WELLS FARGO & COMPANY/MN
Form 424B2
August 08, 2016

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**File No. 333-202840**

**The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement and the accompanying prospectus supplement and prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

Subject To Completion, dated August 5, 2016

PRICING SUPPLEMENT No. 717 dated August , 2016

(To Prospectus Supplement dated March 18, 2015

and Prospectus dated March 18, 2015)

**Wells Fargo & Company**

**Medium Term Notes, Series K**

**$**

**Capped Fixed to Floating Rate Notes**

**Notes Linked to 3 Month LIBOR due August 24, 2026**

The notes have a term of 10 years. The notes pay interest quarterly at a rate that will be fixed at 3.00% per annum for the first two years and thereafter at a floating rate that will be reset each quarter and will be equal to 3 month LIBOR plus 1.05%, subject to the applicable maximum interest rate, as set forth below. All payments on the notes are subject to the credit risk of Wells Fargo & Company. If Wells Fargo & Company defaults on its obligations, you could lose some or all of your investment. The notes will not be listed on any exchange and are designed to be held to maturity.

| | |
|---|---|
| Issuer: | Wells Fargo & Company ( Wells Fargo ) |
| Original Offering Price: | $1,000 per note. References in this pricing supplement to a note are to a note with a principal amount of $1,000. |
| Pricing Date: | August 19, 2016.* |
| Issue Date: | August 24, 2016.* (T+3) |

| | |
|---|---|
| Stated Maturity Date: | August 24, 2026.* The notes are not subject to redemption by Wells Fargo or repayment at the option of any holder of the notes prior to the stated maturity date. |
| Payment at Maturity: | A holder will be entitled to receive on the stated maturity date a cash payment in U.S. dollars equal to $1,000 per note, plus any accrued and unpaid interest. |
| Interest Payment Dates: | Each February 24, May 24, August 24 and November 24, commencing November 24, 2016, and at maturity.* Except as described below for the first interest period, on each interest payment date, interest will be paid for the period commencing on and including the immediately preceding interest payment date and ending on and including the day immediately preceding that interest payment date. This period is referred to as an interest period. The first interest period will commence on and include the issue date and end on and include November 23, 2016. Interest payable with respect to an interest period will be computed on the basis of a 360-day year of twelve 30-day months. If a scheduled interest payment date is not a business day, interest will be paid on the next business day, and interest on that payment will not accrue during the period from and after the scheduled interest payment date. |
| Interest Rate: | The interest rate that will apply during the first eight quarterly interest periods (up to and including the interest period ending August 23, 2018) will be equal to 3.00% per annum. For all quarterly interest periods commencing on or after August 24, 2018, the interest rate that will apply during an interest period will be equal to 3 month LIBOR on the interest determination date for such interest period plus 1.05%, subject to the applicable maximum interest rate. See Description of Notes Floating Rate Notes Base Rates LIBOR Notes in the accompanying prospectus supplement for further information about the manner in which 3 month LIBOR will be determined on each interest determination date. The index maturity for purposes of the LIBOR provision in the accompanying prospectus supplement is 3 months. |
| Interest Determination Date: | The interest determination date for an interest period commencing on or after August 24, 2018 will be the date that is two London banking days prior to the first day of such interest period. |
| Maximum Interest Rate: | The maximum interest rate applicable to an interest period commencing on or after August 24, 2018 is as follows: |

| | |
|---|---|
| Commencing August 24, 2018 and ending August 23, 2020 | 3.50% per annum |
| Commencing August 24, 2020 and ending August 23, 2023 | 4.00% per annum |
| Commencing August 24, 2023 and ending August 23, 2024 | 4.50% per annum |
| Commencing August 24, 2024 and ending August 23, 2025 | 5.00% per annum |

| | |
|---|---|
| Commencing August 24, 2025 and ending August 23, 2026 | 6.00% per annum |

| | |
|---|---|
| Calculation Agent: | Wells Fargo Securities, LLC |
| Listing: | The notes will not be listed on any securities exchange or automated quotation system. |
| Denominations: | $1,000 and any integral multiples of $1,000 |
| CUSIP Number: | 94986RT68 |

* To the extent that we make any change to the expected pricing date or expected issue date, the interest payment dates and stated maturity date may also be changed in our discretion to ensure that the term of the notes remains the same.

**Investing in the notes involves risks not associated with an investment in conventional debt securities. See Risk Factors on page PRS-3.**

**The notes are unsecured obligations of Wells Fargo & Company and all payments on the notes are subject to the credit risk of Wells Fargo & Company. The notes are not deposits or other obligations of a depository institution and are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other governmental agency of the United States or any other jurisdiction.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or determined if this pricing supplement or the accompanying prospectus supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Original Offering Price | Agent Discount(1) | Proceeds to Wells Fargo |
|---|---|---|---|
| **Per Note** | $1,000.00 | $12.50 | $987.50 |
| **Total** | | | |

(1) The agent discount will not be more than $12.50 per note. See Plan of Distribution (Conflicts of Interest) in the prospectus supplement for further information including information regarding how we may hedge our obligations under the notes and offering expenses. Wells Fargo Securities, LLC, a wholly owned subsidiary of Wells Fargo & Company, is the agent for the distribution of the notes and is acting as principal.

**Wells Fargo Securities**

## INVESTMENT DESCRIPTION

The Notes Linked to 3 Month LIBOR due August 24, 2026 are senior unsecured debt securities of Wells Fargo & Company and are part of a series entitled Medium-Term Notes, Series K.

All payments on the notes are subject to the credit risk of Wells Fargo.

You should read this pricing supplement together with the prospectus supplement dated March 18, 2015 and the prospectus dated March 18, 2015 for additional information about the notes. Information included in this pricing supplement supersedes information in the prospectus supplement and prospectus to the extent it is different from that information. Certain defined terms used but not defined herein have the meanings set forth in the prospectus supplement.

You may access the prospectus supplement and prospectus on the SEC website www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus Supplement dated March 18, 2015 and Prospectus dated March 18, 2015 filed with the SEC on March 18, 2015: http://www.sec.gov/Archives/edgar/data/72971/000119312515096449/d890684d424b2.htm

## INVESTOR CONSIDERATIONS

We have designed the notes for investors who:

- seek current income at a fixed rate of interest of 3.00% per annum for the first two years and are willing to accept a floating rate of interest thereafter;
- seek an investment with a per annum interest rate that will be reset quarterly after the second year and will be equal to 3 month LIBOR plus 1.05%, subject to the applicable maximum interest rate, for any quarterly interest period;
- understand that the interest rate on the notes for any quarterly interest period after the second year will never be higher than the applicable maximum interest rate regardless of how high 3 month LIBOR rises;
- understand that the cumulative interest rate for the first two years will be 3.00% per annum and that if 3 month LIBOR plus 1.05% is less than the applicable maximum interest rate for any quarterly interest period after the second year, the cumulative interest rate for that year will be less than such applicable maximum interest rate; and
- are willing to hold the notes until maturity.

The notes are not designed for, and may not be a suitable investment for, investors who:

- seek a liquid investment or are unable or unwilling to hold the notes to maturity;

- expect interest rates to increase beyond the rates provided by the notes;

- are unwilling to accept the credit risk of Wells Fargo; or

- prefer the certainty of investments with fixed coupons for the entire term of the investment and with comparable maturities issued by companies with comparable credit ratings.

## RISK FACTORS

Your investment in the notes will involve risks. You should carefully consider the risk factors set forth below as well as the other information contained in the prospectus supplement and prospectus, including the documents they incorporate by reference. You should reach an investment decision only after you have carefully considered with your advisors the suitability of an investment in the notes in light of your particular circumstances.

**The Amount Of Interest You Receive May Be Less Than The Return You Could Earn On Other Investments.**

Interest rates may change significantly over the term of the notes, and it is impossible to predict what interest rates will be at any point in the future. Although the interest rate on the notes will be equal to 3.00% per annum for the first two years and thereafter will be based on the level of 3 month LIBOR, the interest rate that will apply at any time on the notes may be more or less than other prevailing market interest rates at such time and in any event will never exceed 3.00% per annum during the first two years and the applicable maximum interest rate following the first two years regardless of the level of 3 month LIBOR on any interest determination date. In addition, if 3 month LIBOR plus 1.05% is less than the applicable maximum interest rate for any quarterly interest period after the first two years, the cumulative interest rate for that year will be less than such applicable maximum interest rate. As a result, the amount of interest you receive on the notes may be less than the return you could earn on other investments.

**The Notes Are Subject To The Credit Risk Of Wells Fargo.**

The notes are our obligations and are not, either directly or indirectly, an obligation of any third party. Any amounts payable under the notes are subject to our creditworthiness. As a result, our actual and perceived creditworthiness may affect the value of the notes and, in the event we were to default on our obligations, you may not receive any amounts owed to you under the terms of the notes.

**An Investment In The Notes May Be More Risky Than An Investment In Notes With A Shorter Term.**

The notes have a term of ten years. By purchasing notes with a longer term, you will bear greater exposure to fluctuations in interest rates than if you purchased a note with a shorter term. In particular, you may be negatively affected if interest rates begin to rise because the interest rate applicable to your notes during a particular interest period may be less than the amount of interest you could earn on other investments available at such time. In addition, if you tried to sell your notes at such time, the value of your notes in any secondary market transaction would also be adversely affected.

**The Agent Discount, Offering Expenses And Certain Hedging Costs Are Likely To Adversely Affect The Price At Which You Can Sell Your Notes.**

Assuming no changes in market conditions or any other relevant factors, the price, if any, at which you may be able to sell the notes will likely be lower than the original offering price. The original offering price includes, and any price quoted to you is likely to exclude, the agent discount paid in connection with the initial distribution, offering expenses and the projected profit that our hedge counterparty (which may be one of our affiliates) expects to realize in consideration for assuming the risks inherent in hedging our obligations under the notes. In addition, any such price is also likely to reflect dealer discounts, mark-ups and other transaction costs, such as a discount to account for costs associated with establishing or unwinding any related hedge transaction. The price at which the agent or any other potential buyer may be willing to buy your notes will also be affected by the maximum interest rates provided by the notes and by the market and other conditions discussed in the next risk factor.

**The Value Of The Notes Prior To Stated Maturity Will Be Affected By Numerous Factors, Some Of Which Are Related In Complex Ways.**

The value of the notes prior to stated maturity will be affected by interest rates at that time and a number of other factors, some of which are interrelated in complex ways. The effect of any one factor may be offset or magnified by the effect of another factor. The following factors, among others, are expected to affect the value of the notes. When we refer to the value of your note, we mean the value that you could receive for your note if you are able to sell it in the open market before the stated maturity date.

**3 Month LIBOR.** The value of the notes prior to maturity will be influenced by the level of 3 month LIBOR forward rates at that time.

PRS-3

**Interest Rates.** The value of the notes may be affected by changes in the interest rates and in the yield curve in the U.S. markets.

**Time Remaining To Maturity.** The value of the notes at any given time prior to maturity will likely be different from that which would be expected based on the then-current level of 3 month LIBOR. This difference will most likely reflect a discount due to expectations and uncertainty concerning the level of 3 month LIBOR during the period of time still remaining to the maturity date. In general, as the time remaining to maturity decreases, the value of the notes will approach the amount payable at maturity.

**Volatility of 3 Month LIBOR.** Volatility is the term used to describe the size and frequency of fluctuations in the level of the 3 month LIBOR. The value of the notes may be affected if the volatility of 3 month LIBOR changes.

**Our Creditworthiness.** Actual or anticipated changes in our creditworthiness may affect the value of the notes. However, because the return on the notes is dependent upon factors in addition to our ability to pay our obligations under the notes, such as the level of 3 month LIBOR, an improvement in our creditworthiness will not reduce the other investment risks related to the notes.

**The Notes Will Not Be Listed On Any Securities Exchange And We Do Not Expect A Trading Market For The Notes To Develop.**

The notes will not be listed or displayed on any securities exchange or any automated quotation system. Although the agent and/or its affiliates may purchase the notes from holders, they are not obligated to do so and are not required to make a market for the notes. There can be no assurance that a secondary market will develop. Because we do not expect that any market makers will participate in a secondary market for the notes, the price at which you may be able to sell your notes is likely to depend on the price, if any, at which the agent is willing to buy your notes.

If a secondary market does exist, it may be limited. Accordingly, there may be a limited number of buyers if you decide to sell your notes prior to stated maturity. This may affect the price you receive upon such sale. Consequently, you should be willing to hold the notes to stated maturity.

**Our Economic Interests And Those Of Any Dealer Participating In The Offering Are Potentially Adverse To Your Interests.**

You should be aware of the following ways in which our economic interests and those of any dealer participating in the distribution of the notes, which we refer to as a participating dealer, are potentially adverse to your interests as an investor in the notes. In engaging in certain of the activities described below, our affiliates or any participating dealer or its affiliates may take actions that may adversely affect the value of and your return on the notes, and in so doing they will have no obligation to consider your interests as an investor in the notes. Our affiliates or any participating dealer or its affiliates may realize a profit from these activities even if investors do not receive a favorable investment return on the notes.

***The calculation agent is our affiliate and, as a result, potential conflicts of interest could arise.*** Wells Fargo Securities, LLC, which is our affiliate, will be the calculation agent for the notes. Although the calculation agent will exercise its judgment in good faith when performing its functions, potential conflicts of interest may exist between the calculation agent and you.

***A participating dealer or its affiliates may realize hedging profits projected by its proprietary pricing models in addition to any selling concession, creating a further incentive for the participating dealer to sell the notes to you.*** If any participating dealer or any of its affiliates conducts hedging activities for us in connection with the notes, that participating dealer or its affiliates will expect to realize a projected profit from such hedging activities and this projected profit will be in addition to any concession that the participating dealer realizes for the sale of the notes to you. This additional projected profit may create a further incentive for the participating dealer to sell the notes to you.

## HISTORICAL INFORMATION

The following graph sets forth 3 month LIBOR for each day in the period from January 1, 2006 to August 4, 2016. On August 4, 2016, 3 month LIBOR was 0.78760%. The historical 3 month LIBOR set forth below should not be taken as an indication of 3 month LIBOR in the future.

## UNITED STATES FEDERAL TAX CONSIDERATIONS

The following is a discussion of the material U.S. federal income and certain estate tax consequences of the ownership and disposition of the notes. It applies to you only if you purchase a note for cash in the initial offering at the issue price, which is the first price at which a substantial amount of the notes is sold to the public, and hold the note as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the Code ). It does not address all of the tax consequences that may be relevant to you in light of your particular circumstances or if you are an investor subject to special rules, such as:

- a financial institution;
- a regulated investment company ;
- a real estate investment trust ;
- a tax-exempt entity, including an individual retirement account or Roth IRA ;
- a dealer or trader subject to a mark-to-market method of tax accounting with respect to the notes;
- a person holding a note as part of a straddle or conversion transaction or who has entered into a constructive sale with respect to a note;
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar; or
- an entity classified as a partnership for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the notes or a partner in such a partnership, you should consult your tax adviser as to the particular U.S. federal tax consequences of holding and disposing of the notes to you.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, changes to any of which subsequent to the date of this pricing supplement may affect the tax consequences described herein, possibly with retroactive effect. This discussion does not address the effects of any applicable state, local or non-U.S. tax laws, any alternative minimum tax consequences or the potential application of the Medicare tax on net investment income. You should consult your tax adviser concerning the application of the U.S. federal income and estate tax laws to your particular situation, as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction.

**Tax Treatment of the Notes**

In the opinion of our counsel, Davis Polk & Wardwell LLP, based on current market conditions, the notes should be treated as variable rate debt instruments that provide for a single fixed rate followed by a qualified floating rate ( QFR ) for U.S. federal income tax purposes. The remaining discussion is based on this treatment.

**Tax Consequences to U.S. Holders**

This section applies only to U.S. holders. You are a U.S. holder if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

*Qualified Stated Interest and Original Issue Discount.* If a debt instrument s stated redemption price at maturity exceeds its issue price by an amount that does not satisfy a *de minimis* test, the excess will be treated as original issue discount ( OID ) for U.S. federal income tax purposes. Under applicable Treasury Regulations, the stated redemption price at maturity of a debt instrument generally will equal the sum of all payments required under the debt instrument other than payments of qualified stated interest ( QSI ). QSI generally includes stated interest unconditionally payable (other than in debt instruments of the issuer) at least annually at a single rate.

In order to determine the amount of QSI and OID (if any) in respect of the notes, an equivalent fixed rate debt instrument must be constructed. The equivalent fixed rate debt instrument is constructed in the following manner: (i) first, the initial fixed rate is converted to a QFR that would preserve the fair market value of the notes, and (ii) second, each QFR (including the QFR determined under (i) above) is converted to a fixed rate substitute (which will generally be the value of that QFR as of the issue date of the notes). Then, the rules described in the preceding paragraph will apply to the equivalent fixed rate debt instrument to determine the amount of QSI and OID on the notes. Under these rules, the notes will generally be treated as providing for QSI at a rate equal to the lowest rate of interest in effect at any time under the equivalent fixed rate debt instrument, and any interest in excess of that rate will generally be treated as part of the stated redemption price at maturity and, therefore, as giving rise to OID.

QSI on the notes generally will be taxable to you as ordinary interest income at the time it accrues or is received in accordance with your method of tax accounting. You will be required to include the OID, if any, in income for federal income tax purposes as it accrues, in accordance with a constant-yield method based on a compounding of interest. If the notes are not issued with OID, all stated interest on the notes will be treated as QSI and will be taxable to you as ordinary interest income at the time it accrues or is received in accordance with your method of tax accounting. If the amount of interest you receive on the notes in a calendar year is greater than the interest assumed to be paid or accrued under the equivalent fixed rate debt instrument, the excess is treated as additional QSI taxable to you as ordinary income. Otherwise, any difference will reduce the amount of QSI you are treated as receiving and will therefore reduce the amount of ordinary income you are required to take into income.

Information regarding the determination of QSI and the amount of OID, if any, on the notes may be obtained by submitting a written request to us at: Wells Fargo Securities, LLC, Investment Solutions Group, 375 Park Avenue, New York, NY 10152.

*Sale, Exchange or Retirement of the Notes.* Upon a sale, exchange or retirement of the notes, you generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts attributable to accrued QSI, which will be treated as a payment of QSI) and your tax basis in the notes. Your tax basis in the notes generally will equal the amount you paid to acquire them, increased by the amount of OID (if any) previously included in income with respect to the notes and reduced by any payments other than QSI received. Such gain or loss generally will be long-term capital gain or loss if, at the time of the sale, exchange or retirement, you held the notes for more than one year, and short-term capital gain or loss otherwise. Long-term capital gains recognized by non-corporate U.S. holders are generally subject to taxation at reduced rates. The deductibility of capital losses is subject to certain limitations.

**Tax Consequences to Non-U.S. Holders**

This section applies only to non-U.S. holders. You are a non-U.S. holder if you are a beneficial owner of a note that is, for U.S. federal income tax purposes:

an individual who is classified as a nonresident alien;

- a foreign corporation; or
- a foreign estate or trust.

You are not a non-U.S. holder for purposes of this discussion if you are (i) an individual who is present in the United States for 183 days or more in the taxable year of disposition, (ii) a former citizen or resident of the United States or (iii) a person for whom income or gain in respect of the notes is effectively connected with the conduct of a trade or business in the United States. If you are or may become such a person during the period in which you

hold a note, you should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the notes.

Subject to the discussion below concerning FATCA, you generally will not be subject to U.S. federal income or withholding tax in respect of the notes, provided that:

- you do not own, directly or by attribution, ten percent or more of the total combined voting power of all classes of our stock entitled to vote;
- you are not a controlled foreign corporation related, directly or indirectly, to us through stock ownership;
- you are not a bank receiving interest under Section 881(c)(3)(A) of the Code; and
- you provide to the applicable withholding agent an appropriate IRS Form W-8 on which you certify under penalties of perjury that you are not a U.S. person.

**U.S. Federal Estate Tax**

Individual non-U.S. holders and entities the property of which is potentially includible in such an individual s gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers) should consider the U.S. federal estate tax implications of an investment in the notes. Absent an applicable treaty benefit, a note will be treated as U.S.-situs property subject to U.S. federal estate tax if payments on the note if received by the decedent at the time of death would have been subject to U.S. federal withholding tax as described above (even if the Form W-8 certification requirement described above were satisfied and not taking into account an elimination of such U.S. federal withholding tax due to the application of an income tax treaty). You should consult your tax adviser regarding the U.S. federal estate tax consequences of an investment in the notes in your particular situation and the availability of benefits provided by an applicable estate tax treaty, if any.

**Backup Withholding and Information Reporting**

Information returns generally will be filed with the Internal Revenue Service (the IRS ) with respect to payments of interest (including OID, if any) on the notes and may be filed with the IRS in connection with the payment of proceeds from a sale, exchange or other disposition of the notes. If you fail to provide certain identifying information (such as an accurate taxpayer identification number if you are a U.S. holder) or meet certain other conditions, you may also be subject to backup withholding at the rate specified in the Code. If you are a non-U.S. holder that provides an appropriate IRS Form W-8, you will generally establish an exemption from backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the relevant information is timely furnished to the IRS.

**FATCA Legislation**

Legislation commonly referred to as FATCA generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity s jurisdiction may modify these requirements. Withholding under these rules

(if applicable) applies to payments of amounts treated as interest (including OID, if any) on the notes and to payments of gross proceeds of the disposition (including upon retirement) of the notes. Pursuant to published guidance issued by the IRS, withholding on the payment of gross proceeds (other than any amount treated as interest) of a disposition will be required only for dispositions after December 31, 2018. If withholding applies to the notes, we will not be required to pay any additional amounts with respect to amounts withheld. Both U.S. and non-U.S. holders should consult their tax advisers regarding the potential application of FATCA to the notes.

**The preceding discussion constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the notes.**

## SUPPLEMENTAL PLAN OF DISTRIBUTION

Wells Fargo Securities, LLC, a wholly owned subsidiary of Wells Fargo & Company, is the agent for the distribution of the notes. The agent may resell the notes to other securities dealers at the original offering price of the notes less a concession not in excess of $12.50 per note. Such securities dealers may include Wells Fargo Advisors, LLC, one of our affiliates.

The agent or another affiliate of ours expects to realize hedging profits projected by its proprietary pricing models to the extent it assumes the risks inherent in hedging our obligations under the notes. If any dealer participating in the distribution of the notes or any of its affiliates conducts hedging activities for us in connection with the notes, that dealer or its affiliate will expect to realize a profit projected by its proprietary pricing models from such hedging activities. Any such projected profit will be in addition to any discount or concession received in connection with the sale of the notes to you.



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Goodwill
1,260,814

1,196,611

Other purchased intangibles, net
148,331

157,327

Other assets
11,245

12,809

TOTAL ASSETS
$
2,480,659

$
2,453,093

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses
$
143,246

$
169,837

Income taxes payable, current
3,807

—

Deferred revenue, current
116,580

95,255

Other current liabilities
289

10

Total current liabilities
263,922

265,102

Long-term debt
1,007,694

1,001,944

Deferred revenue, non-current
6,986

47

Income taxes payable, non-current
39,974

43,781

Liability for uncertain tax positions
54,496

52,216

Deferred income taxes, non-current
32,845

38,264

Other long-term liabilities
44,133

31,434

TOTAL LIABILITIES
1,450,050

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 47,994,805 and 47,854,510 shares, respectively
480

479

Additional paid-in capital

338,409

325,854

Retained earnings
730,725

723,062

Accumulated other comprehensive loss
(39,005
)

(29,090
)
TOTAL STOCKHOLDERS' EQUITY
1,030,609

1,020,305

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY
$
2,480,659

$
2,453,093

See Notes to Condensed Consolidated Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Total revenues | $287,889 | $ 273,174 | $568,512 | $ 527,843 |
| Cost of revenues [1] | 47,749 | 43,159 | 95,894 | 83,969 |
| Gross profit | 240,140 | 230,015 | 472,618 | 443,874 |
| Operating expenses: | | | | |
| Sales and marketing [1] | 83,171 | 80,862 | 169,482 | 158,339 |
| Research, development and engineering [1] | 11,252 | 11,555 | 23,462 | 23,307 |
| General and administrative [1] | 91,334 | 79,038 | 179,133 | 155,693 |
| Total operating expenses | 185,757 | 171,455 | 372,077 | 337,339 |
| Income from operations | 54,383 | 58,560 | 100,541 | 106,535 |
| Interest expense, net | 15,502 | 13,670 | 31,254 | 26,079 |
| Other expense, net | 394 | 4,227 | 4,912 | 4,551 |
| Income before income taxes and net loss in earnings of equity method investment | 38,487 | 40,663 | 64,375 | 75,905 |
| Income tax expense | 7,037 | 9,287 | 14,055 | 18,709 |
| Net loss in earnings of equity method investment | 2,971 | — | 2,971 | — |
| Net income | $28,479 | $ 31,376 | $47,349 | $ 57,196 |
| Net income per common share: | | | | |
| Basic | $0.59 | $ 0.65 | $0.98 | $ 1.19 |
| Diluted | $0.57 | $ 0.63 | $0.95 | $ 1.16 |
| Weighted average shares outstanding: | | | | |
| Basic | 47,951,326 | 47,547,118 | 47,912,383 | 47,505,406 |
| Diluted | 49,218,521 | 48,948,315 | 48,962,835 | 48,857,405 |
| Cash dividends paid per common share | $0.4150 | $ 0.3750 | $0.8200 | $ 0.7400 |

| [1] Includes share-based compensation expense as follows: | | | | |
|---|---|---|---|---|
| Cost of revenues | $129 | $ 121 | $250 | $ 238 |
| Sales and marketing | 467 | 521 | 832 | 899 |
| Research, development and engineering | 355 | 281 | 788 | 518 |
| General and administrative | 6,116 | 4,639 | 11,617 | 7,522 |
| Total | $7,067 | $ 5,562 | $13,487 | $ 9,177 |

See Notes to Condensed Consolidated Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $28,479 | $31,376 | $47,349 | $57,196 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Foreign currency translation adjustment | (14,648 ) | 12,331 | (8,338 ) | 15,913 |
| Change in fair value on available-for-sale investments, net of tax benefit of $512 and $512 for the three and six months ended June 30, 2018, respectively and zero and zero for the three and six months ended June 30, 2017, respectively | 923 | — | (1,577 ) | — |
| Other comprehensive (loss) income, net of tax | (13,725 ) | 12,331 | (9,915 ) | 15,913 |
| Comprehensive income | $14,754 | $43,707 | $37,434 | $73,109 |

See Notes to Condensed Consolidated Financial Statements

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income | $47,349 | $57,196 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 86,475 | 79,225 |
| Amortization of financing costs and discounts | 5,749 | 6,307 |
| Share-based compensation | 13,487 | 9,177 |
| Provision for doubtful accounts | 8,729 | 5,623 |
| Deferred income taxes, net | 453 | (3,679) |
| Changes in fair value of contingent consideration | 9,900 | (600) |
| Loss on equity investments | 7,614 | — |
| Decrease (increase) in: | | |
| Accounts receivable | 50,306 | 11,195 |
| Prepaid expenses and other current assets | 649 | 2,527 |
| Other assets | 2,252 | (105) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (30,296) | (54,447) |
| Income taxes payable | (2,436) | (4,464) |
| Deferred revenue | 4,637 | 1,817 |
| Liability for uncertain tax positions | 2,440 | (4) |
| Other long-term liabilities | (1,015) | 1,887 |
| Net cash provided by operating activities | 206,293 | 111,655 |
| Cash flows from investing activities: | | |
| Purchases of equity method investment | (21,684) | — |
| Purchases of available-for-sale investments | (500) | (5) |
| Purchases of property and equipment | (28,558) | (18,945) |
| Acquisition of businesses, net of cash received | (103,202) | (36,430) |
| Purchases of intangible assets | (183) | (768) |
| Net cash used in investing activities | (154,127) | (56,148) |
| Cash flows from financing activities: | | |
| Issuance of long-term debt, net | — | 636,178 |
| Proceeds from line of credit, net | — | 44,981 |
| Repayment of line of credit | — | (225,000) |
| Repurchase and retirement of common stock | (3,356) | (6,738) |
| Issuance of common stock under employee stock purchase plan | 135 | 133 |
| Exercise of stock options | 1,340 | 1,051 |
| Dividends paid | (39,897) | (35,707) |
| Deferred payments for acquisitions | (1,308) | (3,339) |
| Other | (138) | (36) |
| Net cash (used in) provided by financing activities | (43,224) | 411,523 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (2,120) | 5,576 |
| Net change in cash, cash equivalents and restricted cash | 6,822 | 472,606 |
| Net change in cash balance included in assets held for sale | — | (813) |
| Cash, cash equivalents and restricted cash at beginning of period | 350,945 | 123,950 |

| | | |
|---|---|---|
| Cash, cash equivalents and restricted cash at end of period | $357,767 | $595,743 |

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 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 the Financial Accounting Standards Board (“FASB”) ASC Topic No. 820, Fair Value Measurements and Disclosures (“ASC 820”), in measuring fair value and in disclosing fair value measurements. ASC 820 provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities.

As of June 30, 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 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 in the first quarter of 2018 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 Accounting Standards Update ("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. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases. This ASU is meant to clarify the guidance in ASU 2016-02, Leases. This ASU does not change the core principle of the guidance in Topic 842. Instead, the amendments provide clarifying guidance in a few narrow areas. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. This ASU provides another transition method for entities who have not yet adopted the new leasing standard by allowing entities to initially apply the new standard at the adoption date and recognize a

cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, this ASU provides a practical expedient to lessors to not separate nonlease components from the associated lease components similar to the expedient that is afforded to lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (1) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (2) the lease component, if accounted for separately, would be classified as an operating lease. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company expects to adopt these ASUs January 1, 2019 and expects the adoption to have a material effect on its condensed consolidated balance sheet and disclosures. The Company continues to assess the effect of adoption and believes the most significant changes relate to the recognition of new right-of-use assets and lease liabilities on the balance sheet for capital and operating leases. The Company has both capital and operating leases, both domestically and internationally, with varying expiration dates through 2025 in the aggregate amount of $80.2 million for the period ended June 30, 2018. Significant changes in leasing activity between now and adoption are not expected. In addition, the Company continues to identify which practical expedients will be elected, if any.

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 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 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 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).

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this ASU expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company is currently evaluating the effect of this ASU on our financial statements and related disclosures.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements. The amendments in this ASU clarify certain aspects of the guidance related to: reporting comprehensive income, debt modification and extinguishment, income taxes related to stock compensation, income taxes related to business combinations, derivatives and hedging, fair value measurements, brokers and dealers liabilities, and plan accounting. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect of this ASU on our financial statements and related disclosures.

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, 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. Revenues are no longer generated in 2018 from certain marketing and production services as a result of the sale of certain Digital Media assets during 2017.

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):

| | June 30, 2018 | | |
|---|---|---|---|
| | As Reported | Adjustments | Balances Without Adoption of ASC 606 |
| Balance Sheet | | | |
| Assets | | | |
| Accounts receivable, net | $179,716 | $ — | $179,716 |
| | | | |
| Liabilities | | | |

| | | | |
|---|---|---|---|
| Deferred revenue, current | 116,580 | (3,220) | 113,360 |
| Deferred revenue, non-current | 6,986 | — | 6,986 |
| | | | |
| Equity | | | |
| Retained earnings | $730,725 | $ 3,220 | $733,945 |

| | Three Months Ended June 30, 2018 | | | Six Months Ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustments | Amounts Without Adoption of ASC 606 | As Reported | Adjustments | Amounts Without Adoption of ASC 606 |
| Statement of Income | | | | | | |
| Revenues | | | | | | |
| Total revenues | $287,889 | $ 2,805 | $290,694 | $568,512 | $ 4,820 | $573,332 |
| Expenses | | | | | | |
| Total expenses | 259,410 | — | 259,410 | 521,163 | — | 521,163 |
| Net income | 28,479 | 2,805 | 31,284 | 47,349 | 4,820 | 52,169 |
| Diluted EPS impact | $0.57 | $ 0.06 | $0.63 | $0.95 | $ 0.10 | $1.05 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Digital Media | 2018 | 2017 | 2018 | 2017 |
| Advertising | $106,251 | $107,240 | $207,824 | $199,694 |
| Subscription | 31,340 | 15,242 | 60,928 | 30,074 |
| Other [(1)] | — | 5,992 | — | 11,837 |
| Total Digital Media revenues | $137,591 | $128,474 | $268,752 | $241,605 |
| | | | | |
| Cloud Services | | | | |
| Subscription | $150,127 | $143,418 | $299,448 | $283,751 |
| Other | 170 | 1,291 | 333 | 2,503 |
| Total Cloud Services revenues | $150,297 | $144,709 | $299,781 | $286,254 |
| | | | | |
| Corporate | $1 | $— | $3 | $— |
| Elimination of inter-segment revenues | — | (9 ) | (24 ) | (16 ) |
| Total Revenues | $287,889 | $273,174 | $568,512 | $527,843 |
| | | | | |
| Timing of revenue recognition | | | | |
| Point in time | $866 | $4,265 | $1,941 | $8,884 |
| Over time | 287,023 | 268,909 | 566,571 | 518,959 |
| Total | $287,889 | $273,174 | $568,512 | $527,843 |

[(1)] In the second quarter of 2018, the Company reclassified the Other revenues associated with its Digital Media segment to Advertising revenue.

The Company has recorded $74.5 million of revenue for the six months ended June 30, 2018 which was previously included in the contract liability balance as of the adoption date.

In connection with the acquisitions of ThreatTrack Security Holdings, Inc. and Mosaik Solutions, LLC (see Note 4 - Business Acquisitions), the Company acquired $24.3 million and $1.9 million of deferred revenue, respectively (subject to any purchase accounting adjustments).

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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 six 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; (b) an asset purchase of Line2, Inc., acquired on June 18, 2018, a California-based provider of voice solutions; (c) a share purchase of all the membership interests of Mosaik Solutions, LLC, acquired on June 18, 2018, a Tennessee-based provider of mobile coverage data and network intelligence for mobile operators and network-dependent enterprises; and (d) one 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 June 30, 2018, reflect the results of operations of all 2018 acquisitions. For the six months ended June 30, 2018, these acquisitions contributed $11.7 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 $101.0 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] | $1,413 |
| Accounts receivable | 4,199 |
| Prepaid expenses and other current assets | 1,403 |
| Property and equipment | 2,492 |
| Trade names | 8,380 |
| Customer relationships | 29,086 |
| Goodwill | 71,402 |
| Other intangibles | 18,635 |
| Accounts payable and accrued expenses | (3,818 ) |
| Deferred revenue | (26,235 ) |
| Capital leases | (829 ) |
| Deferred tax liability | (820 ) |
| Other long-term liabilities | (2,931 ) |
| Total | $102,377 |

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

During the six months ended June 30, 2018, the purchase price accounting has been finalized for the following acquisitions: (i) WeCloud AB; (ii) ThreatTrack Security Holdings, Inc.; and (iii) one other immaterial email security business. The initial accounting for all other 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 six months ended June 30, 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. In addition, the Company recorded adjustments to the initial working capital related to prior period acquisitions in the Digital Media segment, which resulted in a net decrease in goodwill of $(0.4) million. Such adjustments had an immaterial impact on the amortization expense within the condensed consolidated statement of income for the six months ended June 30, 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 six months ended June 30, 2018 is $71.4 million, of which $13.9 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 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 |
|---|---|---|---|---|
| June 30, 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 first six months of 2018, 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 |
|---|---|---|---|---|
| June 30, 2018 | | | | |
| Corporate debt securities | $ 23,256 | $ 47 | $ (2,135 ) | $21,168 |
| Total | $ 23,256 | $ 47 | $ (2,135 ) | $21,168 |
| | | | | |
| December 31, 2017 | | | | |
| Corporate debt securities | $ 22,745 | $ — | $ — | $22,745 |
| Total | $ 22,745 | $ — | $ — | $22,745 |

At June 30, 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):

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Due within 1 year | $— | $ — |
| Due within more than 1 year but less than 5 years | 21,168 | 22,745 |
| Due within more than 5 years but less than 10 years | — | — |
| Due 10 years or after | — | — |
| Total | $21,168 | $ 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 comparable 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 it 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.

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The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of June 30, 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 June 30, 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 | $20,610 | $(2,135) | $ — | $ — | $20,610 | $(2,135) |
| Total | $20,610 | $(2,135) | $ — | $ — | $20,610 | $(2,135) |

| | 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 June 30, 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 2018, the Company received capital call notices from the management of OCV Management, LLC. for $34.6 million, inclusive of certain management fees, of which $21.7 million has been paid for the six months ended June 30, 2018.

During the six months ended June 30, 2018, the Company recognized an investment loss of $3.0 million, net of tax benefit. The loss is presented in the Company's condensed consolidated statement of income as loss from equity investments, net.

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

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Equity securities | $17,748 | $ — |

As a limited partner, the Company's maximum exposure to loss is $17.7 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 June 30, 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 June 30, 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):

| June 30, 2018 | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market and other funds | $129,637 | $— | $— | $129,637 |
| Corporate debt securities | — | 21,168 | — | 21,168 |
| Total assets measured at fair value | $129,637 | $21,168 | $— | $150,805 |
| | | | | |
| Liabilities: | | | | |
| Contingent consideration | $— | $— | $30,429 | $30,429 |
| Contingent interest derivative | — | 768 | — | 768 |
| Total liabilities measured at fair value | $— | $768 | $30,429 | $31,197 |

| 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 |

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 six months ended June 30, 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 June 30, 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 | 9,900 | General and administrative |
| Contingent consideration | 829 | |
| Contingent consideration payments | (777 ) | Not applicable |
| Balance as of June 30, 2018 | $30,429 | |

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 EBITDA thresholds and had a fair value of $29.6 million and $19.7 million at June 30, 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.

In connection with the acquisition of Mosaik Solutions, on June 18, 2018, contingent consideration of up to an aggregate of $1.0 million may be payable upon achieving certain income thresholds and had a fair value of $0.8 million at June 30, 2018.

During the six months ended June 30, 2018, the Company recorded an increase in the fair value of the contingent consideration of $9.9 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 six months ended June 30, 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) | 66,709 | 4,693 | 71,402 |
| Purchase accounting adjustments [1] | (1,014 ) | (428 ) | (1,442 ) |
| Foreign exchange translation | (5,339 ) | (418 ) | (5,757 ) |
| Balance as of June 30, 2018 | $664,109 | $596,705 | $1,260,814 |

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

Intangible Assets with Indefinite Lives:

Intangible assets are summarized as of June 30, 2018 and December 31, 2017 as follows (in thousands):

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Trade names | $27,379 | $ 27,379 |
| Other | 4,306 | 5,432 |
| Total | $31,685 | $ 32,811 |

Intangible Assets Subject to Amortization:

As of June 30, 2018, intangible assets subject to amortization relate primarily to the following (in thousands):

| | Weighted-Average Amortization Period | Historical Cost | Accumulated Amortization | Net |
|---|---|---|---|---|
| Trade names | 11.1 years | $156,130 | $ 57,280 | $98,850 |
| Patent and patent licenses | 6.6 years | 67,865 | 59,022 | 8,843 |
| Customer relationships [1] | 9.1 years | 473,008 | 282,596 | 190,412 |
| Other purchased intangibles | 4.8 years | 238,154 | 94,129 | 144,025 |
| Total | | $935,157 | $ 493,027 | $442,130 |

[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.

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Amortization expense, included in general and administrative expense, approximated $33.8 million and $31.7 million for the three months ended June 30, 2018 and 2017, respectively, and $66.9 million and $62.5 million for the six month periods ended June 30, 2018 and 2017, respectively. Amortization expense is estimated to approximate $174.8 million, $96.7 million, $55.7 million, $40.3 million and $31.6 million for fiscal years 2018 through 2022, respectively, and $110.0 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 June 30, 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 June 30, 2018, restrict j2 Cloud's ability to pay dividends to j2 Global, Inc. The company is in compliance with its debt covenants as of June 30, 2018.

As of June 30, 2018, the estimated fair value of the 6.0% Senior Notes was approximately $658.1 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.

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 June 30, 2018, the conversion rate is 14.6399 shares of j2 Global common stock for each $1,000 principal amount of Convertible Notes, which represents a conversion price of approximately $68.31 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 June 30, 2018, the remaining period over which the unamortized debt discount will be amortized is 3.0 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 June 30, 2018 and December 31, 2017, the estimated fair value of the Convertible Notes was approximately $539.4 million and $504.5 million, respectively.

Long-term debt as of June 30, 2018 and December 31, 2017 consists of the following (in thousands):

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| 6.0% Senior Notes | $650,000 | $650,000 |
| 3.25% Convertible Notes | 402,500 | 402,500 |
| Less: Unamortized discount | (37,967) | (42,902) |
| Deferred issuance costs | (6,839) | (7,654) |
| Total long-term debt | 1,007,694 | 1,001,944 |
| Less: Current portion | — | — |
| Total long-term debt, less current portion | $1,007,694 | $1,001,944 |

9.Commitments and Contingencies

Litigation

From time to time, j2 Global and its affiliates are involved in litigation and other legal disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against j2 Global and its affiliates, whether meritorious or not, could be time consuming and costly, and could divert significant operational resources. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief.

On February 17, 2011, Emmanuel Pantelakis ("Pantelakis") filed suit against a j2 Global affiliate in the Ontario Superior Court of Justice (No. 11-50673), alleging that the j2 Global affiliate breached a contract relating to Pantelakis's use of the Campaigner service. The j2 Global affiliate filed a responsive pleading on March 23, 2011 and responses to undertakings on July 16, 2012. On November 6, 2012, Pantelakis filed a second amended statement of claim, reframing his lawsuit as a negligence action. The j2 Global affiliate filed an amended statement of defense on April 8, 2013. Discovery has closed. A judicial pre-trial has been set for September 27, 2018, with an anticipated trial date of January 2020.

On January 17, 2013, the Commissioner of the Massachusetts Department of Revenue ("Commissioner") issued a notice of assessment to a j2 Global affiliate for sales and use tax for the period of July 1, 2003 through December 31, 2011. On July 22, 2014, the Commissioner denied the j2 Global affiliate's application for abatement. On September 18, 2014, the j2 Global affiliate petitioned the Massachusetts Appellate Tax Board for abatement of the tax asserted in the notice of assessment (No. C325426). A trial was held on December 16, 2015. On May 18, 2017, the Appellate Board decided in favor of the Commonwealth of Massachusetts. The j2 Global affiliate has requested the findings of fact and conclusions of law from the Appellate Board.

On January 21, 2016, Davis Neurology, P.A. filed a putative class action against two j2 Global affiliates in the Circuit Court for the County of Pope, State of Arkansas (58-cv-2016-40), alleging violations of the TCPA. The case was ultimately removed to the U.S. District Court for the Eastern District of Arkansas (the "Eastern District of Arkansas")

(No. 4:16-cv-00682). On June 6, 2016, the j2 Global affiliates filed a motion for judgment on the pleadings. On March 20, 2017, the Eastern District of Arkansas dismissed all claims against the j2 Global affiliates. On July 23, 2018, the Eighth Circuit Court of Appeals vacated the judgment and remanded to district court with instructions to return the case to state court. On August 1, 2018, the Eighth Circuit Court of Appeals granted an extension of time to file a petition for rehearing.

j2 Global does not believe, based on current knowledge, that the foregoing legal proceedings or claims, after giving effect to existing reserves, are likely to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could have a material effect on j2 Global's consolidated financial position, results of operations, or cash flows in a particular period.

The Company has not accrued for any material loss contingencies relating to these legal proceedings because materially unfavorable outcomes are not considered probable by management. It is the Company's policy to expense as incurred legal fees related to various litigations.

Non-Income Related Taxes

The Company does not collect and remit sales and use, telecommunication, or similar taxes in all jurisdictions in which it has sales, based on the Company's belief that such taxes are not applicable or legally required. Several states and other taxing jurisdictions have presented or threatened the Company with assessments, alleging that the Company is required to collect and remit such taxes there. The aggregate assessments at June 30, 2018 were not material.
The June 2018 U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc., No. 17-494, along with the application of existing, new or future rulings and laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.
The Company is currently under audit or is subject to audit for indirect taxes in several states and municipalities. The Company has a $4.6 million reserve established for these matters. It is reasonably possible that additional liabilities could be incurred resulting in additional expense, which could have a material impact our financial results.

10.Income Taxes

The Company's tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate adjusted for discrete interim period tax impacts. Each quarter the Company updates its estimated annual effective tax rate and, if the estimate changes, makes a cumulative adjustment. The Company's effective tax rate was 18.3% and 22.8% for the three months ended June 30, 2018 and 2017, respectively, and 21.8% and 24.6% for the six months ended June 30, 2018 and 2017, respectively. Income before income taxes included income from domestic operations of $0.2 million and $9.2 million for the six months ended June 30, 2018 and 2017, respectively, and income from foreign operations of $64.1 million and $66.7 million for the six months ended June 30, 2018 and 2017, respectively.

The 2017 Tax Act was enacted on December 22, 2017. The 2017 Tax Act includes a number of changes to the Internal Revenue Code including a one-time transition tax on the mandatory deemed repatriation of cumulative undistributed foreign earnings and a permanent reduction in the U.S. federal statutory income tax rate from 35% to 21%, effective on January 1, 2018. The 2017 Tax Act also created a new requirement that certain income (i.e., Global Intangible Low Taxed Income ("GILTI")) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Consistent with guidance issued by SAB 118, the Company recorded provisional estimates for the income tax effects of the 2017 Tax Act in December 31, 2017. In addition, SAB 118 provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 Tax Act. The Company continues to analyze the impacts of the 2017 Tax Act and refine calculations.
The Company is required to record deferred tax assets and liabilities based on the enacted tax rates at which they are expected to reverse in the future. Therefore, any U.S. related deferred taxes were re-measured from 35% down to 21% based on the recorded balances as of December 31, 2017. The analysis included a preliminary assessment on the deductibility of certain amounts for which deferred tax assets may have been recorded. As of December 31, 2017, the Company recorded an estimated tax benefit of approximately $33.3 million. As of June 30, 2018, the Company has not adjusted its provisional estimate related to re-measurement of its deferred tax balances.
The Company was required to calculate a one-time transition tax based on its total post-1986 foreign earnings and profits ("E&P") that it previously deferred from U.S. income taxes. During the year ended December 31, 2017, the Company recorded a provisional estimate of the transition tax of $49.2 million payable over an eight year period. As of June 30, 2018, the Company has not adjusted its provisional estimate of the transition tax.
The Company was unable to determine a reasonable estimate of the remaining tax liability, if any, under the 2017 Tax Act for its remaining outside basis differences or evaluate how the 2017 Tax Act will affect the Company's existing

accounting position to indefinitely reinvest unremitted foreign earnings. Therefore, the Company did not include a provisional amount for this item in its financial statements for fiscal 2017. As of June 30, 2018, the Company continues to review the amount of tax due, if any, on differences in tax basis and the accounting position related to indefinite reinvestment of foreign earnings.

The Company is subject to a territorial tax system under the 2017 Tax Act, in which it is required to provide for tax on GILTI earned by certain foreign subsidiaries. Additionally, the Company is required to make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense. As of June 30, 2018, the Company is still evaluating the effects of the GILTI provisions as guidance and interpretations continue to emerge. Therefore, the Company has not determined its accounting policy on the GILTI provisions. However, the standard requires that the Company reflect the impact of the GILTI provisions as a period expense until the accounting policy is finalized. Therefore, the Company has included the provisional estimate of GILTI related to current-year operations in its estimated annual effective tax rate only and will be updating the impact and accounting policy as the analysis related to the GILTI provisions is completed.
As of June 30, 2018 and December 31, 2017, the Company had $54.5 million and $52.2 million, respectively, in liabilities for uncertain income tax positions. Accrued interest and penalties related to unrecognized tax benefits are recognized in income tax expense on the Company's consolidated statement of income.

Cash paid for income taxes net of refunds received was $16.6 million and $26.5 million for the six months ended June 30, 2018 and 2017, respectively.

Certain taxes are prepaid during the year and, where appropriate, included within prepaid expenses and other current assets on the consolidated balance sheet. The Company's prepaid taxes were $8.8 million and $6.0 million at June 30, 2018 and December 31, 2017, respectively.

Income Tax Audits:

The Company is in various stages of audit by the U.S. Internal Revenue Service ("IRS") for its 2012 through 2016 tax years.

j2 Global is under income tax audit by the California Franchise Tax Board (the "FTB") for its tax years 2012 and 2013. The FTB, however, has agreed to suspend its audit for 2012 and 2013 pending the outcome of the IRS audit for such tax years.

The Company is under income tax audit by the New York State Department of Taxation and Finance ("NYS") for tax years 2011 through 2014.

The Massachusetts Department of Revenue notified the Company that it will commence an audit of income tax for tax years 2014 and 2015.

The Company was under audit by the Georgia Department of Revenue ("Georgia DOR") for tax years 2014 through 2016. In June 2018, the Georgia DOR concluded its audit of tax years 2014 through 2016. The Company was assessed an insignificant amount of income tax and interest, which was paid.

The Company is currently under audit by the French tax authorities for tax years 2011 to 2016. The audit is in the preliminary fact gathering stage.

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

estimate the amount, if any, of such change.

11.Stockholders' Equity

Common Stock Repurchase Program

In February 2012, the Company's Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 19, 2019.

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program. During the six month period ended June 30, 2018, we repurchased zero shares under this program. Cumulatively at June 30, 2018, 2.1 million shares were repurchased at an aggregate cost of $58.6 million (including an immaterial amount of commission fees).

Periodically, participants in j2 Global's stock plans surrender to the Company shares of j2 Global stock to pay the exercise price or to satisfy tax withholding obligations arising upon the exercise of stock options or the vesting of restricted stock. During the three month period ended June 30, 2018, the Company purchased 31,839 shares from plan participants for this purpose.

Dividends

The following is a summary of each dividend declared during fiscal year 2018 and 2017:

| Declaration Date | Dividend per Common Share | Record Date | Payment Date |
|---|---|---|---|
| February 9, 2017 | $ 0.3650 | February 22, 2017 | March 9, 2017 |
| May 4, 2017 | $ 0.3750 | May 19, 2017 | June 2, 2017 |
| August 2, 2017 | $ 0.3850 | August 14, 2017 | September 1, 2017 |
| October 31, 2017 | $ 0.3950 | November 17, 2017 | December 5, 2017 |
| February 2, 2018 | $ 0.4050 | February 22, 2018 | March 9, 2018 |
| May 3, 2018 | $ 0.4150 | May 18, 2018 | June 1, 2018 |

Future dividends are subject to Board approval.

12.Stock Options and Employee Stock Purchase Plan

j2 Global's share-based compensation plans include the 2007 Stock Plan (the "2007 Plan"), 2015 Stock Option Plan (the "2015 Plan") and 2001 Employee Stock Purchase Plan (the "Purchase Plan"). Each plan is described below.

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 j2 Global common stock are authorized to be used for 2007 Plan purposes. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of j2 Global's common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of j2 Global's common stock on the date of grant for non-statutory stock options. As of June 30, 2018, 253,667 shares underlying options and 7,460 shares of restricted units were outstanding under the 2007 Plan. The 2007 Plan terminated on February 14, 2017.

The 2015 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units and other share-based awards and is intended as a successor plan to the 2007 Stock Plan since no further grants will be made under the 2007 Stock Plan. 4,200,000 shares of j2 Global common stock are authorized to be used for 2015 Plan purposes. Options under the 2015 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the higher of the par value or 100% of the fair market value of j2 Global's

common stock subject to the option on the date the option is granted. As of June 30, 2018, 462,000 shares underlying options and 44,884 shares of restricted stock units were outstanding under the 2015 Plan.

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

Stock Options

The following table represents stock option activity for the six months ended June 30, 2018:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2018 | 375,675 | $ 31.30 | | |
| Granted | 400,000 | 75.03 | | |
| Exercised | (60,008 ) | 22.33 | | |
| Canceled | — | — | | |
| Outstanding at June 30, 2018 | 715,667 | $ 56.49 | 6.3 | $21,554,729 |
| Exercisable at June 30, 2018 | 306,467 | $ 31.97 | 2.0 | $16,745,537 |
| Vested and expected to vest at June 30, 2018 | 578,284 | $ 52.10 | 5.5 | $19,954,021 |

The total intrinsic values of options exercised during the six months ended June 30, 2018 and 2017 were $3.4 million and $2.0 million, respectively.

The Company recognized $0.2 million and $50,000 of compensation expense related to stock options for the three months ended June 30, 2018 and 2017, respectively, and $0.5 million and $0.1 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and December 31, 2017, unrecognized stock compensation related to non-vested stock options granted under each of the share-based compensation plans approximated $7.4 million and $0.2 million, respectively. Unrecognized stock compensation expense related to non-vested stock options granted under these plans is expected to be recognized ratably over a weighted-average period of 7.4 years (i.e., the remaining requisite service period).

Fair Value Disclosure

j2 Global uses the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility is based on historical volatility of the Company’s common stock. The Company estimates the expected term based upon the historical exercise behavior of our employees. 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. The Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 10.59% and 14.43% as of June 30, 2018 and 2017, respectively.

Restricted Stock and Restricted Stock Units

j2 Global has awarded restricted stock and restricted stock units to its Board of Directors and senior staff pursuant to certain share-based compensation plans. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Vesting periods are approximately one year for awards to members of the Company’s Board of Directors, five years for senior staff (excluding market-based awards discussed below) and eight years for the Chief Executive Officer (“CEO”).

Restricted Stock - Awards with Market Conditions

j2 Global has awarded certain key employees market-based restricted stock awards pursuant to the 2015 Plan. The market-based awards have vesting conditions that are based on specified stock price targets of the Company’s common stock. Market conditions were factored into the grant date fair value using a Monte Carlo valuation model, which

utilized multiple input variables to determine the probability of the Company achieving the specified stock price targets with a 20-day and 30-day lookback (trading days). Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period using the graded-vesting method regardless of whether the market condition is satisfied, provided that the requisite service period has been completed. During the six months ended June 30, 2018 and 2017, the Company awarded 473,501 and 85,825 market-based restricted stock awards, respectively. The per share weighted average grant-date fair values of the market-based restricted stock awards granted during the six months ended June 30, 2018 and 2017 were $52.95 and $72.20, respectively.

The weighted-average fair values of market-based restricted stock awards granted have been estimated utilizing the following assumptions:

| | June 30, 2018 |
|---|---|
| Underlying stock price at valuation date | $82.11 |
| Expected volatility | 28.4 % |
| Risk-free interest rate | 2.89 % |

Restricted stock award activity for the six months ended June 30, 2018 is set forth below:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at January 1, 2018 | 605,566 | $ 51.57 |
| Granted | 814,040 | 63.33 |
| Vested | (113,087 ) | 63.98 |
| Canceled | (28,316 ) | 78.23 |
| Nonvested at June 30, 2018 | 1,278,203 | $ 64.58 |

Restricted stock unit award activity for the six months ended June 30, 2018 is set forth below:

| | Number of Shares | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at January 1, 2018 | 38,400 | | |
| Granted | 20,044 | | |
| Vested | (5,200 ) | | |
| Canceled | (900 ) | | |
| Outstanding at June 30, 2018 | 52,344 | 2.2 | $4,533,514 |
| Vested and expected to vest at June 30, 2018 | 41,666 | 1.9 | $3,608,673 |

The Company recognized $6.6 million and $5.5 million of compensation expense related to restricted stock and restricted stock units for the three months ended June 30, 2018 and 2017, respectively, and $12.8 million and $9.1 million for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and December 31, 2017, the Company had unrecognized share-based compensation cost of approximately $75.9 million and $36.6 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 5.8 years for awards and 3.6 years for units.

Employee Stock Purchase Plan

The Purchase Plan provides for the issuance of a maximum of two million shares of the Company's 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 common stock at certain plan-defined dates. The price of the j2 Global common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the j2 Global common stock at the end of the offering period. On February 2, 2018, the Company approved an amendment to the Company's Amended and Restated 2001 Employee Stock Purchase Plan, to be effective May 1, 2018, such that (i) the purchase price for each offering period shall be 85% of the lesser of the fair market value of a share of common stock of the Company (a "Share") on the beginning or the end of the offering period, rather than 95% of the fair market value of a Share at the end of the offering period, and (ii) each offering period will be six months, rather than three months.

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j2 Global performed an analysis of the Amendment terms and determined that a plan provision exists which allows for the more favorable of two exercise prices, commonly referred to as a "look-back" feature. The purchase price discount and the look-back feature cause the Purchase Plan to be compensatory and the Company to recognize compensation expense. The compensation cost is recognized on a straight-line basis over the requisite service period. The Company used the Black-Scholes option pricing model to calculate the estimated fair value of the purchase right issued under the ESPP. The expected volatility is based on historical volatility of the Company's common stock. 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. The Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 0.10% as of June 30, 2018.

For the six months ended June 30, 2018 and 2017, 1,781 and 1,606 shares were purchased under the Purchase Plan, respectively. Cash received upon the issuance of j2 Global common stock under the Purchase Plan was $135,000 and $133,000 for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, 1,621,462 shares were available under the Purchase Plan for future issuance.

The Company recognized $0.2 million and zero of compensation expense related to the Purchase Plan for the three months ended June 30, 2018 and 2017, respectively, and $0.2 million and zero of compensation expense related to the Purchase Plan for the six months ended June 30, 2018 and 2017, respectively.

The compensation expense related to the Purchase Plan has been estimated utilizing the following assumptions:

| | June 30, 2018 |
|---|---|
| Risk-free interest rate | 2.02% |
| Expected term (in years) | 0.5 |
| Dividend yield | 1.03% |
| Expected volatility | 22.21% |
| Weighted average volatility | 22.21% |

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13.Earnings Per Share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator for basic and diluted net income per common share: | | | | |
| Net income attributable to j2 Global, Inc. common shareholders | $28,479 | $31,376 | $47,349 | $57,196 |
| Net income available to participating securities [a] | (424) | (401) | (635) | (708) |
| Net income available to j2 Global, Inc. common shareholders | $28,055 | $30,975 | $46,714 | $56,488 |
| Denominator: | | | | |
| Weighted-average outstanding shares of common stock | 47,951,326 | 47,547,118 | 47,912,383 | 47,505,406 |
| Dilutive effect of: | | | | |
| Equity incentive plans | 149,967 | 235,814 | 136,636 | 239,367 |
| Convertible debt [b] | 1,117,228 | 1,165,383 | 913,816 | 1,112,632 |
| Common stock and common stock equivalents | 49,218,521 | 48,948,315 | 48,962,835 | 48,857,405 |
| Net income per share: | | | | |
| Basic | $0.59 | $0.65 | $0.98 | $1.19 |
| Diluted | $0.57 | $0.63 | $0.95 | $1.16 |

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

(b) Represents the incremental shares issuable upon conversion of the Convertible Notes due June 15, 2029 by applying the treasury stock method when the average stock price exceeds the conversion price of the Convertible Notes (see Note 8 - Long Term Debt).

For the three months ended June 30, 2018 and 2017, there were zero 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 stock. For the six months ended June 30, 2018 and 2017, there were zero 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 stock.

14. Segment Information

The Company’s business segments are based on the organization structure used by management for making operating and investment decisions and for assessing performance. j2 Global’s reportable business segments are: (i) Cloud Services and (ii) Digital Media.

The Company’s Cloud Services segment is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some seasonal weakness in the fourth quarter. The Cloud Services segment also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period to period. The Company’s Digital Media segment is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter.
Information on reportable segments and reconciliation to consolidated income from operations is as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |

| | | | | |
|---|---|---|---|---|
| Revenues by segment: | | | | |
| Cloud Services | $150,297 | $144,709 | $299,781 | $286,254 |
| Digital Media | 137,591 | 128,474 | 268,752 | 241,605 |
| Elimination of inter-segment revenues | — | (9 ) | (24 ) | (16 ) |
| Total segments revenues | 287,888 | 273,174 | 568,509 | 527,843 |
| Corporate | 1 | — | 3 | — |
| Total revenues | 287,889 | 273,174 | 568,512 | 527,843 |
| | | | | |
| Direct costs by segment[(1)]: | | | | |
| Cloud Services | 92,115 | 86,610 | 184,709 | 171,854 |
| Digital Media | 134,378 | 118,335 | 268,960 | 234,968 |
| Direct costs by segment[(1)] | 226,493 | 204,945 | 453,669 | 406,822 |
| | | | | |
| Cloud Services operating income[(2)] | 58,182 | 58,099 | 115,072 | 114,400 |
| Digital Media operating income | 3,213 | 10,139 | (208 ) | 6,637 |
| Segment operating income | 61,395 | 68,238 | 114,864 | 121,037 |
| | | | | |
| Global operating costs[(2)] | 7,012 | 9,678 | 14,323 | 14,502 |
| Income from operations | $54,383 | $58,560 | $100,541 | $106,535 |

[(1)] Direct costs for each segment include cost of revenues and other operating expenses that are directly attributable to the segment, such as employee compensation expense, local sales and marketing expenses, engineering and network operations expense, depreciation and amortization and other administrative expenses.
[(2)] Global operating costs include general and administrative and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment.

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets: | | |
| Cloud Services | $1,084,652 | $ 1,078,577 |
| Digital Media | 1,226,521 | 1,317,113 |
| Total assets from reportable segments | 2,311,173 | 2,395,690 |
| Corporate | 169,486 | 57,403 |
| Total assets | $2,480,659 | $ 2,453,093 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Capital expenditures: | | |
| Cloud Services | $6,611 | $ 2,804 |
| Digital Media | 21,947 | 16,141 |
| Total from reportable segments | 28,558 | 18,945 |
| Corporate | — | — |
| Total capital expenditures | $28,558 | $ 18,945 |

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Depreciation and amortization: | | | | |
| Cloud Services | $14,812 | $17,189 | $29,190 | $33,953 |
| Digital Media | 28,056 | 22,714 | 55,170 | 45,272 |
| Total from reportable segments | 42,868 | 39,903 | 84,360 | 79,225 |
| Corporate | 989 | — | 2,115 | — |
| Total depreciation and amortization | $43,857 | $39,903 | $86,475 | $79,225 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| United States | $218,996 | $202,493 | $428,072 | $388,255 |
| Canada | 18,528 | 19,351 | 38,150 | 38,752 |
| Ireland | 17,013 | 18,479 | 34,114 | 36,380 |
| All other countries | 33,352 | 32,851 | 68,176 | 64,456 |
| | $287,889 | $273,174 | $568,512 | $527,843 |

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Long-lived assets: | | |
| United States | $463,582 | $ 452,143 |
| All other countries | 69,629 | 80,571 |
| Total | $533,211 | $ 532,714 |

15.Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the three months ended June 30, 2018 (in thousands):

| | Unrealized Gains (Losses) on Investments | Foreign Currency Translation | Total |
|---|---|---|---|
| Beginning balance | $ (2,500 ) | $ (22,780 ) | $(25,280) |
| Other comprehensive income (loss) | 923 | (14,648 ) | (13,725 ) |
| Net current period other comprehensive income (loss) | 923 | (14,648 ) | (13,725 ) |
| Ending balance | $ (1,577 ) | $ (37,428 ) | $(39,005) |

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the six months ended June 30, 2018 (in thousands):

| | Unrealized Gains (Losses) on Investments | Foreign Currency Translation | Total |
|---|---|---|---|
| Beginning balance | $ — | $ (29,090 ) | $(29,090) |

| | | | |
|---|---|---|---|
| Other comprehensive (loss) income | (1,577 ) | (8,338 ) | (9,915 ) |
| Net current period other comprehensive (loss) income | (1,577 ) | (8,338 ) | (9,915 ) |
| Ending balance | $ (1,577 ) | $ (37,428 ) | $ (39,005 ) |

16.Subsequent Events

On July 6, 2018, the Company paid a capital call notice from the management of OCV Management, LLC, for approximately $12.9 million, inclusive of certain management fees.

On July 13, 2018, in a cash transaction, the Company acquired certain assets of bestblackfriday.com, an online business providing deals, offers, commerce related content and email marketing to consumers.

On July 19, 2018, in a cash transaction, the Company acquired through a share purchase all the issued capital of DemandShore Inc., a provider of lead generation to sales and marketing professionals across B2B technology companies globally.

On August 8, 2018, the Company’s Board of Directors approved a quarterly cash dividend of $0.4250 per share of j2 Global common stock payable on September 4, 2018 to all stockholders of record as of the close of business on August 20, 2018.

Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Information

In addition to historical information, we have also made forward-looking statements in this report. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Our 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 (if any) and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 (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 and intention to:

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;
Maintain and increase our Cloud Services customer base and average revenue per user;
Generate sufficient cash flow to make interest and debt payments, reinvest in our business, and pursue desired activities and businesses plans while satisfying restrictive covenants relating to debt obligations;
Acquire businesses on acceptable terms and successfully integrate and realize anticipated synergies from such acquisitions;
Continue to expand our businesses 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;
Maintain our financial position, operating results and cash flows in the event that we incur new or unanticipated costs or tax liabilities, including those relating to federal and state income tax and indirect taxes, such as sales, value-added and telecommunication taxes;
Accurately estimate the assumptions underlying our effective worldwide tax rate;
Continue to pay a comparable cash dividend on a quarterly basis;
Maintain favorable relationships with critical third-party vendors whose financial condition will not negatively impact the services they provide;
Create compelling digital media content causing increased traffic and advertising levels; additional advertisers or an increase in advertising spend; and effectively target digital media advertisements to desired audiences;
Manage certain risks inherent to our business, such as costs associated with fraudulent activity, system failure or security breach; effectively maintaining and managing our billing systems; time and resources required to manage our legal proceedings; liability for legal and other claims; or adhering to our internal controls and procedures;
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 regulations related to data privacy, access, security, retention, and sharing;
Successfully manage our growth, including but not limited to our operational and personnel-related resources, and integration of newly acquired businesses;

Successfully adapt to technological changes and diversify services and related revenues at acceptable levels of financial return;
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; 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, Inc., together with its subsidiaries ("j2 Global", "the Company", "our", "us" or "we"), is a leading provider of intern
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.
Our Cloud Services segment generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media segment generates revenues from advertising and sponsorships, subscription and usage fees, performance marketing and licensing fees.

In addition to growing our business organically, on a regular basis we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technologies, acquire skilled personnel and enter into new markets.
Our consolidated revenues are currently generated from three basic business models, each with different financial profiles and variability. Our Cloud Services segment is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some seasonal weakness in the fourth quarter. The Cloud Services segment also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period to period. Our Digital Media segment is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.
j2 Global was incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Cloud Services segment, operated by our wholly-owned subsidiary, j2 Cloud Services, LLC (formerly j2 Cloud Services, Inc.), and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments is included within Note 14 - Segment Information of the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

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Cloud Services Segment Performance Metrics

The following table sets forth certain key operating metrics for our Cloud Services segment as of and for the three and six months ended June 30, 2018 and 2017 (in thousands, except for percentages):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Subscriber revenues: | | | | |
| Fixed | $123,648 | $117,556 | $244,487 | $233,282 |
| Variable | 26,479 | 25,862 | 54,961 | 50,469 |
| Total subscriber revenues | $150,127 | $143,418 | $299,448 | $283,751 |
| Other license revenues | 170 | 1,291 | 333 | 2,503 |
| Total revenues | $150,297 | $144,709 | $299,781 | $286,254 |
| | | | | |
| Percentage of total subscriber revenues: | | | | |
| Fixed | 82.4 % | 82.0 % | 81.6 % | 82.2 % |
| Variable | 17.6 % | 18.0 % | 18.4 % | 17.8 % |
| | | | | |
| Total revenues: | | | | |
| Number-based | $98,488 | $95,490 | $197,179 | $188,928 |
| Non-number-based | 51,809 | 49,219 | 102,602 | 97,326 |
| Total revenues | $150,297 | $144,709 | $299,781 | $286,254 |
| | | | | |
| Average monthly revenue per Cloud Business Customer (ARPU) (1)(2) | $15.68 | $15.28 | | |
| Cancel Rate(3) | 2.0 % | 2.1 % | | |

(1) Quarterly ARPU is calculated using our standard convention of applying the average of the quarter's beginning and ending base to the total revenue for the quarter. We believe ARPU provides investors an understanding of the average monthly revenues we recognize associated with each Cloud Services customer. As ARPU varies based on fixed subscription fee and variable usage components, we believe it can serve as a measure by which investors can evaluate trends in the types of services, levels of services and the usage levels of those services across our Cloud Services customer base.

(2) Cloud Services customers are defined as paying direct inward dialing numbers for fax and voice services, and direct and resellers' accounts for other services.

(3) Cancel Rate is defined as cancels of small and medium business and individual Cloud Services customers with greater than four months of continuous service (continuous service includes Cloud Services customers administratively canceled and reactivated within the same calendar month), and enterprise Cloud Services customers beginning with their first day of service. Calculated monthly and expressed as an average over the three months of the quarter.

Digital Media Segment Performance Metrics

The following table sets forth certain key operating metrics for our Digital Media segment for the three and six months ended June 30, 2018 and 2017 (in millions):

| | Three Months Ended June | Six Months Ended June 30, |
|---|---|---|

| | 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Visits | 1,760 | 1,352 | 3,420 | 2,754 |
| Page views | 6,308 | 6,054 | 12,613 | 11,440 |

Sources: Google Analytics and Partner Platforms

Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions. Our critical accounting policies are described in our 2017 Annual Report on Form 10-K filed with the SEC on March 1, 2018. During the three months ended June 30, 2018, there were no significant changes in our critical accounting policies and estimates.

Results of Operations for the Three and Six Months Ended June 30, 2018

Cloud Services Segment

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

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

Digital Media Segment

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

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

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

j2 Global Consolidated

We anticipate that the stable revenue trend in our Cloud Services segment combined with the improving revenue and profits in our Digital Media segment will result in overall improved revenue and profits for j2 Global on a consolidated basis, excluding the impact of any future acquisitions which can vary dramatically from period to period.

We expect operating profit as a percentage of revenues to generally decrease in the future primarily due to the fact that revenue with respect to our Digital Media segment (i) is increasing as a percentage of our revenue on a consolidated basis and (ii) has historically operated at a lower operating margin.

Revenues

(in thousands, except percentages)

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | 2018 | 2017 | |
| Revenues | $287,889 | $273,174 | 5% | $568,512 | $527,843 | 8% |

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

Our revenues in 2018 have increased over the comparable three and six month periods of 2017 primarily due to a combination of acquisitions and organic growth within both the Digital Media and Cloud Services segments.

Cost of Revenues

(in thousands, except percentages)

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | 2018 | 2017 | |
| Cost of revenue | $47,749 | $43,159 | 11% | $95,894 | $83,969 | 14% |
| As a percent of revenue | 17% | 16% | | 17% | 16% | |

Cost of revenues is primarily comprised of costs associated with data and voice transmission, numbers, editorial and production costs, network operations, customer service, online processing fees and equipment depreciation. The increase in cost of revenues for the three and six months ended June 30, 2018 was primarily due to an increase in costs associated with businesses acquired in and subsequent to the second quarter 2017 that resulted in additional editorial and production, network operations, and online processing fees.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | 2018 | 2017 | |
| Sales and Marketing | $83,171 | $80,862 | 3% | $169,482 | $158,339 | 7% |
| As a percent of revenue | 29% | 30% | | 30% | 30% | |

Our sales and marketing costs consist primarily of internet-based advertising, sales and marketing, personnel costs and other business development-related expenses. Our internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Advertising cost for the three months ended June 30, 2018 was $36.2 million (primarily consists of $23.6 million of third-party advertising costs and $9.8 million of personnel costs) compared to 2017 of $34.4 million (primarily consists of $23.0 million of third-party advertising costs and $10.1 million of personnel costs). Advertising cost for the six months ended June 30,

2018 was $74.7 million (primarily consists of $48.9 million of third-party advertising costs and $20.3 million of personnel costs) compared to 2017 of $66.0 million (primarily consists of $43.7 million of third-party advertising costs and $20.1 million of personnel costs). The increase in sales and marketing expenses for the three and six months ended June 30, 2018 versus the prior comparable periods was primarily due to increased personnel costs and advertising associated with the acquisition of businesses acquired in and subsequent to the second quarter 2017 within the Digital Media segment.

Research, Development and Engineering.

(in thousands, except percentages)

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | 2018 | 2017 | |
| Research, Development and Engineering | $11,252 | $11,555 | (3)% | $23,462 | $23,307 | 1% |
| As a percent of revenue | 4% | 4% | | 4% | 4% | |

Our research, development and engineering costs consist primarily of personnel-related expenses. The decrease in research, development and engineering costs for the three months ended June 30, 2018 versus the prior comparable period was primarily due to the capitalization of certain personnel costs associated with the development of internally-developed software and a reduction in expenses for professional services. Research, development and engineering costs for the six months ended June 30, 2018 remained consistent with the prior comparable period.

General and Administrative.

(in thousands, except percentages)

| | Three Months Ended June 30, | | Percentage Change | Six Months Ended June 30, | | Percentage Change |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | | 2018 | 2017 | |
| General and Administrative | $91,334 | $79,038 | 16% | $179,133 | $155,693 | 15% |
| As a percent of revenue | 32% | 29% | | 32% | 29% | |

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, changes in the fair value associated with contingent consideration, share-based compensation expense, bad debt expense, professional fees, severance and insurance costs. The increase in general and administrative expense for the three and six months ended June 30, 2018 versus the prior comparable periods was primarily due to additional amortization of intangible assets, depreciation of fixed assets, personnel costs relating to businesses acquired in and subsequent to the second quarter 2017, fair value adjustments to contingent consideration, severance costs associated with acquisitions and professional fees.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2018 and 2017 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenues | $129 | $121 | $250 | $238 |

| | | | | |
|---|---|---|---|---|
| Operating expenses: | | | | |
| Sales and marketing | 467 | 521 | 832 | 899 |
| Research, development and engineering | 355 | 281 | 788 | 518 |
| General and administrative | 6,116 | 4,639 | 11,617 | 7,522 |
| Total | $7,067 | $5,562 | $13,487 | $9,177 |

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Non-Operating Income and Expenses

Interest expense, net. Our interest expense, net is generated primarily from interest expense due to outstanding debt, partially offset by interest income earned on cash, cash equivalents and investments. Interest expense, net was $15.5 million and $13.7 million for the three months ended June 30, 2018 and 2017, respectively, and $31.3 million and $26.1 million for the six months ended June 30, 2018 and 2017, respectively. Interest expense, net increased over the prior comparable periods primarily due to increased interest expense associated with the issuance of the $650 million 6.0% Senior Notes; partially offset by increased interest income on cash, cash equivalents and investments.

Other expense, net. Our other expense, net is generated primarily from miscellaneous items, gain or losses on currency exchange and gains or losses on investments. Other expense, net was $0.4 million and $4.2 million for the three months ended June 30, 2018 and 2017, respectively. The decrease over the prior comparable period is due to decreased losses on currency exchange. Other expense, net was $4.9 million and $4.6 million for the six months ended June 30, 2018 and 2017, respectively. The increase is primarily due to a loss on equity investments of $3.7 million; partially offset by decreased losses on currency exchange over the prior comparable period.

Income Taxes

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

The 2017 Tax Cuts and Jobs Act (“2017 Tax Act”) was enacted on December 22, 2017. The 2017 Tax Act includes a number of changes to the Internal Revenue Code including a one-time transition tax on the mandatory deemed repatriation of cumulative undistributed foreign earnings and a permanent reduction in the U.S. federal statutory income tax rate from 35% to 21%, effective on January 1, 2018. The 2017 Tax Act also created a new requirement that certain income (i.e.,Global Intangible Low Taxed Income (“GILTI”)) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Consistent with guidance issued by SEC Staff Accounting Bulletin No. 118 (“SAB 118”), the Company recorded provisional estimates for the income tax effects of the 2017 Tax Act in December 2017. In addition, SAB 118 provides for a measurement period of one year from the enactment date to finalize the accounting for effects of the 2017 Tax Act. We continue to analyze the impacts of the 2017 Tax Act and refine calculations.

We record deferred tax assets and liabilities based on the enacted tax rates at which they are expected to reverse in the future. Therefore, any U.S. related deferred taxes were re-measured from 35% down to 21% based on the recorded balances as of December 31, 2017. The analysis included a preliminary assessment on the deductibility of certain amounts for which deferred tax assets may have been recorded. As of December 31, 2017, we recorded an estimated tax benefit of approximately $33.3 million. As of June 30, 2018, we did not adjust the provisional estimate related to re-measurement of deferred tax balances.

We were required to calculate a one-time transition tax based on its total post-1986 foreign earnings and profits (“E&P”) that it previously deferred from U.S. income taxes. During the year ended December 31, 2017, we recorded a provisional estimate of the transition tax of $49.2 million payable over an eight year period. As of June 30, 2018, we have not adjusted the provisional estimate of the transition tax.

We were unable to determine a reasonable estimate of the remaining tax liability, if any, under the 2017 Tax Act for its remaining outside basis differences or evaluate how the 2017 Tax Act will affect our existing accounting position to indefinitely reinvest unremitted foreign earnings. Therefore, the Company did not include a provisional amount for

this item in its financial statements for fiscal 2017. As of June 30, 2018, we continue to review the amount of tax due, if any, on differences in tax basis and the accounting position related to indefinite reinvestment of foreign earnings.

We are subject to a territorial tax system under the 2017 Tax Act. We are required to provide for tax on GILTI earned by certain of our foreign subsidiaries. Additionally, we are required to make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense. As of June 30, 2018, we continue our evaluation of the effects of the GILTI provisions as guidance and interpretations continue to emerge. Therefore, we have not determined an accounting policy on the GILTI provisions. However, the standard requires that we reflect the impact of the GILTI provisions as a period expense until the accounting policy is finalized. Therefore, we have included the provisional estimate of GILTI related to current-year operations in its estimated annual effective tax rate only and will be updating the impact and accounting policy as the analysis related to the GILTI provisions is completed.

Provision for income taxes amounted to $7.0 million and $9.3 million for the three months ended June 30, 2018 and 2017, respectively, and $14.1 million and $18.7 million for the six months ended June 30, 2018 and 2017, respectively. Our effective tax rate was 18.3% and 22.8% for the three months ended June 30, 2018 and 2017, respectively, and 21.8% and 24.6% for the six months ended June 30, 2018 and 2017, respectively.

The decrease in our effective income tax rate for the three and six months ended June 30, 2018 was primarily attributable to the following:

1. a decrease during 2018 from the reduction in the U.S. federal statutory income tax rate from 35% to 21% effective on January 1, 2018; and

2. a decrease during 2018 in the amount of deemed distribution income (Section 956) from our foreign subsidiaries; partially offset by

3. an increase in tax expense during 2018 due to tax law changes requiring certain income earned by foreign subsidiaries to be included in the income of the U.S. shareholder.

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

Equity Method Investment

Net loss in earnings of equity method investment. Net loss in earnings of equity method investment is generated primarily from our investment in the OCV fund and is presented net of tax. Net loss in earnings of equity method investment was $3.0 million, net of tax benefit for the three and six months ended June 30, 2018 and is primarily attributable to our pro-rata portion of the annual management fees.

Segment Results

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

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

Cloud Services

The following segment results are presented for the three and six months ended June 30, 2018 and 2017 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| External net sales | $150,297 | $144,709 | $299,781 | $286,254 |
| Inter-segment net sales | — | — | — | — |
| Segment net sales | 150,297 | 144,709 | 299,781 | 286,254 |
| Cost of revenues | 30,680 | 29,935 | 61,680 | 59,033 |
| Gross profit | 119,617 | 114,774 | 238,101 | 227,221 |
| Operating expenses | 61,435 | 56,675 | 123,029 | 112,821 |
| Segment operating income | $58,182 | $58,099 | $115,072 | $114,400 |

Cloud Services' net sales of $150.3 million for the three months ended June 30, 2018 increased $5.6 million, or 3.9%, and segment net sales of $299.8 million for the six months ended June 30, 2018 increased $13.5 million, or 4.7%, from the prior comparable periods due to business acquisitions.

Cloud Services' gross profit of $119.6 million for the three months ended June 30, 2018 increased $4.8 million, or 4.2%, and segment gross profit of $238.1 million for the six months ended June 30, 2018 increased $10.9 million, or 4.8%, from the prior comparable periods primarily due to business acquisitions.

Cloud Services' operating expenses of $61.4 million for the three months ended June 30, 2018 increased $4.8 million, and segment operating expenses of $123.0 million for the six months ended June 30, 2018 increased $10.2 million, from the prior comparable periods primarily due to (a) additional expense associated with businesses acquired in and subsequent to the prior comparable period (b) increased bad debt expense; and (c) an allocation of certain shared Corporate operating costs.

As a result of these factors, segment operating income of $58.2 million for the three months ended June 30, 2018 increased $0.1 million, or 0.1%, and segment operating income of $115.1 million for the six months ended June 30, 2018 increased $0.7 million, or 0.6% from the prior comparable periods.

Digital Media

The following segment results are presented for the three and six months ended June 30, 2018 and 2017 (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| External net sales | $137,591 | $128,465 | $268,728 | $241,589 |
| Inter-segment net sales | — | 9 | 24 | 16 |
| Segment net sales | 137,591 | 128,474 | 268,752 | 241,605 |
| Cost of revenues | 17,069 | 13,224 | 34,213 | 24,936 |
| Gross profit | 120,522 | 115,250 | 234,539 | 216,669 |
| Operating expenses | 117,309 | 105,111 | 234,747 | 210,032 |
| Segment operating income (loss) | $3,213 | $10,139 | $(208) | $6,637 |

Digital Media's net sales of $137.6 million for the three months ended June 30, 2018 increased $9.1 million, or 7.1%, and segment net sales of $268.8 million for the six months ended June 30, 2018 increased $27.1 million or 11.2%, from the prior comparable periods primarily due to business acquisitions.

Digital Media's gross profit of $120.5 million for the three months ended June 30, 2018 increased $5.3 million, or 4.6%, and segment gross profit of $234.5 million for the six months ended June 30, 2018 increased $17.9 million, or 8.2%, from the prior comparable periods primarily due to business acquisitions.

Digital Media's operating expenses of $117.3 million for the three months ended June 30, 2018 increased $12.2 million and segment operating expenses of $234.7 million for the six months ended June 30, 2018 increased $24.7

million from the prior

comparable periods primarily due to (a) additional expense associated with businesses acquired in and subsequent to the prior comparable period comprised primarily of salary and related costs, marketing costs, changes in fair value of contingent consideration and amortization of intangible assets; and (b) an allocation of certain shared Corporate operating costs.
As a result of these factors, segment operating income (loss) of $3.2 million for the three months ended June 30, 2018 decreased $6.9 million, or 68.3%, and segment operating income (loss) of $(0.2) million for the six months ended June 30, 2018 decreased $6.8 million, or 103.1% from the prior comparable periods.
Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At June 30, 2018, we had cash and investments of $428.0 million compared to $408.7 million at December 31, 2017. The increase in cash and investments resulted primarily from cash from operations, partially offset by business acquisitions, dividends and interest paid, and purchases of property and equipment. At June 30, 2018, cash and investments consisted of cash and cash equivalents of $357.4 million. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of June 30, 2018, cash and investments held within domestic and foreign jurisdictions were $215.1 million and $212.9 million, respectively. If the undistributed earnings of our foreign subsidiaries are needed for our operations in the United States, we would be required to accrue and pay non-U.S withholding taxes upon repatriation in certain non-U.S. jurisdictions.

On February 2, 2018, the Company's Board of Directors approved a quarterly cash dividend of $0.4050 per share of common stock payable on March 9, 2018 to all stockholders of record as of the close of business on February 22, 2018. On May 3, 2018, the Company's Board of Directors approved a quarterly cash dividend of $0.4150 per share of j2 Global common stock payable on June 1, 2018 to all stockholders of record as of the close of business on May 18, 2018. On August 8, 2018, the Company's Board of Directors approved a quarterly cash dividend of $0.4250 per share of j2 Global common stock payable on September 4, 2018 to all stockholders of record as of the close of business on August 20, 2018. Future dividends are subject to Board approval.

On September 25, 2017, the Board of Directors of the Company authorized the Company's entry into a commitment to invest $200 million in an investment fund (the "Fund") over several years at a fairly ratable rate. The manager, OCV Management, LLC ("OCV"), 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. 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 will 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 2018, the Company received capital call notices from the management of OCV Management, LLC. for $34.6 million, inclusive of certain management fees, of which $21.7 million has been paid for the six months ended June 30, 2018.

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

Cash Flows

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents. Net cash provided by operating activities was $206.3 million and $111.7 million for the six months ended June 30, 2018 and 2017, respectively. Our operating cash flows resulted primarily from cash received from our customers offset by cash payments we made to third parties for their services, employee compensation and interest payments associated with our debt. The increase in our net cash provided by operating activities in 2018 compared to 2017 was primarily attributable to a decrease in accounts receivable and increased depreciation and amortization; partially offset by a decrease in accounts payable and accrued expenses. Our cash, cash equivalents and restricted cash were $357.8 million and $350.9 million at June 30, 2018 and December 31, 2017, respectively.

Net cash used in investing activities was $154.1 million and $56.1 million for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018, net cash used in investing activities was primarily attributable to business acquisitions, capital expenditures associated with the purchase of property and equipment and the purchase of investments. For the six months ended June 30, 2017, net cash used in investing activities was primarily attributable to business acquisitions

and capital expenditures associated with the purchase of property and equipment. The increase in our net cash used in investing activities in 2018 compared to 2017 was primarily due to additional business acquisitions.

Net cash (used in) provided by financing activities was $(43.2) million and $411.5 million for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018, net cash used in financing activities was primarily attributable to dividends paid, repurchases of stock and business acquisitions. For the six months ended June 30, 2017, net cash provided by financing activities was primarily attributable to proceeds from the issuance of long-term debt, additional borrowings under our line of credit and exercise of stock options; partially offset by the repayment in full of the line of credit, dividends paid, repurchases of stock and business acquisitions. The change in net cash used in financing activities in 2018 compared to 2017 was primarily attributable to the proceeds from the issuance of long-term debt; partially offset by the net payment associated with the payment in full of our line of credit in the prior comparable period.

Stock Repurchase Program

In February 2012, the Company's Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 19, 2019. During the six month period ended June 30, 2018, we repurchased zero shares under this program. Cumulatively at June 30, 2018, 2.1 million shares were repurchased at an aggregate cost of $58.6 million (including an immaterial amount of commission fees).

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of June 30, 2018:

| | Payments Due in (in thousands) | | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual Obligations | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
| Long-term debt - principal (a) | $— | $— | $— | $402,500 | $— | $650,000 | $1,052,500 |
| Long-term debt - interest (b) | 26,041 | 52,081 | 52,081 | 45,541 | 39,000 | 117,000 | 331,744 |
| Operating leases (c) | 9,680 | 18,171 | 14,547 | 12,680 | 11,880 | 13,207 | 80,165 |
| Capital leases (d) | 152 | 299 | 185 | 101 | — | — | 737 |
| Telecom services and co-location facilities (e) | 2,230 | 2,859 | 2,071 | 875 | 230 | — | 8,265 |
| Holdback payment (f) | 2,307 | 750 | 750 | — | — | — | 3,807 |
| Transition Tax (g) | — | 3,807 | 3,807 | 3,807 | 3,807 | 28,553 | 43,781 |
| Self-Insurance (h) | 5,826 | 767 | — | — | — | — | 6,593 |
| Other (i) | 951 | 1,363 | 662 | 614 | 598 | — | 4,188 |
| Total | $47,187 | $80,097 | $74,103 | $466,118 | $55,515 | $808,760 | $1,531,780 |

(a) These amounts represent principal on long-term debt.
(b) These amounts represent interest on long-term debt.
(c) These amounts represent undiscounted future minimum rental commitments under noncancellable operating leases.
(d) These amounts represent undiscounted future minimum rental commitments under noncancellable capital leases.
(e) These amounts represent service commitments to various telecommunication providers.
(f) These amounts represent the holdback amounts in connection with certain business acquisitions.
(g) These amounts represent commitments related to the transition tax on unrepatriated foreign earnings.
(h) These amounts represent health and dental insurance plans in connection to self-insurance.
(i) These amounts represent certain consulting and Board of Directors fee arrangements, software license commitments and others.

As of June 30, 2018, our liability for uncertain tax positions was $54.5 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with such authorities.

We have not presented contingent consideration associated with acquisitions in the table above due to the uncertainty of the amounts and the timing of cash settlements.

Off-Balance Sheet Arrangements

We are not party to any material off-balance sheet arrangements.

Item 3.Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. j2 Global undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this document and in the other documents incorporated by reference herein, including our Annual Report on Form 10-K for the year ended December 31, 2017 as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2018.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of June 30, 2018, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

As of June 30, 2018, we had investments in debt securities with effective maturities greater than one year of approximately $21.2 million. As of June 30, 2018 and December 31, 2017, we had cash and cash equivalent investments primarily in money market funds with maturities of 90 days or less of $357.4 million and $350.9 million, respectively.

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

Foreign Currency Risk

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

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

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

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

Foreign exchange losses for the three months ended June 30, 2018 and 2017 were $0.2 million and $4.2 million, respectively, and for the six months ended June 30, 2018 and 2017 were $2.0 million and $4.6 million, respectively. The decrease in losses to our earnings in the current period were attributable to decreased inter-company debt between periods in foreign subsidiaries that were in functional currencies other than the U.S. Dollar.

Cumulative translation adjustments, net of tax, included in other comprehensive income for the three months ended June 30, 2018 and 2017 were $(14.6) million and $12.3 million, respectively, and for the six months ended June 30, 2018 and 2017 were $(8.3) million and $15.9 million, respectively.

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

Item 4.Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, j2 Global's management, with the participation of Vivek Shah, our principal executive officer, and R. Scott Turicchi, our principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, Mr. Shah and Mr. Turicchi concluded that these disclosure controls and procedures were effective as of the end of the period covered in this Quarterly Report on Form 10-Q.

(b) Changes in Internal Controls

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) which occurred during the second quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1.Legal Proceedings

See Note 9 – Commitments and Contingencies of the Notes to Financial Statements (Part I, Item 1) for information regarding certain legal proceedings in which we are involved.

Item 1A. Risk Factors

In addition to the other information set forth in this report, before deciding to invest in j2 Global or to maintain or increase your investment, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "10-K Risk Factors") as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2018. If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K Risk Factors are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

There have been no material changes from the 10-K Risk Factors, except for the risks described below to reflect that the potential impact of a recent U.S. Supreme Court case on the Company's tax risks, that the General Data Protection Regulation (EU) 2016/679 ("GDPR") is now in effect, that California's legislature recently enacted the California Consumer Privacy Act effective January 1, 2020 ("CCPA") and other changes related to the Risk Factors which address these issues.

Changes in our tax rates, changes in tax treatment of companies engaged in e-commerce, the adoption of new U.S. or international tax legislation, or exposure to additional tax liabilities may adversely impact our financial results.

We are a U.S.-based multinational company subject to taxes in the U.S. and numerous foreign jurisdictions, including Ireland, where a number of our subsidiaries are organized. Our provision for income taxes is based on a jurisdictional mix of earnings, statutory tax rates and enacted tax rules, including transfer pricing. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. As a result, our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. These changes may adversely impact our effective tax rate and harm our financial position and results of operations.

The recently enacted U.S. federal tax legislation, the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") may have an adverse effect on our business or on our results of operations. The 2017 Tax Act significantly revised the U.S. tax code by, in part but not limited to, reducing the U.S. corporate tax rate from 35% to 21% and imposing a mandatory one-time transition tax on certain un-repatriated earnings of foreign subsidiaries. The SEC staff acknowledged the challenges companies face incorporating the effects of tax reform by their financial reporting deadlines and issued Staff Accounting Bulletin No. 118, or SAB 118, to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act. As of December 31, 2017, we recorded a provisional income tax charge of $49.2 million for the transition tax on deemed repatriation of deferred foreign income. We also recorded a provisional income tax benefit of $33.3 million for the re-measurement of our U.S. deferred tax assets and liabilities because of the federal corporate maximum tax rate reduction. The provisional amounts recorded are based on our current interpretation and understanding of the 2017 Tax Act, are judgmental and may change as we receive additional clarification and implementation guidance. We will continue to gather and evaluate the income tax impact of the 2017 Tax Act. Changes to these provisional amounts or any of our other estimates regarding taxes could result

in material charges or credits in future reporting periods.

Additionally, the tax project initiated by the Organization for Economic Co-operation and Development (“OECD”) on Base Erosion and Profit Sharing (“BEPS”) and other similar initiatives could adversely affect our worldwide effective tax rate. With the finalization of specific actions contained within the OECD’s BEPS study, many OECD countries have acknowledged their intention to implement the actions and update their local tax laws. The extent (if any) to which countries in which we operate adopt and implement these actions could have a material adverse impact on our effective tax rate, income tax expense, financial condition, results of operations, and cash flows.

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. We are currently under audit by the IRS for tax years 2012 through 2016 and the California Franchise Tax Board ("FTB") for tax years 2012 and 2013. The FTB, however, has agreed to suspend its audit for 2012 and 2013 pending the outcome of the IRS audit for such tax years. We are also under audit or review by other state and foreign taxing authorities for various periods. Our future income tax returns are likely to become the subject of audits by these or other taxing authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax reserves and expense. If our reserves are not sufficient to cover these contingencies, such inadequacy could materially adversely affect our business, prospects, financial condition, operating results, and cash flows.

In addition, due to the global nature of the internet, it is possible that various states or foreign countries might attempt to impose additional or new regulation on our business or levy additional or new sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in e-commerce. New or revised international, federal, state or local tax regulations or court decisions may subject us or our customers to additional sales, income and other taxes. For example, Congress is considering various approaches to legislation that would require companies engaged in e-commerce to collect sales taxes on internet revenue and a growing number of U.S. states and certain foreign jurisdictions have adopted or are considering proposals to impose obligations on remote sellers and online marketplaces to collect taxes on their behalf. Additionally, the U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc., No.17-494 reversed a longstanding precedent that remote sellers are not required to collect state and local sales taxes. We cannot predict the effect of these and other attempts to impose sales, income or other taxes on e-commerce. The application of existing, new or revised taxes on our business, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the internet. The application of these taxes on our business could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have a material adverse effect on our business, financial condition, and operating results.

Moreover, we are currently under audit for indirect taxes in several states and municipalities. We currently have no material financial reserves established with respect to indirect taxes. If a material indirect tax liability associated with prior periods were to be recorded, it could materially affect our financial results for the period in which it is recorded.

Furthermore, much of our Digital Media e-commerce revenue comes from arrangements in which we are paid by retailers to promote their digital product and service offers on our sites. Certain states have implemented regulations that require retailers to collect and remit sales taxes on sales made to residents of such states if a publisher, such as us, that facilitated that sale is a resident of such state. Paid retailers in our marketplace that do not currently have sales tax nexus in any state that subsequently passes similar regulations and in which we have operations, employees or contractors now or in the future, may significantly alter the manner in which they pay us, cease paying us for sales we facilitate for that retailer in such state, or cease using our marketplace, each of which could adversely impact our business, financial condition, and operating results.

Taxing authorities may successfully assert that we should have collected, or in the future should collect sales and use, telecommunications or similar taxes, and we could be subject to liability with respect to past or future tax, which could adversely affect our operating results.

We do not collect and remit sales and use, telecommunications, or similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable or legally required. Several states and other taxing jurisdictions have presented or threatened us with assessments, alleging that we are required to collect and remit such taxes there. The recent U.S. Supreme Court ruling in South Dakota v. Wayfair, Inc., No. 17-494 reversed existing constitutional precedent that remote sellers are not required to collect and remit such taxes. The Company is

evaluating the impact of the ruling. The jurisdictions where we have sales may apply more rigorous enforcement efforts or take more aggressive positions in the future that could result in greater tax liability. In addition, in the future we may also decide to engage in activities that would require us to pay sales and use, telecommunications, or similar taxes in new jurisdictions. Such tax assessments, penalties and interest or future requirements may materially adversely affect our business, financial condition and operating results.



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

The application of existing domestic and international laws and regulations to us relating to issues such as defamation, pricing, advertising, taxation, promotions, billing, consumer protection, accessibility, content regulation, data privacy, and intellectual property ownership and infringement in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Further, the application of existing laws to us or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol or other regulated substances, adult content, tobacco, or firearms, as well as insurance and securities brokerage, and legal services, can be unclear. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. Our Digital and Cloud Services segments utilize contractors, freelancers and/or staff from third party outsourcers to provide content and other services. However, in the future, arrangements with such individuals may not be deemed appropriate by the relevant government authority, which could result in additional costs and expenses. We may incur substantial liabilities for expenses necessary to defend such litigation or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

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

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

In certain instances, we may be subject to enhanced privacy obligations based on the type of information we store and process. While we believe we are in compliance with the relevant laws and regulations, we could be subject to enforcement actions, fines, forfeitures, and other adverse actions.

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the "CAN-SPAM Act"), which allows for penalties that run into the millions of dollars, requires commercial emails to include identifying information

from the sender and a mechanism for the receiver to opt out of receiving future emails. Several states have enacted additional, more restrictive and punitive laws regulating commercial email. Foreign legislation exists as well, including Canada's Anti-Spam Legislation and the European laws that have been enacted pursuant to the GDPR and European Union Directive 2002/58/EC and its amendments. We use email as a significant means of communicating with our existing and potential users. We believe that our email practices comply with the requirements of the CAN-SPAM Act, state laws, and applicable foreign legislation. If we were ever found to be in violation of these laws and regulations, or any other laws or regulations, our business, financial condition, operating results, and cash flows could be materially adversely affected.

Many third-parties are examining whether the Americans with Disabilities Act (“ADA”) concept of public accommodation also extends to websites and to mobile applications. Generally, some plaintiffs have argued that websites and mobile applications are places of public accommodation under Title III of the ADA and, as such, must be equipped so that individuals with disabilities can navigate and make use of subject websites and mobile applications. The issue is currently under litigation and there is a split in the federal court of appeals circuits as to what the ADA requires. Certain appellate circuits have found that websites standing alone are subject to the ADA and therefore must be accessible to people with disabilities. Other circuits, including the Ninth Circuit, which has appellate jurisdiction over federal district courts in California and is where our company is headquartered, have found that in order for websites to be places of public accommodation, and therefore subject to the ADA there must be both a nexus between the website and the goods and services the website provides as well as a physical brick and mortar location for consumers. We cannot predict how the ADA will ultimately be interpreted as applied to websites and mobile applications.

We believe we are in compliance with relevant law. If the law changes or if certain courts with appellate jurisdiction outside of California attempt to exercise jurisdiction over us and find that our website and mobile applications must comply with the ADA, then any adjustments or requirements to implement any changes prescribed by the ADA could result in increased costs to our business, we may become subject to injunctive relief, plaintiffs may be able to recover attorneys’ fees, and it is possible that, while the ADA does not provide for monetary damages, we become subject to such damages through state consumer protection or other laws. It is possible that these potential liabilities could cause a material adverse effect on our operations and harm our business reputation.

Native advertising is an increasing part of our Digital Media segment’s online advertising revenue. On December 22, 2015, the FTC issued Guidelines and an Enforcement Policy Statement on native advertising, described by the FTC as, in part, ads which often “resemble the design, style, and functionality of the media in which they are disseminated.” The Company believes it is compliant with the requirements of these guidelines on our current practices and offerings. However, we will continue to monitor what effect this guideline and other related government regulations, and how the FTC enforces same could have on our native advertising and branded content business. In addition, the timing and extent of any enforcement by the FTC with regard to the native advertising practices by the Company, or others, could reduce the revenue we generate from this line of business.

As of May 25, 2018, certain data transfers from and between the European Union (“EU”) are subject to the GDPR. The GDPR prohibits data transfers from the EU to other countries outside of the EU, including the U.S., without appropriate security safeguards and practices in place. Previously, for certain data transfers from and between the EU and the U.S., j2 Global, like many other companies, had relied on what is referred to as the “EU-U.S. Safe Harbor,” in order to comply with privacy obligations imposed by EU countries. The European Court of Justice invalidated the EU-U.S. Safe Harbor. Although U.S. and EU policymakers approved a new framework known as “Privacy Shield” that would allow companies like us to continue to rely on some form of a safe harbor for the transfer of certain data from the EU to the U.S., the Privacy Shield may not be adequate for all data transfers between the EU and U.S. It is also unclear whether the United Kingdom (“UK”) will offer a similar program to Privacy Shield if the UK leaves the EU. Additionally, other countries that relied on the EU-U.S. Safe Harbor that were not part of the EU have also found that data transfers to the U.S. are no longer valid based on the European Court of Justice ruling. We cannot predict how or if this issue will be resolved nor can we evaluate any potential liability at this time.

The Company has put into place various alternative frameworks and grounds on which to rely in order to be in compliance with relevant law for the transfer of data from overseas locations to the U.S. including reviewing Company’s data collection process, procedures and putting into place Data Processing Agreements with vendors, partners and other third parties. Some independent data regulators have adopted the position that other forms of compliance are also invalid though the legal grounds for these findings remain unclear at this time. We cannot predict at this time whether the alternative grounds that j2 Global continues to implement will be found to be consistent with

relevant laws nor can we evaluate what, if any, potential liability may be at this time.

On June 28, 2018, the California legislature enacted the CCPA, which imposes numerous regulations related to the processing of personal data of California consumers. The Company is assessing the impact of this law on its business and operations.

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

The GDPR imposes significant compliance costs and exposes the Company to substantial risks.

The EU has traditionally imposed more strict obligations under data privacy laws and regulations. Individual EU member countries have had discretion with respect to their interpretation and implementation of EU data privacy laws, resulting in a variation of privacy standards from country to country. The GDPR harmonizes EU data privacy laws and contains significant obligations and requirements that have resulted in a greater compliance burden with respect to our operations and data use in Europe, which will continue to increase our costs. Additionally, government authorities will have more power to enforce compliance and impose substantial penalties for any failure to comply. In addition, individuals have the right to compensation under the GDPR. In the event the Company fails to maintain compliance, the Company could be exposed to material damages, costs and/or fines if an EU government authority or EU resident commenced an action. Failure to comply or maintain compliance could cause considerable harm to us and our reputation (including requiring notification to customers, regulators, and/or the media), cause a loss of confidence in our products and services, and deter current and potential customers from using our services. Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Issuer Purchases of Equity Securities

Effective February 15, 2012, the Company's Board of Directors approved a program authorizing the repurchase of up to five million shares of our common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 19, 2019. In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program. During the six month period ended June 30, 2018, we repurchased zero shares under this program. Cumulatively at June 30, 2018, 2.1 million shares were repurchased at an aggregate cost of $58.6 million (including an immaterial amount of commission fees).

The following table details the repurchases that were made under and outside the 2012 Program during the three months ended June 30, 2018:

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Program | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program |
|---|---|---|---|---|
| April 1, 2018 - April 30, 2018 | — | $ — | — | 1,938,689 |
| May 1, 2018 - May 31, 2018 | 25,643 | $ 86.18 | — | 1,938,689 |
| June 1, 2018 - June 30, 2018 | 6,196 | $ 86.37 | — | 1,938,689 |

| Total | 31,839 | — | 1,938,689 |
|---|---|---|---|

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

Item 3.Defaults Upon Senior Securities

None.

Item 4.Mine Safety Disclosures

Not Applicable.

Item 5.Other Information

None.

Item 6.Exhibits

| | |
|---|---|
| 31.1 | Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from j2 Global, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 and 2017, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (v) the Notes to Condensed Consolidated Financial Statements. |

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SIGNATURE

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

j2 Global, Inc.

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|---|---|---|---|
| Date: | August 9, 2018 | By: | /s/ VIVEK SHAH<br>Vivek Shah<br>Chief Executive Officer and a Director<br>(Principal Executive Officer) |
| Date: | August 9, 2018 | By: | /s/ R. SCOTT TURICCHI<br>R. Scott Turicchi<br>President and Chief Financial Officer<br>(Principal Financial Officer) |
| Date: | August 9, 2018 | By: | /s/ STEVE P. DUNN<br>Steve P. Dunn<br>Chief Accounting Officer |

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