
**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 March 31, 2021

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 May 6, 2021, the registrant had 45,112,198 shares of common stock outstanding.

**J2 GLOBAL, INC. AND SUBSIDIARIES
FOR THE QUARTER ENDED MARCH 31, 2021**

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

	March 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 371,971	\$ 242,652
Short-term investments	663	663
Accounts receivable, net of allowances of \$17,971 and \$16,018, respectively	242,420	325,619
Prepaid expenses and other current assets	52,386	53,909
Current assets held for sale	8,063	—
Total current assets	675,503	622,843
Long-term investments	138,703	97,495
Property and equipment, net	155,799	156,577
Operating lease right-of-use assets	85,342	105,845
Trade names, net	177,524	187,902
Customer relationships, net	341,600	377,194
Goodwill	1,777,745	1,867,430
Other purchased intangibles, net	157,575	176,473
Deferred income taxes, noncurrent	49,282	56,545
Other assets	16,993	17,027
Noncurrent assets held for sale	127,591	—
TOTAL ASSETS	\$ 3,703,657	\$ 3,665,331
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 201,141	\$ 230,651
Income taxes payable, current	32,693	31,753
Deferred revenue, current	193,934	190,644
Operating lease liabilities, current	30,330	32,211
Current portion of long-term debt	399,893	396,801
Other current liabilities	41	497
Current liabilities held for sale	9,502	—
Total current liabilities	867,534	882,557
Long-term debt	1,186,438	1,182,220
Deferred revenue, noncurrent	15,134	14,440
Operating lease liabilities, noncurrent	80,465	99,177
Income taxes payable, noncurrent	11,675	11,675
Liability for uncertain tax positions	58,386	57,081
Deferred income taxes, noncurrent	163,348	162,700
Other long-term liabilities	32,953	44,463
Noncurrent liabilities held for sale	12,813	—
TOTAL LIABILITIES	2,428,746	2,454,313
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 44,489,399 and 44,346,630 shares at March 31, 2021 and December 31, 2020, respectively.	445	443
Additional paid-in capital	455,625	456,274
Retained earnings	882,071	809,107
Accumulated other comprehensive loss	(63,230)	(54,806)
TOTAL STOCKHOLDERS' EQUITY	1,274,911	1,211,018
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,703,657	\$ 3,665,331

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 March 31,	
	2021	2020
Total revenues	\$ 398,185	\$ 332,393
Cost of revenues ⁽¹⁾	57,822	59,131
Gross profit	340,363	273,262
Operating expenses:		
Sales and marketing ⁽¹⁾	121,186	99,438
Research, development and engineering ⁽¹⁾	21,351	15,406
General and administrative ⁽¹⁾	119,346	103,171
Total operating expenses	261,883	218,015
Income from operations	78,480	55,247
Interest expense, net	21,704	20,971
Gain on sale of businesses	(1,979)	—
Loss on investments, net	—	20,832
Other (income) expense, net	(622)	6,876
Income before income taxes and (income) loss from equity method investment, net	59,377	6,568
Income tax expense	5,725	8,703
(Income) loss from equity method investment, net	(24,270)	4,269
Net income (loss)	\$ 77,922	\$ (6,404)
Net income (loss) per common share:		
Basic	\$ 1.75	\$ (0.13)
Diluted	\$ 1.67	\$ (0.13)
Weighted average shares outstanding:		
Basic	44,399,149	47,620,774
Diluted	46,731,872	47,620,774
⁽¹⁾ Includes share-based compensation expense as follows:		
Cost of revenues	\$ 132	\$ 134
Sales and marketing	362	398
Research, development and engineering	520	431
General and administrative	5,099	5,350
Total	\$ 6,113	\$ 6,313

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2021	2020
Net income (loss)	\$ 77,922	\$ (6,404)
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(8,424)	(8,714)
Change in fair value on available-for-sale investments, net of tax expense of zero for the three months ended March 31, 2021 and 2020, respectively.	—	708
Other comprehensive loss, net of tax	(8,424)	(8,006)
Comprehensive income (loss)	<u>\$ 69,498</u>	<u>\$ (14,410)</u>

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 77,922	\$ (6,404)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	65,492	53,980
Amortization of financing costs and discounts	7,296	6,997
Non-cash operating lease costs	3,320	4,834
Share-based compensation	6,113	6,313
Provision for doubtful accounts	2,485	2,826
Deferred income taxes, net	(5,380)	(1,106)
Gain on sale of businesses	(1,979)	—
Lease asset impairments	1,086	—
Changes in fair value of contingent consideration	510	(240)
Foreign currency remeasurement gain	655	7,801
(Income) loss from equity method investments	(24,270)	4,269
Loss on equity and debt investments	—	20,826
Decrease (increase) in:		
Accounts receivable	68,564	52,949
Prepaid expenses and other current assets	(2,481)	(8,169)
Other assets	1,193	2,612
Increase (decrease) in:		
Accounts payable and accrued expenses	(22,078)	(43,374)
Income taxes payable	2,471	1,616
Deferred revenue	7,867	(686)
Operating lease liabilities	(5,951)	(5,062)
Liability for uncertain tax positions	1,304	1,654
Other long-term liabilities	(5,415)	400
Net cash provided by operating activities	<u>178,724</u>	<u>102,036</u>
Cash flows from investing activities:		
Purchases of equity method investment	(8,064)	(22,840)
Purchases of equity investments	(999)	(843)
Purchases of property and equipment	(26,269)	(26,885)
Proceeds from sale of assets	—	226
Acquisition of businesses, net of cash received	385	(18,701)
Proceeds from sale of businesses, net of cash divested	5,999	—
Purchases of intangible assets	(8)	(19)
Net cash used in investing activities	<u>(28,956)</u>	<u>(69,062)</u>
Cash flows from financing activities:		
Repurchase of common stock	(12,179)	(62,966)
Exercise of stock options	444	952
Deferred payments for acquisitions	(7,853)	(15,503)
Other	(551)	(839)
Net cash used in financing activities	<u>(20,139)</u>	<u>(78,356)</u>
Effect of exchange rate changes on cash and cash equivalents	(310)	(3,679)
Net change in cash and cash equivalents	129,319	(49,061)
Cash and cash equivalents at beginning of period	242,652	575,615
Cash and cash equivalents at end of period	<u>\$ 371,971</u>	<u>\$ 526,554</u>

See Notes to Condensed Consolidated Financial Statements

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2020 and 2021
(unaudited, in thousands, except share amounts)

	Common stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in	earnings	other comprehensive loss	Stockholders' Equity
Balance, January 1, 2020	47,654,929	\$ 476	\$ 465,652	\$ 891,526	\$ (46,462)	\$ 1,311,192
Net loss	—	—	—	(6,404)	—	(6,404)
Other comprehensive income, net of tax expense of zero	—	—	—	—	(8,006)	(8,006)
Exercise of stock options	41,530	—	1,583	(631)	—	952
Vested restricted stock	177,496	2	(2)	—	—	—
Repurchase and retirement of common stock	(760,532)	(7)	(11,116)	(51,843)	—	(62,966)
Share based compensation	—	—	6,313	—	—	6,313
Balance, March 31, 2020	47,113,423	\$ 471	\$ 462,430	\$ 832,648	\$ (54,468)	\$ 1,241,081

	Common stock		Additional	Retained	Accumulated	Total
	Shares	Amount	paid-in	earnings	other comprehensive loss	Stockholders' Equity
Balance, January 1, 2021	44,346,630	\$ 443	\$ 456,274	\$ 809,107	\$ (54,806)	\$ 1,211,018
Net income	—	—	—	77,922	—	77,922
Other comprehensive income, net of tax expense of zero	—	—	—	—	(8,424)	(8,424)
Exercise of stock options	15,117	—	444	—	—	444
Vested restricted stock	235,939	2	(2)	—	—	—
Repurchase and retirement of common stock	(108,287)	—	(7,221)	(4,958)	—	(12,179)
Share based compensation	—	—	6,113	—	—	6,113
Other, net	—	—	17	—	—	17
Balance, March 31, 2021	44,489,399	\$ 445	\$ 455,625	\$ 882,071	\$ (63,230)	\$ 1,274,911

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2021
(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 information and services. Our Digital Media business specializes in the technology, shopping, gaming, and healthcare markets offering content, tools and services to consumers and businesses. Our Cloud Services business provides cloud-based subscription services to consumers and businesses including cloud fax, cybersecurity, privacy and marketing technology.

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, 2020 included in our Annual Report (Form 10-K) filed with the SEC on March 1, 2021. Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

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

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications and the reported amounts of net revenue and expenses during the reporting period. 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 due to risks and uncertainties, including uncertainty in the current economic environment due to the novel coronavirus pandemic (“COVID-19”).

Allowances for Doubtful Accounts

J2 Global maintains an allowance for credit losses for accounts receivable, which is recorded as an offset to accounts receivable and changes in such are classified as general and administrative expenses in the Condensed Consolidated Statements of Operations. The Company assesses collectability by reviewing accounts receivable on a collective basis where similar characteristics exist and on an individual basis when it identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Company considers historical collectability based on past due status. It also considers customer-specific information, current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. 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, which it classifies as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses included in other comprehensive income. All debt securities are accounted for on a specific identification basis.

The Company's available-for-sale debt securities are carried at an estimated fair value with any unrealized gains or 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 loss on investments, net on our Condensed Consolidated Statements of Operations, and any remaining unrealized losses, net of taxes, are included in accumulated comprehensive loss in stockholders' equity.

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).

The Company assesses whether an other-than-temporary impairment loss on an investment has occurred due to declines in fair value or other market conditions (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 first quarter of 2021, the Company recorded impairment of certain operating right-of-use assets (see Note 10 - Leases). No impairment was recorded in the first quarter of 2020.

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 and uses 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 and are included in general and administrative expenses on the Condensed Consolidated Statements of Operations. The Company evaluates its goodwill and indefinite-lived intangible assets for impairment pursuant to FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), which provides that 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. No impairments to goodwill or other intangible assets were recorded in the first quarter of 2021 or 2020. In 2021, the Company changed the annual goodwill impairment assessment date for the Cloud Services business from September 30 to October 1, as it determined this date is preferable, and concluded this was not a material change in accounting principal.

Contingent Consideration

Certain of J2 Global's acquisition agreements include contingent earn-out arrangements, which are generally based on the achievement of future income thresholds or other metrics. The contingent earn-out arrangements are based upon the Company's valuations of the acquired companies and reduce the risk of overpaying for acquisitions if the projected financial results are not achieved.

The fair values of these earn-out arrangements are included as part of the purchase price of the acquired companies on their respective acquisition dates. For each transaction, the Company estimates the fair value of contingent earn-out payments as part of the initial purchase price and records the estimated fair value of contingent consideration as a liability on the Condensed Consolidated Balance Sheets. J2 Global considers several factors when determining that contingent earn-out liabilities are part of the purchase price, including the following: (1) the valuation of our acquisitions is not supported solely by the initial consideration paid, and the contingent earn-out formula is a critical and material component of the valuation approach to determining the purchase price; and (2) the former shareholders of acquired companies that remain as key employees receive compensation other than contingent earn-out payments at a reasonable level compared with the compensation of the Company's other key employees. The contingent earn-out payments are not affected by employment termination.

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 Condensed 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 general and administrative expenses on the Condensed Consolidated Statements of Operations.

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 condensed 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 ("PPP") 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. However, as a result of an acquisition that closed during the quarter ended December 31, 2020, the Company assumed outstanding PPP loans that had started the process of being forgiven prior to the closing of the acquisition. The amount of the outstanding loan did not have a significant impact to the Company's financial statements.

The Company does 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.

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 2021 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. The Company adopted this ASU in the first quarter of 2021 and has identified no 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. The Company adopted this ASU in the first quarter of 2021 and has identified no 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.

In October 2020, the FASB issued ASU No. 2020-10, Codification Improvements. The amendments in this ASU improve the consistency of the codification and reorganize the guidance into appropriate sections providing less opportunities for disclosures to be missed. The amendments in this update do not change GAAP and are not expected to result in a significant change in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020. The Company adopted this ASU in the first quarter of 2021 and has identified no effect on its financial statements or disclosures.

3. Revenues

Digital Media

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

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

Revenue from subscriptions is earned through the granting of access to, or delivery of, 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 March 31,	
	2021	2020
Digital Media		
Advertising	\$ 174,124	\$ 115,265
Subscription	50,881	45,428
Other	1,869	1,998
Total Digital Media revenues	\$ 226,874	\$ 162,691
Cloud Services		
Subscription	\$ 171,337	\$ 169,748
Other	92	36
Total Cloud Services revenues	\$ 171,429	\$ 169,784
Corporate	\$ —	\$ 1
Elimination of inter-segment revenues	(118)	(83)
Total Revenues	\$ 398,185	\$ 332,393
Timing of revenue recognition		
Point in time	\$ 5,965	\$ 6,497
Over time	392,220	325,896
Total	\$ 398,185	\$ 332,393

The Company has recorded \$78.8 million and \$68.5 million of revenue for the three months ended March 31, 2021 and 2020, respectively, which was previously included in the deferred revenue balance as of the beginning of each respective year.

As of March 31, 2021, the Company acquired no 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 an immaterial media acquisition during the first three months of fiscal 2021, paying the purchase price in cash.

The Condensed Consolidated Statement of Operations since the date of the acquisition and balance sheet as of March 31, 2021, reflect the results of operations of the 2021 acquisition. For the three months ended March 31, 2021, this acquisition contributed an immaterial amount to the Company's revenues. Net income contributed by this acquisition was not separately identifiable due to J2 Global's integration activities and is impracticable to provide. Total consideration for this transaction was \$0.2 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.

During the three months ended March 31, 2021, the purchase price accounting has been finalized for immaterial digital media, consumer privacy and protection, email marketing, and fax businesses. The initial accounting for the 2021 acquisition is incomplete and subject to change. J2 Global has recorded provisional amounts which may be based upon past acquisitions with similar attributes for certain intangible assets (including trade names, software and customer relationships), preliminary acquisition date working capital and related tax items.

During the three months ended March 31, 2021, 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 \$2.5 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 Voice, Backup, Security and CPP businesses which resulted in a net increase in goodwill of \$0.3 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 three months ended March 31, 2021.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and represents intangible assets that do not qualify for separate recognition. Goodwill recognized associated with these acquisitions during the three months ended March 31, 2021 is zero, of which zero 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 (gain) 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. These debt securities were subsequently exchanged in a non-cash transaction in the first quarter of 2020.

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):

	Cost	Impairment	Adjustments	Reported Amount
March 31, 2021				
Equity securities	\$ 31,779	\$ —	\$ (479)	\$ 31,300
Total	<u>\$ 31,779</u>	<u>\$ —</u>	<u>\$ (479)</u>	<u>\$ 31,300</u>
December 31, 2020				
Equity securities	\$ 50,384	\$ (19,605)	\$ (479)	\$ 30,300
Total	<u>\$ 50,384</u>	<u>\$ (19,605)</u>	<u>\$ (479)</u>	<u>\$ 30,300</u>

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 without a readily determinable fair value. The Company recognized a loss on exchange of \$4.4 million, which is reflected in loss on investments, net in the Condensed Consolidated Statement of Operations.

During the year ended December 31, 2020, the Company recorded a \$19.6 million impairment loss related to a decline in value primarily due to the recapitalization of the investee and overall market volatility. At March 31, 2021, cumulative impairment losses on these securities were \$23.8 million. Impairment losses are recorded in loss on investments, net on 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):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2021				
Corporate debt securities	\$ 511	\$ 152	\$ —	\$ 663
Total	<u>\$ 511</u>	<u>\$ 152</u>	<u>\$ —</u>	<u>\$ 663</u>
December 31, 2020				
Corporate debt securities	\$ 511	\$ 152	\$ —	\$ 663
Total	<u>\$ 511</u>	<u>\$ 152</u>	<u>\$ —</u>	<u>\$ 663</u>

At March 31, 2021, 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):

	March 31, 2021	December 31, 2020
Due within 1 year	\$ 663	\$ 663
Due within more than 1 year but less than 5 years	—	—
Due within more than 5 years but less than 10 years	—	—
Due 10 years or after	—	—
Total	<u>\$ 663</u>	<u>\$ 663</u>

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, if any.

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.

There were no investments in an unrealized loss position as of March 31, 2021 or December 31, 2020.

As of March 31, 2021 and December 31, 2020, the Company 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 three months of 2021, the Company received capital call notices from the management of OCV Management, LLC for \$7.1 million, inclusive of certain management fees. Of the outstanding balance, \$8.1 million has been paid for the three months ended March 31, 2021. In the first three months of 2020, the Company received capital call notices from the management of OCV Management, LLC for \$22.8 million, inclusive of certain management fees, of which \$22.8 million had been paid for the three months ended March 31, 2020.

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 March 31, 2021 and 2020, the Company recognized an investment (gain) loss of \$(24.3) million and \$4.3 million, net of tax (expense) benefit, respectively. The first quarter 2021 gain was primarily a result of a gain on the underlying investments. The first quarter 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; partially offset by investment income, net of tax expense, of \$2.7 million. The loss is presented in the Company’s Condensed Consolidated Statement of Operations as (income) loss from equity method investment, net.

During the three months ended March 31, 2021 and 2020, the Company recognized management fees of \$0.8 million and \$0.8 million, net of tax benefit, respectively.

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

	March 31, 2021	December 31, 2020
Equity method investment	\$ 107,403	\$ 67,195
Maximum exposure to loss	\$ 107,403	\$ 67,195

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 first quarter of 2021, the Company committed to a plan to sell certain Voice assets in the United Kingdom as they were determined to be non-core assets. Such assets are recorded within the Voice, Backup, Security, and CPP reportable segment. On February 9, 2021, in a cash transaction, the Company sold the assets for a gain of \$2.0 million which was recorded in gain on sale of businesses on the Condensed Consolidated Statement of Operations.

The Company classifies asset held for sale when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the business held for sale are then recorded at the lower of their current carrying value or the fair market value, less costs to sell.

During the first quarter of 2021, the Company committed to a plan to sell its B2B Backup business as it was determined to be a non-core business. The business is recorded within the Voice, Backup, Security, and CPP reportable segment.

The following table presents information related to the assets and liabilities that were classified as held for sale in our Condensed Consolidated Balance Sheet (in thousands):

	March 31, 2021
Accounts receivable, net	\$ 6,394
Prepaid expenses and other current assets	1,669
Property and equipment, net	9,280
Operating lease right-of-use assets	15,150
Trade names, net	3,886
Customer relationships, net	8,201
Goodwill	86,389
Other purchased intangibles, net	775
Deferred income taxes, noncurrent	3,814
Other assets	96
Total assets held for sale	\$ 135,654
Accounts payable and accrued expenses	\$ 3,670
Deferred revenue, current	2,749
Operating lease liabilities, current	2,648
Other current liabilities	435
Deferred revenue, noncurrent	7
Operating lease liabilities, noncurrent	12,566
Other long-term liabilities	240
Total liabilities held for sale	\$ 22,315

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. The fair value of long-term debt is determined using recent quoted market prices or dealer quotes for each of the Company's instruments, which are Level 1 inputs. The fair value of the Company's debt instruments at March 31, 2021 and December 31, 2020 was \$2.1 billion and \$2.0 billion, respectively (see Note 9 - Debt).

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 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. The weighted averages below are a product of the unobservable input and fair value of the contingent consideration arrangement as of March 31, 2021.

	Valuation Technique	Unobservable Input	Range	Weighted Average
Contingent Consideration	Option-Based Model	Risk free rate	1.9%	1.9 %
		Debt spread	0.0% - 33.5%	11.0 %
		Probabilities	100.0%	100.0 %
		Present value factor	3.6% - 3.9%	3.7 %
		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):

March 31, 2021	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Assets:					
Cash equivalents:					
Money market and other funds	\$ 10,396	\$ —	\$ —	\$ 10,396	\$ 10,396
Corporate debt securities	—	663	—	663	663
Total assets measured at fair value	\$ 10,396	\$ 663	\$ —	\$ 11,059	\$ 11,059

Liabilities:					
Contingent consideration	\$ —	\$ —	\$ 9,530	\$ 9,530	\$ 9,530
Debt	2,091,518	—	—	2,091,518	1,586,331
Total liabilities measured at fair value	\$ 2,091,518	\$ —	\$ 9,530	\$ 2,101,048	\$ 1,595,861

December 31, 2020	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Assets:					
Cash equivalents:					
Money market and other funds	\$ 10,413	\$ —	\$ —	\$ 10,413	\$ 10,413
Corporate debt securities	—	663	—	663	663
Total assets measured at fair value	\$ 10,413	\$ 663	\$ —	\$ 11,076	\$ 11,076

Liabilities:					
Contingent consideration	\$ —	\$ —	\$ 9,094	\$ 9,094	\$ 9,094
Debt	1,960,527	—	—	1,960,527	1,579,021
Total liabilities measured at fair value	\$ 1,960,527	\$ —	\$ 9,094	\$ 1,969,621	\$ 1,588,115

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, 2021	\$ 9,094	
Contingent consideration	—	
Total fair value adjustments reported in earnings	508	General and administrative
Contingent consideration payments	(72)	Not applicable
Balance as of March 31, 2021	\$ 9,530	

In connection with the Company's acquisition activity, contingent consideration of up to \$9.6 million may be payable upon achieving certain revenue, and/or unique visitor thresholds and had a combined fair value of \$9.5 million and \$9.1 million at March 31, 2021 and December 31, 2020, respectively. Due to the achievement of certain thresholds, \$0.1 million was paid in the first three months of 2021.

During the three months ended March 31, 2021, the Company recorded an increase in the fair value of the contingent consideration of \$0.5 million and reported such increase 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 and is assigned to the reporting unit that is expected to benefit from the synergies of the combination. Intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. The fair values of these identified intangible assets are based upon expected future cash flows or income, which take into consideration certain assumptions such as customer turnover, trade names and patent lives. These determinations are primarily based upon the Company's historical experience and expected benefit of each intangible asset. If it is determined that such assumptions are not accurate, then the resulting change will impact the fair value of the intangible asset. Identifiable intangible assets are amortized over the period of estimated economic benefit, which ranges from one to 20 years.

The changes in carrying amounts of goodwill for the three months ended March 31, 2021 are as follows (in thousands):

	Fax and Martech	Voice, Backup, Security and CPP	Total Cloud Services	Digital Media	Consolidated
Balance as of January 1, 2021	\$ 425,471	\$ 499,025	\$ 924,496	\$ 942,934	\$ 1,867,430
Goodwill written off related to sale of a business ⁽¹⁾	—	(1,339)	(1,339)	—	(1,339)
Goodwill reclassified to noncurrent assets held for sale ⁽²⁾	—	(86,389)	(86,389)	—	(86,389)
Purchase accounting adjustments ⁽³⁾	—	254	254	2,536	2,790
Foreign exchange translation	(2,923)	(1,635)	(4,558)	(189)	(4,747)
Balance as of March 31, 2021	\$ 422,548	\$ 409,916	\$ 832,464	\$ 945,281	\$ 1,777,745

⁽¹⁾ On February 9, 2021, in a cash transaction, the Company sold certain of its Voice assets in the United Kingdom which resulted in \$1.3 million of goodwill being written off in connection with this sale (see Note 6 - Assets Held for Sale).

⁽²⁾ During the first quarter of 2021, the Company reclassified \$86.4 million of goodwill to noncurrent assets held for sale in connection with certain B2B Backup assets (see Note 6 - Assets Held for Sale).

⁽³⁾ 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 March 31, 2021 and December 31, 2020 as follows (in thousands):

	March 31, 2021	December 31, 2020
Trade names	\$ 27,416	\$ 27,460
Other	4,318	4,329
Total	\$ 31,734	\$ 31,789

Intangible Assets Subject to Amortization:

As of March 31, 2021, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	9.8 years	\$ 258,338	\$ 104,344	\$ 153,994
Patent and patent licenses	5.5 years	67,951	67,070	881
Customer relationships ⁽¹⁾	8.0 years	837,933	488,132	349,801
Other purchased intangibles	4.3 years	433,614	280,463	153,151
Total		<u>\$ 1,597,836</u>	<u>\$ 940,009</u>	<u>\$ 657,827</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, 2020, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	10.0 years	\$ 260,715	\$ 100,273	\$ 160,442
Patent and patent licenses	5.5 years	67,980	66,964	1,016
Customer relationships ⁽¹⁾	8.0 years	848,875	471,681	377,194
Other purchased intangibles	4.3 years	436,352	265,224	171,128
Total		<u>\$ 1,613,922</u>	<u>\$ 904,142</u>	<u>\$ 709,780</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 \$48.5 million and \$38.8 million for the three months ended March 31, 2021 and 2020, respectively. Amortization expense is estimated to approximate \$136.1 million, \$134.7 million, \$106.2 million, \$77.7 million and \$65.3 million for the remaining nine months of fiscal year 2021 through fiscal year 2025, respectively, and \$137.8 million thereafter through the duration of the amortization period.

9. Debt

The Company's debt as of March 31, 2021 and December 31, 2020 consists of the following (in thousands):

	March 31, 2021	December 31, 2020
4.625% Senior Notes	\$ 750,000	\$ 750,000
Convertible Notes:		
3.25% Convertible Notes	402,413	402,414
1.75% Convertible Notes	550,000	550,000
Total Notes	1,702,413	1,702,414
Paycheck Protection Program Loan	910	910
Less: Unamortized discount	(106,411)	(112,798)
Deferred issuance costs	(10,581)	(11,505)
Total debt	1,586,331	1,579,021
Less: current portion	(399,893)	(396,801)
Total long-term debt, less current portion	\$ 1,186,438	\$ 1,182,220

4.625% Senior Notes

On October 7, 2020, J2 Global, Inc. completed the issuance and sale of \$750 million aggregate principal amount of its 4.625% senior notes due 2030 (the "4.625% Senior Notes") in a private placement offering exempt from the registration requirements of the Securities Act of 1933. The Company received proceeds of \$742.7 million after deducting the initial purchasers' discounts, commissions and offering expenses. The 4.625% Senior Notes are presented as long-term debt, net of deferred issuance costs, on the Consolidated Balance Sheets as of March 31, 2021. The net proceeds were used to redeem all of its outstanding 6.0% Senior Notes due in 2025 and, remaining net proceeds were available for general corporate purposes which may include acquisitions and the repurchase or redemption of other outstanding indebtedness.

The 4.625% Senior Notes bear interest at a rate of 4.625% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2021. The 4.625% Senior Notes mature on October 15, 2030, and are senior unsecured obligations of the Company which are guaranteed, jointly and severally, on an unsecured basis by certain of the Company's existing and future domestic direct and indirect wholly-owned subsidiaries (collectively, the "Guarantors"). If J2 Global, Inc. or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an Insignificant Subsidiary (as defined in the indenture pursuant to which the 4.625% Senior Notes were issued (the "Indenture")), after the issue date, or any Insignificant Subsidiary ceases to fit within the definition of Insignificant Subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Company's obligations under the 4.625% Senior Notes.

The Company may redeem some or all of the 4.625% Senior Notes at any time on or after October 15, 2025 at specified redemption prices plus accrued and unpaid interest, if any, to, but excluding the redemption date. Before October 15, 2023, and following certain equity offerings, the Company also may redeem up to 40% of the 4.625% Senior Notes at a price equal to 104.625% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding the redemption date. The Company may make such redemption only if, after such redemption, at least 50% of the aggregate principal amount of the 4.625% Senior Notes remains outstanding. In addition, at any time prior to October 15, 2025, the Company may redeem some or all of the 4.625% Senior Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus an applicable "make-whole" premium.

The Indenture contains covenants that restrict the Company's ability to (i) pay dividends or make distributions on the Company's common stock or repurchase the Company's capital stock; (ii) make certain restricted payments; (iii) create liens or enter into sale and leaseback transactions; (iv) enter into transactions with affiliates; (v) merge or consolidate with another company; and (vi) transfer and sell assets. These covenants contain certain exceptions. Restricted payments are applicable only if J2 Global, Inc. and subsidiaries designated as restricted subsidiaries have a net leverage ratio of greater than 3.5 to 1.0. In addition, if such net leverage ratio is in excess of 3.5 to 1.0, the restriction on restricted payments is subject to various exceptions, including the total aggregate amount not exceeding the greater of (A) \$250 million and (B) 50.0% of EBITDA for the most recently ended four fiscal quarter period ended immediately prior to such date for which internal financial statements are available. The Company is in compliance with its debt covenants as of March 31, 2021.

As of March 31, 2021 and December 31, 2020, the estimated fair value of the 4.625% Senior Notes was approximately \$760.3 million and \$796.9 million, and was based on recent quoted market prices or dealer quotes for the 4.625% Senior Notes which are Level 1 inputs (see Note 7 - Fair Value Measurements).

3.25% Convertible Notes

On June 10, 2014, J2 Global issued \$402.5 million aggregate principal amount of 3.25% convertible senior notes due June 15, 2029 (the “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 first quarter of 2021, 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 April 1, 2021 and ending June 30, 2021.

During the fourth quarter of 2020, 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, 2021 and ending March 31, 2021.

As of March 31, 2021, 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 March 31, 2021.

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 March 31, 2021, the remaining period over which the unamortized debt discount will be amortized is 0.2 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 March 31, 2021 and December 31, 2020, the estimated fair value of the 3.25% Convertible Notes was approximately \$682.0 million and \$593.1 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 then-existing Credit Facility. 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. 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 first quarter of 2021 and the fourth quarter of 2020, 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 March 31, 2021, 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 then-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 March 31, 2021, the remaining period over which the unamortized debt discount will be amortized is 5.6 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 March 31, 2021, was \$8.6 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 March 31, 2021 and December 31, 2020, the estimated fair value of the 1.75% Convertible Notes was approximately \$648.3 million and \$569.7 million, respectively.

Credit Facility

On April 7, 2021, the Company entered into a \$100 million Credit Agreement (the “Credit Agreement”) (see Note 18 - Subsequent Events). Subject to customary conditions, J2 may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250 million, for a total aggregate commitment of up to \$350 million. The final maturity of the Credit Facility will occur on April 7, 2026.

Paycheck Protection Program Loan

Through the 2020 acquisition of The Aberdeen Group, LLC and The Big Willow, Inc., the Company acquired \$0.9 million of outstanding debt originating from the Paycheck Protection Program. As of March 31, 2021 and December 31, 2020, the outstanding balance approximated fair value.

10. Leases

J2 Global leases certain facilities and equipment under non-cancelable operating and finance leases which expire at various dates through 2031. 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.

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 March 31,	
	2021	2020
Operating lease cost	\$ 7,023	\$ 7,104
Short-term lease cost	1,173	445
Total lease cost	\$ 8,196	\$ 7,549

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

	March 31, 2021	December 31, 2020
Operating leases		
Operating lease right-of-use assets	\$ 85,342	\$ 105,845
Operating lease right-of-use assets classified as assets held for sale	15,150	—
Total operating lease right-of-use assets	\$ 100,492	\$ 105,845
Operating lease liabilities, current	\$ 30,330	\$ 32,211
Operating lease liabilities, current classified as assets held for sale	2,648	—
Operating lease liabilities, noncurrent	80,465	99,177
Operating lease liabilities, noncurrent classified as assets held for sale	12,566	—
Total operating lease liabilities	\$ 126,009	\$ 131,388

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

	Three Months Ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 8,099	\$ 7,411
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 920	\$ 1,790

Other supplemental operating lease information consists of the following:

	March 31, 2021	December 31, 2020
Operating leases:		
Weighted average remaining lease term	5.0 years	5.2 years
Weighted average discount rate	3.94 %	3.93 %

Maturities of operating lease liabilities as of March 31, 2021 were as follows (in thousands):

	Operating Leases
Fiscal Year:	
2021 (remainder)	\$ 25,640
2022	30,680
2023	25,072
2024	18,473
2025	10,035
Thereafter	31,319
Total lease payments	\$ 141,219
Less: Imputed interest	15,210
Present value of operating lease liabilities	\$ 126,009

Sublease

Total sublease income for the three months ended March 31, 2021 and 2020 was \$0.4 million and \$0.8 million, respectively. Total estimated aggregate sublease income to be received in the future is \$4.3 million.

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. Rates are obtained from various large banks to determine the appropriate incremental borrowing rate each quarter for collateralized loans with a maturity similar to the lease term.

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 September 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 December 2, 2020, the parties provided notice to the court that they have reached a tentative settlement in the matter, and on February 18, 2021, the parties filed a motion for preliminary approval of the class settlement, certification of a settlement class and for permission to disseminate notice.

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 has moved to dismiss the consolidated class action complaint. The court granted the motion to dismiss and the plaintiff has filed an amended complaint.

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. On November 17, 2020, the court entered an order allowing Orlando Police Pension Fund to intervene as a plaintiff in the case. 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.

On December 11, 2020, Danning Huang filed a lawsuit in the District of Delaware (20-cv-01687-LPS) asserting derivative claims against directors of J2 Global, Inc. and other third parties. The lawsuit alleges violations of Section 14(a), Section 10(b), Section 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934, as well as breach of fiduciary duty, unjust enrichment and abuse of control. J2 Global and its directors and officers intend to defend against the lawsuit.

On March 24, 2021, Fritz Ringling filed a lawsuit in the District of Delaware (21-cv-00421-UNA) asserting derivative claims against directors of J2 Global, Inc. and other third parties. The lawsuit alleges violations of Section 14(a) of the Securities Exchange Act of 1934, as well as breach of fiduciary duty and unjust enrichment. 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 accrued approximately \$4.5 million in connection with potential loss contingencies relating to certain of these legal proceedings because they are considered probable by management. It is the Company's policy to expense as incurred legal fees related to various litigations.

Credit Agreement

On April 7, 2021, the Company entered into a \$100 million Credit Agreement (see Note 18 - Subsequent Events). Subject to customary conditions, J2 may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250 million, for a total aggregate commitment of up to \$350 million. The final maturity of the Credit Facility will occur on April 7, 2026.

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 \$23.7 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 its 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 9.6% and 132.5% for the three months ended March 31, 2021 and 2020, respectively. The Company's decreased rate during the three months ended March 31, 2021 is primarily a result of a tax benefit recognized related to the release of a valuation allowance on deferred tax assets related to the impairment of certain investments. During the three months ended March 31, 2020, the Company had an increase in the effective rate as a result of recognizing tax expense related to establishing a valuation allowance on deferred tax assets related to the impairment of certain investments. Income (loss) before income taxes included income from domestic operations of \$19.5 million and \$(18.9) million for the three months ended March 31, 2021 and 2020, respectively, and income from foreign operations of \$39.8 million and \$25.5 million for the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021 and December 31, 2020, the Company had \$58.4 million and \$57.1 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 \$7.4 million and \$6.6 million for the three months ended March 31, 2021 and 2020, 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 \$3.0 million and \$3.0 million at March 31, 2021 and December 31, 2020, 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. On February 24, 2021, the Company received a notice of deficiency for tax years 2012 through 2014 which disallowed certain deductions for domestic production. The Company has 90 days to respond to the notice. The Company disagrees with the notice and plans to appeal. As of March 31, 2021, 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 March 31, 2021, 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 March 31, 2021, 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 the Company's common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 20, 2021.

In July 2016, the Company acquired and subsequently retired 935,231 shares of J2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. As a result of the purchase of J2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount.

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 year ended December 31, 2019, the Company repurchased 197,870 shares at an aggregate cost of \$16.0 million which were subsequently retired in the same year. During the year ended December 31, 2020, the Company repurchased 1,140,819 shares under this program at an aggregate cost of \$87.5 million, which were subsequently retired in the same year. As of December 31, 2020, all the available shares were repurchased under the 2012 Program at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees).

On August 6, 2020, the Company's Board of Directors approved a program authorizing the repurchase of up to ten million shares of our common stock through August 6, 2025 (the "2020 Program") in addition to the five million shares repurchased under the 2012 Program. The Company entered into a Rule 10b5-1 trading plan and during the three month period ended March 31, 2021, the Company repurchased no shares under this program. Cumulatively at March 31, 2021, 2,490,599 shares were repurchased at an aggregate cost of \$177.8 million (including an immaterial amount of commission fees) under the 2020 Program, which were subsequently retired.

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 March 31, 2021, the Company purchased 108,287 shares from plan participants for this purpose.

Dividends

No dividends were declared in during fiscal year 2021 and 2020. 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.

14. Stock Options and Employee Stock Purchase Plan

J2 Global's share-based compensation plans include the 2015 Stock Option Plan (the "2015 Plan") and 2001 Employee Stock Purchase Plan (the "Purchase Plan"). Each plan is described below.

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. 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 March 31, 2021, 423,000 shares underlying options and 305,377 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 three months ended March 31, 2021:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	475,601	\$ 69.61		
Granted	—	—		
Exercised	(15,117)	29.34		
Canceled	—	—		
Outstanding at March 31, 2021	460,484	\$ 70.93	6.1	\$ 22,531,404
Exercisable at March 31, 2021	210,484	\$ 66.06	5.3	\$ 11,323,904
Vested and expected to vest at March 31, 2021	387,924	\$ 70.16	6.0	\$ 19,278,539

The total intrinsic values of options exercised during the three months ended March 31, 2021 and 2020 were \$1.2 million and \$3.0 million, respectively.

The Company recognized \$0.2 million and \$0.2 million of compensation expense related to stock options for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021 and December 31, 2020, unrecognized stock compensation related to non-vested stock options granted under each of the share-based compensation plans approximated \$5.6 million and \$5.8 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 4.8 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 its 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 12.23% and 11.57% as of March 31, 2021 and 2020, 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, four or 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 three months ended March 31, 2021 and 2020, the Company awarded 73,094 and 82,112 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 three months ended March 31, 2021 and 2020 were \$94.40 and \$70.99, respectively.

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

	March 31, 2021	March 31, 2020
Underlying stock price at valuation date	\$ 113.27	\$ 91.17
Expected volatility	30.3 %	27.0 %
Risk-free interest rate	1.3 %	0.7 %

Restricted stock award activity for the three months ended March 31, 2021 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2021	820,566	\$ 62.66
Granted	—	—
Vested	(183,604)	66.10
Canceled	(480)	83.26
Nonvested at March 31, 2021	636,482	\$ 61.76

Restricted stock unit award activity for the three months ended March 31, 2021 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2021	209,784		
Granted	147,928		
Vested	(52,335)		
Canceled	—		
Outstanding at March 31, 2021	305,377	3.9	\$ 36,602,487
Vested and expected to vest at March 31, 2021	193,564	3.1	\$ 23,200,612

The Company recognized \$5.3 million and \$5.6 million of compensation expense related to restricted stock, restricted stock units and market-based restricted stock for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021 and December 31, 2020, the Company had unrecognized share-based compensation cost of approximately \$48.0 million and \$38.6 million, respectively, associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.9 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 11.15% and 5.80% as of March 31, 2021 and 2020, 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 three months ended March 31, 2021 and 2020, zero shares were purchased under the Purchase Plan, respectively. Cash received upon the issuance of J2 Global common stock under the Purchase Plan was zero for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, 1,404,939 shares were available under the Purchase Plan for future issuance.

The Company recognized \$0.6 million and \$0.5 million of compensation expense related to the Purchase Plan for the three months ended March 31, 2021 and 2020, respectively.

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

	March 31, 2021	March 31, 2020
Risk-free interest rate	0.09%	1.57%
Expected term (in years)	0.5	0.5
Dividend yield	0.00%	0.00%
Expected volatility	40.53%	23.95%
Weighted average volatility	40.53%	23.95%

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 March 31,	
	2021	2020
Numerator for basic and diluted net income (loss) per common share:		
Net income (loss) attributable to J2 Global, Inc. common shareholders	\$ 77,922	\$ (6,404)
Net income (loss) available to participating securities ^(a)	(88)	—
Net income (loss) available to J2 Global, Inc. common shareholders	\$ 77,834	\$ (6,404)
Denominator:		
Weighted-average outstanding shares of common stock	44,399,149	47,620,774
Dilutive effect of:		
Equity incentive plans ^(b)	108,703	—
Convertible debt ^{(b)(c)}	2,224,020	—
Common stock and common stock equivalents	46,731,872	47,620,774
Net income (loss) per share:		
Basic	\$ 1.75	\$ (0.13)
Diluted	\$ 1.67	\$ (0.13)

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

^(b) For the three months ended March 31, 2020, the Company reported a net loss attributable to common shareholders. As a result, equity incentive awards of 40,074 and incremental shares of common stock issuable upon conversion of the 3.25% and 1.75% Convertible Notes of 1,460,431 and zero, respectively, were excluded from the calculation of diluted EPS.

^(c) 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 March 31, 2021 and 2020, 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

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: Digital Media and Cloud Services. However, in accordance with the aggregation criteria within ASC Topic 280, J2 Global's operating segments have been aggregated into three reportable segments: (i) Digital Media; (ii) Voice, Backup, Security, and Consumer Privacy and Protection; and (iii) Fax and Martech.

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 Company's Cloud Services business is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with minor seasonal weakness 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 1, 2021. 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 March 31,	
	2021	2020
Revenue by reportable segment:		
Digital Media	\$ 226,874	\$ 162,691
Cloud Services		
Fax and Martech	100,376	94,667
Voice, Backup, Security, and CPP	71,053	75,117
Cloud Services Total	171,429	169,784
Elimination of inter-segment revenues	(118)	(83)
Total segment revenues	398,185	332,392
Corporate ⁽¹⁾	—	1
Total revenues	\$ 398,185	\$ 332,393
Gross profit by reportable segment:		
Digital Media	\$ 206,081	\$ 141,920
Cloud Services		
Fax and Martech	83,795	82,166
Voice, Backup, Security, and CPP	50,670	49,258
Cloud Services Total	134,465	131,424
Elimination of inter-segment gross profit	(118)	(83)
Total segment gross profit	340,428	273,261
Corporate ⁽¹⁾	(65)	1
Total gross profit	\$ 340,363	\$ 273,262
Direct costs by reportable segment ⁽²⁾ :		
Digital Media ⁽³⁾	\$ 175,428	\$ 133,467
Cloud Services		
Fax and Martech ⁽³⁾	30,926	29,928
Voice, Backup, Security, and CPP ⁽³⁾	40,075	42,556
Cloud Services Total	71,001	72,484
Elimination of inter-segment direct costs	(118)	(83)
Total segment direct costs	246,311	205,868
Corporate ⁽¹⁾	15,572	12,147
Total direct costs ⁽²⁾	\$ 261,883	\$ 218,015
Operating income by reportable segment:		
Digital Media	\$ 30,653	\$ 8,453
Cloud Services		

Fax and Martech	52,869	52,238
Voice, Backup, Security, and CPP	10,595	6,702
Cloud Services Total	63,464	58,940
Total segment operating income	94,117	67,393
Corporate ⁽¹⁾	(15,637)	(12,146)
Total income from operations	\$ 78,480	\$ 55,247

⁽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. Table above has been recast to remove the impact of certain expenses associated with the Corporate entity that were previously allocated to the Cloud Services and Digital Media businesses.

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

	March 31, 2021	December 31, 2020
Assets:		
Digital Media	\$ 1,975,836	\$ 2,088,397
Cloud Services ⁽¹⁾	1,531,624	1,473,398
Total assets from Digital Media and Cloud Services	3,507,460	3,561,795
Corporate	196,197	103,536
Total assets	\$ 3,703,657	\$ 3,665,331

⁽¹⁾ Assets of \$135.7 million, which were classified as held for sale, were included within Cloud Services at March 31, 2021 (see Note 6 - Assets Held For Sale).

	Three Months Ended March 31,	
	2021	2020
Capital expenditures:		
Digital Media	\$ 16,819	\$ 15,637
Cloud Services	9,450	11,248
Total capital expenditures from Digital Media and Cloud Services	26,269	26,885
Corporate	—	—
Total capital expenditures	\$ 26,269	\$ 26,885

	Three Months Ended March 31,	
	2021	2020
Depreciation and amortization:		
Digital Media	\$ 48,350	\$ 32,556
Cloud Services	17,047	20,839
Total depreciation and amortization from Digital Media and Cloud Services	65,397	53,395
Corporate	95	585
Total depreciation and amortization	\$ 65,492	\$ 53,980

J2 Global maintains operations in the U.S., Canada, Ireland, Japan and other countries. Geographic information about the U.S. and all other countries for the reporting periods is presented below. Such information attributes revenues based on jurisdictions where revenues are reported (in thousands).

	Three Months Ended March 31,	
	2021	2020
Revenues:		
United States	\$ 322,968	\$ 270,309
Canada	19,474	16,570
Ireland	15,425	13,003
All other countries	40,318	32,511
	<u>\$ 398,185</u>	<u>\$ 332,393</u>

	March 31, 2021	December 31, 2020
Long-lived assets:		
United States	\$ 844,109	\$ 918,125
All other countries	79,287	54,073
Total ⁽¹⁾	<u>\$ 923,396</u>	<u>\$ 972,198</u>

⁽¹⁾ Long-lived assets of \$37.3 million, which were classified as assets held for sale, were included within the schedule above at March 31, 2021.

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 March 31, 2021 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Beginning balance	\$ 283	\$ (55,089)	\$ (54,806)
Other comprehensive income (loss)	—	(8,424)	(8,424)
Net current period other comprehensive income (loss)	—	(8,424)	(8,424)
Ending balance	<u>\$ 283</u>	<u>\$ (63,513)</u>	<u>\$ (63,230)</u>

There were no reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2021.

18. Subsequent Events

On April 7, 2021, J2 Global, Inc. entered into a Credit Agreement with certain lenders from time to time party thereto (collectively, the “Lenders”) and MUFG Union Bank, N.A., as administrative agent, collateral agent and sole lead arranger for the Lenders (the “Agent”). Pursuant to the Credit Agreement, the Lenders have provided J2 with a revolving credit facility of \$100 million (the “Credit Facility”). Subject to customary conditions, J2 may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250 million, for a total aggregate commitment of up to \$350 million. The final maturity of the Credit Facility will occur on April 7, 2026.

On April 19, 2021, the Company announced plans to separate into two independent publicly traded companies, J2 Global, Inc. and Consensus, through a spin-off. The transaction is subject to certain conditions, including, among others, obtaining final approval from J2’s Board of Directors, receipt of a favorable ruling with respect to the tax-free nature of the transaction for favorable income tax purposes and the effectiveness of a registration statement on Form 10.

In connection with its announcement of the proposed transaction, the Company has announced its intention to call its 3.25% Convertible Senior Notes due 2029 for redemption, which may be redeemed at the option of the Company beginning June 2021 on certain terms as set forth in the indenture for the 3.25% Convertible Senior Notes. When and if the Company calls the 3.25% Convertible Senior Notes for redemption, it will send a redemption notice in accordance with the terms of the indenture.

On April 30, 2021, in a cash transaction, the Company acquired certain assets of DailyOM, a California-based self-help e-learning platform covering fitness, meditation, relationships, spirituality, creativity, meal plans, recipes, and yoga.

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

Forward-Looking Information

In addition to historical information, we have also made forward-looking statements in this report. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed below, the risk factors discussed in Part II, Item 1A - "Risk Factors" of this Quarterly Report on Form 10-Q (if any) and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2020 (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;
- Recruit and retain key personnel; and
- The form, terms, timing and ability to complete the proposed spin-off transaction or the sale of the B2B Backup business.

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”, “our”, “us” or “we”), is a leading provider of internet information and services. Our Digital Media business specializes in the technology, shopping, gaming, and healthcare markets, offering content, tools and services to consumers and businesses. Our Cloud Services business provides cloud-based subscription services to consumers and businesses including cloud fax, cybersecurity, privacy and marketing technology.

Our Digital Media business generates revenues from advertising and sponsorships, subscription and usage fees, performance marketing and licensing fees. Our Cloud Services business generates revenues primarily from customer subscription and usage 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 Digital Media business is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. Our Cloud Services business is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some minor seasonal weakness in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.

J2 Global was incorporated in 2014 as a Delaware corporation through the creation of a 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.

In March 2020, the World Health Organization declared the COVID-19 outbreak as a pandemic, which continues to impact the U.S. and the world. The Company is unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration of the outbreak, actions that may be taken by governmental authorities, the impact to the business of our customers and other factors identified in Part II, Item 1A “Risk Factors” in this Form 10-Q. Therefore, the Company will continue to evaluate the nature and extent of the impact to our business, results of operations, financial condition and liquidity.

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 months ended March 31, 2021 and 2020 (in millions):

	Three Months Ended March 31,	
	2021	2020 ⁽¹⁾
Visits	2,291	2,145
Page views	7,530	7,167

Sources: Google Analytics and Partner Platforms and test results in connection with Ookla

⁽¹⁾ To more accurately reflect customer activity at Ookla, we have shifted to using tests as the basis instead of Google Analytics, resulting in pro-forma adjustments to data in Q1 2020.

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 months ended March 31, 2021 and 2020 (in thousands, except for percentages):

	Three Months Ended March 31,	
	2021	2020
Subscriber revenues:		
Fixed ⁽¹⁾	\$ 144,445	\$ 141,486
Variable ⁽¹⁾	26,842	28,262
Total subscriber revenues	\$ 171,287	\$ 169,748
Other license revenues	92	36
Total revenues	\$ 171,379	\$ 169,784
Percentage of total subscriber revenues:		
Fixed	84.3 %	83.4 %
Variable	15.7 %	16.6 %
Total revenues:		
Number-based	\$ 97,139	\$ 96,514
Non-number-based	74,240	73,270
Total revenues	\$ 171,379	\$ 169,784
Average monthly revenue per Cloud Business Customer (ARPU) ⁽²⁾⁽³⁾	\$ 14.40	\$ 13.95
Cancel Rate ⁽⁴⁾	2.2 %	2.3 %

⁽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 have 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.

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 2020 Annual Report on Form 10-K filed with the SEC on March 1, 2021. During the three months ended March 31, 2021, there were no significant changes in our critical accounting policies and estimates.

Results of Operations for the Three Months Ended March 31, 2021

Digital Media

We expect the revenue for the remainder of fiscal year 2021 to be higher compared to the prior-year comparable period due to the acquisition of RetailMeNot and organic growth, 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.

Cloud Services

Assuming a stable or improving economic environment, and, subject to our risk factors, we expect 2021 revenue to be higher compared to the prior-year. The main strategic 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.

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 fiscal year 2021 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 March 31,		Percentage Change
	2021	2020	
Revenues	\$398,185	\$332,393	20%

Our revenues consist of revenues from our Digital Media and Cloud Services businesses. 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. Cloud Services revenues primarily consist of revenues from “fixed” customer subscription revenues and “variable” revenues generated from actual usage of our services.

Our revenues in 2021 have increased over the comparable three month period of 2020 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 March 31,		Percentage Change
	2021	2020	
Cost of revenue	\$57,822	\$59,131	(2)%
As a percent of revenue	15%	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 March 31, 2021 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.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)

	Three Months Ended March 31,		Percentage Change
	2021	2020	
Sales and Marketing	\$121,186	\$99,438	22%
As a percent of revenue	30%	30%	

Our sales and marketing costs consist primarily of internet-based advertising, sales and marketing, personnel costs and other business development-related expenses. Our internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. Advertising cost for the three months ended March 31, 2021 was \$54.0 million (primarily consists of \$26.8 million of third-party advertising costs and \$22.5 million of personnel costs) compared to the first quarter of 2020 of \$38.9 million (primarily consists of \$27.3 million of third-party advertising costs and \$11.9 million of personnel costs). The increase in sales and marketing expenses for the three months ended March 31, 2021 versus the prior comparable period was primarily due to increased creative services, sales, advertising operations and advertising costs; partially offset by lower editorial costs associated with the acquisition of businesses acquired in and subsequent to the first quarter 2020 within the Digital Media and Cloud Services businesses.

Research, Development and Engineering.

(in thousands, except percentages)

	Three Months Ended March 31,		Percentage Change
	2021	2020	
Research, Development and Engineering	\$21,351	\$15,406	39%
As a percent of revenue	5%	5%	

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs for the three months ended March 31, 2021 versus the prior comparable period was primarily due to an increase in costs associated with businesses acquired in and subsequent to the first quarter 2020.

General and Administrative.

(in thousands, except percentages)

	Three Months Ended March 31,		Percentage Change
	2021	2020	
General and Administrative	\$119,346	\$103,171	16%
As a percent of revenue	30%	31%	

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 March 31, 2021 versus the prior comparable period was primarily due to increased amortization of intangible assets, salary and related costs and professional fees.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying Condensed Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Cost of revenues	\$ 132	\$ 134
Operating expenses:		
Sales and marketing	362	398
Research, development and engineering	520	431
General and administrative	5,099	5,350
Total	\$ 6,113	\$ 6,313

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 \$21.7 million and \$21.0 million for the three months ended March 31, 2021 and 2020, respectively. Interest expense, net increased over the prior comparable periods primarily due to lower interest income earned between the comparable periods.

Gain on sale of businesses. Our gain on sale of businesses is generated primarily from the sale of certain Voice assets in the United Kingdom in the first quarter of 2021. Gain on sale of businesses was \$2.0 million and zero for the three months ended March 31, 2021 and 2020, 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 zero and \$20.8 million for the three months ended March 31, 2021 and 2020. Our net loss on investments, net decreased for the three months ended March 31, 2021 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 recognized in the prior comparable period.

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 \$(0.6) million and \$6.9 million for the three months ended March 31, 2021 and 2020, respectively. Other (income) expense, net increased for the three months ended March 31, 2021 versus the prior comparable periods primarily due to decreased losses 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 \$5.7 million and \$8.7 million for the three months ended March 31, 2021 and 2020, respectively. Our effective tax rate was 9.6% and 132.5% for the three months ended March 31, 2021 and 2020, respectively.

The decrease in our effective income tax rate for the three months ended March 31, 2021 was primarily attributable to the following:

1. a decrease in tax expense during 2021 due to the release of a valuation allowance on deferred tax assets related to the impairment of certain investments; and
2. a decrease in tax expense during 2021 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; partially offset by
3. an increase in our effective income tax rate during 2021 for U.S. state and local taxes due to a greater portion of our income being subject to tax in the U.S.

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

(Income) loss from equity method investment, net. (Income) loss from equity method investment, net 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 (income) loss from equity method investment, net was \$(24.3) million and \$4.3 million, net of tax benefit (expense) for the three months ended March 31, 2021 and 2020, respectively. The first quarter 2021 gain was primarily a result of a gain on the underlying investments. The first quarter 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. During the three months ended March 31, 2021 and 2020, the Company recognized management fees of \$0.8 million and \$0.8 million, net of tax benefit, respectively.

Digital Media and Cloud Services 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) Digital Media; and (ii) Cloud Services.

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' 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.

Digital Media

The following results are presented for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
External net sales	\$ 226,806	\$ 162,608
Inter-business net sales	68	83
Net sales	226,874	162,691
Cost of revenues	20,793	20,771
Gross profit	206,081	141,920
Operating expenses	175,428	136,968
Operating income	<u>\$ 30,653</u>	<u>\$ 4,952</u>

Digital Media's net sales of \$226.9 million for the three months ended March 31, 2021 increased \$64.2 million, or 39.5%, from the prior comparable period primarily due to business acquisitions.

Digital Media's gross profit of \$206.1 million for the three months ended March 31, 2021 increased \$64.2 million, or 45.2%, from the prior comparable period primarily due to business acquisitions. Digital Media's operating expenses of \$175.4 million for the three months ended March 31, 2021 increased \$38.5 million from the prior comparable period. The increase in the three months ended March 31, 2021 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; and (c) increased amortization of intangible assets.

As a result of these factors, Digital Media's operating income of \$30.7 million for the three months ended March 31, 2021 increased \$25.7 million, or 519.0%, from the prior comparable period.

Cloud Services

The following results are presented for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
External net sales	\$ 171,379	\$ 169,784
Inter-business net sales	50	—
Net sales	171,429	169,784
Cost of revenues	36,964	38,360
Gross profit	134,465	131,424
Operating expenses	71,001	75,690
Operating income	\$ 63,464	\$ 55,734

Cloud Services' net sales of \$171.4 million for the three months ended March 31, 2021 increased \$1.6 million, or 1.0%, from the prior comparable period primarily due to business acquisitions acquired in; partially offset by businesses sold subsequent to the first quarter 2020.

Cloud Services' gross profit of \$134.5 million for the three months ended March 31, 2021 increased \$3.0 million, or 2.3%, from the prior comparable period primarily due to business acquisitions; partially offset by businesses sold subsequent to the first quarter 2020.

Cloud Services' operating expenses of \$71.0 million for the three months ended March 31, 2021 decreased \$4.7 million from the prior comparable period primarily due to expense associated with businesses acquired in; partially offset by businesses sold subsequent to the prior comparable period including lower depreciation and amortization costs; partially offset by increased marketing and advertising costs.

As a result of these factors, Cloud Services' operating income of \$63.5 million for the three months ended March 31, 2021 increased \$7.7 million, or 13.9%, from the prior comparable period.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At March 31, 2021, we had cash, cash equivalents and investments of \$511.3 million compared to \$340.8 million at December 31, 2020. The increase in cash and investments resulted primarily from cash provided from operations; partially offset by cash used in purchases of property and equipment (including capitalized labor) and investments. At March 31, 2021, cash and investments consisted of cash and cash equivalents of \$372.0 million, short-term investments of \$0.7 million and long-term investments of \$138.7 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 March 31, 2021, cash and investments held within domestic and foreign jurisdictions were \$390.6 million and \$120.7 million, respectively.

On April 7, 2021, J2 Global, Inc. 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 administrative agent, collateral agent and sole lead arranger for the Lenders (the “Agent”). Pursuant to the Credit Agreement, the Lenders have provided J2 with a revolving credit facility of \$100 million (the “Credit Facility”). Subject to customary conditions, J2 may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250 million, for a total aggregate commitment of up to \$350 million. The proceeds of the Credit Facility are intended to be used for working capital and general corporate purposes of J2 and its subsidiaries, including to finance certain permitted acquisitions and capital expenditures in accordance with the terms of the Credit Agreement. The final maturity of the Credit Facility will occur on April 7, 2026. (see Note 18 - Subsequent Events of Notes to Condensed Consolidated Financial Statements).

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 three months of 2021, the Company received capital call notices from the management of OCV Management, LLC for \$7.1 million, inclusive of certain management fees. Of the outstanding balance, \$8.1 million has been paid for the three months ended March 31, 2021.

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 \$178.7 million and \$102.0 million for the three months ended March 31, 2021 and 2020, 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 2021 compared to 2020 was attributable to lower decrease in accounts payable and accrued expenses, a decrease in accounts receivables, an increase in deferred revenue, lower increase in prepaid expenses and other current assets; partially offset by a decrease in other long term liabilities. Our cash and cash equivalents were \$372.0 million and \$242.7 million at March 31, 2021 and December 31, 2020, respectively.

Net cash used in investing activities was \$29.0 million and \$69.1 million for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021 and 2020, net cash used in investing activities was primarily due to capital expenditures associated with the purchase of property and equipment (including capitalized labor) and the purchase of investments; partially offset by proceeds from the sale of businesses. The decrease in our net cash used in investing activities in 2021 compared to 2020 was primarily due to fewer business acquisitions.

Net cash used in financing activities was \$20.1 million and \$78.4 million for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021, 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 2021 compared to 2020 was primarily attributable to lower repurchases of common stock and business acquisitions.

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 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. 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 year ended December 31, 2019, the Company repurchased 197,870 shares at an aggregate cost of \$16.0 million which were subsequently retired in the same year. During the year ended December 31, 2020, the Company repurchased 1,140,819 shares under this program at an aggregate cost of \$87.5 million, which were subsequently retired in the same year. As of December 31, 2020, all the available shares were repurchased under the 2012 Program at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees).

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") in addition to the five million shares repurchased under the 2012 Program. During the three month period ended March 31, 2021, we repurchased no shares under this program. Cumulatively at March 31, 2021, 2,490,599 shares were repurchased at an aggregate cost of \$177.8 million (including an immaterial amount of commission fees) under the 2020 Program, which were subsequently retired.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of March 31, 2021:

Contractual Obligations	Payments Due in (in thousands)						
	2021	2022	2023	2024	2025	Thereafter	Total
Long-term debt - principal (a)	\$ 402,413	\$ 910	\$ —	\$ —	\$ —	\$ 1,300,000	\$ 1,703,323
Long-term debt - interest (b)	51,719	44,313	44,313	44,313	44,313	183,063	412,031
Operating leases (c)	25,640	30,680	25,072	18,473	10,035	31,408	141,309
Finance leases (d)	441	313	29	—	—	—	783
Telecom services and co-location facilities (e)	2,010	1,485	384	6	—	—	3,885
Holdback payments (f)	4,134	1,897	—	—	—	—	6,031
Contingent consideration payments (g)	5,468	—	—	—	—	—	5,468
Transition tax (h)	—	—	—	3,189	8,486	—	11,675
Self-Insurance (i)	16,327	5,530	—	—	—	—	21,857
Other (j)	1,138	598	—	—	—	—	1,736
Total	\$ 509,290	\$ 85,726	\$ 69,798	\$ 65,981	\$ 62,834	\$ 1,514,471	\$ 2,308,098

- (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 the contingent earn-out liabilities in connection with certain business acquisitions.
- (h) These amounts represent commitments related to the transition tax on unrepatriated foreign earnings reduced by the 2017 overpayment of US Federal Income Tax.
- (i) These amounts represent health and dental insurance plans in connection to self-insurance.
- (j) These amounts represent certain consulting and Board of Directors fee arrangements, software license and implementation commitments and others.

As of March 31, 2021, our liability for uncertain tax positions was \$58.4 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 \$87.2 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, 2020 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 2021.

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 March 31, 2021, 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 March 31, 2021, we had investments in debt securities with effective maturities greater than one year of approximately zero. As of March 31, 2021 and December 31, 2020, we had cash and cash equivalent investments primarily in money market funds with maturities of 90 days or less of \$372.0 million and \$242.7 million, respectively.

On April 7, 2021, J2 Global, Inc. entered into a Credit Agreement ("Credit Agreement") with certain lenders from time to time party thereto (collectively, the "Lenders") and MUFG Union Bank, N.A., as administrative agent, collateral agent and sole lead arranger for the Lenders (the "Agent"). Pursuant to the Credit Agreement, the Lenders have provided J2 with a revolving credit facility of \$100 million (the "Credit Facility"). Subject to customary conditions, J2 may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250 million, for a total aggregate commitment of up to \$350 million. The proceeds of the Credit Facility are intended to be used for working capital and general corporate purposes of J2 and its subsidiaries, including to finance certain permitted acquisitions and capital expenditures in accordance with the terms of the Credit Agreement.

At J2's option, amounts borrowed under the Credit Agreement will bear 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 $\frac{1}{2}$ 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 will range from 0.50% to 1.25% and the applicable margin relating to any LIBOR loan will range from 1.50% to 2.25%, in each case, depending on the total leverage ratio of J2. The final maturity of the Credit Facility will occur on April 7, 2026. J2 is permitted to make voluntary prepayments of the Credit Facility at any time without payment of a premium or penalty.

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

Foreign Currency Risk

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

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

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

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

Foreign exchange losses for the three months ended March 31, 2021 and 2020 were \$0.5 million and \$7.8 million, respectively. The decrease in losses to our earnings in the three months ended March 31, 2021 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 March 31, 2021 and 2020 were \$(8.4) million and \$(8.7) 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 first quarter ended March 31, 2021 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, 2020 (the “10-K Risk Factors”) as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2021. If any of these risks occur, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. The 10-K Risk Factors are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. There have been no material changes from the 10-K Risk Factors, except as provided below.

We may not be able to complete the proposed spin-off of our Cloud Fax business within the expected time frame or at all. The proposed transaction will require significant time and attention from our management, will result in increased operating expenses and, if completed, may not produce the anticipated benefits.

On April 19, 2021, we announced plans to separate into two publicly traded companies: one addressing healthcare interoperability and primarily comprising the Cloud Fax business, which will do business as Consensus, and one that will focus on building an internet platform focused on key verticals, including technology and gaming, shopping, health, cybersecurity and SMB, which will continue to do business as J2 Global. Completion of the separation will be subject to certain conditions, such as approval by our Board of Directors, receipt of a private letter ruling from the Internal Revenue Service (“IRS”), receipt of one or more tax opinions and effectiveness of a registration statement filed with the U.S. Securities and Exchange Commission. Our ability to complete the separation could be affected by unanticipated developments or changes in market conditions. For these and other reasons, we may not be able to complete the separation within the expected time frame, or at all.

Even if the separation is completed, we may not realize the anticipated benefits. As independent publicly-traded companies, Consensus and the remaining businesses of J2 Global will be smaller, less diversified companies relative to J2 Global today, with a narrower business focus and may be more vulnerable to changing market conditions, which could materially and adversely affect their respective business, financial condition and results of operations. Further, there can be no assurance that the combined value of the common stock of the two publicly-traded companies will be equal to or greater than what the value of our common stock would have been had the proposed separation not occurred.

In the near-term, the separation will result in additional operating expenses, including one-time transaction expenses associated with the spin-off, and will require significant time and attention of our management, which could distract management from the operation of our business. In addition, we could face difficulties retaining key customers or employees as a result of the separation. If any of these risks materialize, they could adversely affect our operating results.

The proposed spin-off of our Cloud Fax business may result in disruptions to, and negatively impact our relationships with, our customers and other business partners.

Uncertainty related to the proposed spin-off of our Cloud Fax business may lead customers and other parties with which we currently do business or may do business with in the future to terminate or attempt to negotiate changes in existing business relationships, or consider entering into business relationships other than us. These disruptions could have a material and adverse effect on our businesses, financial condition, results of operations and prospects. The effect of such disruptions could be exacerbated by any delays in the completion of the separation.

If the distribution, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, J2 Global, Consensus and J2 Global stockholders could be subject to significant tax liabilities.

The separation will be effected by a pro rata distribution to our shareholders of at least 80.1% of the stock of a newly-formed corporation that will comprise our Cloud Fax business. We intend to obtain (i) a private letter ruling from the IRS, satisfactory to our Board of Directors, regarding certain U.S. federal income tax matters relating to the separation and related transactions and (ii) one or more opinions of outside counsel, satisfactory to our Board of Directors, regarding the qualification of the distribution, together with certain related transactions, as generally tax-free, for U.S. federal income tax purposes, under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code (the “Code”). Any opinions of outside counsel or other external tax advisors and any IRS private letter ruling will be based, among other things, on various facts and assumptions, as well as certain representations, statements and undertakings of J2 Global and Consensus (including those relating to the past and future conduct of J2 Global and Consensus). If any of these facts, assumptions, representations, statements or undertakings is, or becomes, inaccurate or incomplete, or if J2 Global or Consensus breach any of their respective covenants contained in any of the separation-related agreements or in the documents relating to the IRS private letter ruling and/or any tax opinion, the IRS private letter ruling and/or any tax opinion may be invalid. Accordingly, notwithstanding receipt of the IRS private letter ruling and/or opinions of counsel or other external tax advisors, the IRS could determine that the distribution and certain related transactions should be treated as taxable transactions for U.S. federal income tax purposes if it determines that any of the facts, assumptions, representations, statements or undertakings that were included in the request for the IRS private letter ruling or on which any opinion was based are false or have been violated. In addition, the IRS private letter ruling will not address all of the issues that are relevant to determining whether the distribution, together with certain related transactions, qualifies as a transaction that is generally tax-free for U.S. federal income tax purposes, and an opinion of outside counsel or other external tax advisor represents the judgment of such counsel or advisor which is not binding on the IRS or any court. Accordingly, notwithstanding receipt by J2 Global of the IRS private letter ruling and the tax opinions referred to above, there can be no assurance that the IRS will not assert that the distribution and/or certain related transactions do not qualify for tax-free treatment for U.S. federal income tax purposes or that a court would not sustain such a challenge. In the event the IRS were to prevail with such challenge, J2 Global, Consensus and J2 Global’s stockholders could be subject to significant U.S. federal income tax liability.

If the distribution, together with certain related transactions, fails to qualify as a transaction that is generally tax-free under Sections 355 and 368(a)(1)(D) of the Code, in general, for U.S. federal income tax purposes, J2 Global would recognize taxable gain as if it has sold the Consensus common stock in a taxable sale for its fair market value and J2 Global stockholders who receive shares of Consensus common stock in the distribution would be subject to tax as if they had received a taxable distribution equal to the fair market value of such shares.

In addition, we may incur certain tax costs in connection with the separation, including non-U.S. tax costs resulting from separations in multiple non-U.S. jurisdictions that do not legally provide for tax-free separations, which may be material.

As a result of requirements of Section 355 of the Code or other applicable tax laws, in order to avoid the risk of incurring material tax-related liabilities, for a period of time after the separation we may determine to forego certain strategic transactions, equity issuances or repurchases or other transactions that we would otherwise believe to be in the best interests of our stockholders or that might increase the value of our business.

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.

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.

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 year ended December 31, 2019, the Company repurchased 197,870 shares at an aggregate cost of \$16.0 million which were subsequently retired in the same year. During the year ended December 31, 2020, the Company repurchased 1,140,819 shares under this program at an aggregate cost of \$87.5 million, which were subsequently retired in the same year. As of December 31, 2020, all the available shares were repurchased under the 2012 Program at an aggregate cost of \$204.6 million (including an immaterial amount of commission fees).

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") in addition to the five million shares repurchased under the 2012 Program. During the three month period ended March 31, 2021, the Company repurchased no shares under this program. Cumulatively at March 31, 2021, 2,490,599 shares were repurchased at an aggregate cost of \$177.8 million (including an immaterial amount of commission fees) under the 2020 Program, which were subsequently retired. See Note 13, "Stockholders' Equity" of the Notes to the Condensed Consolidated Financial Statements.

The following table details the repurchases that were made under and outside the 2020 Program during the three months ended March 31, 2021:

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
January 1, 2021 - January 31, 2021	10,779	\$ 97.69	—	7,509,401
February 1, 2021 - February 28, 2021	11,571	\$ 108.89	—	7,509,401
March 1, 2021 - March 31, 2021	85,937	\$ 114.99	—	7,509,401
Total	108,287		—	7,509,401

⁽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

3.1	Amended and Restated Certificate of Incorporation of J2 Global, Inc., dated as of June 10, 2014 (1)
3.2	Amendment to Amended and Restated Certificate of Incorporation of J2 Global, Inc. dated as of September 5, 2019 (2)
3.3	Third Amended and Restated By-Laws (2)
10.1	Form of Restricted Stock Unit Agreement Pursuant to J2 Global, Inc. 2015 Stock Option Plan
10.2	Form of Performance Stock Unit Agreement Pursuant to J2 Global, Inc. 2015 Stock Option Plan
31.1	Rule 13a-14(a) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Rule 13a-14(a) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Section 1350 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Section 1350 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from J2 Global, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020, (ii) Condensed Consolidated Statements of Operations for the three months ended March 31, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2021 and 2020, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2021 and 2020, (v) Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2021 and 2020, 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 March 31, 2021 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: May 10, 2021

By: /s/ VIVEK SHAH

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

Date: May 10, 2021

By: /s/ R. SCOTT TURICCHI

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

Date: May 10, 2021

By: /s/ STEVE P. DUNN

Steve P. Dunn
Chief Accounting Officer

INDEX TO EXHIBITS

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RESTRICTED STOCK UNIT AGREEMENT
PURSUANT TO J2 GLOBAL, INC.
2015 STOCK OPTION PLAN

THIS RESTRICTED STOCK UNIT AGREEMENT is made as of **[Date]** by and between **[Name]** (the “Participant”) and J2 Global, Inc., a Delaware corporation (the “Company”), pursuant to the Company’s 2015 Stock Option Plan (the “Plan”).

WHEREAS, the Compensation Committee (the “Committee”) of the Board of Directors of the Company and/or the Board of Directors itself by action taken on **[Date]** authorized and directed the Company to make an award of restricted stock units to the Participant under the Plan for the purposes expressed in the Plan;

NOW THEREFORE, in consideration of the foregoing and the mutual undertakings herein contained, the parties agree as follows:

1. Award of Restricted Stock Units. In accordance with the terms of the Plan and subject to the further terms, conditions and restrictions contained in this Agreement, the Company hereby awards to the Participant **[XX]** restricted stock units (the “Units”), each representing the right to receive one share of the Company’s common stock, \$0.01 par value (the “Common Stock”) subject to the conditions of the Plan and this Agreement.

2. Terms of Restricted Stock Units. Participant hereby accepts the Units and agrees with respect thereto as follows:

(a) Forfeiture of Restricted Stock Units. In the event that Participant’s continuous employment with the Company and its subsidiaries shall terminate for any reason, except as otherwise provided in paragraph (c) of this Section 2, Participant shall, for no consideration, forfeit all Units to the extent they are not fully vested.

(b) Assignment of Units Prohibited. The Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of.

(c) Vesting Schedule. The Units shall vest in accordance with the following schedule provided that Participant has been continuously employed by the Company from the date of this Agreement through the applicable vesting date:

<u>Date</u>	<u>Number of Shares on Which Restrictions Lapse</u>
[Date]	XX
[Date]	XX
[Date]	XX
[Date]	XX

Notwithstanding the foregoing, upon (i) the Participant's termination of employment with the Company and its subsidiaries as a result of his or her death or Permanent Disability, as defined below, the Units shall become fully vested (if not already vested pursuant to schedule above) on the date of such event and (ii) the occurrence of a Change in Control, as defined below, the Units shall become fully vested unless the Board determines that the Recipient has been offered substantially identical replacement restricted stock units and a comparable position at any acquiring company.

"Permanent Disability" shall have the same definition as:

- (i) (A) term "disability" (or any reasonable facsimile thereof as approved by the Committee) in any employment or consultancy agreement (or similar agreement) or in any letter of appointment then in effect between the Participant and the Company or any Subsidiary; or (B) if not defined therein, or if there shall be no such agreement, as defined in the long-term disability plan maintained by Company or its Subsidiary by which the Participant is employed or for which the Participant serves as a consultant or by appointment, as in effect from time to time; or (C) if there shall be no plan, the inability of the Participant to perform in all material respects his or her duties and responsibilities to the Company or its applicable Subsidiary for a period of six (6) consecutive months or for an aggregate period of nine (9) months in any twenty-four (24) consecutive month period by reason of a physical or mental incapacity; or
- (ii) the term "disability" under the within the meaning of Section 409A(a)(2)(C) of the Internal Revenue Code (the "Code"), if the Participant is subject to income taxation on the income resulting from the Agreement under the laws of the United States, and the foregoing provisions of this Agreement would result in adverse tax consequences to the Participant, as determined by the Company, under Section 409A the Code.

For purposes of the Plan, a "Change in Control" of the Company shall be deemed to have occurred if:

- (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any

employee benefit plan sponsored by the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then outstanding securities;

(ii) during any period of two consecutive years individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii) or (iv) of this Section) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets. For the purposes of this subsection (iv), “substantially all” of the Company’s assets shall mean assets for which the price or consideration upon sale or disposition equals or exceeds seventy-five percent (75%) or more of the fair market value of the Company.

(d) Shareholder Rights. The Participant shall have no rights to dividends, dividend equivalents or any other rights of a shareholder with respect to shares of Common Stock subject to this award of Units unless and until such time as the award has been settled by the transfer of shares of Common Stock to the Participant.

(e) Settlement and Delivery of Common Stock. Payment of vested Units shall be made as soon as administratively practicable after vesting and no later than 60 days following the vesting date. Settlement will be made by payment in shares of Common Stock or cash in accordance with the Plan. Notwithstanding the foregoing, the Company shall not be obligated to deliver any shares of Common Stock if counsel to the Company determines that such sale or delivery would violate any applicable law or any rule or regulation of any governmental authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Stock is listed or quoted. The Company shall in no

event be obligated to take any affirmative action in order to cause the delivery of shares of Common Stock to comply with any such law, rule, regulation or agreement.

Furthermore, Participant understands that the laws of the country in which he/she is working at the time of grant or vesting of the Units or at the subsequent sale of shares of Common Stock granted to Participant under this award (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he/she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such shares.

Participant further understands and agrees that the Company and any related company are neither responsible for any foreign exchange fluctuations between Participant's local currency and the United States Dollar that may affect the value of Common Stock nor liable for any decrease in the value of Common Stock.

(f) Capitalized terms used but not defined herein shall have the meanings assigned to the under the Plan.

3. Adjustments in Units. In the event of a subdivision of the outstanding Common Stock, a declaration of a dividend payable in shares of Common Stock, a declaration of a dividend payable in a form other than shares in an amount that has a material effect on the value of shares of Common Stock, a combination or consolidation of the outstanding Common Stock into a lesser number of shares of Common Stock, a spin-off or divestiture, a recapitalization, a classification or a similar occurrence, the Committee shall make appropriate adjustments in the number of Units and other applicable terms of the Units, including, without limitation, the type of property or securities to which the Units relate.

4. Withholding Requirements. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes and related amounts which it determines is required in connection with this award of Units, and, unless otherwise approved by the Committee, the Company shall either (i) reduce the number of shares of Common Stock that would have otherwise been delivered to Participant by a number of shares of Common Stock having a Fair Market Value (as defined in the Plan) equal to the amount required to be withheld, or (ii) withhold the appropriate amount of any taxes due in accordance with the Company's payroll procedures applicable to the Participant. Regardless of the Company's or any Subsidiary's actions in connection with tax withholding for Participant, the Participant acknowledges that the ultimate responsibility for any and all tax-related items in connection with any aspect of the Units is and remains the Participant's responsibility and liability. Neither the Company nor any Subsidiary make any representation or understanding regarding the treatment of any tax-related amounts in connection with the Units or any shares or awards under the Plan, nor do they make any commitment with respect to the structure of the Units to reduce or eliminate the Participant's liability for tax-related items.

5. Effect of Employment. Nothing contained in this Agreement shall in any manner be construed to limit in any way the right of the Company or any subsidiary to terminate the Participant's employment at any time, without regard to the effect of such termination on any rights such

Participant would otherwise have under this Agreement, or give any right to the Participant to remain employed by the Company or a subsidiary thereof in any particular position or at any particular rate of compensation.

6. Data Privacy. In order to perform its obligations under the Plan or for the implementation and administration of such Plan, the Company may collect, transfer, use, process, or hold certain personal or sensitive data about Participant. Such data includes, but is not limited to Participant's name, nationality, citizenship, work authorization, date of birth, age, government or tax identification number, passport number, brokerage account information, address, compensation and equity award history, and beneficiaries' contact information. Participant explicitly consents to the collection, transfer (including to third parties in Participant's home country or the United States or other countries, such as but not limited to human resources personnel, legal and tax advisors, and brokerage administrators), use, processing, and holding, electronically or otherwise, of his/her personal information in connection with this or any other equity award. At all times, the Company shall maintain the confidentiality of Participant's personal information, except to the extent the Company is required to provide such information to governmental agencies or other parties; such actions will be undertaken by the Company only in accordance with applicable law.

7. Mode of Communications. Participant agrees, to the fullest extent permitted by law, in lieu of receiving documents in paper format, to accept electronic delivery of any documents that the Company or related company may deliver in connection with this grant and any other grants offered by the Company, including prospectuses, grant notifications, account statements, annual or quarterly reports, and other communications. Electronic delivery of a document may be made via the Company's email system or by reference to a location on the Company's intranet or website or website of the Company's agent administering the Plan.

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.

8. Amendment. This Agreement may not be amended except with the consent of the Committee and by a written instrument duly executed by the Participant and the Company.

9. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their heirs, personal representatives, successors and assigns. Participant acknowledges receipt of a copy of the Plan, which is annexed hereto, represents that he or she is familiar with the terms and provisions thereof and accepts the award of Units hereunder subject to all of the terms and conditions thereof and of this Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee upon any questions arising under the Plan or this Agreement.

10. Clawback/Recapture Policy. The Units be subject to any clawback or recapture policy that the Company may adopt from time-to-time, and to the extent provided in such policy, may be required to be repaid to the Company after the date hereof.

11. Participant's Acknowledgement and Waiver. If the Participant is not a resident of the United States, the provisions of Appendix A are incorporated herein in their entirety.

12. Section 409(A) of the Code. If the Participant is a resident of the United States, the Units and any shares of Common Stock issuable in connection therewith are intended to qualify for an exemption from or comply with Section 409A of the Code. Notwithstanding any other provision in this Agreement and the Plan to the contrary, the Company, to the extent it deems necessary or advisable in its sole discretion, reserves the right, but shall not be required, to unilaterally amend or modify this Agreement so that the Units qualify for exemption from or comply with Section 409A of the Code; provided, however, that the Company makes no representations that the Units will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to the Units. No provision of this Agreement will be interpreted or construed to transfer any liability for failure to comply with Section 409A of the Code from the Participant any other individual to the Company. By executing this Agreement, the Participant agrees to waive any claim against the Company with respect to any such tax consequences. Notwithstanding anything to the contrary contained in this Agreement, to the extent that any payment or benefit under this Agreement is determined by the Company to constitute "non-qualified deferred compensation" subject to Section 409A of the Code and is payable to you by reason of your termination of employment, then (a) such payment or benefit shall be made or provided to you only upon a "separation from service" as defined for purposes of Section 409A of the Code under applicable regulations and (b) if you are a "specified employee" (within the meaning of Section 409A and as determined by the Company) and a payment delay is required to avoid additional tax under Section 409A(a)(1)(B) of the Code or any other taxes or penalties imposed under Section 409A, then such payment or benefit shall not be made or provided before the date that is six months after the date of your separation from service. Each payment under this Agreement will be treated as a separate payment under Section 409A of the Code.

13. Applicable Law. This Agreement shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the Company and the Participant have each executed and delivered this Agreement as of the date first above written.

J2 GLOBAL, INC.

By:
Its:

APPENDIX A

PROVISIONS APPLICABLE TO NON-U.S. RESIDENTS

If the Participant is not a resident of the United States, by accepting the Units and entering into the Restricted Stock Unit Agreement, the Participant acknowledges and agrees that the following additional terms and conditions are incorporated into the Restricted Stock Unit Agreement in their entirety and govern the Units.

1. Data Privacy. The Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data by and among the Company, any Subsidiary or affiliate of the Company for the exclusive purpose of implementing, administering and managing the Units and the Participant's participation in the Plan.

- a. The Participant acknowledges and agrees that he or she understands that the Company, any Subsidiary or any other affiliate of the Company hold certain personal information about the Participant, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any equity ownership or directorships held in the Company and any related companies, details of all Units or any other entitlement to Common Stock or equity awards granted, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Units and the Plan ("Data").
- b. The Participant acknowledges and agrees that he or she understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Units and the Plan, that these recipients may be located in the Participant's home country or elsewhere, and that such country may have different data privacy laws and protections than the Participant's home country. The Participant understands the Participant may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Participant may elect to deposit any shares of Common Stock acquired in connection with the Units. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. The participant understands, however, that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan, hold Units or shares of Common Stock. For more information on the consequences of refusal to consent or withdrawal of

consent, the Participant acknowledges that he or she may contact his or her local human resources representative.

- c. The Participant acknowledges that the Company has engaged E*TRADE to perform brokerage services in connection with the Plan and may engage other plan administrators (collectively, the “**Third Parties**”) as third parties to assist in implementation, administration and management of the Plan, and expressly authorizes the Third Parties, together with their successors and assigns, to receive, possess, use and transfer the Data as contemplated hereby. The Participant acknowledges and agrees that, from time-to-time the Company may replace the Third Parties with alternative service providers, and may add other third parties as service providers in connection with the Plan, and the Participant expressly authorizes and agrees that any such parties are also authorized to receive, possess, use and transfer the Data as contemplated hereby.
1. The Plan is discretionary in nature and that the Company can amend, cancel or terminate the Plan at any time.
2. The grant of the Units under the Plan is voluntary and occasional and does not create any contractual or other right to receive grants of any Units, shares of Common Stock, options or benefits in lieu of any options even if options have been granted repeatedly in the past and regardless of any reasonable notice period mandated under local law.
3. All determination with respect to any future awards, including, but not limited to, the times when restricted share units shall be granted and the vesting schedule or other terms thereof, will be at the sole discretion of the Company.
4. Participation in the Plan is voluntary.
5. The value of the Units is an extraordinary item of compensation that is outside of the scope of the Participant’s employment contract (if any).
6. The Units are not part of normal or expected compensation or salary for any purposes, including, without limitation, calculating severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, or similar payments.
7. The Units shall expire upon Termination of Employment for any reason except as otherwise explicitly provided in this Agreement and the Plan.
8. The future value of the shares of Common Stock acquired following vesting of the Units is unknown and cannot be predicted with any certainty.
9. Where the Participant is not an employee of the Company, the grant of the Units can in no event be understood or interpreted to mean that the Company is the Participant’s employer or that the Participant has an employment relationship with the Company.
10. No claim or entitlement to compensation or damages arises from the termination of the Units or any portion thereof, nor from any diminution in value of the Units or shares of Common

Stock acquired connection with the Plan. The Participant irrevocably releases the Company, the Subsidiaries and Participant's employer from any such claim

12. Participant further understands and agrees that the Company and any related company are neither responsible for any foreign exchange fluctuations between Participant's local currency and the United States Dollar that may affect the value of Common Stock nor liable for any decrease in the value of Common Stock.
13. The Participant understands that the laws of the country in which he or she is working at the time of grant of the Units, vesting of the Units or at the subsequent sale of the shares of Common Stock granted to the Participant under this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject the Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Units or shares of Common Stock.

**RESTRICTED STOCK UNIT AGREEMENT
PURSUANT TO J2 GLOBAL, INC.
2015 STOCK OPTION PLAN**

THIS RESTRICTED STOCK UNIT AGREEMENT is made as of [DATE] by and between [NAME] (the “Participant”) and J2 Global, Inc., a Delaware corporation (the “Company”), pursuant to the Company’s 2015 Stock Option Plan (the “Plan”).

WHEREAS, the Compensation Committee (the “Committee”) of the Board of Directors of the Company and/or the Board of Directors itself by action taken on [Date] authorized and directed the Company to make an award of restricted stock units to the Participant under the Plan for the purposes expressed in the Plan;

NOW THEREFORE, in consideration of the foregoing and the mutual undertakings herein contained, the parties agree as follows:

1. Award of Restricted Stock Units. In accordance with the terms of the Plan and subject to the further terms, conditions and restrictions contained in this Agreement, the Company hereby awards to the Participant [XX] restricted stock units (the “Units”), each representing the right to receive one share of the Company’s common stock, \$0.01 par value (the “Common Stock”) subject to the conditions of the Plan and this Agreement.

2. Terms of Restricted Stock Units. Participant hereby accepts the Units and agrees with respect thereto as follows:

(a) Forfeiture of Restricted Stock Units. In the event that Participant’s continuous employment with the Company and its subsidiaries shall terminate for any reason, except as otherwise provided in paragraph (c) of this Section 2, Participant shall, for no consideration, forfeit all Units to the extent they are not fully vested. Without limiting the foregoing, any Units which have not vested prior to the eighth anniversary of the date of this Agreement shall thereupon be forfeited by the Participant.

(b) Assignment of Units Prohibited. The Units may not be sold, assigned, pledged, exchanged, hypothecated or otherwise transferred, encumbered or disposed of.

(c) Vesting Schedule. The Units shall vest as provided in this Section 2(c) and in accordance with the following schedule, provided that Participant has been continuously employed by the Company from the date of this Agreement through the applicable vesting date and as otherwise subject to Section 2(a) hereof. The Units will vest subject to the closing stock price of a share of Common Stock (in United States Dollars) being equal to or greater than the applicable Fair Market Value of the Common Stock as set forth in the table below for at least twenty (20) trading days in any given period of thirty (30) consecutive trading days in accordance with the following schedule, provided that no such Units shall vest prior to the date that is one year anniversary of the date of this Agreement:

<u>Fair Market Value (USD)</u>	<u>Number of Shares on Which Restrictions Lapse</u>
\$	XX
\$	XX
\$	XX
\$	XX

While the immediately preceding stock price conditions may be satisfied at any time following the date of this Agreement, the actual date the Units vest shall not occur before the date that is the one year anniversary of the date of this Agreement.

Notwithstanding the foregoing, upon (i) the Participant's termination of employment with the Company and its subsidiaries as a result of his or her death or Permanent Disability, as defined below, the continued employment conditions shall lapse on the Units and the Units shall be eligible to meet the stock price performance conditions during the 36 months following the Termination of Employment (after which any unvested Units will be forfeited), provided that such 36 month period is subject to and shall not extend the eight year term of the Units set forth in Section 2(a) of this Agreement and (ii) the occurrence of a Change in Control, as defined below, the Units shall become fully vested unless the Board determines that the Recipient has been offered substantially identical replacement restricted stock units and a comparable position at any acquiring company.

"Permanent Disability" shall have the same definition as:

- (i) (A) term "disability" (or any reasonable facsimile thereof as approved by the Committee) in any employment or consultancy agreement (or similar agreement) or in any letter of appointment then in effect between the Participant and the Company or any Subsidiary; or (B) if not defined therein, or if there shall be no such agreement, as defined in the long-term disability plan maintained by Company or its Subsidiary by which the Participant is employed or for which the Participant serves as a consultant or by appointment, as in effect from time to time; or (C) if there shall be no plan, the inability of the Participant to perform in all material respects his or her duties and responsibilities to the Company or its applicable Subsidiary for a period of six (6) consecutive months or for an aggregate period of nine (9) months in any twenty-four (24) consecutive month period by reason of a physical or mental incapacity; or
- (ii) the term "disability" under the within the meaning of Section 409A(a)(2)(C) of the Internal Revenue Code (the "Code"), if the Participant is subject to income taxation on the income resulting from the Agreement under the laws of the United States, and the foregoing provisions of this Agreement would result in adverse tax consequences to the Participant, as determined by the Company, under Section 409A the Code.

For purposes of the Plan, a "Change in Control" of the Company shall be deemed to have occurred if:

(i) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (other than the Company, any employee benefit plan sponsored by the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company’s then outstanding securities;

(ii) during any period of two consecutive years individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (i), (iii) or (iv) of this Section) whose election by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(iii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets. For the purposes of this subsection (iv), “substantially all” of the Company’s assets shall mean assets for which the price or consideration upon sale or disposition equals or exceeds seventy-five percent (75%) or more of the fair market value of the Company.

(d) Shareholder Rights. The Participant shall have no rights to dividends, dividend equivalents or any other rights of a shareholder with respect to shares of Common Stock subject to this award of Units unless and until such time as the award has been settled by the transfer of shares of Common Stock to the Participant.

(e) Settlement and Delivery of Common Stock. Payment of vested Units shall be made as soon as administratively practicable after vesting and no later than 60 days following the vesting date. Settlement will be made by payment in shares of Common Stock or cash in accordance with the Plan. Notwithstanding the foregoing, the Company shall not be obligated to deliver any shares of Common Stock if counsel to the Company determines that such sale or delivery would violate any applicable law or any rule or regulation of any governmental

authority or any rule or regulation of, or agreement of the Company with, any securities exchange or association upon which the Stock is listed or quoted. The Company shall in no event be obligated to take any affirmative action in order to cause the delivery of shares of Common Stock to comply with any such law, rule, regulation or agreement.

Furthermore, Participant understands that the laws of the country in which he/she is working at the time of grant or vesting of the Units or at the subsequent sale of shares of Common Stock granted to Participant under this award (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional procedural or regulatory requirements he/she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such shares.

Participant further understands and agrees that the Company and any related company are neither responsible for any foreign exchange fluctuations between Participant's local currency and the United States Dollar that may affect the value of Common Stock nor liable for any decrease in the value of Common Stock.

(f) Capitalized terms used but not defined herein shall have the meanings assigned to the under the Plan.

3. Adjustments in Units. In the event of a subdivision of the outstanding Common Stock, a declaration of a dividend payable in shares of Common Stock, a declaration of a dividend payable in a form other than shares in an amount that has a material effect on the value of shares of Common Stock, a combination or consolidation of the outstanding Common Stock into a lesser number of shares of Common Stock, a spin-off or divestiture, a recapitalization, a classification or a similar occurrence, the Committee shall make appropriate adjustments in the number of Units and other applicable terms of the Units, including, without limitation, the type of property or securities to which the Units relate and the performance criteria for the Units.

4. Withholding Requirements. The Committee may make such provisions as it may deem appropriate for the withholding of any taxes and related amounts which it determines is required in connection with this award of Units, and, unless otherwise approved by the Committee, the Company shall either (i) reduce the number of shares of Common Stock that would have otherwise been delivered to Participant by a number of shares of Common Stock having a Fair Market Value (as defined in the Plan) equal to the amount required to be withheld, or (ii) withhold the appropriate amount of any taxes due in accordance with the Company's payroll procedures applicable to the Participant. Regardless of the Company's or any Subsidiary's actions in connection with tax withholding for Participant, the Participant acknowledges that the ultimate responsibility for any and all tax-related items in connection with any aspect of the Units is and remains the Participant's responsibility and liability. Neither the Company nor any Subsidiary make any representation or understanding regarding the treatment of any tax-related amounts in connection with the Units or any shares or awards under the Plan, nor do they make any commitment with respect to the structure of the Units to reduce or eliminate the Participant's liability for tax-related items.

5. Effect of Employment. Nothing contained in this Agreement shall in any manner be construed to limit in any way the right of the Company or any subsidiary to terminate the Participant's employment at any time, without regard to the effect of such termination on any rights such Participant would otherwise have under this Agreement, or give any right to the Participant to remain employed by the Company or a subsidiary thereof in any particular position or at any particular rate of compensation.

6. Data Privacy. In order to perform its obligations under the Plan or for the implementation and administration of such Plan, the Company may collect, transfer, use, process, or hold certain personal or sensitive data about Participant. Such data includes, but is not limited to Participant's name, nationality, citizenship, work authorization, date of birth, age, government or tax identification number, passport number, brokerage account information, address, compensation and equity award history, and beneficiaries' contact information. Participant explicitly consents to the collection, transfer (including to third parties in Participant's home country or the United States or other countries, such as but not limited to human resources personnel, legal and tax advisors, and brokerage administrators), use, processing, and holding, electronically or otherwise, of his/her personal information in connection with this or any other equity award. At all times, the Company shall maintain the confidentiality of Participant's personal information, except to the extent the Company is required to provide such information to governmental agencies or other parties; such actions will be undertaken by the Company only in accordance with applicable law.

7. Mode of Communications. Participant agrees, to the fullest extent permitted by law, in lieu of receiving documents in paper format, to accept electronic delivery of any documents that the Company or related company may deliver in connection with this grant and any other grants offered by the Company, including prospectuses, grant notifications, account statements, annual or quarterly reports, and other communications. Electronic delivery of a document may be made via the Company's email system or by reference to a location on the Company's intranet or website or website of the Company's agent administering the Plan.

To the extent Participant has been provided with a copy of this Agreement, the Plan, or any other documents relating to this Award in a language other than English, the English language documents will prevail in case of any ambiguities or divergences as a result of translation.

8. Amendment. This Agreement may not be amended except with the consent of the Committee and by a written instrument duly executed by the Participant and the Company.

9. Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their heirs, personal representatives, successors and assigns. Participant acknowledges receipt of a copy of the Plan, which is annexed hereto, represents that he or she is familiar with the terms and provisions thereof and accepts the award of Units hereunder subject to all of the terms and conditions thereof and of this Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee upon any questions arising under the Plan or this Agreement.

10. Clawback/Recapture Policy. The Units be subject to any clawback or recapture policy that the Company may adopt from time-to-time, and to the extent provided in such policy, may be required to be repaid to the Company after the date hereof.

11. Participant's Acknowledgement and Waiver. If the Participant is not a resident of the United States, the provisions of Appendix A are incorporated herein in their entirety.

12. Section 409(A) of the Code. If the Participant is a resident of the United States, the Units and any shares of Common Stock issuable in connection therewith are intended to qualify for an exemption from or comply with Section 409A of the Code. Notwithstanding any other provision in this Agreement and the Plan to the contrary, the Company, to the extent it deems necessary or advisable in its sole discretion, reserves the right, but shall not be required, to unilaterally amend or modify this Agreement so that the Units qualify for exemption from or comply with Section 409A of the Code; provided, however, that the Company makes no representations that the Units will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to the Units. No provision of this Agreement will be interpreted or construed to transfer any liability for failure to comply with Section 409A of the Code from the Participant any other individual to the Company. By executing this Agreement, the Participant agrees to waive any claim against the Company with respect to any such tax consequences. Notwithstanding anything to the contrary contained in this Agreement, to the extent that any payment or benefit under this Agreement is determined by the Company to constitute "non-qualified deferred compensation" subject to Section 409A of the Code and is payable to you by reason of your termination of employment, then (a) such payment or benefit shall be made or provided to you only upon a "separation from service" as defined for purposes of Section 409A of the Code under applicable regulations and (b) if you are a "specified employee" (within the meaning of Section 409A and as determined by the Company) and a payment delay is required to avoid additional tax under Section 409A(a)(1)(B) of the Code or any other taxes or penalties imposed under Section 409A, then such payment or benefit shall not be made or provided before the date that is six months after the date of your separation from service. Each payment under this Agreement will be treated as a separate payment under Section 409A of the Code.

13. Applicable Law. This Agreement shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the Company and the Participant have each executed and delivered this Agreement as of the date first above written.

J2 GLOBAL, INC.

By:

Its:

APPENDIX A

PROVISIONS APPLICABLE TO NON-U.S. RESIDENTS

If the Participant is not a resident of the United States, by accepting the Units and entering into the Restricted Stock Unit Agreement, the Participant acknowledges and agrees that the following additional terms and conditions are incorporated into the Restricted Stock Unit Agreement in their entirety and govern the Units.

1. Data Privacy. The Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Participant's personal data by and among the Company, any Subsidiary or affiliate of the Company for the exclusive purpose of implementing, administering and managing the Units and the Participant's participation in the Plan.

- a. The Participant acknowledges and agrees that he or she understands that the Company, any Subsidiary or any other affiliate of the Company hold certain personal information about the Participant, including, but not limited to, his or her name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any equity ownership or directorships held in the Company and any related companies, details of all Units or any other entitlement to Common Stock or equity awards granted, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Units and the Plan ("Data").
- b. The Participant acknowledges and agrees that he or she understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Units and the Plan, that these recipients may be located in the Participant's home country or elsewhere, and that such country may have different data privacy laws and protections than the Participant's home country. The Participant understands the Participant may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Participant may elect to deposit any shares of Common Stock acquired in connection with the Units. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Participant understands that he or she may, at any time, view the Data, request additional information about the storage and processing of Data, require any necessary amendments to the Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. The participant understands, however, that refusing or withdrawing his or her consent may affect his or her ability to participate in the Plan, hold Units or shares of Common Stock. For more information on the consequences of refusal to consent or withdrawal of

consent, the Participant acknowledges that he or she may contact his or her local human resources representative.

- c. The Participant acknowledges that the Company has engaged E*TRADE to perform brokerage services in connection with the Plan and may engage other plan administrators (collectively, the “**Third Parties**”) as third parties to assist in implementation, administration and management of the Plan, and expressly authorizes the Third Parties, together with their successors and assigns, to receive, possess, use and transfer the Data as contemplated hereby. The Participant acknowledges and agrees that, from time-to-time the Company may replace the Third Parties with alternative service providers, and may add other third parties as service providers in connection with the Plan, and the Participant expressly authorizes and agrees that any such parties are also authorized to receive, possess, use and transfer the Data as contemplated hereby.
- 1. The Plan is discretionary in nature and that the Company can amend, cancel or terminate the Plan at any time.
- 2. The grant of the Units under the Plan is voluntary and occasional and does not create any contractual or other right to receive grants of any Units, shares of Common Stock, options or benefits in lieu of any options even if options have been granted repeatedly in the past and regardless of any reasonable notice period mandated under local law.
- 3. All determination with respect to any future awards, including, but not limited to, the times when restricted share units shall be granted and the vesting schedule or other terms thereof, will be at the sole discretion of the Company.
- 4. Participation in the Plan is voluntary.
- 5. The value of the Units is an extraordinary item of compensation that is outside of the scope of the Participant’s employment contract (if any).
- 6. The Units are not part of normal or expected compensation or salary for any purposes, including, without limitation, calculating severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, or similar payments.
- 7. The Units shall expire upon Termination of Employment for any reason except as otherwise explicitly provided in this Agreement and the Plan.
- 8. The future value of the shares of Common Stock acquired following vesting of the Units is unknown and cannot be predicted with any certainty.
- 9. Where the Participant is not an employee of the Company, the grant of the Units can in no event be understood or interpreted to mean that the Company is the Participant’s employer or that the Participant has an employment relationship with the Company.
- 10. No claim or entitlement to compensation or damages arises from the termination of the Units or any portion thereof, nor from any diminution in value of the Units or shares of Common

Stock acquired connection with the Plan. The Participant irrevocably releases the Company, the Subsidiaries and Participant's employer from any such claim

12. Participant further understands and agrees that the Company and any related company are neither responsible for any foreign exchange fluctuations between Participant's local currency and the United States Dollar that may affect the value of Common Stock nor liable for any decrease in the value of Common Stock.
13. The Participant understands that the laws of the country in which he or she is working at the time of grant of the Units, vesting of the Units or at the subsequent sale of the shares of Common Stock granted to the Participant under this Agreement (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject the Participant to additional procedural or regulatory requirements he or she is solely responsible for and will have to independently fulfill in relation to ownership or sale of such Units or shares of Common Stock.

**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: May 10, 2021

**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.

Dated: May 10, 2021

/s/ R. SCOTT TURICCHI

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

**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 March 31, 2021 (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: May 10, 2021

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 March 31, 2021 (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: May 10, 2021

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.