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

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from _____ to _____

Commission File Number: 0-25965



J2 GLOBAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

47-1053457

(I.R.S. Employer
Identification No.)

700 S. Flower Street, 15th Floor

Los Angeles, California 90017

(Address of principal executive offices)

(323) 860-9200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	JCOM	Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐	Non-Accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐			

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

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

As of November 4, 2020, the registrant had 45,592,054 shares of common stock outstanding.

**J2 GLOBAL, INC. AND SUBSIDIARIES
FOR THE QUARTER ENDED SEPTEMBER 30, 2020**

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands except share and per share data)

	September 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 567,930	\$ 575,615
Accounts receivable, net of allowances of \$13,202 and \$12,701, respectively	192,800	261,928
Prepaid expenses and other current assets	46,594	49,347
Total current assets	807,324	886,890
Long-term investments	96,575	100,079
Property and equipment, net	147,268	127,817
Operating lease right-of-use assets	97,439	125,822
Trade names, net	126,859	138,029
Customer relationships, net	190,689	238,502
Goodwill	1,661,546	1,633,033
Other purchased intangibles, net	142,018	180,022
Deferred income taxes, noncurrent	57,490	59,976
Other assets	15,785	15,676
TOTAL ASSETS	\$ 3,342,993	\$ 3,505,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 177,820	\$ 238,059
Income taxes payable, current	12,733	17,758
Deferred revenue, current	155,806	162,855
Operating lease liabilities, current	27,673	26,927
Current portion of long-term debt	393,980	385,532
Other current liabilities	901	1,973
Total current liabilities	768,913	833,104
Long-term debt	1,075,071	1,062,929
Deferred revenue, noncurrent	11,232	12,744
Operating lease liabilities, noncurrent	87,563	104,070
Income taxes payable, noncurrent	11,675	11,675
Liability for uncertain tax positions	60,197	52,451
Deferred income taxes, noncurrent	115,356	107,453
Other long-term liabilities	36,649	10,228
TOTAL LIABILITIES	2,166,656	2,194,654
Commitments and contingencies	—	—
Preferred stock, \$0.01 par value. Authorized 1,000,000 and none issued	—	—
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 44,767,341 and 47,654,929 shares at September 30, 2020 and December 31, 2019, respectively.	448	476
Additional paid-in capital	451,741	465,652
Retained earnings	782,142	891,526
Accumulated other comprehensive loss	(57,994)	(46,462)
TOTAL STOCKHOLDERS' EQUITY	1,176,337	1,311,192
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,342,993	\$ 3,505,846

See Notes to Condensed Consolidated Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total revenues	\$ 356,976	\$ 344,141	\$ 1,020,353	\$ 966,466
Cost of revenues ⁽¹⁾	55,822	61,716	171,755	172,995
Gross profit	301,154	282,425	848,598	793,471
Operating expenses:				
Sales and marketing ⁽¹⁾	95,074	98,486	287,317	273,812
Research, development and engineering ⁽¹⁾	14,261	13,770	43,273	38,692
General and administrative ⁽¹⁾	114,381	110,810	312,283	314,132
Total operating expenses	223,716	223,066	642,873	626,636
Income from operations	77,438	59,359	205,725	166,835
Interest expense, net	22,712	17,271	65,879	50,625
Gain on sale of businesses	(17,122)	—	(17,122)	—
Loss on investments, net	156	7	20,991	45
Other (income) expense, net	(14,230)	857	(16,413)	2,657
Income before income taxes and net loss (income) in earnings of equity method investment	85,922	41,224	152,390	113,508
Income tax expense	24,330	6,998	49,011	17,851
Net loss (income) in earnings of equity method investment	709	3,481	10,799	(126)
Net income	\$ 60,883	\$ 30,745	\$ 92,580	\$ 95,783
Net income per common share:				
Basic	\$ 1.31	\$ 0.63	\$ 1.96	\$ 1.98
Diluted	\$ 1.31	\$ 0.62	\$ 1.93	\$ 1.93
Weighted average shares outstanding:				
Basic	46,279,515	47,673,211	46,914,750	47,654,327
Diluted	46,309,072	49,064,272	47,620,308	48,892,523

⁽¹⁾ Includes share-based compensation expense as follows:

Cost of revenues	\$ 136	\$ 127	\$ 413	\$ 390
Sales and marketing	321	419	1,135	1,212
Research, development and engineering	425	373	1,340	1,092
General and administrative	4,918	5,527	15,755	15,700
Total	\$ 5,800	\$ 6,446	\$ 18,643	\$ 18,394

See Notes to Condensed Consolidated Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 60,883	\$ 30,745	\$ 92,580	\$ 95,783
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(3,202)	(8,166)	(12,085)	(8,852)
Change in fair value on available-for-sale investments, net of tax expense of \$141 and \$314 for the three and nine months ended September 30, 2020, respectively, and zero and \$184 for the three and nine months ended September 30, 2019, respectively.	8	—	553	558
Other comprehensive loss, net of tax	(3,194)	(8,166)	(11,532)	(8,294)
Comprehensive income	\$ 57,689	\$ 22,579	\$ 81,048	\$ 87,489

See Notes to Condensed Consolidated Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 92,580	\$ 95,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163,680	170,409
Amortization of financing costs and discounts	21,393	9,072
Non-cash operating lease costs	15,686	14,474
Share-based compensation	18,643	18,394
Provision for doubtful accounts	9,508	9,217
Deferred income taxes, net	7,815	2,850
Gain on sale of businesses	(17,122)	—
Lease asset impairments and other charges	9,786	—
Changes in fair value of contingent consideration	(243)	8,044
Foreign currency remeasurement gain	(15,919)	—
Loss (income) on equity method investments	10,799	(166)
Loss on equity and debt investments	20,826	—
Decrease (increase) in:		
Accounts receivable	57,560	29,953
Prepaid expenses and other current assets	(3,279)	(10,094)
Other assets	543	(1,528)
Increase (decrease) in:		
Accounts payable and accrued expenses	(26,430)	623
Income taxes payable	(496)	(15,179)
Deferred revenue	(10,494)	777
Operating lease liabilities	(12,857)	(13,612)
Liability for uncertain tax positions	7,746	(9,144)
Other long-term liabilities	6,284	(566)
Net cash provided by operating activities	<u>356,009</u>	<u>309,307</u>
Cash flows from investing activities:		
Distribution from equity method investment	—	10,288
Purchases of equity method investment	(29,979)	(22,338)
Purchases of equity investments	(843)	—
Purchases of property and equipment	(71,266)	(49,483)
Acquisition of businesses, net of cash received	(27,156)	(411,349)
Proceeds from sale of businesses	24,353	—
Proceeds from sale of assets	507	—
Purchases of intangible assets	(2,902)	(46)
Net cash used in investing activities	<u>(107,286)</u>	<u>(472,928)</u>
Cash flows from financing activities:		
Payment of note payable	(400)	(5,100)
Proceeds from line of credit	—	185,000
Repayment of line of credit	—	(57,000)
Repurchase of common stock	(238,905)	(20,562)
Issuance of common stock under employee stock purchase plan	3,303	1,995
Exercise of stock options	952	5,274
Dividends paid	—	(43,966)
Deferred payments for acquisitions	(20,427)	(17,734)
Other	(1,377)	(1,055)
Net cash (used in) provided by financing activities	<u>(256,854)</u>	<u>46,852</u>
Effect of exchange rate changes on cash and cash equivalents	446	(520)
Net change in cash and cash equivalents	<u>(7,685)</u>	<u>(117,289)</u>
Cash and cash equivalents at beginning of period	575,615	209,474
Cash and cash equivalents at end of period	<u>\$ 567,930</u>	<u>\$ 92,185</u>

See Notes to Condensed Consolidated Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three and Nine Months Ended September 30, 2019 and 2020
(unaudited, in thousands, except share amounts)

	Common stock		Additional	Treasury stock		Retained	Accumulated	Total
	Shares	Amount	paid-in	Shares	Amount	earnings	other comprehensive loss	Stockholders' Equity
Balance, July 1, 2019	47,765,869	\$ 478	\$ 365,687	—	\$ —	\$ 752,040	\$ (46,107)	\$ 1,072,098
Net income	—	—	—	—	—	30,745	—	30,745
Other comprehensive income, net of tax expense of zero	—	—	—	—	—	—	(8,166)	(8,166)
Vested restricted stock	26,989	—	—	—	—	—	—	—
Repurchase and retirement of common stock	(206,923)	(2)	(2,160)	—	—	(14,593)	—	(16,755)
Share based compensation	—	—	6,446	—	—	—	—	6,446
Balance, September 30, 2019	47,585,935	\$ 476	\$ 369,973	—	\$ —	\$ 768,192	\$ (54,273)	\$ 1,084,368

	Common stock		Additional	Treasury stock		Retained	Accumulated	Total
	Shares	Amount	paid-in	Shares	Amount	earnings	other comprehensive loss	Stockholders' Equity
Balance, July 1, 2020	46,892,691	\$ 469	\$ 467,267	—	\$ —	\$ 850,232	\$ (54,800)	\$ 1,263,168
Net income	—	—	—	—	—	60,883	—	60,883
Other comprehensive income, net of tax expense of \$141	—	—	—	—	—	—	(3,194)	(3,194)
Vested restricted stock	19,893	—	—	—	—	—	—	—
Repurchase and retirement of common stock	(2,145,243)	(21)	(21,442)	—	—	(128,973)	—	(150,436)
Share based compensation	—	—	5,800	—	—	—	—	5,800
Other, net	—	—	116	—	—	—	—	116
Balance, September 30, 2020	44,767,341	\$ 448	\$ 451,741	—	\$ —	\$ 782,142	\$ (57,994)	\$ 1,176,337

	Common stock		Additional	Treasury stock		Retained	Accumulated	Total
	Shares	Amount	paid-in	Shares	Amount	earnings	other	Stockholders'
			capital				comprehensive	Equity
							loss	
Balance, January 1, 2019	48,082,800	\$ 481	\$ 354,210	(600,000)	\$ (42,543)	\$ 769,575	\$ (45,979)	\$ 1,035,744
Net income	—	—	—	—	—	95,783	—	95,783
Other comprehensive income, net of tax expense of \$184	—	—	—	—	—	—	(8,294)	(8,294)
Dividends (\$0.9000 per share)	—	—	—	—	—	(43,966)	—	(43,966)
Exercise of stock options	156,038	2	5,272	—	—	—	—	5,274
Issuance of shares under employee stock purchase plan	32,154	—	1,995	—	—	—	—	1,995
Vested restricted stock	167,746	1	(1)	—	—	—	—	—
Repurchase and retirement of common stock	(852,803)	(8)	(9,832)	600,000	42,543	(53,265)	—	(20,562)
Share based compensation	—	—	18,329	—	—	65	—	18,394
Balance, September 30, 2019	47,585,935	\$ 476	\$ 369,973	—	\$ —	\$ 768,192	\$ (54,273)	\$ 1,084,368

	Common stock		Additional	Treasury stock		Retained	Accumulated	Total
	Shares	Amount	paid-in	Shares	Amount	earnings	other	Stockholders'
			capital				comprehensive	Equity
							loss	
Balance, January 1, 2020	47,654,929	\$ 476	\$ 465,652	—	\$ —	\$ 891,526	\$ (46,462)	\$ 1,311,192
Net income	—	—	—	—	—	92,580	—	92,580
Other comprehensive income, net of tax expense of \$314	—	—	—	—	—	—	(11,532)	(11,532)
Exercise of stock options	41,530	—	1,583	—	—	(631)	—	952
Issuance of shares under employee stock purchase plan	53,694	—	3,303	—	—	—	—	3,303
Exercise of 3.25% Convertible Note	—	—	(12)	—	—	—	—	(12)
Vested restricted stock	267,894	3	(3)	—	—	—	—	—
Repurchase and retirement of common stock	(3,250,706)	(31)	(37,541)	—	—	(201,333)	—	(238,905)
Share based compensation	—	—	18,643	—	—	—	—	18,643
Other, net	—	—	116	—	—	—	—	116
Balance, September 30, 2020	44,767,341	\$ 448	\$ 451,741	—	\$ —	\$ 782,142	\$ (57,994)	\$ 1,176,337

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2020
(UNAUDITED)

1. Basis of Presentation

J2 Global, Inc., together with its subsidiaries (“J2 Global”, the “Company”, “our”, “us”, or “we”), is a leading provider of internet services. Through our Cloud Services business, we provide cloud services to consumers and businesses and license our intellectual property (“IP”) to third parties. In addition, the Cloud Services business includes fax, voice, backup, security, consumer privacy and protection (“CPP”), and email marketing products. Our Digital Media business specializes in the technology, gaming, broadband, business to business (“B2B”), 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 accounting principles generally accepted in the United States of America (“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, 2019 included in our Annual Report (Form 10-K) filed with the SEC on March 2, 2020. 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.

COVID-19

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus disease (“COVID-19”) as a pandemic. The global impact of the COVID-19 pandemic has had a negative effect on the global economy, disrupting the financial markets creating increasing volatility and overall uncertainty.

The Company began to experience modest adverse impacts of the COVID-19 pandemic in the second quarter of 2020 and these adverse impacts are expected to continue in the fourth quarter of 2020, and possibly longer. Despite the modest adverse impacts, there are no indications that the COVID-19 pandemic has resulted in a material decline in the carrying value of assets, (except for equity method investments), or a material change in the estimate of any contingent amounts, recorded in the Company’s Condensed Consolidated Balance Sheet as of September 30, 2020. However, there is uncertainty as to the full extent, duration and overall impact of the COVID-19 pandemic, which could result in an adverse material change in a future period to the Company’s results of operations, financial position or liquidity.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications and the reported amounts of net revenue and expenses during the reporting period. The Company believes that its most significant estimates are those related to revenue recognition, valuation and impairment of investments, its assessment of ownership interests as variable interest entities and the related determination of consolidation, share-based compensation expense, fair value of 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.

Additionally, the full impact of the COVID-19 pandemic is unknown and cannot be reasonably estimated. However, the Company has made appropriate accounting estimates based on the facts and circumstances available as of the reporting date. To the extent there are differences between these estimates and the actual results, our Condensed Consolidated Financial Statements could be materially affected.

Allowances for Doubtful Accounts

J2 Global reserves for receivables it may not be able to collect. The reserves for the Company's Cloud Services business 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 business are typically driven by past due invoices based on historical experience. On an ongoing basis, management evaluates the adequacy of these reserves.

Revenue Recognition

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 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 debt 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 obligation to absorb losses or the right to 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 impact 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. See Note 5, “Investments”.

OCV qualifies as an investment company under ASC 946 - Financial Services, Investment Companies (“ASC 946”). Under ASC Topic 323, Investments - Equity Method and Joint Ventures, an investor that holds investments that qualify for specialized industry accounting for investment companies in accordance with ASC 946 should record its share of the earnings or losses, realized or unrealized, as reported by its equity method investees in the Condensed Consolidated Statements of Operations.

The Company recognizes its equity in the net earnings or losses relating to the investment in OCV on a one-quarter lag due to the timing and availability of financial information from OCV. If the Company becomes aware of a significant decline in value that is other-than-temporary, the loss will be recorded in the period in which the Company identifies the decline.

Impairment or Disposal of Long-Lived Assets

J2 Global accounts for long-lived assets, which include property and equipment, operating lease right-of-use assets and identifiable intangible assets with finite useful lives (subject to amortization), in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment (“ASC 360”), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected undiscounted future net cash flows generated by the asset. If it is determined that the asset may not be recoverable, and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference.

J2 Global assessed whether events or changes in circumstances have occurred that potentially indicate the carrying amount of long-lived assets may not be recoverable. In the third quarter of 2020, the Company recorded impairment of certain operating right-of-use assets and associated property and equipment. (see Note 10 - Leases). No impairment was recorded in the third quarter of 2019.

The Company classifies its long-lived assets to be sold as held for sale in the period (i) it has approved and committed to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and other actions required to sell the asset have been initiated, (iv) the sale of the asset is probable, (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The Company initially measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held for sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset until the date of sale. Upon designation as an asset held for sale, the Company stops recording depreciation expense on the asset. The Company assesses the fair value of a long-lived asset less any costs to sell at each reporting period and until the asset is no longer classified as held for sale.

Business Combinations and Valuation of Goodwill and Intangible Assets

J2 Global applies the acquisition method of accounting for business combinations in accordance with GAAP, which requires the Company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the assets, including identifiable intangible assets, and liabilities acquired. Such estimates may be based on significant unobservable inputs and assumptions such as, but not limited to, revenue growth rates, gross margins, customer attrition rates, royalty rates, discount rates and terminal growth rate assumptions. J2 Global uses established valuation techniques and may engage reputable valuation specialists to assist with the valuations. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

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. Intangible assets subject to amortization are amortized over the period of estimated economic benefit ranging from 1 to 20 years. In accordance with FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), goodwill and other intangible assets with indefinite lives are not amortized but tested annually for impairment or more frequently if J2 Global believes indicators of impairment exist. In connection with the annual impairment test for goodwill, the Company has the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then it performs the impairment test upon goodwill. The impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company generally determines the fair value of its reporting units using the income approach methodology of valuation. If the carrying value of a reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized for the difference.

In addition, the COVID-19 pandemic could have an adverse impact on the Company's consolidated financial results in the fourth quarter of 2020, and possibly longer. As of September 30, 2020, there were no indications that the carrying value of goodwill and other intangible assets may not be recoverable. However, a prolonged adverse impact of the COVID-19 pandemic on the Company's consolidated financial results may require an impairment charge related to one or more of these assets in a future period. No COVID-19 related impairments were recorded in the third quarter of 2020 or 2019.

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 7 - 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 its 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 its contingent earn-out liabilities are reported in operating income. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

Income Taxes

J2 Global's income is subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. J2 Global establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. J2 Global adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

J2 Global accounts for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. The valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, J2 Global reviews historical and future expected operating results and other factors, including its recent cumulative earnings experience, expectations of future taxable income by taxing jurisdiction and the carryforward periods available for tax reporting purposes, to determine whether it is more likely than not that deferred tax assets are realizable.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax benefit is required to meet before it can be recognized in the financial statements and applies to all income tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. J2 Global recognized accrued interest and penalties related to uncertain income tax positions in income tax expense on its consolidated statements of operations.

In addition, on March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was enacted into law and provides for changes to various tax laws that impact businesses. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions and technical corrections to tax depreciation methods for qualified improvement property.

The CARES Act also appropriated funds for the Small Business Administration ("SBA") Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19. The Company did not seek to borrow any funds under the program.

We do not believe these provisions have a significant impact to our current and deferred income tax balances. The Company will benefit from the technical correction to tax depreciation related to qualified improvement property and has elected to defer income tax payments and employer side social security payments where eligible. As further guidance is released regarding the CARES Act, we will record adjustments to our tax balances, as necessary.

Share-Based Compensation

J2 Global accounts for share-based awards to employees and non-employees in accordance with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation ("ASC 718"). Accordingly, J2 Global measures share-based compensation expense at the grant date, based on the fair value of the award, and recognizes the expense over the employee's requisite service period using the straight-line method. The measurement of share-based compensation expense is based on several criteria, including but not limited to the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining share-based

compensation expense and the actual factors, which become known over time, J2 Global may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact the Company's results of operations in the period in which the changes are made and in periods thereafter. The Company estimates the expected term based upon the historical exercise behavior of its employees.

Reclassifications

Certain prior year reported amounts have been reclassified to conform to the 2020 presentation.

2. Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company expects to adopt this ASU on January 1, 2021 and does not expect the adoption to have a material effect on its financial statements or disclosures.

In January 2020, the FASB issued ASU No. 2020-01, Investments - Equity Securities (Topic 321), Investment - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments in this ASU clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the accounting for certain forward contracts and purchased options under Topic 815. This ASU identifies two main areas for improvement: (1) accounting for certain equity securities upon the application or discontinuation of the equity method of accounting and (2) scope considerations for forward contracts and purchased options on certain securities. The amendment states, as it is related to the first area of improvement, that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendment also states, as it is relates to forward contracts and purchased options on certain securities, an entity should consider certain criteria to determine the accounting for those forward contracts and purchased options. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company expects to adopt this ASU on January 1, 2021 and does not expect the adoption to have a material effect on its financial statements or disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. LIBOR is expected to phased out by 2021. The amendments in this ASU are effective as of March 12, 2020 through December 31, 2022. The Company is currently evaluating the effect of this ASU on its financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06, Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The amendments in this ASU reduce the number of accounting models for convertible debt instruments and convertible preferred stock in order to simplify the accounting for convertible instruments and reduce complexity. In addition, it amends the guidance for scope exception surrounding derivatives for contracts in an entity's own equity. In each case, the related guidance surrounding EPS has also been amended. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The Company is currently evaluating the effect of this ASU on its financial statements and related disclosures.

3. Revenues

Digital Media

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

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, 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 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 revenue from other sources which include marketing and production services. Such other revenues are generally recognized over the period in which the products or services are delivered.

J2 Global also generates Digital Media revenues from transactions involving the sale of perpetual software licenses, related software support and maintenance, hardware used in conjunction with its software, and other related services. Revenue is recognized for these software transactions with multiple performance obligations after (i) the Company has had an approved contract and is committed to perform the respective obligations and (ii) the Company can identify and quantify each obligation and its respective selling price. Once the respective performance obligations have been identified and quantified, revenue will be recognized when the obligations are met, either over time or at a point in time depending on the nature of the obligation.

Revenues from software license performance obligations are generally recognized upfront at the point in time that the software is made available to the customer to download and use. Revenues for related software support and maintenance performance obligations are related to technical support provided to customers as needed and unspecified software product upgrades, maintenance releases and patches during the term of the support period when they are available. The Company is obligated to make the support services available continuously throughout the contract period. Therefore, revenues for support contracts are generally recognized ratably over the contractual period the support services are provided. Hardware product and related software performance obligations, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a bundled performance obligation. The revenues for this bundled performance obligation are generally recognized at the point in time that the hardware and software products are delivered and ownership is transferred to the customer. Other service revenues are generally recognized over time as the services are performed.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Digital Media				
Advertising	\$ 135,219	\$ 123,463	\$ 371,403	\$ 339,024
Subscription	49,386	47,048	136,534	128,402
Other	2,179	2,481	5,525	6,608
Total Digital Media revenues	\$ 186,784	\$ 172,992	\$ 513,462	\$ 474,034
Cloud Services				
Subscription	\$ 170,233	\$ 170,971	\$ 507,021	\$ 491,669
Other	15	192	69	871
Total Cloud Services revenues	\$ 170,248	\$ 171,163	\$ 507,090	\$ 492,540
Corporate	\$ —	\$ 3	\$ 1	\$ 6
Elimination of inter-segment revenues	(56)	(17)	(200)	(114)
Total Revenues	\$ 356,976	\$ 344,141	\$ 1,020,353	\$ 966,466
Timing of revenue recognition				
Point in time	\$ 8,396	\$ 10,371	\$ 19,366	\$ 24,315
Over time	348,580	333,770	1,000,987	942,151
Total	\$ 356,976	\$ 344,141	\$ 1,020,353	\$ 966,466

The Company has recorded \$29.0 million and \$20.5 million of revenue for the three months ended September 30, 2020 and 2019, respectively, and \$142.5 million and \$105.0 million of revenue for the nine months ended September 30, 2020 and 2019, respectively, which was previously included in the contract liability balance as of the beginning of each respective year.

As of September 30, 2020, the Company acquired \$2.4 million of deferred revenue in connection with the Company's business acquisitions (see Note 4 - Business Acquisitions) which are subject to purchase accounting adjustments.

Performance Obligations

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

The Company satisfies its performance obligations within the Digital Media business upon delivery of services to its customers. 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 business 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. 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 business 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 ways:

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 business 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, CPP, 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. Depending on the individual contracts with the customer, revenue for these services are recognized over the contract period when any of the following materially distinct performance obligations are satisfied:

- Faxing capabilities are provided
- Voice services are provided
- Email marketing services are provided
- Consumer privacy services are provided
- Security solutions, including email and endpoint are provided
- Online data backup capabilities are provided

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 business has technology subscriptions that have standalone functionality. As a result, they are considered to be functional intellectual property 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. Incentive compensation is paid on the issuance or renewal of the customer contract. 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 customers with amortization periods determined to be greater than one year, the Company capitalizes and amortizes the expenses over the period of benefit.

In addition, the Company partners with various affiliates in order to generate a portion of its revenue for certain lines of business. The commissions earned by the Company's affiliates are incentive based and are paid on the acquisition of new customers in a given period. For those customers with amortization periods determined to be greater than one year, the Company capitalizes and amortizes the expenses over the period of benefit.

Revenues Invoiced

The Company has applied the practical expedient for certain revenue streams to exclude the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which the Company recognizes revenue in proportion to the amount it has the right to invoice for services performed.

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, and acquire skilled personnel.

The Company completed the following acquisitions during the first nine months of fiscal 2020, paying the purchase price in cash in each transaction: (a) an asset purchase of EDC Systems Inc. (operating under the name "SRFax"), acquired on February 18, 2020, a Canadian-based provider of fax solutions; and (b) other immaterial acquisitions of Digital Media and Martech businesses.

The Condensed Consolidated Statement of Operations since the date of each acquisition and balance sheet as of September 30, 2020, reflect the results of operations of all 2020 acquisitions. For the nine months ended September 30, 2020, these acquisitions contributed \$5.9 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 \$39.1 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
Accounts receivable	\$ 875
Prepaid expenses and other current assets	91
Property and equipment	53
Operating lease right of use asset	113
Trade names	1,527
Customer relationships	10,681
Goodwill	23,817
Other intangibles	5,272
Accounts payable and accrued expenses	(373)
Deferred revenue	(2,390)
Operating lease liabilities, current	(95)
Operating lease liabilities, non-current	(19)
Deferred tax liability	(405)
Total	<u>\$ 39,147</u>

During the nine months ended September 30, 2020, the purchase price accounting has been finalized for Highwinds Capital, Inc. and Cloak Holdings, LLC, OffsiteDataSync, Inc., BabyCenter LLC, Spiceworks, Inc., and immaterial digital media and consumer privacy and protection businesses. The initial accounting for all 2020 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 nine months ended September 30, 2020, the Company recorded adjustments to the initial working capital and to the purchase accounting due to the finalization of prior period acquisitions in the Voice, Backup, Security and CPP businesses which resulted in a net decrease in goodwill of \$2.1 million. In addition, the Company recorded adjustments to the initial working capital and to the purchase accounting due to the finalization of prior period acquisitions in the Digital Media business, which resulted in a net increase in goodwill of \$9.7 million (see Note 8 - Goodwill and Intangible Assets). Such adjustments had an immaterial impact on the amortization expense within the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2020.

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 nine months ended September 30, 2020 is \$23.8 million, of which \$22.6 million is expected to be deductible for income tax purposes.

5. Investments

Investments consist of equity and debt securities.

The Company determined 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 or can be reasonably known. Any changes in the carrying value of the equity securities will be reported in current earnings as loss on investments, net. In addition, the Company determined that the shares of redeemable preferred stock that were 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.

Furthermore, the COVID-19 pandemic has had an adverse impact on the global financial markets. A prolonged adverse impact of the COVID-19 pandemic could result in a decline in the equity and debt securities estimated fair value and, thus, a resulting charge to earnings in a future period.

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):

	<u>Cost</u>	<u>Impairment</u>	<u>Adjustments</u>	<u>Reported Amount</u>
September 30, 2020				
Equity securities	\$ 54,145	\$ (23,769)	\$ (480)	\$ 29,896
Total	<u>\$ 54,145</u>	<u>\$ (23,769)</u>	<u>\$ (480)</u>	<u>\$ 29,896</u>
December 31, 2019				
Equity securities	\$ 34,977	\$ (4,164)	\$ (3,678)	\$ 27,135
Total	<u>\$ 34,977</u>	<u>\$ (4,164)</u>	<u>\$ (3,678)</u>	<u>\$ 27,135</u>

In March 2020, a portion of the Company's investment in equity securities declined in value primarily due to changes in the investee's capital structure and overall market volatility. During the three and nine months ended September 30, 2020, the Company recorded zero and \$19.6 million of impairment loss on equity securities, respectively, which is reflected in loss on investments, net in the Condensed Consolidated Statements of Operations.

During the year ended December 31, 2019, the Company recorded a \$4.2 million impairment loss related to a portion of its equity securities without a readily determinable fair market value which is reflected in other expense, net in the Condensed Consolidated Statements of Operations.

In the first quarter of 2020, in a non-cash transaction of \$18.3 million, the Company exchanged shares of redeemable preferred stock that were previously classified as available-for-sale corporate debt securities for a new series of preferred stock, classified as equity securities. During the three and nine months ended September 30, 2020, the Company recognized a loss on exchange of zero and \$4.4 million, respectively, which is reflected in loss on investments, net in the Condensed Consolidated Statements of Operations.

At September 30, 2020, the Company held preferred stock, which was purchased for \$0.8 million in the first quarter of 2020. During the three and nine months ended September 30, 2020, the Company recognized a gain of zero and \$3.2 million, respectively, which is reflected in loss on investments, net in the Condensed Consolidated Statements of Operations.

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
September 30, 2020				
Corporate debt securities	\$ 511	\$ 142	\$ —	\$ 653
Total	<u>\$ 511</u>	<u>\$ 142</u>	<u>\$ —</u>	<u>\$ 653</u>
December 31, 2019				
Corporate debt securities	\$ 23,256	\$ 112	\$ (698)	\$ 22,670
Total	<u>\$ 23,256</u>	<u>\$ 112</u>	<u>\$ (698)</u>	<u>\$ 22,670</u>

At September 30, 2020, the Company's available-for-sale debt securities are carried at fair value, with the unrealized gains and losses reported as a component of other comprehensive income.

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):

	September 30, 2020	December 31, 2019
Due within 1 year	\$ —	\$ —
Due within more than 1 year but less than 5 years	653	22,670
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	—	—
Total	\$ 653	\$ 22,670

Recognition and Measurement of Credit Loss of Debt Securities

The Company adopted ASU 2016-13, Financial Instrument-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments in the first quarter of 2020. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. This ASU also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than a reduction in amortized cost basis of the securities. These changes will result in earlier recognition of credit losses.

The Company's available-for-sale debt securities are carried at estimated fair value with any unrealized gains and losses, net of taxes, included in accumulated other comprehensive loss in stockholders' equity. Available-for-sale debt securities with an amortized cost basis in excess of estimated fair value are assessed to determine what amount of that difference, if any, is caused by expected credit losses. Expected credit losses on available-for-sale debt securities are recognized in other (income) expense, net on our Condensed Consolidated Statements of Operations, and any remaining unrealized losses, net of taxes, are included in accumulated other comprehensive loss in stockholders' equity.

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in thousands). There were no investments in an unrealized loss position as of September 30, 2020.

		As of December 31, 2019					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt securities	\$	—	\$ —	\$ 22,047	\$ (698)	\$ 22,047	\$ (698)
Total	\$	—	\$ —	\$ 22,047	\$ (698)	\$ 22,047	\$ (698)

As of September 30, 2020 and December 31, 2019, we did not recognize any credit losses related to debt securities.

On September 25, 2017, the Company entered into a commitment to invest \$200 million (approximately 76.6% of equity) in the OCV Fund. 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, OCV Management, LLC, 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.

In the first nine months of 2020, the Company received capital call notices from the management of OCV Management, LLC. for \$31.0 million, inclusive of certain management fees, of which \$30.0 million has been paid for the nine months ended September 30, 2020. In the first nine months of 2019, the Company received capital call notices from the management of OCV Management, LLC. for \$22.3 million, inclusive of certain management fees, of which \$22.3 million had been paid for the nine months ended September 30, 2019. During the nine months ended September 30, 2020 and 2019, the Company received distributions from OCV of zero and \$10.3 million, respectively.

The Company recognizes its equity in the net earnings or losses relating to the investment in OCV on a one-quarter lag due to the timing and availability of financial information from OCV. If the Company becomes aware of a significant decline in value that is other-than-temporary, the loss will be recorded in the period in which the Company identifies the decline.

During the three months ended September 30, 2020 and 2019, the Company recognized an investment loss (gain) of \$0.7 million and \$3.5 million, net of tax benefit (expense), respectively, and during the nine months ended September 30, 2020 and 2019, the Company recognized an investment loss (gain) of \$10.8 million and \$(0.1) million, respectively. The fiscal 2020 loss was primarily a result of the impairment of two of its investments as a result of COVID-19 in the amount of \$7.0 million, net of tax benefit. In addition, the Company recognized an investment loss in fiscal 2020 in the amount of \$3.8 million, net of tax benefit. The loss is presented in the Company’s Condensed Consolidated Statement of Operations as net loss (income) in earnings of equity method investment.

During the three months ended September 30, 2020 and 2019, the Company recognized management fees of \$0.8 million and \$0.8 million, net of tax benefit, respectively, and for the nine months ended September 30, 2020 and 2019, the Company recognized management fees of \$2.3 million and \$2.3 million, net of tax benefit, respectively.

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Equity method investment	\$ 66,026	\$ 50,274
Maximum exposure to loss	\$ 66,026	\$ 50,274

As a limited partner, the Company’s maximum exposure to loss is limited to its proportional ownership in the partnership. In addition, the Company 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. Assets Held For Sale

During the second quarter of 2020, the Company committed to a plan to sell certain Voice assets in Australia and New Zealand as they were determined to be non-core assets. Such assets are recorded within the Voice, Backup, Security, and CPP reportable segment. On August 31, 2020, in a cash transaction, the Company sold the assets for a gain of \$17.1 million which was recorded in gain on sale of businesses on the Condensed Consolidated Statement of Operations.

7. 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.

Certain of 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 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 the Credit Facility approximates its carrying amount due to its variable interest rate, which approximates a market interest rate, and is considered a Level 2 input. The fair value of the Company's debt instruments at September 30, 2020 and December 31, 2019 was \$1.6 billion and \$1.8 billion, respectively (see Note 9 - Debt).

In 2019, the Company entered into a \$5.5 million note payable that was short-term in nature and associated with the quarter's acquisition activity. In the same year, the Company paid down \$5.1 million of the outstanding note and in the third quarter of 2020, the balance on the note payable was paid in full.

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. For similar reasons, certain of the Company's available-for-sale debt securities are classified within Level 3. The valuation approaches used to value the Level 3 investments consider unobservable inputs in the market such as time to liquidity, volatility, dividend yield, and breakpoints. Significant increases or decreases in either of the inputs in isolation would result in a significantly lower or higher fair value measurement.

The following table presents the fair values, valuation techniques, unobservable inputs, and ranges of the Company's financial liabilities categorized within Level 3.

	Valuation Technique	Unobservable Input	Range	Weighted Average
Contingent Consideration	Option-Based Model	Risk free rate	1.9% - 2.9%	1.9 %
		Debt spread	0.0% - 33.5%	12.6 %
		Probabilities	5.0% - 100.0%	77.8 %
		Present value factor	3.6% - 4.8%	3.8 %
		Discount rate	28.6%	28.6 %

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):

September 30, 2020	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	\$ 317,107	\$ —	\$ —	\$ 317,107
Corporate debt securities	—	653	—	653
Total assets measured at fair value	<u>\$ 317,107</u>	<u>\$ 653</u>	<u>\$ —</u>	<u>\$ 317,760</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 8,352	\$ 8,352
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,352</u>	<u>\$ 8,352</u>

December 31, 2019	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	\$ 395,664	\$ —	\$ —	\$ 395,664
Corporate debt securities	—	623	22,047	22,670
Total assets measured at fair value	<u>\$ 395,664</u>	<u>\$ 623</u>	<u>\$ 22,047</u>	<u>\$ 418,334</u>
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 37,887	\$ 37,887
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,887</u>	<u>\$ 37,887</u>

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

	Level 3	Affected line item in the Statement of Operations
Balance as of January 1, 2020	\$ 37,887	
Contingent consideration	8,106	
Total fair value adjustments reported in earnings	(243)	General and administrative
Contingent consideration payments	(37,398)	Not applicable
Balance as of September 30, 2020	<u>\$ 8,352</u>	

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 approximately zero and \$20.0 million at September 30, 2020 and December 31, 2019, respectively. Due to the Company's achievement of certain EBITDA targets for the years ended December 31, 2019 and 2018 and the amended contingent consideration agreement, \$20.0 million was paid in the first nine months of 2020 and \$20.0 million in fiscal 2019.

In connection with the Company's other acquisition activity, contingent consideration of up to \$22.5 million may be payable upon achieving certain future EBITDA, revenue, and/or unique visitor thresholds and had a combined fair value of \$8.4 million and \$8.8 million at September 30, 2020 and December 31, 2019, respectively. Due to the achievement of certain thresholds, \$8.3 million was paid in the first nine months of 2020.

During the nine months ended September 30, 2020, the Company recorded a decrease in the fair value of the contingent consideration of \$0.2 million and reported such decrease in general and administrative expenses.

8. 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 nine months ended September 30, 2020 are as follows (in thousands):

	Fax and Martech	Voice, Backup, Security and CPP	Total Cloud Services	Digital Media	Consolidated
Balance as of January 1, 2020	\$ 397,788	\$ 480,084	\$ 877,872	\$ 755,161	\$ 1,633,033
Goodwill acquired (Note 4)	21,950	—	21,950	1,867	23,817
Goodwill written off related to sale of a business ⁽¹⁾	—	(4,751)	(4,751)	—	(4,751)
Purchase accounting adjustments ⁽²⁾	—	(2,130)	(2,130)	9,721	7,591
Foreign exchange translation	2,226	(358)	1,868	(12)	1,856
Balance as of September 30, 2020	<u>\$ 421,964</u>	<u>\$ 472,845</u>	<u>\$ 894,809</u>	<u>\$ 766,737</u>	<u>\$ 1,661,546</u>

⁽¹⁾ On August 31, 2020, in a cash transaction, the Company sold certain of its Voice assets in Australia and New Zealand which resulted in \$4.8 million of goodwill being written off in connection with this sale (see Note 6 - Assets Held for Sale).

⁽²⁾ 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 September 30, 2020 and December 31, 2019 as follows (in thousands):

	September 30, 2020	December 31, 2019
Trade names	\$ 27,417	\$ 27,379
Other	4,317	4,306
Total	<u>\$ 31,734</u>	<u>\$ 31,685</u>

Intangible Assets Subject to Amortization:

As of September 30, 2020, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	10.1 years	\$ 193,701	\$ 94,259	\$ 99,442
Patent and patent licenses	5.5 years	67,949	66,805	1,144
Customer relationships ⁽¹⁾	8.5 years	630,768	440,079	190,689
Other purchased intangibles	4.4 years	383,555	246,998	136,557
Total		<u>\$ 1,275,973</u>	<u>\$ 848,141</u>	<u>\$ 427,832</u>

⁽¹⁾ Historically, the Company has amortized its customer relationship assets in a pattern that best reflects the pace at 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, 2019, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	10.2 years	\$ 193,202	\$ 82,552	\$ 110,650
Patent and patent licenses	6.5 years	67,921	63,143	4,778
Customer relationships ⁽¹⁾	8.5 years	630,730	392,228	238,502
Other purchased intangibles	4.3 years	383,195	212,257	170,938
Total		<u>\$ 1,275,048</u>	<u>\$ 750,180</u>	<u>\$ 524,868</u>

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

Amortization expense, included in general and administrative expense, approximated \$41.2 million and \$50.4 million for the three months ended September 30, 2020 and 2019, respectively, and \$115.6 million and \$132.2 million for the nine months ended September 30, 2020 and 2019, respectively. Amortization expense is estimated to approximate \$41.9 million, \$114.4 million, \$68.7 million, \$65.2 million and \$34.3 million for the remaining three months of fiscal year 2020 through fiscal year 2024, respectively, and \$103.4 million thereafter through the duration of the amortization period.

9. 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. J2 Cloud received proceeds of \$636.5 million, after deducting the initial purchasers' discounts, commissions and offering expenses. The 6.0% Senior Notes are presented as long-term debt, net of deferred issuance costs, on the Condensed Consolidated Balance Sheet as of September 30, 2020. 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.

The indenture pursuant to which the 6.0% Senior Notes was issued (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. 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 September 30, 2020, restrict J2 Cloud's ability to pay dividends to J2 Global, Inc. The Company is in compliance with its debt covenants as of September 30, 2020.

As of September 30, 2020 and December 31, 2019, the estimated fair value of the 6.0% Senior Notes was approximately \$676.2 million and \$689.8 million, respectively, 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 7 - Fair Value Measurements).

On October 7, 2020, the Company issued \$750 million aggregate principal amount of 4.625% Senior Notes due in 2030. A portion of the proceeds were deposited with the trustee under the Indenture in an amount sufficient to fund the redemption of the outstanding aggregate principal amount of the 6.0% Senior Notes and to pay the redemption premium due in respect of such redemption and accrued and unpaid interest to, but excluding, the redemption date, which will be December 7, 2020 (see Note 18 - Subsequent Events). In connection with that deposit, the Indenture restrictive covenants described above ceased to apply.

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 "3.25% Convertible Notes"). The 3.25% 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 3.25% Convertible Notes during any six-month interest period if the trading price per \$1,000 principal amount of the 3.25% 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 3.25% Convertible Notes will be in addition to the regular interest payable on the 3.25% Convertible Notes.

Holders may surrender their 3.25% 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 3.25% 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 3.25% 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 3.25% 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 the 3.25% 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.

During the fourth quarter of 2019, the last reported sale price of the Company's common stock exceeded 130% of the conversion price for at least 20 trading days ending on, and including, the last trading day of the quarter. As a result, the 3.25% Convertible Notes were convertible at the option of the holders during the quarter beginning January 1, 2020 and ending March 31, 2020. Since the Company intended to settle the principal amount in cash, the net carrying amount of the 3.25% Convertible Notes was classified within current liabilities on the Condensed Consolidated Balance Sheet as of December 31, 2019.

During the third quarter of 2020, the last reported sale price of the Company's common stock did not meet the conversion price threshold requirements of the 3.25% Convertible Notes and, accordingly, the 3.25% Convertible Notes are not currently convertible at the option of the holders.

As of September 30, 2020, the conversion rate is 14.7632 shares of J2 Global common stock for each \$1,000 principal amount of 3.25% Convertible Notes, which represents a conversion price of approximately \$67.74 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 3.25% 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 3.25% Convertible Notes in connection with such a corporate event.

J2 Global may not redeem the 3.25% Convertible Notes prior to June 20, 2021. On or after June 20, 2021, J2 Global may redeem for cash all or part of the 3.25% Convertible Notes at a redemption price equal to 100% of the principal amount of the 3.25% Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 3.25% Convertible Notes.

Holders have the right to require J2 Global to repurchase for cash all or part of their 3.25% 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 3.25% 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 3.25% Convertible Notes, occurs prior to the maturity date, holders may require J2 Global to repurchase for cash all or part of their 3.25% Convertible Notes at a repurchase price equal to 100% of the principal amount of the 3.25% Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. As a result of the Holders' repurchase option on June 15, 2021, the net carrying value of the 3.25% Convertible Notes was classified within current liabilities on the Condensed Consolidated Balance Sheet as of September 30, 2020.

The 3.25% 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 3.25% 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 3.25% 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 3.25% 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 3.25% Convertible Notes using an interest rate of 5.81%. As of September 30, 2020, the remaining period over which the unamortized debt discount will be amortized is 0.7 years.

The 3.25% Convertible Notes are carried at face value less any unamortized debt discount and debt issuance costs. The fair value of the 3.25% Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the 3.25% Convertible Notes, which are Level 1 inputs (see Note 7 - 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 September 30, 2020 and December 31, 2019, the estimated fair value of the 3.25% Convertible Notes was approximately \$461.0 million and \$583.6 million, respectively.

1.75% Convertible Notes

On November 15, 2019, J2 Global issued \$550.0 million aggregate principal amount of 1.75% convertible senior notes due November 1, 2026 (the “1.75% Convertible Notes”). J2 Global received proceeds of \$537.1 million in cash, net of purchasers’ discounts and commissions and other debt issuance costs. A portion of the net proceeds were used to pay off all amounts outstanding under the Credit Facility (see Note 11 - Commitments and Contingencies). The 1.75% Convertible Notes bear interest at a rate of 1.75% per annum, payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2020. The 1.75% Convertible Notes will mature on November 1, 2026, unless earlier converted or repurchased.

Holders may surrender their 1.75% Convertible Notes for conversion at any time prior to the close of business on the business day immediately preceding July 1, 2026 only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on March 31, 2020 (and only during such calendar quarter), if the last reported sale price of J2 Global common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding the calendar quarter is greater than 130% of the applicable conversion price of the 1.75% Convertible Notes on each such applicable trading day; (ii) during the five business day period following any 10 consecutive trading day period in which the trading price per \$1,000 principal amount of 1.75% Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of J2 Global common stock and the applicable conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events. On or after July 1, 2026, and prior to the close of business on the business day immediately preceding the maturity date, holders may convert all or any portion of their notes at any time, regardless of the foregoing circumstances. J2 Global will settle conversions of the 1.75% 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. Holders of the notes will have the right to require the Company to repurchase for cash all or any portion of their notes upon the occurrence of certain corporate events, subject to certain conditions. During the third quarter of 2020 and the fourth quarter of 2019, the last reported sale price of the Company’s common stock did not meet the conversion price threshold requirements of the 1.75% Convertible Notes. Therefore, the net carrying amount of the 1.75% Convertible Notes is classified as long-term debt on the Condensed Consolidated Balance Sheets.

As of September 30, 2020, the conversion rate is 7.9864 shares of J2 Global common stock for each \$1,000 principal amount of 1.75% Convertible Notes, which represents an conversion price of approximately \$125.21 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 1.75% Convertible Notes, but will not be adjusted for accrued interest. In addition, upon the occurrence of a “Make-Whole Fundamental Change” (as defined in the 1.75% Convertible Note Indenture), J2 Global will increase the conversion rate for a holder that elects to convert its 1.75% Convertible Notes in connection with such a corporate event in certain circumstances.

J2 Global may not redeem the 1.75% Convertible Notes prior to November 1, 2026, and no sinking fund is provided for the 1.75% Convertible Notes.

The 1.75% Convertible Notes are the Company’s general senior unsecured obligations and rank: (i) senior in right of payment to any of the Company’s indebtedness that is expressly subordinated in right of payment to the 1.75% Convertible Notes; (ii) equal in right of payment to the Company’s existing and future indebtedness that is not so subordinated, including its existing 3.25% Convertible Notes due 2029; (iii) effectively junior 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 and other liabilities incurred by the Company’s subsidiaries, including the existing 6.0% Senior Notes due 2025.

Accounting for the 1.75% 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 effective 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 maturity date of November 1, 2026.

J2 Global estimated the borrowing rates of similar debt without the conversion feature at origination to be 5.5% for the 1.75% Convertible Notes and determined the debt discount to be \$118.9 million. As a result, a conversion premium after tax of \$88.1 million (net of \$2.8 million of the deferred issuance costs) are recorded in additional paid-in capital. The aggregate debt discount is amortized as interest expense over the period from the issuance date through the maturity date of November 1, 2026, which management believes is the expected life of the 1.75% Convertible Notes using an interest rate of 5.5%. As of September 30, 2020, the remaining period over which the unamortized debt discount will be amortized is 6.1 years.

In connection with the issuance of the 1.75% Convertible Notes, the Company incurred \$12.9 million of deferred issuance costs, which primarily consisted of the underwriters' discount, legal and other professional service fees. Of the total deferred issuance costs incurred, \$10.1 million of such deferred issuance costs were attributable to the liability component and are recorded within other assets and are being amortized to interest expense through the maturity date. The unamortized balance, as of September 30, 2020, was \$9.2 million. The remaining \$2.8 million of the deferred issuance costs were netted with the equity component in additional paid-in capital at the issuance date.

The 1.75% Convertible Notes are carried at face value less any unamortized debt discount and issuance costs. The fair value of the 1.75% Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the 1.75% Convertible Notes, which are Level 1 inputs (see Note 7 - 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 September 30, 2020 and December 31, 2019, the estimated fair value of the 1.75% Convertible Notes was approximately \$490.2 million and \$559.6 million, respectively.

Credit Facility

During the nine months ended September 30, 2020, the Company did not draw down any amounts under its Credit Facility. The Company has capitalized a total of \$0.4 million in debt issuance costs, which are being amortized to interest expense over the life of the Credit Facility. As of September 30, 2020, these debt issuance costs, net of amortization, were \$0.2 million. The related interest expense was zero and \$1.1 million for the three months ended September 30, 2020 and 2019, respectively, and was zero and \$2.3 million for the nine months ended September 30, 2020 and 2019, respectively. See Note 11, "Commitments and Contingencies" for additional information.

Long-term debt as of September 30, 2020 and December 31, 2019 consists of the following (in thousands):

	September 30, 2020	December 31, 2019
6.0% Senior Notes	\$ 650,000	\$ 650,000
Convertible Notes:		
3.25% Convertible Notes	402,414	402,500
1.75% Convertible Notes	550,000	550,000
Total Notes	1,602,414	1,602,500
Less: Unamortized discount	120,910	139,981
Deferred issuance costs	12,453	14,058
Total long-term debt	1,469,051	1,448,461
Less: current portion	393,980	385,532
Total long-term debt, less current portion	\$ 1,075,071	\$ 1,062,929

10. Leases

J2 Global leases certain facilities and equipment under non-cancelable operating and finance leases which expire at various dates through 2036. Office and equipment leases are typically for terms of three to five years and generally provide renewal options for terms up to an additional five years. Some of the Company's leases include options to terminate within one year.

During the third quarter of 2020, the Company decided to exit and seek subleases for certain leased facilities in the Digital Media reportable segment primarily due to a permanent "remote" or "partial remote" work model for a significant number of employees. The Company recorded a non-cash impairment charge of \$9.8 million related to operating lease right-of-

use assets for the affected facilities and an impairment charge of \$3.6 million for associated property and equipment. The impairment was determined by comparing the fair value of the impacted right-of-use asset to the carrying value of the asset as of the impairment measurement date, as required under ASC Topic 360, Property, Plant, and Equipment. The fair value of the right-of-use asset was based on the estimated sublease income for the affected facilities taking into consideration the time it will take to obtain a sublease tenant, the applicable discount rate and the sublease rate which represents Level 3 unobservable inputs. The impairment is presented in general and administrative expenses on the Condensed Consolidated Statements of Operations. No impairment was recorded in the third quarter of 2019.

In certain agreements in which the Company leases office space where the Company is the tenant, it subleases the site to various other companies through a sublease agreement.

Finance leases are not material to the Company's Condensed Consolidated Financial Statements and are therefore not included in the disclosures below.

The components of lease expense were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease cost	\$ 16,888	\$ 6,509	\$ 33,106	\$ 17,684
Short-term lease cost	264	407	1,357	1,291
Total lease cost	<u>\$ 17,152</u>	<u>\$ 6,916</u>	<u>\$ 34,463</u>	<u>\$ 18,975</u>

Supplemental balance sheet information related to leases was as follows (in thousands):

	September 30, 2020	December 31, 2019
Operating leases		
Operating lease right-of-use assets	\$ 97,439	\$ 125,822
Total operating lease right-of-use assets	<u>\$ 97,439</u>	<u>\$ 125,822</u>
Operating lease liabilities, current	\$ 27,673	\$ 26,927
Operating lease liabilities, noncurrent	87,563	104,070
Total operating lease liabilities	<u>\$ 115,236</u>	<u>\$ 130,997</u>

Supplemental cash flow information related to leases was as follows (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 21,764	\$ 15,925
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 7,968	\$ 32,442

Other supplemental operating lease information consists of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Operating leases:		
Weighted average remaining lease term	5.5 years	5.9 years
Weighted average discount rate	4.21 %	3.95 %

Maturities of operating lease liabilities as of September 30, 2020 were as follows (in thousands):

	<u>Operating Leases</u>
Fiscal Year:	
2020 (remainder)	\$ 7,393
2021	29,086
2022	26,120
2023	20,383
2024	13,726
Thereafter	38,471
Total lease payments	\$ 135,179
Less: Imputed interest	19,943
Present value of operating lease liabilities	<u>\$ 115,236</u>

Sublease

Total sublease income for the three months ended September 30, 2020 and 2019 was \$0.4 million and \$0.9 million, respectively, and was \$2.2 million and \$2.4 million for the nine months ended September 30, 2020 and 2019, respectively. Total estimated aggregate sublease income to be received in the future is \$3.2 million.

In the second quarter of 2020, the Company recorded \$2.1 million of impairment associated with one of its sublease tenants in default as a result of the economic effects of COVID-19. The impairment is presented in general and administrative expenses on the Condensed Consolidated Statement of Operations.

Significant Judgments

Discount Rate

The majority of the J2 Global's leases are discounted using the Company's incremental borrowing rate as the rate implicit in the lease is not readily determinable.

Options

The lease term is generally the minimum noncancelable period of the lease. The Company does not include option periods unless the Company determined it is reasonably certain of exercising the option at inception or when a triggering event occurs.

Practical Expedients

As a practical expedient, the Company has not separated lease components from nonlease components for its real property operating leases. Certain of the Company's leases contain nonlease components such as maintenance and certain utility costs.

In addition, the Company elected and applied the available transition practical expedients upon adoption. By electing these practical expedients, the Company did:

- not reassess whether expired or existing contracts contain leases under the new definition of a lease;
- not reassess lease classification for expired or existing leases; and
- not reassess whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.

11. 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, with the exception of one issue. There is an anticipated trial date of February 2021.

On January 21, 2016, Davis Neurology, P.A. filed a putative class action lawsuit 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 removed to the U.S. District Court for the Eastern District of Arkansas (No. 4:16-cv-00682). On March 20, 2017, the District Court granted a motion for judgment on the pleadings filed by the J2 Global affiliates and 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 January 29, 2019, after further appeals were exhausted, the case was remanded to the Arkansas state court. On April 1, 2019, the state court granted a motion for class certification filed by the plaintiff in 2016. Because the prior removal to federal court had deprived the state court of jurisdiction, the J2 Global affiliates had not yet filed an opposition brief to the 2016 motion when the state court granted the motion. The J2 Global affiliates appealed the order. On July 15, 2019, the J2 Global affiliates removed the case to federal court pursuant to the Class Action Fairness Act of 2005. On November 26, 2019 the court denied the Plaintiff’s motion to remand. On December 20, 2019, the court granted the Plaintiff’s motion for leave to amend its complaint. On May 21, 2020, the court denied J2 Global affiliates’ motion to dismiss. On August 11, 2020, the court approved an opt-in class notice. Notice has not yet been issued and the J2 Global affiliates have moved to decertify the class.

On July 8, 2020, Jeffrey Garcia filed a putative class action lawsuit against J2 Global in the Central District of California (20-cv-06906), alleging violations of federal securities laws. J2 Global intends to defend against the lawsuit.

On September 24, 2020, International Union of Operating Engineers of Eastern Pennsylvania and Delaware filed a lawsuit in the Delaware Court of Chancery (C.A. No. 2020-0819-VCL) asserting derivative claims against directors of J2 Global, Inc. and other third parties. The lawsuit alleges violations of breach of fiduciary duty and usurpation of corporate opportunity. J2 Global and its directors and officers intend to defend against the lawsuit.

J2 Global does not believe, based on current knowledge, that the foregoing legal proceedings or claims, after giving effect to existing accrued liabilities, 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.

Credit Agreement

On January 7, 2019, J2 Cloud Services, LLC entered into a Credit Agreement (the “Credit Agreement”) with certain lenders from time to time party thereto (collectively, the “Lenders”) and MUFG Union Bank, N.A., as sole lead arranger and as administrative agent for the Lenders (the “Agent”). Pursuant to the Credit Agreement, as amended in July and August 2019, the Lenders have provided J2 Cloud Services with a credit facility of \$200.0 million (the “Credit Facility”) through December 31, 2020. On November 15, 2019, the Company reduced its borrowing capacity from \$200.0 million to \$100.0 million. The proceeds of the Credit Facility were intended to be used for working capital and general corporate purposes of J2 Cloud and its subsidiaries, including to finance certain permitted acquisitions and capital expenditures in accordance with the terms of the Credit Agreement. As of September 30, 2020, there were no amounts outstanding under the Credit Facility.

On October 7, 2020, the Company provided notice of termination of the Credit Agreement (see Note 18 - Subsequent Events).

Non-Income Related Taxes

The Company does not collect and remit sales and use, telecommunication, or similar taxes and fees in certain jurisdictions where the Company believes 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 Company is currently under audit or is subject to audit for indirect taxes in various states, municipalities and foreign jurisdictions. The Company has a \$20.8 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 on our financial results.

12. 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 28.3% and 17.0% for the three months ended September 30, 2020 and 2019, respectively, and 32.2% and 15.7% for the nine months ended September 30, 2020 and 2019, respectively. The Company’s increased rate during the nine months ended September 30, 2020 is primarily a result of an increase in tax expense to establish a valuation allowance on deferred tax assets related to the impairment of certain investments. In addition, during the nine months ended September 30, 2019, the Company had a decrease in the effective rate as a result of a reduction in its reserve for uncertain tax positions with no similar event for the nine months ended September 30, 2020. Income before income taxes included income from domestic operations of \$32.2 million and \$34.6 million for the nine months ended September 30, 2020 and 2019, respectively, and income from foreign operations of \$120.2 million and \$78.9 million for the nine months ended September 30, 2020 and 2019, respectively.

As of September 30, 2020 and December 31, 2019, the Company had \$60.2 million and \$52.5 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 operations.

Cash paid for income taxes net of refunds received was \$33.5 million and \$38.2 million for the nine months ended September 30, 2020 and 2019, respectively.

Certain taxes are prepaid during the year and, where appropriate, included within prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet. The Company’s prepaid taxes were zero and \$3.7 million at September 30, 2020 and December 31, 2019, 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. As of September 30, 2020, the audits are ongoing.

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 suspended its audit for 2012 and 2013 pending the outcome of the IRS audit for such tax years. In August 2018, the FTB notified the Company that it will commence an audit of tax years 2015 and 2016. As of September 30, 2020, the audits are ongoing.

In June 2019, the New York State Department of Taxation and Finance (“NYS”) notified the Company that it will commence an audit for tax year 2015. In April 2020, the NYS notified the Company that it will also commence an audit for tax years 2016 and 2017. As of September 30, 2020, the audits are ongoing.

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.

13. 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 20, 2021.

In November 2018 and May 2019, the Company entered into Rule 10b5-1 trading plans with a broker to facilitate the repurchase program. 600,000 shares were repurchased under the share repurchase program in 2018 at an aggregate cost of \$42.5 million and were subsequently retired in March 2019. During the nine month period ended September 30, 2020, the Company repurchased 1,140,819 shares under this program at an aggregate cost of \$87.5 million, which were subsequently retired. Cumulatively at September 30, 2020, 4.1 million shares were repurchased at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of J2 Global common stock in connection with the acquisitions 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. As a result of the acquired shares through acquisition and the purchase of J2 Global common stock through the Company’s share repurchase program, no shares remain available for purchase under the 2012 Program.

On August 6, 2020, the Company’s Board of Directors approved a program authorizing the repurchase of up to 10 million shares of our common stock through August 6, 2025 (the “2020 Program”).

During the nine month period ended September 30, 2020, the Company repurchased 2,000,000 shares under this program at an aggregate cost of \$141.8 million, which were subsequently retired. Cumulatively at September 30, 2020, 2,000,000 shares were repurchased at an aggregate cost of \$141.8 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 September 30, 2020, the Company purchased 4,424 shares from plan participants for this purpose.

Dividends

The following is a summary of each dividend declared during fiscal year 2020 and 2019:

Declaration Date	Dividend per Common Share	Record Date	Payment Date
February 6, 2019	\$ 0.4450	February 25, 2019	March 12, 2019
May 2, 2019	\$ 0.4550	May 20, 2019	June 4, 2019

Future dividends are subject to Board approval. Based on the significant number of current investment opportunities within the Company's portfolio of businesses and the historic returns from prior investments, the Board of Directors suspended dividend payments for the foreseeable future after the June 4, 2019 payment.

14. 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 September 30, 2020, 53,811 shares underlying options and zero 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 Plan since no further grants will be made under the 2007 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 September 30, 2020, 423,000 shares underlying options and 215,965 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 nine months ended September 30, 2020:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	518,341	\$ 65.77		
Granted	—	—		
Exercised	(41,530)	22.92		
Canceled	—	—		
Outstanding at September 30, 2020	476,811	\$ 69.51	6.4	\$ 2,187,385
Exercisable at September 30, 2020	176,811	\$ 60.13	4.9	\$ 2,187,385
Vested and expected to vest at September 30, 2020	394,131	\$ 68.35	6.2	\$ 2,187,385

The total intrinsic values of options exercised during the nine months ended September 30, 2020 and 2019 were \$3.0 million and \$8.0 million, respectively.

The Company recognized \$0.2 million and \$0.2 million of compensation expense related to stock options for the three months ended September 30, 2020 and 2019, respectively, and \$0.7 million and \$0.7 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, unrecognized stock compensation related to non-vested stock options granted under each of the share-based compensation plans approximated \$6.1 million and \$6.8 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 5.3 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 11.80% and 13.21% as of September 30, 2020 and 2019, 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.

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 nine months ended September 30, 2020 and 2019, the Company awarded 82,112 and 74,051 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 nine months ended September 30, 2020 and 2019 were \$70.99 and \$69.99, respectively.

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

	September 30, 2020	September 30, 2019
Underlying stock price at valuation date	\$ 91.17	\$ 84.58
Expected volatility	27.0 %	28.3 %
Risk-free interest rate	0.7 %	2.53 %

Restricted stock award activity for the nine months ended September 30, 2020 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2020	1,105,059	\$ 64.76
Granted	1,268	98.63
Vested	(261,396)	70.20
Canceled	(11,460)	78.88
Nonvested at September 30, 2020	833,471	\$ 62.91

Restricted stock unit award activity for the nine months ended September 30, 2020 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2020	20,874		
Granted	206,886		
Vested	(6,498)		
Canceled	(5,297)		
Outstanding at September 30, 2020	215,965	3.8	\$ 14,949,097
Vested and expected to vest at September 30, 2020	140,841	3.1	\$ 9,748,995

The Company recognized \$5.1 million and \$5.9 million of compensation expense related to restricted stock, restricted stock units and market-based restricted stock for the three months ended September 30, 2020 and 2019, respectively, and \$16.4 million and \$16.7 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020 and December 31, 2019, the Company had unrecognized share-based compensation cost of approximately \$44.0 million and \$46.1 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 4.4 years for awards and 4.7 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 85% of the lesser of the fair market value of a share of common stock of the Company on the beginning or the end of the offering period.

J2 Global 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 16.50% and 0.78% as of September 30, 2020 and 2019, respectively. The increase in forfeiture rate comes as a result of the Purchase Plan being offered to all employees regardless of employment location.

For the nine months ended September 30, 2020 and 2019, 53,694 shares and 32,154 shares were purchased under the Purchase Plan, respectively. Cash received upon the issuance of J2 Global common stock under the Purchase Plan was \$3.3 million and \$2.0 million for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, 1,469,874 shares were available under the Purchase Plan for future issuance.

The Company recognized \$0.5 million and \$0.3 million of compensation expense related to the Purchase Plan for the three months ended September 30, 2020 and 2019, respectively, and \$1.5 million and \$1.0 million for the nine months ended September 30, 2020 and 2019, respectively.

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

	September 30, 2020	September 30, 2019
Risk-free interest rate	0.13%	2.43%
Expected term (in years)	0.5	0.5
Dividend yield	0.00%	1.05%
Expected volatility	23.95%	26.80%
Weighted average volatility	23.95%	26.80%

15. 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator for basic and diluted net income per common share:				
Net income attributable to J2 Global, Inc. common shareholders	\$ 60,883	\$ 30,745	\$ 92,580	\$ 95,783
Net income available to participating securities ^(a)	(89)	(511)	(477)	(1,361)
Net income available to J2 Global, Inc. common shareholders	\$ 60,794	\$ 30,234	\$ 92,103	\$ 94,422
Denominator:				
Weighted-average outstanding shares of common stock	46,279,515	47,673,211	46,914,750	47,654,327
Dilutive effect of:				
Equity incentive plans	29,557	68,413	23,211	73,906
Convertible debt ^(b)	—	1,322,648	682,347	1,164,290
Common stock and common stock equivalents	46,309,072	49,064,272	47,620,308	48,892,523
Net income per share:				
Basic	\$ 1.31	\$ 0.63	\$ 1.96	\$ 1.98
Diluted	\$ 1.31	\$ 0.62	\$ 1.93	\$ 1.93

^(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 3.25% Convertible Notes due June 15, 2029 and 1.75% Convertible Notes due November 1, 2026 by applying the treasury stock method when the average stock price exceeds the conversion price of the Convertible Notes (see Note 9 - Debt).

For the three months ended September 30, 2020 and 2019, there were 423,000 and zero options outstanding, respectively, and for the nine months ended September 30, 2020 and 2019, 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.

16. Segment Information

In accordance with ASC Topic 280, Segment Reporting: (Topic 280), the Company's businesses are based on the organizational structure used by the chief operating decision maker ("CODM") for making operating and investment decisions and for assessing performance. The CODM views the Company as two businesses: Cloud Services and Digital Media. However, in accordance with the aggregation criteria within ASC Topic 280, J2 Global's operating segments have been aggregated into three reportable segments: (i) Fax and Martech (formerly Email Marketing); (ii) Voice, Backup, Security, and Consumer Privacy and Protection; and (iii) Digital Media.

The Company's Cloud Services business 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 Company's Digital Media business is driven primarily by advertising and subscription revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter.

The accounting policies of the businesses are the same as those described in the Company's Annual Report on Form 10-K filed with the SEC on March 2, 2020. The Company evaluates performance based on revenue, gross margin and profit or loss from operations before income taxes, not including nonrecurring gains and losses and foreign exchange gains and losses.

Information on reportable segments and reconciliation to consolidated income from operations is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue by reportable segment:				
Fax and Martech	\$ 98,044	\$ 95,300	\$ 286,687	\$ 284,151
Voice, Backup, Security, and CPP	72,204	75,863	220,403	208,389
Cloud Services Total	170,248	171,163	507,090	492,540
Digital Media	186,784	172,992	513,462	474,034
Elimination of inter-segment revenues	(56)	(17)	(200)	(114)
Total segment revenues	356,976	344,138	1,020,352	966,460
Corporate ⁽¹⁾	—	3	1	6
Total revenues	\$ 356,976	\$ 344,141	\$ 1,020,353	\$ 966,466
Gross profit by reportable segment:				
Fax and Martech	\$ 81,435	\$ 79,590	\$ 238,149	\$ 239,915
Voice, Backup, Security, and CPP	50,392	53,333	152,733	145,304
Cloud Services Total	131,827	132,923	390,882	385,219
Digital Media	169,394	149,516	457,963	408,360
Elimination of inter-segment gross profit	(56)	(17)	(200)	(114)
Total segment gross profit	301,165	282,422	848,645	793,465
Corporate ⁽¹⁾	(11)	3	(47)	6
Total gross profit	\$ 301,154	\$ 282,425	\$ 848,598	\$ 793,471
Direct costs by reportable segment ⁽²⁾ :				
Fax and Martech ⁽³⁾	\$ 28,614	\$ 27,670	\$ 89,121	\$ 93,384
Voice, Backup, Security, and CPP ⁽³⁾	37,456	44,308	118,291	110,009
Cloud Services Total	66,070	71,978	207,412	203,393
Digital Media ⁽³⁾	143,312	144,023	410,109	402,349
Elimination of inter-segment direct costs	(56)	(17)	(200)	(114)
Total segment direct costs	209,326	215,984	617,321	605,628
Corporate ⁽¹⁾	14,390	7,082	25,552	21,008
Total direct costs ⁽²⁾	\$ 223,716	\$ 223,066	\$ 642,873	\$ 626,636
Operating income by reportable segment:				
Fax and Martech	\$ 52,821	\$ 51,920	\$ 149,028	\$ 146,531
Voice, Backup, Security, and CPP	12,936	9,025	34,442	35,295
Cloud Services Total	65,757	60,945	183,470	181,826
Digital Media	26,082	5,493	47,854	6,011
Total segment operating income	91,839	66,438	231,324	187,837
Corporate ⁽¹⁾	(14,401)	(7,079)	(25,599)	(21,002)
Total income from operations	\$ 77,438	\$ 59,359	\$ 205,725	\$ 166,835

⁽¹⁾ Corporate includes costs associated with general and administrative and other expenses that are managed on a global basis and that are not directly attributable to any particular segment.

⁽²⁾ Direct costs for each segment include 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.

⁽³⁾ Beginning in the third quarter of 2020, certain expenses associated with the Corporate entity that were previously allocated to the Cloud Services business and the Digital Media business for shared costs incurred by the Corporate entity were no longer allocated.

The CODM does not use Balance Sheet and Cash Flow information in connection with operating and investment decisions other than as presented for Cloud Services and Digital Media. Accordingly, the following segment information is presented for Cloud Services and Digital Media.

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Assets:		
Cloud Services	\$ 1,481,866	\$ 1,466,969
Digital Media	1,450,894	1,561,024
Total assets from Cloud Services and Digital Media	2,932,760	3,027,993
Corporate	410,233	477,853
Total assets	<u>\$ 3,342,993</u>	<u>\$ 3,505,846</u>

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Capital expenditures:		
Cloud Services	\$ 27,673	\$ 17,216
Digital Media	43,593	32,267
Total capital expenditures from Cloud Services and Digital Media	71,266	49,483
Corporate	—	—
Total capital expenditures	<u>\$ 71,266</u>	<u>\$ 49,483</u>

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Depreciation and amortization:				
Cloud Services	\$ 20,524	\$ 24,605	\$ 58,355	\$ 58,445
Digital Media	36,651	38,990	101,771	110,067
Total depreciation and amortization from Cloud Services and Digital Media	57,175	63,595	160,126	168,512
Corporate	2,437	602	3,554	1,897
Total depreciation and amortization	<u>\$ 59,612</u>	<u>\$ 64,197</u>	<u>\$ 163,680</u>	<u>\$ 170,409</u>

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).

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenues:				
United States	\$ 296,054	\$ 278,917	\$ 827,520	\$ 763,494
Canada	17,728	16,825	51,298	51,178
Ireland	14,947	14,228	40,520	44,604
All other countries	28,247	34,171	101,015	107,190
	<u>\$ 356,976</u>	<u>\$ 344,141</u>	<u>\$ 1,020,353</u>	<u>\$ 966,466</u>

	September 30, 2020	December 31, 2019
Long-lived assets:		
United States	\$ 623,190	\$ 701,580
All other countries	49,349	76,927
Total	\$ 672,539	\$ 778,507

17. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income (loss), net of tax, for the three months ended September 30, 2020 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	\$ 270	\$ (55,070)	\$ (54,800)
Other comprehensive income (loss)	8	(3,202)	(3,194)
Net current period other comprehensive income (loss)	8	(3,202)	(3,194)
Ending balance	\$ 278	\$ (58,272)	\$ (57,994)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss), net of tax, for the nine months ended September 30, 2020 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	\$ (275)	\$ (46,187)	\$ (46,462)
Other comprehensive income (loss)	553	(12,085)	(11,532)
Net current period other comprehensive income (loss)	553	(12,085)	(11,532)
Ending balance	\$ 278	\$ (58,272)	\$ (57,994)

The following table provides details about reclassifications out of accumulated other comprehensive loss for the three and nine months ended September 30, 2020 (in thousands):

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement of Operations
	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	
Unrealized loss on available-for-sale investments	\$ —	\$ 698	Loss on investments, net
	—	698	Income before income taxes
	—	—	Income tax expense
Total reclassifications for the period	\$ —	\$ 698	Net Income

18. Subsequent Events

On October 7, 2020, the Company issued \$750 million aggregate principal amount of 4.625% senior notes due 2030. A portion of the proceeds were deposited with the trustee under the Indenture in an amount sufficient to fund the redemption of the outstanding aggregate principal amount of the 6.0% Senior Notes and to pay the redemption premium due in respect of such redemption and accrued and unpaid interest to, but excluding, the redemption date, which will be December 7, 2020. The total redemption payment will be \$694.6 million, including an early redemption premium of \$29.2 million and accrued and unpaid interest of \$15.4 million.

In addition, on October 7, 2020, the Company provided notice of termination of its Credit Agreement dated as of January 7, 2019.

On October 28, 2020, the Company announced that it had completed its acquisition of leading savings destination RetailMeNot for approximately \$420 million from Vericast, a premier marketing solutions company.

On November 2, 2020, in a cash transaction, the Company acquired all the issued capital of Inspired eLearning, a Texas-based platform for cybersecurity awareness and compliance training.

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), in Part II Item 1A - "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 (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;
- 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, other factors that could cause actual results to differ materially from those anticipated in these forward-looking statements or materially impact our financial results include the risks associated with new accounting pronouncements, as well as those associated with natural disasters, public health crises, pandemics including the COVID-19 outbreak and other catastrophic events outside of our control, including as to COVID-19 the scope and duration of the pandemic, actions taken by governmental authorities in response to the pandemic, and the direct and indirect impact of the pandemic on our customers, third parties and us.

Overview

J2 Global, Inc., together with its subsidiaries (“J2 Global”, “the Company”, “our”, “us” or “we”), is a leading provider of internet services. Through our Cloud Services business, we provide cloud services to consumers and businesses and license our intellectual property (“IP”) to third parties. In addition, the Cloud Services business includes fax, voice, backup, security, consumer privacy and protection (“CPP”) and email marketing products. Our Digital Media business specializes in the technology, gaming, broadband, business to business, and healthcare offering content, tools and services to consumers and businesses.

J2 Global was incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Cloud Services business, 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 businesses: Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our businesses is included within Note 16 - Segment Information of the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Our Cloud Services business generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media business 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 business 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 business 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 business 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.

In March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic, and we anticipate our customers and our operations in all locations will be affected as the virus continues to proliferate and as a result of the governmental responses to the pandemic. The impact of the COVID-19 pandemic has had a negative effect on the global economy, disrupting the financial markets and creating increasing volatility and overall uncertainty. Given this disruption, volatility and uncertainty, our quarterly results may be adversely affected due to various factors affecting our performance. The Company has adjusted certain aspects of our operations to protect our employees and customers while still seeking to meet customers’ needs for our vital cloud internet services and digital media services.

Management is actively monitoring the global situation and will take further action to alter our operations as may be required by federal, foreign, state and local authorities or that we determine are otherwise necessary or appropriate under the circumstances. The full extent, duration and overall impact of the COVID-19 pandemic is currently unknown and depends on future developments that are uncertain and unpredictable. Therefore, we are continuing to assess the impact to our results of

operations, financial position and liquidity based on our current assessment of the situation which could change based on the spread of the pandemic and additional government action which could limit economic activity or cause for a slower reopening of the economy.

Cloud Services Performance Metrics

We use certain metrics to generally assess the operational and financial performance of our Cloud Services business; these metrics also serve as a baseline for (a) internal trends and (b) benchmarking against competitors. The average monthly revenue per customer can be used as an analytical tool in determining the marginal economics of customer acquisition, which is particularly useful as we continue to focus on growing our higher-margin businesses. We also use this metric, in conjunction with the cancel rate, to help provide a directional indicator of Cloud Services revenue and calculate the lifetime value of customers within each of our business units.

The following table sets forth certain key operating metrics for our Cloud Services business as of and for the three and nine months ended September 30, 2020 and 2019 (in thousands, except for percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Subscriber revenues:				
Fixed ⁽¹⁾	\$ 144,525	\$ 141,832	\$ 426,766	\$ 406,493
Variable ⁽¹⁾	25,708	29,139	80,255	85,176
Total subscriber revenues	\$ 170,233	\$ 170,971	\$ 507,021	\$ 491,669
Other license revenues	15	192	69	871
Total revenues	\$ 170,248	\$ 171,163	\$ 507,090	\$ 492,540
Percentage of total subscriber revenues:				
Fixed	84.9 %	83.0 %	84.2 %	82.7 %
Variable	15.1 %	17.0 %	15.8 %	17.3 %
Total revenues:				
Number-based	\$ 98,000	\$ 97,219	\$ 289,502	\$ 291,666
Non-number-based	72,248	73,944	217,588	200,874
Total revenues	\$ 170,248	\$ 171,163	\$ 507,090	\$ 492,540
Average monthly revenue per Cloud Business Customer (ARPU) ⁽²⁾⁽³⁾				
	\$ 13.98	\$ 14.15		
Cancel Rate ⁽⁴⁾				
	2.1 %	2.4 %		

⁽¹⁾ The first quarter 2020 disclosure of \$144.8 million in fixed subscriber revenue included \$3.3 million of revenue which was subsequently determined to be variable subscriber revenue. As a result, the fixed and variable subscriber revenue for the nine months ended September 30, 2020 has been corrected in the table above.

⁽²⁾ 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.

⁽³⁾ Cloud Services customers are defined as paying direct inward dialing numbers for fax and voice services, and direct and resellers' accounts for other services.

- (4) 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 Performance Metrics

We use certain metrics to generally assess the operational and financial performance of our Digital Media business. The number of visits is an important metric because it is an indicator of consumers' level of engagement with our mobile applications, websites and other services. We believe highly engaged consumers are more likely to participate in advertising programs and other activities that derive our multiple revenue streams.

We define a visit as a group of interactions by users with our mobile and desktop applications and websites. A single visit can contain multiple page views and actions, and a single user can open multiple visits across domains, web browsers, desktop or mobile devices. We measure visits with Google Analytics and through partner platform measures. Page views are measured each time a page on our websites is loaded in a browser.

The following table sets forth certain key operating metrics for our Digital Media business for the three and nine months ended September 30, 2020 and 2019 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Visits ⁽¹⁾	2,197	1,857	6,701	5,282
Page views	7,244	7,008	22,777	20,587

Sources: Google Analytics and Partner Platforms

⁽¹⁾ Page views for the nine months ended September 30, 2020 include an adjustment of 0.6 billion views not previously reported

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 2019 Annual Report on Form 10-K filed with the SEC on March 2, 2020. During the three months ended September 30, 2020, there were no significant changes in our critical accounting policies and estimates.

Results of Operations for the Three and Nine Months Ended September 30, 2020

Cloud Services

Given the uncertainty of the current macroeconomic environment and the impact of the COVID-19 pandemic, we expect the revenue for the remainder of fiscal year 2020 to be flat to modestly lower compared to the prior-year comparable period. 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.

We expect acquisitions to remain an important component of our strategy and use of capital in this business; however, we cannot predict whether our current pace of acquisitions will remain the same within this business, especially in light of the current macroeconomic conditions. 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 space but with different business models may impact Cloud Services' 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 business's financial results to materially vary from period to period.

Digital Media

We expect the revenue for the remainder of fiscal year 2020 to be higher compared to the prior-year comparable period due to the acquisition of RetailMeNot, subject to the continued risk of the COVID-19 pandemic. We expect the Digital Media business to improve as we integrate our recent acquisitions and over the longer term as advertising transactions continue to shift from offline to online, but these initiatives will be offset by the impact of COVID-19 in the near term. 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 business; however, we cannot predict whether our current pace of acquisitions will remain the same within this business, especially in light of the current macroeconomic conditions. 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 space but with different business models may impact Digital Media's overall profit margins.

J2 Global Consolidated

Based on the trends discussed above with respect to our Cloud Services and Digital Media businesses, we anticipate our consolidated revenue for the remainder of fiscal year 2020 to be higher compared to the prior-year comparable 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 business (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 September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2020	2019		2020	2019	
Revenues	\$356,976	\$344,141	4%	\$1,020,353	\$966,466	6%

Our revenues consist of revenues from our Cloud Services business and from our Digital Media business. 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 primarily consist of advertising revenues, subscriptions earned through the granting of access to, or delivery of, certain data products or services to customers, fees paid for generating business leads, and licensing and sale of editorial content and trademarks.

Our revenues in 2020 have increased over the comparable three and nine month periods of 2019 primarily due to a combination of acquisitions and organic growth; partially offset by declines in certain areas of both the Digital Media and Cloud Services businesses.

Cost of Revenues

(in thousands, except percentages)

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2020	2019		2020	2019	
Cost of revenue	\$55,822	\$61,716	(10)%	\$171,755	\$172,995	(1)%
As a percent of revenue	16%	18%		17%	18%	

Cost of revenues is primarily comprised of costs associated with network operations, content fees, editorial and production costs, database hosting and online processing fees. The decrease in cost of revenues for the three months ended September 30, 2020 was primarily due to lower content fees, campaign fulfillment cost, other editorial and production costs and customer service; partially offset by an increase in depreciation and amortization. The decrease in cost of revenues for the nine months ended September 30, 2020 was primarily due to lower content fees, campaign fulfillment cost and other editorial and production costs; partially offset by an increase in depreciation and amortization and database hosting.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2020	2019		2020	2019	
Sales and Marketing	\$95,074	\$98,486	(3)%	\$287,317	\$273,812	5%
As a percent of revenue	27%	29%		28%	28%	

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 September 30, 2020 was \$35.4 million (primarily consists of \$19.8 million of third-party advertising costs and \$12.8 million of personnel costs) compared to 2019 of \$40.6 million (primarily consists of \$28.3 million of third-party advertising costs and \$11.3 million of personnel costs). Advertising cost for the nine months ended September 30, 2020 was \$108.0 million (primarily consists of \$57.8 million of third-party advertising costs and \$39.4 million of personnel costs) compared to 2019 of \$115.3 million (primarily consists of \$81.5 million of third-party advertising costs and \$30.7 million of personnel costs). The decrease in sales and marketing expenses for the three months ended September 30, 2020 versus the prior comparable period was primarily due to lower advertising costs; partially offset by higher personnel costs and partner revenue share associated with the acquisition of businesses acquired in and subsequent to the third quarter 2019 within the Digital Media and Cloud Services businesses. The increase in sales and marketing expenses for the nine months ended September 30, 2020 versus the prior comparable period was primarily due to increased personnel costs and partner revenue share, software licenses and consulting fees; partially offset by lower advertising associated with the acquisition of businesses acquired in and subsequent to the third quarter 2019 within the Digital Media and Cloud Services businesses.

Research, Development and Engineering.

(in thousands, except percentages)

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2020	2019		2020	2019	
Research, Development and Engineering	\$14,261	\$13,770	4%	\$43,273	\$38,692	12%
As a percent of revenue	4%	4%		4%	4%	

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs for the three and nine months ended September 30, 2020 versus the prior comparable periods was primarily due to an increase in costs associated with businesses acquired in and subsequent to the third quarter 2019.

General and Administrative.

(in thousands, except percentages)

	Three Months Ended September 30,		Percentage Change	Nine Months Ended September 30,		Percentage Change
	2020	2019		2020	2019	
General and Administrative	\$114,381	\$110,810	3%	\$312,283	\$314,132	(1)%
As a percent of revenue	32%	32%		31%	33%	

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 months ended September 30, 2020 versus the prior comparable period was primarily due to the recognition of lease asset impairments and additional depreciation due to leasehold impairments; partially offset by decreased amortization of intangible assets. The decrease in general and administrative expense for the nine months ended September 30, 2020 versus the prior comparable period was primarily due to decreased amortization of intangible assets; partially offset by increased depreciation due to leasehold impairments.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	\$ 136	\$ 127	\$ 413	\$ 390
Operating expenses:				
Sales and marketing	321	419	1,135	1,212
Research, development and engineering	425	373	1,340	1,092
General and administrative	4,918	5,527	15,755	15,700
Total	<u>\$ 5,800</u>	<u>\$ 6,446</u>	<u>\$ 18,643</u>	<u>\$ 18,394</u>

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 \$22.7 million and \$17.3 million for the three months ended September 30, 2020 and 2019, respectively, and \$65.9 million and \$50.6 million for the nine months ended September 30, 2020 and 2019, respectively. Interest expense, net increased over the prior comparable periods primarily due to the issuance of our 1.75% Convertible Senior Notes in the fourth quarter 2019.

Gain on sale of businesses. Our gain on sale of businesses is generated primarily from the sale of certain Voice assets in Australia and New Zealand in the third quarter of 2020. Gain on sale of businesses was \$17.1 million and zero for the three months ended September 30, 2020 and 2019, respectively, and \$17.1 million and zero for the nine months ended September 30, 2020 and 2019, respectively.

Loss on investments, net. Our loss on investments, net is generated from gains or losses from investments in equity and debt securities. Our loss on investments, net was \$156 thousand and \$7 thousand for the three months ended September 30, 2020 and 2019, respectively, and \$21.0 million and \$45.0 thousand for the nine months ended September 30, 2020 and 2019,

respectively. Our loss on investments, net for the three month ended September 30, 2020 was consistent to the prior period. Our net loss on investments, net increased for the nine months ended September 30, 2020 versus the prior comparable period due to net losses realized on certain investments as the result of changes in the investee's capital structure and overall market volatility.

Other (income) expense, net. Our other (income) expense, net is generated primarily from miscellaneous items and gain or losses on currency exchange. Other (income) expense, net was \$(14.2) million and \$0.9 million for the three months ended September 30, 2020 and 2019, respectively, and \$(16.4) million and \$2.7 million for the nine months ended September 30, 2020 and 2019, respectively. Other (income) expense, net increased for the three and nine months ended September 30, 2020 versus the prior comparable periods primarily due to increased gains on currency exchange.

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.

Provision for income taxes amounted to \$24.3 million and \$7.0 million for the three months ended September 30, 2020 and 2019, respectively, and \$49.0 million and \$17.9 million for the nine months ended September 30, 2020 and 2019, respectively. Our effective tax rate was 28.3% and 17.0% for the three months ended September 30, 2020 and 2019, respectively, and 32.2% and 15.7% for the nine months ended September 30, 2020 and 2019, respectively.

The increase in our effective income tax rate for the three months ended September 30, 2020 was primarily attributable to the following:

1. a decrease in the benefit of a portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.; and
2. an increase in tax expense due to the discrete tax cost for the disposition of certain foreign subsidiaries and establishing the related valuation allowance on deferred tax assets resulting from the disposition; partially offset by
3. a decrease in tax expense in 2020 due to a reduction in foreign income subject to U.S. income tax (Global Intangible Low-Taxed Income or "GILTI") as part of the Tax Cuts and Jobs Act of 2017.

The increase in our effective income tax rate for the nine months ended September 30, 2020 was primarily attributable to the following:

1. an increase in tax expense during 2020 due to establishing a valuation allowance on deferred tax assets related to the impairment of certain investments;
2. an increase in tax expense due to discrete tax benefits related to a reduction in our net reserve for uncertain tax positions that was recorded for the nine months ended September 30, 2019 with no similar events for the nine months ended September 30, 2020; and
3. a decrease in the benefit of a portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.; partially offset by
4. a decrease in tax expense in 2020 due to a reduction in foreign income subject to U.S. income tax (GILTI) as part of the Tax Cuts and Jobs Act of 2017.

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 (income) in earnings of equity method investment. Net loss (income) in earnings of equity method investment is generated from our investment in the OCV Fund for which we receive annual audited financial statements. The investment in the OCV Fund is presented net of tax and on a one-quarter lag due to the timing and availability of financial information from OCV. If the Company becomes aware of a significant decline in value that is other-than-temporary, the loss will be recorded in the period in which the Company identifies the decline.

The net loss (income) in earnings of equity method investment was \$0.7 million and \$3.5 million, net of tax benefit for the three months ended September 30, 2020 and 2019, respectively, and \$10.8 million and \$(0.1) million, net of tax benefit (expense) for the nine months ended September 30, 2020 and 2019, respectively. The fiscal 2020 loss was primarily a result of the impairment of two of its investments as a result of COVID-19 in the amount of \$7.0 million, net of tax benefit. In addition, the Company recognized an investment loss in fiscal 2020 in the amount of \$3.8 million, net of tax benefit. During the three months ended September 30, 2020 and 2019, the Company recognized management fees of \$0.8 million and \$0.8 million, net of tax benefit, respectively, and for the nine months ended September 30, 2020 and 2019, the Company recognized management fees of \$2.3 million and \$2.3 million, net of tax benefit, respectively.

Cloud Services and Digital Media Results

Our businesses are based on the organization structure used by management for making operating and investment decisions and for assessing performance and have been aggregated into two businesses: (i) Cloud Services; and (ii) Digital Media.

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

Cloud Services

The following results are presented for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
External net sales	\$ 170,248	\$ 171,163	\$ 507,090	\$ 492,540
Inter-business net sales	—	—	—	—
Net sales	170,248	171,163	507,090	492,540
Cost of revenues	38,421	38,240	116,208	107,321
Gross profit	131,827	132,923	390,882	385,219
Operating expenses	66,070	71,978	207,412	203,393
Operating income	\$ 65,757	\$ 60,945	\$ 183,470	\$ 181,826

Cloud Services' net sales of \$170.2 million for the three months ended September 30, 2020 decreased \$0.9 million, or 0.5%, from the prior comparable period due to the impact of the COVID-19 pandemic. Net sales of \$507.1 million for the nine months ended September 30, 2020 increased \$14.6 million, or 3.0%, from the prior comparable period primarily due to business acquisitions acquired in and subsequent to the third quarter 2019.

Cloud Services' gross profit of \$131.8 million for the three months ended September 30, 2020 decreased \$1.1 million, or 0.8%, and gross profit of \$390.9 million for the nine months ended September 30, 2020 increased \$5.7 million, or 1.5%, from the prior comparable periods primarily due to business acquisitions acquired in and subsequent to the third quarter 2019; partially offset by increased depreciation and amortization and the impact of the COVID-19 pandemic.

Cloud Services' operating expenses of \$66.1 million for the three months ended September 30, 2020 decreased \$5.9 million from the prior comparable period primarily due to lower amortization of intangible assets. Operating expenses of \$207.4 million for the nine months ended September 30, 2020 increased \$4.0 million from the prior comparable period primarily due to expense associated with businesses acquired in and subsequent to the prior comparable period including (a) marketing and advertising costs; (b) non-income taxes; and (c) additional salary and related costs.

As a result of these factors, Cloud Services' operating income of \$65.8 million for the three months ended September 30, 2020 increased \$4.8 million, or 7.9%, and operating income of \$183.5 million for the nine months ended September 30, 2020 increased \$1.6 million, or 0.9%, from the prior comparable periods.

Digital Media

The following results are presented for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
External net sales	\$ 186,728	\$ 172,975	\$ 513,262	\$ 473,920
Inter-business net sales	56	17	200	114
Net sales	186,784	172,992	513,462	474,034
Cost of revenues	17,390	23,476	55,499	65,674
Gross profit	169,394	149,516	457,963	408,360
Operating expenses	143,312	144,023	410,109	402,349
Operating income	\$ 26,082	\$ 5,493	\$ 47,854	\$ 6,011

Digital Media's net sales of \$186.8 million for the three months ended September 30, 2020 increased \$13.8 million, or 8.0%, from the prior comparable period due to business acquisitions. Net sales of \$513.5 million for the nine months ended September 30, 2020 increased \$39.4 million, or 8.3%, from the prior comparable period primarily due to business acquisitions.

Digital Media's gross profit of \$169.4 million for the three months ended September 30, 2020 increased \$19.9 million, or 13.3%, and gross profit of \$458.0 million for the nine months ended September 30, 2020 increased \$49.6 million, or 12.1%, from the prior comparable periods primarily due to business acquisitions and lower campaign fulfillment related costs.

Digital Media's operating expenses of \$143.3 million for the three months ended September 30, 2020 decreased \$0.7 million, and operating expenses of \$410.1 million for the nine months ended September 30, 2020 increased \$7.8 million from the prior comparable periods. The decrease in the three months ended September 30, 2020 is primarily due to lower depreciation and amortization, marketing and advertising costs and reduced corporate allocations; partially offset by an impairment associated with lease assets and additional expense associated with businesses acquired in and subsequent to the prior comparable period. The increase in the nine months ended September 30, 2020 is primarily due to additional expense associated with businesses acquired in and subsequent to the prior comparable period including (a) additional salary and related costs including severance; (b) marketing and advertising costs; partially offset by (c) lower amortization of intangible assets.

As a result of these factors, Digital Media's operating income of \$26.1 million for the three months ended September 30, 2020 increased \$20.6 million or 374.8%, and operating income of \$47.9 million for the nine months ended September 30, 2020 increased \$41.8 million, or 696.1%, from the prior comparable periods.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At September 30, 2020, we had cash, cash equivalents and investments of \$664.5 million compared to \$675.7 million at December 31, 2019. The decrease in cash and investments resulted primarily from cash used in the repurchase of common stock, purchases of property and equipment (including capitalized labor), investments and business acquisitions; partially offset by cash provided from operations. At September 30, 2020, cash and investments consisted of cash and cash equivalents of \$567.9 million and long-term investments of \$96.6 million. Our investments consist of equity and debt securities. For financial statement presentation, we classify our debt securities primarily as short- and long-term based upon their maturity dates. Short-term investments mature within one year of the date of the financial statements and long-term investments mature one year or more from the date of the financial statements. As of September 30, 2020, cash and investments held within domestic and foreign jurisdictions were \$584.3 million and \$80.2 million, respectively.

On January 7, 2019, J2 Cloud Services, LLC entered into a Credit Agreement (the “Credit Agreement”) with certain lenders from time to time party thereto (collectively, the “Lenders”) and MUFG Union Bank, N.A., as sole lead arranger and as administrative agent for the Lenders (the “Agent”). Pursuant to the Credit Agreement, as amended in July and August 2019, the Lenders have provided J2 Cloud Services with a credit facility of \$200.0 million (the “Credit Facility”) through December 31, 2020. On November 15, 2019, the Company reduced its borrowing capacity from \$200.0 million to \$100.0 million. The proceeds of the Credit Facility are intended to be used for working capital and general corporate purposes of J2 Cloud and its subsidiaries, including to finance certain permitted acquisitions and capital expenditures in accordance with the terms of the Credit Agreement. As of September 30, 2020, there were no amounts outstanding under the Credit Facility. On October 7, 2020, the Company provided notice of termination of the Credit Agreement.

On October 7, 2020, the Company issued \$750 million aggregate principal amount of 4.625% Senior Notes due in 2030. A portion of the proceeds were deposited with the trustee under the Indenture in an amount sufficient to fund the redemption of the outstanding aggregate principal amount of the 6.0% Senior Notes and to pay the redemption premium due in respect of such redemption and accrued and unpaid interest to, but excluding, the redemption date, which will be December 7, 2020. Subsequent to the quarter end, the Company is pursuing to reestablish a credit facility at the J2 Global, Inc. level of \$100.0 million expandable to \$350.0 million.

On February 6, 2019, the Company’s Board of Directors approved a quarterly cash dividend of \$0.4450 per share of J2 Global common stock payable on March 12, 2019 to all stockholders of record as of the close of business on February 25, 2019. On May 2, 2019, the Company’s Board of Directors approved a quarterly cash dividend of \$0.4550 per share of J2 Global common stock payable on June 4, 2019 to all stockholders of record as of the close of business on May 20, 2019. Future dividends are subject to Board approval. However, based on the significant number of current investment opportunities within the Company’s portfolio of businesses and the historic returns from prior investments, the Board of Directors suspended dividend payments for the foreseeable future after the June 4, 2019 payment.

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.

In the first nine months of 2020, the Company received capital call notices from the management of OCV Management, LLC. for \$31.0 million, inclusive of certain management fees, of which \$30.0 million has been paid for the nine months ended September 30, 2020.

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 expenditures and stock repurchases, if any, 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 \$356.0 million and \$309.3 million for the nine months ended September 30, 2020 and 2019, 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 2020 compared to 2019 was attributable to a decrease in accounts receivables, prepaid expenses and other current assets, higher uncertain tax positions and income taxes payable; partially offset by a decrease in accounts payable and accrued expenses due to the timing of payments and reduced deferred revenue. Our cash and cash equivalents were \$567.9 million and \$575.6 million at September 30, 2020 and December 31, 2019, respectively.

Net cash used in investing activities was \$107.3 million and \$472.9 million for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020 and 2019, net cash used in investing activities was primarily due to capital expenditures associated with the purchase of property and equipment (including capitalized labor), the purchase of investments and business acquisitions; partially offset by proceeds from the sale of businesses. The decrease in our net cash used in investing activities in 2020 compared to 2019 was primarily due to fewer business acquisitions.

Net cash (used in) provided by financing activities was \$(256.9) million and \$46.9 million for the nine months ended September 30, 2020 and 2019, respectively. For the nine months ended September 30, 2020, net cash used in financing activities was primarily due to repurchase of common stock and business acquisitions. The change in net cash used in financing activities in 2020 compared to 2019 was primarily attributable repurchase of common stock and net borrowings under the line of credit in 2019 that did not occur in 2020; partially offset by lower dividend payments.

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 20, 2021. During the nine month period ended September 30, 2020, we repurchased 1,140,819 shares under this program. Cumulatively at September 30, 2020, 4.1 million shares were repurchased at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees). In July 2016, the Company acquired and subsequently retired 935,231 shares of J2 Global common stock in connection with the acquisitions 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. As a result of the acquired shares through acquisition and the purchase of J2 Global common stock through the Company's share repurchase program, no shares remain available for purchase under the 2012 Program.

On August 6, 2020, the Company's Board of Directors approved a program authorizing the repurchase of up to 10 million shares of our common stock through August 6, 2025 (the "2020 Program"). During the nine month period ended September 30, 2020, we repurchased 2,000,000 shares under this program. Cumulatively at September 30, 2020, 2,000,000 shares were repurchased at an aggregate cost of \$141.8 million (including an immaterial amount of commission fees).

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of September 30, 2020:

Contractual Obligations	Payments Due in (in thousands)						Total
	2020	2021	2022	2023	2024	Thereafter	
Long-term debt - principal (a)	\$ —	\$ 402,414	\$ —	\$ —	\$ —	\$ 1,200,000	\$ 1,602,414
Long-term debt - interest (b)	11,352	55,164	48,625	48,625	48,625	58,250	270,641
Operating leases (c)	7,393	29,086	26,120	20,383	13,726	38,471	135,179
Finance leases (d)	474	602	313	29	—	—	1,418
Telecom services and co-location facilities (e)	890	2,261	1,114	103	—	—	4,368
Holdback payments (f)	4,608	1,511	1,511	—	—	—	7,630
Transition Tax (g)	—	—	—	—	3,189	8,486	11,675
Self-Insurance (h)	5,815	6,165	—	—	—	—	11,980
Other (i)	388	614	598	—	—	—	1,600
Total	<u>\$ 30,920</u>	<u>\$ 497,817</u>	<u>\$ 78,281</u>	<u>\$ 69,140</u>	<u>\$ 65,540</u>	<u>\$ 1,305,207</u>	<u>\$ 2,046,905</u>

- (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 finance 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 reduced by the 2017 overpayment of US Federal Income Tax.
- (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 and implementation commitments and others.

On October 7, 2020, the Company issued \$750 million aggregate principal amount of 4.625% senior notes due 2030. A portion of the proceeds were deposited with the trustee under the Indenture in an amount sufficient to fund the redemption of the outstanding aggregate principal amount of the 6.0% Senior Notes and to pay the redemption premium due in respect of such redemption and accrued and unpaid interest to, but excluding, the redemption date, which will be December 7, 2020 (see Note 18 - Subsequent Events of the Notes to Financial Statements). The principal and interest included in the schedule above do not give effect to the issuance and deposit on October 7, 2020 and the redemption in December 2020.

As of September 30, 2020, our liability for uncertain tax positions was \$60.2 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 (other than contingent consideration which we have deemed as certain in terms of amount and timing) in the table above due to the uncertainty of the amounts and the timing of cash settlements. We have also not presented our remaining commitment to OCV Management, LLC of approximately \$102.0 million due to the uncertainty of timing of funding requests.

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, 2019 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 2020.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and borrowings under our Credit Facility that bear variable market interest rates. 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 or otherwise approved by the Board of Directors. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of September 30, 2020, 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 September 30, 2020, we had investments in debt securities with effective maturities greater than one year of approximately \$0.7 million. As of September 30, 2020 and December 31, 2019, we had cash and cash equivalent investments primarily in money market funds with maturities of 90 days or less of \$567.9 million and \$575.6 million, respectively.

On January 7, 2019, J2 Cloud Services, LLC entered into a Credit Agreement (the "Credit Agreement") with certain lenders from time to time party thereto (collectively, the "Lenders") and MUFG Union Bank, N.A., as sole lead arranger and as administrative agent for the Lenders (the "Agent"). Pursuant to the Credit Agreement, as amended in July and August 2019, the Lenders have provided J2 Cloud Services with a credit facility of \$200.0 million (the "Credit Facility") through December 31, 2020. On November 15, 2019, the Company reduced its borrowing capacity from \$200.0 million to \$100.0 million. The proceeds of the Credit Facility are intended to be used for working capital and general corporate purposes of J2 Cloud and its subsidiaries, including to finance certain permitted acquisitions and capital expenditures in accordance with the terms of the Credit Agreement. As of September 30, 2020, there were no amounts outstanding under the Credit Facility. On October 7, 2020, the Company provided notice of termination of the Credit Agreement. Subsequent to the quarter end, the Company is pursuing to reestablish a credit facility at the J2 Global, Inc. level of \$100.0 million expandable to \$350.0 million.

At J2 Cloud's option, amounts borrowed under the Credit Agreement bore interest at either (i) a base rate equal to the greatest of (x) the Federal Funds Effective Rate (as defined in the Credit Agreement) in effect on such day plus 1/2 of 1% per annum, (y) the rate of interest per annum most recently announced by the Agent as its U.S. Dollar "Reference Rate" and (z) one month LIBOR plus 1.00% or (ii) a rate per annum equal to LIBOR divided by 1.00 minus the LIBOR Reserve Requirements (as defined in the Credit Agreement), in each case, plus an applicable margin. The applicable margin relating to any base rate loan ranged from 0.50% to 1.50% and the applicable margin relating to any LIBOR loan will range from 1.50% to 2.50%, in each case, depending on the total leverage ratio of J2 Cloud.

If the LIBOR-based interest rates or Federal Funds Effective Rate would have increased by 100 basis points, annual interest expense would have increased by zero as it relates to our Credit Facility that bear variable market interest rates due to the fact there are no amounts outstanding under such facility at September 30, 2020.

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 (gains) losses for the three months ended September 30, 2020 and 2019 were \$(13.9) million and \$1.0 million, respectively, and for the nine months ended September 30, 2020 and 2019 were \$(15.0) million and \$2.8 million, respectively. The decrease in losses to our earnings in the three months and nine months ended September 30, 2020 were attributable to lower inter-company balances between periods in foreign subsidiaries that were in functional currencies other than the U.S. Dollar and exchange rate fluctuations.

Cumulative translation adjustments, net of tax, included in other comprehensive income for the three months ended September 30, 2020 and 2019 were \$(3.2) million and \$(8.2) million, respectively, and for the nine months ended September 30, 2020 and 2019 were \$(12.1) million and \$(8.9) 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 third quarter ended September 30, 2020 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 11 – 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, 2019 (the “10-K Risk Factors”) and in Part II, Item 1A “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 (the “10-K/10-Q 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 2020. If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K/10-Q 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/10-Q Risk Factors.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Issuer Purchases of Equity Securities

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 20, 2021. Cumulatively at September 30, 2020, 4.1 million shares were repurchased under the 2012 Program at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees). In July 2020, the Company repurchased 140,819 shares under its share repurchase program at an aggregate cost of \$8.4 million, which were subsequently retired.

In March and April 2020, the Company acquired 680,016 shares and 319,984 shares respectively, of J2 Global common stock in connection with the 2012 Program. In addition, in August 2019, the Company acquired 197,870 shares of J2 Global common stock in connection with the 2012 Program. In each case, the Company subsequently retired the shares within the same month. In December 2018, the Company acquired 600,000 shares of J2 Global common stock in connection with the 2012 Program and subsequently retired the shares in March 2019 (see Note 13 - Stockholders’ Equity of the Notes to the Condensed Consolidated Financial Statements).

In July 2016, the Company acquired and subsequently retired 935,231 shares of J2 Global common stock in connection with the acquisitions 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. As a result of the acquired shares through acquisition and the purchase of J2 Global common stock through the Company’s share repurchase program, no shares remain available for purchase under the 2012 Program.

On August 6, 2020, the Company’s Board of Directors approved a program authorizing the repurchase of up to 10 million shares of the Company’s common stock through August 6, 2025 (the “2020 Program”). Cumulatively at September 30, 2020, 2,000,000 shares were repurchased at an aggregate cost of \$141.8 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 September 30, 2020:

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
July 1, 2020 - July 31, 2020	142,033	\$ 59.62	140,819	—
August 1, 2020 - August 31, 2020	278,219	\$ 69.80	276,089	9,723,911
September 1, 2020 - September 30, 2020	1,724,991	\$ 71.23	1,723,911	8,000,000
Total	2,145,243		2,140,819	8,000,000

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

<u>3.1</u>	Amended and Restated Certificate of Incorporation of J2 Global, Inc., dated as of June 10, 2014 (1)
<u>3.2</u>	Amendment to Amended and Restated Certificate of Incorporation of J2 Global, Inc. dated as of September 5, 2019 (2)
<u>3.3</u>	Third Amended and Restated By-Laws (2)
<u>31.1</u>	Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	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 September 30, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2020 and December 31, 2019, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2020 and 2019, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019, (v) Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019, and (vi) the Notes to Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File - the cover page from J2 Global, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 is formatted in Inline XBRL

- (1) Incorporated by reference to J2 Global's Current Report on Form 8-K filed with the Commission on June 10, 2014.
(2) Incorporated by reference to J2 Global's Current Report on Form 8-K filed with the Commission on November 1, 2019.

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.

Date: November 9, 2020

By: /s/ VIVEK SHAH

Vivek Shah
Chief Executive Officer and a Director
(Principal Executive Officer)

Date: November 9, 2020

By: /s/ R. SCOTT TURICCHI

R. Scott Turicchi
President and Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2020

By: /s/ STEVE P. DUNN

Steve P. Dunn
Chief Accounting Officer

INDEX TO EXHIBITS

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vivek Shah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J2 Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ VIVEK SHAH

Vivek Shah

Chief Executive Officer and a Director
(Principal Executive Officer)

Dated: November 9, 2020

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, R. Scott Turicchi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of J2 Global, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ R. SCOTT TURICCHI

R. Scott Turicchi
President and Chief Financial Officer
(Principal Financial Officer)

Dated: November 9, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vivek Shah, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The accompanying quarterly report on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of J2 Global, Inc.

/s/ VIVEK SHAH

Vivek Shah

Chief Executive Officer and a Director
(Principal Executive Officer)

Dated: November 9, 2020

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to J2 Global, Inc. and will be retained by J2 Global, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, R. Scott Turicchi, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The accompanying quarterly report on Form 10-Q for the quarter ended September 30, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of J2 Global, Inc.

/s/ R. SCOTT TURICCHI

R. Scott Turicchi

President and Chief Financial Officer
(Principal Financial Officer)

Dated: November 9, 2020

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to J2 Global, Inc. and will be retained by J2 Global, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.