxes	9,532	8,717
Other assets	517	229
Total assets	$ 474,004	$ 414,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 19,837	$ 15,941
Income taxes payable	1,702	1,563
Deferred revenue	12,349	11,411
Total current liabilities	33,888	28,915
Liability for uncertain tax positions	36,088	46,820
Deferred income taxes	359	—
Other long-term liabilities	2,990	2,094
Total liabilities	73,325	77,829
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 September 30, 2010 and December 31, 2009; total issued 53,458,689 and 52,907,691 shares at September 30, 2010 and December 31, 2009, respectively, and total outstanding 44,778,121 and 44,227,123 shares at September 30, 2010 and December 31, 2009, respectively	534	529
Additional paid-in capital	158,345	147,619
Treasury stock, at cost (8,680,568 shares at September 30, 2010 and December 31, 2009)	(112,671)	(112,671)
Retained earnings	354,286	301,670
Accumulated other comprehensive income (loss)	185	(975)
Total stockholders' equity	400,679	336,172

Total liabilities and stockholders' equity	$	474,004	$	414,001

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues:				
Subscriber	$ 62,066	$ 61,045	$ 182,173	$ 181,734
Other	712	756	2,196	2,922
	62,778	61,801	184,369	184,656
Cost of revenues (including share-based compensation of $304 and $963 for the three and nine months of 2010, respectively, and $323 and $935 for the three and nine months of 2009, respectively)	10,732	11,258	31,378	34,250
Gross profit	52,046	50,543	152,991	150,406
Operating expenses:				
Sales and marketing (including share-based compensation of $464 and $1,460 for the three and nine months of 2010, respectively, and $477 and $1,338 for the three and nine months of 2009, respectively)	10,878	9,347	32,327	27,443
Research, development and engineering (including share-based compensation of $204 and $645 for the three and nine months of 2010, respectively, and $217 and $634 for the three and nine months of 2009, respectively)	3,008	2,862	8,810	8,685
General and administrative (including share-based compensation of $1,805 and $5,699 for the three and nine months of 2010, respectively, and $1,877 and $5,188 for the three and nine months of 2009, respectively)	10,921	11,667	34,263	33,582
Total operating expenses	24,807	23,876	75,400	69,710
Operating earnings	27,239	26,667	77,591	80,696
Other-than-temporary impairment losses	—	—	—	(9,193)
Interest and other income, net	491	20	1,750	477
Earnings before income taxes	27,730	26,687	79,341	71,980
Income tax expense	7,896	7,353	23,161	22,857
Net earnings	$ 19,834	$ 19,334	$ 56,180	$ 49,123

Net earnings per common share:				
Basic	$ 0.44	$ 0.44	$ 1.26	$ 1.12
Diluted	$ 0.43	$ 0.43	$ 1.23	$ 1.09
Weighted average shares outstanding:				
Basic	44,716,366	44,126,038	44,488,561	43,840,308
Diluted	45,939,172	45,296,147	45,738,389	44,985,160

See Notes to Condensed Consolidated Financial Statements

j2 Global Communications, Inc.

Condensed Consolidated Statement of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30, 2010	2009
Cash flows from operating activities:		
Net earnings	$ 56,180	$ 49,123
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,973	10,990
Amortization of discount or premium of investments	670	—
Share-based compensation	8,767	8,095
Tax deficiency (excess tax benefits) from share-based compensation	(164)	(3,126)
Provision for doubtful accounts	1,542	1,710
Deferred income taxes	(815)	(924)
Other-than-temporary impairment losses	—	9,193
Decrease (increase) in:		
Accounts receivable	(1,354)	(803)
Prepaid expenses and other current assets	1,097	(737)
Other assets	(262)	(108)
(Decrease) increase in:		
Accounts payable and accrued expenses	2,350	(723)
Income taxes payable	(11,426)	(724)
Deferred revenue	(422)	219
Liability for uncertain tax positions	6,339	5,776
Other	677	22
Net cash provided by operating activities	74,152	77,983
Cash flows from investing activities:		
Maturity of certificates of deposits	31,653	—
Purchase of certificates of deposit	—	(31,150)
Redemptions/Sales of available-for-sale investments	9,019	—
Purchase of available-for-sale investments	(52,921)	—
Purchases of property and equipment	(1,273)	(1,704)
Acquisition of businesses, net of cash received	(36,546)	(11,915)
Proceeds from sales of assets	—	1,340
Purchases of intangible assets	(6,953)	(3,146)
Net cash used in investing activities	(57,021)	(46,575)
Cash flows from financing activities:		
Repurchases of common stock and restricted stock	(4,175)	(441)
Issuance of common stock under employee stock purchase plan	85	89
Exercise of stock options	2,349	2,638
(Tax deficiency) excess tax benefits from share-based compensation	164	3,126
Net cash (used in) provided by financing activities	(1,577)	5,412
Effect of exchange rate changes on cash and cash equivalents	(265)	750

Net increase in cash and cash equivalents		15,289		37,570
Cash and cash equivalents at beginning of period		197,411		150,780
Cash and cash equivalents at end of period	$	212,700	$	188,350

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(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, 2009 included in our Annual Report on Form 10-K filed with the SEC on February 23, 2010. 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 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.

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, 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 revenues generated from 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. With regard to patent sales, we recognize as revenue in the period of the sale the portion of the purchase price over the carrying value of the patent(s) sold.

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 September 30, 2010 and December 31, 2009, 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.

Concentration of Credit Risk

All of our cash, cash equivalents and marketable securities are invested at major financial institutions primarily within the United States, United Kingdom and Ireland. These institutions are required to invest 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 total or near complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks. At September 30, 2010 and December 31, 2009, our cash and cash equivalents were maintained in accounts that are insured up to the limit determined by the applicable governmental agency. The amount held by Irish banks are fully insured through December 31, 2010, however, the insured amount held in other institutions is immaterial in comparison to the total amount of our cash and cash equivalents held by these institutions which is not insured.

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 laws. 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 2010 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 new accounting guidance regarding business combinations. This guidance, found under FASB ASC Topic 805, Business Combinations, 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. Accordingly, we applied such guidance for acquisitions effected subsequent to January 1, 2009.

In December 2007, the FASB issued new accounting guidance regarding noncontrolling interest. This guidance, found under FASB ASC Topic 810, Consolidation, 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. This guidance 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, this guidance requires that sufficient disclosures be provided that clearly identify and distinguish between the interests of the parent and noncontrolling owners. The provisions of this guidance 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 this guidance was not significant to our consolidated financial statements.

In March 2008, the FASB issued new accounting guidance regarding derivative instruments and hedging activities. This guidance, found under FASB ASC Topic 815, Derivatives and Hedging, 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; and (iii) how derivative instruments and related hedged items affect a company’s financial position, results of operations and cash flows. This guidance is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In April 2008, the FASB issued new accounting guidance regarding intangible assets. This guidance, found under FASB ASC Topic 350, Intangibles – Goodwill and Other, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance 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 this guidance was not significant to our consolidated financial statements.

In September 2008, the FASB issued new accounting guidance regarding credit derivatives and certain guarantees. This guidance, found under FASB ASC Topic 815, Derivatives and Hedging, applies to credit derivatives within the scope of the guidance, hybrid instruments that have embedded credit derivatives and guarantees within the scope of the guidance. This guidance is effective for reporting periods (annual or interim) ending after November 15, 2008. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In November 2008, the FASB ratified new accounting guidance regarding equity method investments. This guidance, found under FASB ASC Topic 323, Investments – Equity Method and Joint Ventures, clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This guidance 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 guidance was not significant to our consolidated financial statements.

In November 2008, the FASB ratified new accounting guidance regarding defensive intangible assets. This guidance, found under FASB ASC Topic 350, Intangibles – Goodwill and Other, 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. This guidance 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. This guidance is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In April 2009, the FASB issued three related new accounting statements regarding other-than-temporary impairments, a change in interim disclosures and additional guidance related to the determination of fair value in connection with financial instruments. This guidance, found under FASB ASC Topic 320, Investments – Debt and Equity Securities, FASB ASC Topic 825, Financial Instruments and FASB ASC Topic 820, Fair Value Measurements and Disclosures, are effective for interim and annual reporting periods ending after June 15, 2009. This guidance amends the other-than-temporary impairment guidance in GAAP for debt securities to modify the requirement for recognizing other-than-temporary impairments, changes the existing impairment model and modifies the presentation and frequency of related disclosures. This guidance requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. These accounting statements provide 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. See Note 4 – Investments and Note 5 – Fair Value Measurements.

In April 2009, the FASB issued new accounting guidance regarding business combinations. This guidance, found under FASB ASC Topic 805, Business Combinations, amends the guidance relating to the initial recognition and measurement, subsequent measurement and accounting and disclosures of assets and liabilities arising from contingencies in a business combination. This guidance is effective for fiscal years beginning after December 15, 2008. We adopted this guidance as of the beginning of fiscal 2009 and are applying the requirements of this guidance to any acquisitions during fiscal year 2009 and beyond.

In June 2009, the FASB approved the FASB Accounting Standards Codification ("Codification"), which launched on July 1, 2009, and is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Codification does not change GAAP, but instead combines 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 is considered non-authoritative. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In August 2009, the FASB issued Accounting Standards Update 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value. This guidance clarifies that in circumstances in which a quoted price in an active market for an identical liability is not available, a reporting entity is required to measure fair value of such liability using one or more of the of the techniques prescribed by the update. This guidance is effective for the first reporting period beginning after issuance, which is the period ending December 31, 2009. The impact of the adoption of this guidance was not significant to our consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance has not and is not expected to have a significant impact on our consolidated financial statements.

In February 2010, the FASB issued updated guidance related to subsequent events. As a result of this updated guidance, public filers must still evaluate subsequent events through the issuance date of their financial statements, however, they are not required to disclose the date in which subsequent events were evaluated in their financial statements disclosures. This amended guidance became effective upon its issuance on February 24, 2010 at which time the Company adopted this updated guidance.

3. Business Acquisition

We acquired six businesses during the nine month period ended September 30, 2010: (1) the voice assets of Reality Telecom Ltd, (2) the fax assets of Comodo Communications, Inc, (3) the unified messaging and communications assets of mBox Pty, Ltd, (4) the assets associated with the email hosting and email marketing businesses of FuseMail, LLC, (5) the assets of Alban Telecom Limited, a UK enhanced voice services provider, and (6) Venali, Inc., a Miami-based provider of enterprise Internet fax messaging solutions. These acquisitions are designed to be accretive and provide us additional customers and technology in the value-added messaging and communications services segment. The condensed consolidated statement of operations and balance sheet as of September 30, 2010 reflects the results of operations of these acquisitions. For the three and nine months ended September 30, 2010, these acquisitions contributed $2.7 million and $4.8 million, respectively to our total revenues. Earnings contributions from these acquisitions were not separately identifiable due to our integration activities. Total consideration for these transactions was $39.8 million, net of cash acquired including $1.7 million in assumed liabilities consisting primarily of deferred revenue; trade accounts payable and other accrued liabilities.

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

Asset		Valuation
Accounts Receivable	$	1,318
Property and Equipment		1,049
Customer Relationships		4,332
Goodwill		31,492
Other Intangible Assets		1,496
Other Assets		105
Total	$	39,792

The initial accounting for the acquisition of Venali, Inc. is incomplete and subject to change, which may be significant. This is particularly true with respect to the valuation of certain acquired tax net operating losses and the valuation assumptions of customer relationships. We are currently in the process of quantifying such amounts, if any, and have not recorded any fair value associated with the acquired tax net operating losses as of September 30, 2010. Therefore, actual amounts recorded upon the finalization of certain tax net operating losses may differ materially from the information presented in this quarterly report on Form 10-Q. Provisional amounts for customer relationships acquired have been recorded based upon management's best estimate of the value as a result of a preliminary analysis performed.

Customer relationships have useful lives of seven to fifteen years from the date of acquisition and no residual. Other intangible assets have useful lives between one and five years from the date of acquisition and no residual value. Other assets have useful lives between zero and three 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. Goodwill recognized associated with the acquisitions during the nine month period ended September 30, 2010 is $31.5 million of which $15.7 million is non-deductible for income tax purposes and $15.8 million is expected to be deductible for income tax purposes over the next 15 years. No in-process research and development was acquired or written off in connection with any of these business acquisitions. Transaction costs from these acquisitions consist of $250,000 for professional fees expensed in the nine month period ended September 30, 2010 to General and Administrative expense.

The following supplemental information on an unaudited pro forma financial basis, presents the combined results of j2 Global and our 2010 acquisitions as if the acquisitions had occurred on January 1 for the three and nine month periods ended September 30, 2010 and 2009 (in thousands, except per share amounts):

	Three months ended		Nine months ended	
	September 30, 2010 (unaudited)	September 30, 2009 (unaudited)	September 30, 2010 (unaudited)	September 30, 2009 (unaudited)
Revenue	$ 64,454	$ 66,245	$ 192,879	$ 197,598
Net Income	$ 20,240	$ 19,448	$ 55,976	$ 49,297
EPS - Basic	$ 0.45	$ 0.44	$ 1.26	$ 1.12
EPS - Diluted	$ 0.44	$ 0.43	$ 1.22	$ 1.10

This unaudited pro forma supplemental information is based on estimates and assumptions, which we believe are reasonable. However; it is not necessarily indicative of our consolidated financial position or results of income in future periods or the results that actually would have been realized had we been combined companies during the period presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1 for the three and nine month periods ended September 30, 2010 and 2009. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects. Pro forma supplemental information for both 2010 and 2009 does not include the results of operations for keepITsafe Data Solutions Ltd. (see Note 14 - Subsequent Events), as such information was not available and immaterial for these periods.

4. Investments

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

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

	September 30, 2010	December 31, 2009
Due within 1 year	$ 16,192	$ —
Due within more than 1 year but less than 5 years	40,450	12,833
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	2,957	2,054
Total	$ 59,599	$ 14,887

The following table summarizes our investments designated as trading and available-for-sale (in thousands):

	September 30, 2010	December 31, 2009
Trading	$ 6	$ 9
Available-for-sale	59,599	14,887
Total	$ 59,605	$ 14,896

The following table summarizes the gross unrealized gains and losses and fair values for investments as of September 30, 2010 and December 31, 2009 aggregated by major security type (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010				
Debt Securities	$ 57,878	$ 1,721	$ —	$ 59,599
December 31, 2009				
Debt Securities	$ 13,996	$ 891	$ —	$ 14,887

At December 31, 2009, corporate and auction rate debt and preferred securities were recorded as available-for-sale. 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 September 30, 2010. At September 30, 2010, 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.

Investments that have been in an unrealized loss position as of September 30, 2010 and December 31, 2009 were not material to the financial statements.

Recognition and Measurement of Other-Than-Temporary Impairment

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

Regardless of the classification of the securities as available-for-sale or held-to-maturity, 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.

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.

During the second quarter of 2009, we reclassified certain investments from held-to-maturity to available-for-sale as 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 year ended December 31, 2009.

5. Fair Value Measurements

j2 Global complies with the provisions of ASC Topic No. 820, Fair Value Measurements and Disclosures ("ASC 820"), which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

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

We measure our cash equivalents and investments at fair value. Our cash equivalents short-term investments and other debt securities are primarily classified within Level 1. Investments in auction rate securities are classified within Level 3. The valuation technique used under Level 3 consists of a discounted cash flow analysis which includes numerous assumptions, including prevailing implied credit risk premiums, incremental credit spreads and illiquidity risk premiums, 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 less than 1% of our total assets as of September 30, 2010.

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

September 30, 2010	Level 1	Level 2	Level 3	Fair Value
Cash	$ 212,700	$ —	$ —	$ 212,700
Equity Securities	6	—	—	6
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	7,045	—	—	7,045
Debt securities issued by foreign governments	2,894	—	—	2,894
Corporate debt securities	46,986	—	—	46,986
Auction Rate Securities	—	—	2,673	2,673
Total	$ 269,631	$ —	$ 2,673	$ 272,304

December 31, 2009	Level 1	Level 2	Level 3	Fair Value
Cash	$ 197,411	$ —	$ —	$ 197,411
Certificates of Deposit	31,371	—	—	31,371
Equity Securities	9	—	—	9
Debt securities issued by foreign governments	1,893	—	—	1,893
Corporate debt securities	11,214	—	—	11,214
Auction Rate Securities	—	—	1,781	1,781
Total	$ 241,898	$ —	$ 1,781	$ 243,679

The following table provides a summary of changes in fair value of our Level 3 financial assets as of September 30, 2010 (in thousands):

	Level 3 Financial Assets	
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Beginning Balance	$ 2,259	$ 1,781
Total gains (losses) - realized/unrealized		
Included in earnings	—	—
Not included in earnings	414	892
Purchases, issuances and settlements	—	—
Sales	—	—
Transfers in and/or out of Level 3	—	—
Balance, September 30, 2010	$ 2,673	$ 2,673
Total losses for the period included in earnings relating to assets still held at September 30, 2010	$ —	$ —

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

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 one to 20 years.

The changes in carrying amounts of goodwill and other intangible assets for the nine months ended September 30, 2010 are as follows (in thousands):

	Balance as of January 1, 2010	Additions	Deductions	Amortization	Foreign Exchange Translation	Balance as of September 30, 2010
Goodwill	$ 81,258	$ 31,875	$ —	$ —	$ (3)	$ 113,130
Intangible assets with indefinite lives	7,069	504	—	—	—	7,573
Intangible assets subject to amortization	32,022	11,954	—	(6,643)	(58)	37,275

$ 120,349	$ 44,333	$ —	$ (6,643)	$ (61)	$ 157,978

Intangible assets with indefinite lives relate primarily to certain trade names and trademarks. As of September 30, 2010, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Patents	8.6 years	$ 33,916	$ 16,729	$ 17,187
Technology	4.8 years	3,001	1,929	1,072
Customer relationships	8.3 years	20,301	7,859	12,442
Trade name	13.6 years	9,669	3,095	6,574
Total		$ 66,887	$ 29,612	$ 37,275

In June 2009, j2 Global sold certain non-core patent assets 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 non-exclusive, fully paid up, license for use of the related patents through their remaining life.

Amortization expense, included in general and administrative expense, during the three and nine month periods ended September 30, 2010 and 2009 approximated $1.7 million and $2.0 million, respectively, and $6.6 million and $6.0 million, respectively. Amortization expense is estimated to approximate $8.4 million, $6.2 million, $5.2 million, $4.5 million and $4.1 million for fiscal years 2010 through 2014, respectively, and $15.6 million thereafter through the duration of the amortization period.

7. Commitments and Contingencies

Litigation

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: Open Text Corporation and its Captaris business (“Open Text”), Venali, Inc. (“Venali”), Protus IP Solutions, Inc. (“Protus”), EasyLink Services International Corp. (“EasyLink”) and Packetel, Inc. (“Packetel”). The litigation against Venali was dismissed on September 8, 2010, in connection with our acquisition of Venali. Three of the patents at issue in some of these lawsuits have been reaffirmed through reexamination proceedings with the United States Patent and Trademark Office.

Open Text, Protus, EasyLink and Packetel have each filed counterclaims against us, including seeking declaratory judgments of non-infringement, invalidity and unenforceability of our patents. Open Text and Protus have also asserted counterclaims purporting to allege antitrust violations of Section 2 of the Sherman Act and California’s Business and Professions Code §§ 16720 and 17200. Open Text and Protus are seeking dismissal of our patent infringement claims, damages, including treble and punitive damages, injunctions 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. Discovery in all of these cases is underway. The Court partially completed a Markman hearing in all of these cases on October 15, 2010. We are also pursuing claims against Protus in Canada based on related Canadian patents, and Protus has asserted similar anti-competition claims against us in response.

On December 24, 2009, COA Network, Inc. filed a complaint in the United States District Court for the District of New Jersey, seeking declaratory judgment of non-infringement, invalidity and unenforceability of several of our patents. On March 3, 2010, we filed an answer to the complaint and counterclaims asserting that COA infringes two of our patents. Also on March 3, 2010 we moved to transfer the case to the United States District Court for the Central District of California, or in the alternative to stay the case. On June 17, 2010 the Court granted our motion, transferring the case to the Central District of California. Discovery has not yet commenced.

On May 12, 2003, we filed an application to register the eFax mark on the United States Patent and Trademark Office ("USPTO") Principal Register, which the USPTO approved and published for opposition. In July 2005, Protus filed an opposition proceeding before the USPTO Trademark Trial and Appeal Board seeking to prevent such registration. In the opposition proceeding, Protus claims that the mark is generic or merely descriptive and not entitled to registration. On September 1, 2005, we responded to Protus' Notice of Opposition. The parties are engaged in discovery. Trial before the Trademark Trial and Appeal Board is set to commence on February 25, 2011.

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 (the "TCPA"), 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. On October 1, 2010, the court dismissed the parties' respective TCPA claims based upon jurisdictional grounds. The court agreed to stay adjudication of the action's remaining claims to allow us to seek an interlocutory appeal of its dismissal of the TCPA claims. We have not yet filed our Notice of Appeal to the United States Court of Appeals for the Ninth Circuit.

On September 15, 2006, one of our affiliates filed a patent infringement suit against Integrated Global Concepts, Inc. ("IGC") in the United States District Court for the Northern District of Georgia. On May 13, 2008, IGC filed counterclaims alleging violations of Section 2 of the Sherman Act and breach of contract. IGC is seeking damages, including treble and punitive damages, an injunction against further violations, divestiture of certain assets, attorneys' fees and costs. On June 13, 2008, we moved to dismiss the amended counterclaims. On February 18, 2009, the Court granted our motion to stay the case pending the conclusion of our appeal of a summary judgment ruling of non-infringement in another case which involved the same patents and issues at issue in this action. On January 22, 2010, the Federal Circuit affirmed the District Court's non-infringement ruling in the other case. On June 7, 2010 the Court lifted the stay. On July 16, 2010, we renewed our motion to dismiss IGC's amended counterclaims. The Court has not yet ruled on the motion.

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. Venali was 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. The case was dismissed on September 10, 2010 in connection with our acquisition of Venali.

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 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. Bear Creek filed its appeal on September 16, 2009. We filed our response to Bear Creek's appeal on October 14, 2009. The Examiner provided an answer on June 18, 2010, agreeing with the great majority of our positions. Bear Creek's reply brief was filed July 19, 2010, and we are awaiting a decision on Bear Creek's appeal. On September 10, 2009, the Court "Administratively Closed" the case pending resolution of the reexamination proceeding.

On May 20, 2010, Project Lace filed a complaint against us in the United States District Court for the Central District of California, asserting breach of contract and related claims stemming from allegations that we charged the Plaintiff fees after the Plaintiff signed up for a free trial of our services. The Plaintiff seeks certification of a class of consumers defined as "[a]ll former or current customers of eFax, who have been billed for usage for which they did not agree to pay," from May 2003 to the present. We entered into a settlement agreement related to this matter on August 17, 2010, and on August 19, 2010 the complaint was dismissed with prejudice.

On May 20, 2010, Lea Anne Wolfe filed a lawsuit against us in Los Angeles Superior Court. Wolfe asserts the following claims: (1) physical disability discrimination in violation of the California Fair Employment and Housing Act ("FEHA"); (2) failure to accommodate in violation of FEHA; (3) failure to engage in the interactive process in violation of FEHA; and (4) failure to pay wages in violation of California Labor Code Sections 201 and 218. She is seeking compensatory damages (including back wages, unpaid wages, and emotional distress); interest and costs; attorneys' fees; a cease and desist order against j2; and an order mandating j2 and its employees to undergo anti-discrimination training. We filed an Answer on June 24, 2010. The parties are currently engaged in discovery. At the Case Management Conference on October 14, 2010, the Court ordered the parties to go to private mediation, which is to be completed by February 11, 2011. A mediation status conference/trial setting conference is scheduled for February 16, 2011.

On June 9, 2010, Rates Technology, Inc. (“Rates”) filed suit against us in the United States District Court for the Southern District of New York. The complaint alleges infringement of U.S. Patent Numbers 5,425,085 and 5,519,769. Rates is seeking damages for lost profits, a reasonable royalty, a permanent injunction against continued infringement, injunctive relief requiring us to turn over contact information for, and notify, each person who purchased infringing products or services, attorneys’ fees, costs and expenses. In August 2010, we entered into a settlement agreement related to this matter and the case was dismissed with prejudice.

On June 24, 2010, Demeter Technology, LLC (“Demeter”) filed suit against twenty defendants, including us and an affiliate, in the United States District Court for the Eastern District of Texas, Marshall Division. The complaint alleges infringement of U.S. Patent Number 6,157,706. Demeter is seeking a permanent injunction against continued infringement, damages, treble damages, attorneys’ fees, interest and costs. We have not yet responded to the complaint.

On September 7, 2010, Wordcheck Tech, LLC (“Wordcheck”) filed suit against fifty-seven defendants, including us and two affiliates, in the United States District Court for the Eastern District of Texas, Tyler Division. The complaint alleges infringement of U.S. Patent Number 6,782,510. Wordcheck is seeking a permanent injunction against continued infringement, damages, treble damages, attorney’s fees, interest and costs. We have not yet responded to the complaint.

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. 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.

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 or other corporate purposes. On August 16, 2010, we entered into an amendment to Credit Agreement with the Lender. The Credit Agreement, as amended, provides for a $40.0 million revolving line of credit with a $10.0 million letter of credit sublimit. The facility is unsecured (except to the limited extent described below) and has never been drawn upon. Revolving loans may be borrowed, repaid and re-borrowed until August 16, 2013, 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 1.875% for interest periods of 1, 2, 3 or 6 months (the "Fixed Interest Rate"); or
1% over the "Base Rate", defined as the highest of (i) the reference rate in effect as determined per the agreement, (ii) the federal funds rate in effect as determined per the agreement plus a margin equal to 0.5% and (iii) the 1 month LIBOR rate plus 1.50%.

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 interest rate period, or for interest rate periods longer than 3 months, at the end of each 3-month period in the applicable interest rate period.

Pursuant to the Credit Agreement, significant subsidiaries based in the U.S. will 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 entered 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.

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. For the quarter ended September 30, 2010, our estimated effective tax rate was 28.5%. 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 $12.2 million in net deferred tax assets as of September 30, 2010 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.

As of September 30, 2010 and December 31, 2009, we had $36.1 million and $46.8 million, respectively, in liabilities for uncertain income tax positions. The decrease in liabilities for uncertain income tax positions was primarily the result of us having effectively settled the transfer pricing portion of the tax audit by the Internal Revenue Service relating to the Company’s income tax returns for 2004 through 2008. 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 $28.9 million and $18.9 million for the nine months ended September 30, 2010 and 2009, respectively.

Certain tax payments are prepaid during the year and included within Prepaid expenses and other current assets on the consolidated balance sheet. Our prepaid tax payments were $1.8 million and $7.2 million at September 30, 2010 and December 31, 2009, respectively.

We are currently under audit by the California Franchise Tax Board for tax years 2005 through 2007. It is possible that this audit 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. We are also under audit by various other states for non-income related taxes.

9. Stockholders’ Equity

Common Stock Repurchase Program

In May 2010, our Board of Directors approved a program authorizing the repurchase of up to ten million shares of our common stock through the end of April 30, 2012. On May 4, 2010, we entered into a Rule 10b5-1 trading plan with a broker to facilitate the repurchase program. During the nine months ended September 30, 2010, 6,300 shares were repurchased at an aggregated cost of $0.1 million (including an immaterial amount of commission fees). We have accounted for these repurchases using the cost method.

Periodically, participants in our stock plans surrender to us shares of our stock or vested in-the-money options to purchase shares of our stock to satisfy exercise price and/or tax withholding obligations of such participants arising upon the exercise of stock options or the vesting of restricted stock. During the three month period ended September 30, 2010, we purchased 20,134 shares from plan participants. See Item II, Part 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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 September 30, 2010, 2,800,323 shares underlying options and 66,540 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 September 30, 2010, 1,228,704 shares underlying options and 769,130 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 nine months ended September 30, 2010:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	4,480,591	$ 13.17		
Granted	152,967	22.86		
Exercised	(578,419)	5.40		
Canceled	(26,112)	19.97		
Outstanding at September 30, 2010	4,029,027	14.61	4.9	$ 40,705,054
Exercisable at September 30, 2010	2,863,463	11.83	3.6	$ 36,445,078
Vested and expected to vest at September 30, 2010	3,816,310	$ 14.29	4.7	$ 39,862,657

For the nine months ended September 30, 2010, we granted 152,967 options to purchase shares of common stock pursuant to the 2007 Plan. 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 nine months ended September 30, 2010 and 2009 were $10.94 and $9.89, respectively.

The aggregate intrinsic values of options exercised during the nine months ended September 30, 2010 and 2009 were $10.0 million and $9.3 million, respectively.

As of September 30, 2010 and December 31, 2009, unrecognized stock compensation related to non-vested share-based compensation awards granted under the 1997 Plan and the 2007 Plan approximated $14.3 million and $18.9 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 3.1 years (i.e., the remaining requisite service period).

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 nine months ended September 30, 2010 is based on historical volatility of our common stock. We elected to use the simplified method for estimating the expected term. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. Estimated forfeiture rates were 14.19% and 14.50% as of September 30, 2010 and 2009, respectively.

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

	Nine Months Ended September 30,	
	2010	2009
Risk-free interest rate	2.65%	2.35%
Expected term (in years)	6.5	6.5
Dividend yield	0%	0%
Expected volatility	44%	54%
Weighted-average volatility	45%	55%

Restricted Stock

We have awarded restricted stock and restricted stock units to our board of directors and senior staff pursuant to the 1997 Plan and the 2007 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over a five-year vesting period. We recognized $1.0 million and $3.2 million of compensation expense in the three and nine months ended September 30, 2010, respectively, related to restricted stock and restricted stock units. As of September 30, 2010, and December 31, 2009, we have unrecognized share-based compensation cost of approximately $12.6 million and $14.4 million, respectively, associated with these shares and units. This cost is expected to be recognized over a weighted-average period of 3.4 years for awards and 4.4 years for units.

Restricted stock award activity for the nine months ended September 30, 2010 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2010	947,831	$ 19.36
Granted	76,082	23.09
Vested	(186,183)	20.11
Canceled	(12,060)	17.19
Nonvested at September 30, 2010	825,670	$ 19.57

The following table represents restricted stock unit activity for the nine months ended September 30, 2010:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010	—	$		

Granted	10,000				
Exercised	—				
Canceled	—				
Outstanding at September 30, 2010	10,000		2.9	$	237,900
Exercisable at September 30, 2010	—				
Vested and expected to vest at September 30, 2010	6,643	$	2.9	$	158,037

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 nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenues	$ 304	$ 323	$ 963	$ 935
Operating expenses:				
Sales and marketing	464	477	1,460	1,338
Research, development and engineering	204	217	645	634
General and administrative	1,805	1,877	5,699	5,188
Total	$ 2,777	$ 2,894	$ 8,767	$ 8,095

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 nine months ended September 30, 2010 and 2009, 3,937 and 4,254 shares were purchased under the plan, respectively. Cash received upon the issuance of common stock under the Purchase Plan was $85,000 and $89,579 for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, 1,657,590 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, restricted stock, restricted stock units 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator for basic and diluted net earnings per common share:				
Net earnings	$ 19,834	$ 19,334	$ 56,180	$ 49,123
Denominator:				
Weighted-average outstanding shares of common stock	44,716,366	44,126,038	44,488,561	43,840,308
Dilutive effect of:				
Employee stock options	966,407	942,825	997,268	1,062,362
Restricted stock	256,399	227,287	252,560	82,490
Common stock and common stock equivalents	45,939,172	45,296,147	45,738,389	44,985,160
Net earnings per share:				
Basic	$ 0.44	$ 0.44	$ 1.26	$ 1.12
Diluted	$ 0.43	$ 0.43	$ 1.23	$ 1.09

For the three and nine months ended September 30, 2010 and 2009, there were 709,067 and 617,350 options outstanding, respectively, and 709,930 and 813,359 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 nine months ended September 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net Earnings	$ 19,834	$ 19,334	$ 56,180	$ 49,123
Other comprehensive income, net of tax:				
Foreign currency translation adjustment, net of tax	1,624	98	(222)	1,152
Unrealized gain on available-for-sale investments, net of tax	629	538	1,043	507
Reclass from Held-to-Maturity to Available-for-Sale, net of tax	—	—	—	209
Amortization of Held-to-Maturity securities loss, net of tax	—	—	—	9
Other Comprehensive Income, net of tax	2,253	636	821	1,877
Comprehensive Income	$ 22,087	$ 19,970	$ 57,001	$ 51,000

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue:				
United States	$ 52,241	$ 52,630	$ 155,158	$ 157,707
All other countries	10,537	9,171	29,211	26,949
	$ 62,778	$ 61,801	$ 184,369	$ 184,656

	September 30, 2010	December 31, 2009
Long-lived assets:		
United States	$ 36,669	$ 36,488
All other countries	12,019	8,900
	$ 48,688	$ 45,388

14. Subsequent Events

In October 2010, we purchased for cash keepITsafe Data Solutions Ltd., an Ireland-based provider of online backup services. This acquisition is designed to be accretive and expands our cloud-based business services portfolio to now include online data backup. The financial impact to j2 Global for this transaction is immaterial as of the date of the acquisition.

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, 2009 (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 acquisition and retention rates, customer usage levels and credit and debit card payment declines;

o Maintain and expand our customer base and maintain or increase the average revenue per subscriber;

o Continue to expand our business and operations internationally in the wake of numerous risks, including adverse currency fluctuations, difficulty in staffing and managing international operations, higher operating costs as a percentage of revenues or the implementation of adverse regulations;

o Maintain our financial position, operating results and cash flows in the event that we incur new or unanticipated costs or income, sales or other tax liabilities;

o Accurately estimate the assumptions underlying our effective worldwide tax rate;

o Maintain favorable relationships with critical third-party vendors whose financial condition will not negatively impact the services they provide;

o Manage certain risks inherent to our business, such as costs associated with fraudulent activity by our customers, a system failure or security breach of our network, effectively deploying our billing systems, time and resources required to manage our legal proceedings or adhering to our internal controls and procedures;

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

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

- Achieve business and financial objectives in light of burdensome domestic and international telecommunications, Internet or other regulations including data privacy, security and retention;

- Successfully manage our growth, including but not limited to our operational and personnel-related resources, and integrate newly acquired businesses;

- Successfully adapt to technological changes in the value added messaging and communications services industry;

- Successfully develop and protect our intellectual property, both domestically and internationally, including our brands, patents, trademarks and domain names, and avoid infringing upon the proprietary rights of others;

- Diversify our service offerings and derive more revenue from those services at acceptable levels of returns-on-investment; and

- Recruit and retain key personnel.

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

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 4,200 cities in 49 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.

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 subscription and usage fees. 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 12.5 million telephone numbers deployed as of September 30, 2010, approximately 1.4 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.

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 and introducing new services.

We market our services to a broad spectrum of prospective customers including individuals, small to medium-sized businesses and large enterprises and government organizations. Our marketing efforts include enhancing brand awareness; utilizing online advertising through Internet portals, Internet service providers (“ISPs”), search engines and affiliate programs; and selling through both a telesales and direct sales force. Currently, we have seven primary methods by which we acquire paying subscribers: (i) selling direct through our Websites, targeting primarily individuals; (ii) attracting direct paying individual subscribers through various Internet portals, ISPs, search engines and affiliate programs; (iii) promoting our solutions to small to mid-sized businesses through our Websites targeting corporate, enterprise and governmental customers; (iv) converting a portion of our free base of customers to a paid solution; (v) selling our solutions to large enterprises and governmental organizations through our direct sales force; (vi) attracting international individual and business customers through our international Websites and direct sales force; and (vii) offering additional services to our existing customers. We continuously seek to extend the number of distribution channels through which we acquire paying customers and improve the cost and volume of customers obtained through our current channels.

In addition to growing our business organically, we have used acquisitions to grow our customer base, enhance our technology and acquire skilled personnel. Since fiscal year 2000, we have completed 30 acquisitions in the value-added messaging and communications services segment.

Through a combination of internal technology development and acquisitions, we have built a patent portfolio consisting of multiple U.S. and foreign patents and numerous pending U.S. and foreign patent applications. We generate licensing revenues from some of these patents. We intend to continue to invest in patents, to aggressively protect our patent assets from unauthorized use and to continue to generate patent licensing revenues from authorized users. For more information on our patents and other intellectual property, please refer to the section entitled Patents and Proprietary Rights contained in Item 1 of this Annual Report on Form 10-K.

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 $233.4 million from $205.3 million for the three-year period ended December 31, 2009. The primary reason for this increase was a 20% increase in the number of paid DIDs over this period. We expect that DID-based revenues will continue to be a dominant driver of total revenues.

The following table sets forth certain key operating metrics for the three and nine months ended September 30, 2010 and 2009 (in thousands, except for percentages and average revenue per paying telephone number):

	September 30, 2010	September 30, 2009
Free service telephone numbers	11,078	9,976
Paying telephone numbers	1,411	1,274
Total active telephone numbers	12,489	11,250

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Subscriber revenues:				
Fixed	$ 50,270	$ 49,781	$ 148,606	$ 148,306
Variable	11,796	11,264	33,567	33,428
Total subscriber revenues	$ 62,066	$ 61,045	$ 182,173	$ 181,734
Percentage of total subscriber revenues:				
Fixed	81.0%	81.5%	81.6%	81.6%
Variable	19.0%	18.5%	18.4%	18.4%