UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017
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	**47-1053457**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6922 Hollywood Boulevard, Suite 500, Los Angeles, California 90028, (323) 860-9200
(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.01 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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," "small reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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 the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of the common stock held by non-affiliates, based upon the closing price of the common stock as quoted by the NASDAQ Global Select Market was $2,558,879,917. Shares of common stock held by executive officers, directors and holders of more than 5% of the outstanding common stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 26, 2018, the registrant had 49,095,551 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held May 3, 2018 are incorporated by reference into Part III of this Form 10-K.

This Annual Report on Form 10-K includes 116 pages with the Index to Exhibits located on page 112.

TABLE OF CONTENTS

		Page
PART I.		
Item 1.	Business	3
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	31
Item 3.	Legal Proceedings	31
Item 4.	Mine Safety Disclosures	32
PART II.		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6.	Selected Financial Data	37
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	56
Item 8.	Financial Statements and Supplementary Data	58
Item 9.	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	106
Item 9A.	Controls and Procedures	106
Item 9B.	Other Information	109
PART III.		
Item 10.	Directors, Executive Officers and Corporate Governance	109
Item 11.	Executive Compensation	109
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	109
Item 13.	Certain Relationships and Related Transactions, and Director Independence	109
Item 14.	Principal Accounting Fees and Services	109
PART IV.		
Item 15.	Exhibits and Financial Statement Schedules	109
Item 16.	Form 10-K Summary	111

PART I

Item 1. Business

Overview

j2 Global, Inc., together with its subsidiaries ("j2 Global", "our", "us" or "we"), is a leading provider of internet services. Through our Cloud Services segment, we provide cloud services to consumers and businesses and license our intellectual property ("IP") to third parties. In addition, the Cloud Services segment includes fax, voice, backup, security and email marketing products. Our Digital Media segment specializes in the technology, gaming, lifestyle and healthcare markets, offering content, tools and services to consumers and businesses.

Our Cloud Services segment generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media segment generates revenues from advertising and sponsorships, subscription and usage fees, performance marketing and licensing fees.

In addition to growing our business organically, on a regular basis we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technologies, acquire skilled personnel and enter into new markets.

Our consolidated revenues are currently generated from three basic business models, each with different financial profiles and variability. Our Cloud Services segment is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some seasonal weakness in the fourth quarter. The Cloud Services segment also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period to period. Our Digital Media segment is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.

We were incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Cloud Services segment, operated by our wholly owned subsidiary, j2 Cloud Services, LLC (formerly j2 Cloud Services, Inc.), and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments and certain geographic information is included within Note 16 - Segment Information of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference.

Cloud Services

We believe that businesses of all sizes are increasingly purchasing cloud services to meet their communication, messaging, security, data backup, hosting, customer relationship management and other needs. Cloud-based services represent a model for delivering and consuming, independent of location, real time business technology services, resources and solutions over the internet. Their goal is to reduce or eliminate costs, increase sales and enhance productivity, mobility, business continuity and security. Our *eFax®, MyFax®* and sFax® online fax services enable users to receive faxes into their email inboxes and to send faxes via the internet. *eVoice®* and *Onebox®* provide our customers a virtual phone system with various available enhancements. *KeepItSafe®, LiveVault®, and Livedrive®* enable our customers to securely back up their data and dispose of tape or other physical systems. Our *FuseMail®* service provides our customers email, encryption, archival and perimeter protection solutions, while *Campaigner®* provides our customers enhanced email marketing solutions. All of these services represent software-as-a-service solutions except online backup which represents both a software-as-a-service solution and an infrastructure-as-a-service solution. We believe these services represent more efficient and less expensive solutions than many existing alternatives, and provide increased security, privacy, flexibility and mobility.

We generate substantially all of our Cloud Services revenues from "fixed" subscription revenues for basic customer subscriptions and, to a lesser extent, "variable" usage revenues generated from actual usage by our subscribers. Our online fax, virtual phone, email, customer relationship management and online backup products have both a fixed and variable subscription component with the substantial majority of revenues derived from the fixed portion. In addition, the cost structures of all our Cloud Services are very similar in terms of fixed and variable components and include capital expenditures that are in proportion to revenue for each product offering. We also generate Cloud Services revenues from patent licensing. We categorize our Cloud Services and solutions into two basic groups: number-based, which are services provided in whole or in part through a telephone number, and non-number-based, which are our other cloud services for business.

We market our Cloud Services offerings to a broad spectrum of prospective business customers including sole proprietors, small to medium-sized businesses, enterprises and government organizations. Our marketing efforts include enhancing brand

awareness; utilizing online advertising, search engines and affiliate programs; selling through both a telesales and direct sales force; and cross-selling. We continuously seek to extend the number of distribution channels through which we acquire paying customers and improve the cost and volume of customers obtained through our current channels.

We offer the following cloud services and solutions:

Fax

eFax® is the leading brand in the global online fax market. Various tiers of service provide increasing levels of features and functionality to sole proprietors, small and medium-sized businesses, and enterprises around the world. Our most popular services allow individuals to receive and send faxes as email attachments. In addition to *eFax*®, we offer online fax services under a variety of alternative brands including sFax®*, MyFax*®, *eFax Plus*® , *eFax Pro*™*, eFax Secure*™*, eFax Corporate*™ and *eFax Developer*™.

Voice

eVoice® is a virtual phone system that provides small and medium-sized businesses on-demand voice communications services, featuring a toll-free or local company number, auto-attendant and menu tree. With these services, a subscriber can assign departmental and individual extensions that can connect to multiple U.S. or Canadian numbers, including land-line and mobile phones and IP networks, and can enhance reachability through "find me/follow me" capabilities. These services also include advanced integrated voicemail for each extension, effectively unifying mobile, office and other separate voicemail services and improving efficiency by delivering voicemails in both native audio format and as transcribed text.

Onebox® is a full-featured unified communications suite. It combines the features of many of our other branded services, plus added functionality, to provide a full virtual office. *Onebox*® includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.

Backup

KeepItSafe® provides fully managed and monitored online backup and disaster recovery solutions for businesses, using its ISO-certified platform. By securing critical digital assets via the internet to highly secure data vaults, customers enjoy peace of mind knowing they have reliable and cost effective backups, and equally importantly rapid restores of the data that keeps their businesses operating. Furthermore, our solution for business continuity, backup and recovery will fully protect the customer's physical, virtual and cloud resources. The software installs simply and provides full-server imaging and proven off-site data recovery capabilities without costly investments. Company data is protected from human error, file corruption, ransomware and other harmful factors.

LiveDrive®, which was acquired in February 2014, provides online backup and sync storage features for professionals and individuals. The customers can access their files from anywhere at any time so long as they have access to the internet.

LiveVault®, which was acquired in September 2015, provides cloud backup and recovery services. *LiveVault*® services include, among other items, offsite protection of data combined with local backup, web based access to protected data and a mirrored data center to ensure recoverability.

SugarSync®*,* which was acquired in March 2015, provides online file backup, synchronization and sharing of all of a customer's documents, photos, music and movies across all of the customer's computers and mobile devices. The product is not dependent on any specific operating system or device platforms.

Security

FuseMail® offers email security, email archiving and hosted email to businesses of all sizes around the world. These solutions are hosted offsite and seamlessly integrated into a customer's existing email system. Email security offers multi-level spam and virus detection, works with almost any email system, and deletes virus-infected emails while keeping the email message intact. Email continuity is a solution in which email systems are maintained even when a mail server is down. Email archiving solutions provide for archiving of internal and external ingoing and outgoing emails, and indexing of all emails to enable seamless search.

Excel Micro™ is a Cloud Security distributor focusing on providing email security, web security, and endpoint protection. The solution is offered to thousands of resellers in the United States who provide the product to their end customers.

Email Marketing

Campaigner® is a cloud-based email marketing solution to help small, medium and large businesses strengthen customer relationships and drive sales. *Campaigner* offers professional email campaign creation, advanced list management and segmentation tools, and targeted email autoresponders and workflows. *Campaigner* also helps businesses increase the size of their mailing lists, comply with email regulations like CAN-SPAM and get more emails to more inboxes.

SMTP is our cloud-based solution for email delivery that enables our customers to begin using an email relay service. Using our SMTP platform, customers control all aspects of their email distribution and can review email campaign statistics through a dashboard. We have a team of experts that help our customers' setup and optimize the SMTP relay.

IP Licensing

We hold a number of issued U.S. and foreign patents and other intellectual property rights. We seek to license some of these intellectual property rights to third parties in exchange for fees. We include the results of these activities within the Cloud Services segment, exclusive of brand licensing by the Digital Media segment.

Global Network and Operations

Our Cloud Services business operates multiple physical Points of Presence ("POPs") worldwide, a central data center in Los Angeles and a remote disaster recovery facility. We connect our POPs to our central data centers via redundant, and often times diverse, Virtual Private Networks ("VPNs") using the internet. Our network is designed to deliver value-added user applications, customer support and billing services for our customers anywhere in the world and a local presence for customers from thousands of cities in 50 countries on six continents. We offer our services in all major metropolitan areas in the United States ("U.S."), the United Kingdom ("U.K."), Canada and such major cities as Berlin, Copenhagen, Madrid, Manila, Mexico City, Milan, Paris, Rome, Singapore, Sydney, Taipei, Tokyo, Vienna and Zurich. Our customers are located throughout the world.

Customer Support Services

Our Cloud Services customer service organization supports our cloud services customers through a combination of online self-help, email communications, interactive chat sessions and telephone calls. Our internet-based online self-help tools enable customers to resolve simple issues on their own, eliminating the need to speak or write to our customer service representatives. We use internal personnel and contracted third parties (on a dedicated personnel basis) to answer our customer emails and telephone calls and to participate in interactive chat sessions.

Our Cloud Services customer service organization provides email support seven days per week, 24 hours per day, to all subscribers. Paying subscribers have access to live-operator telephone support seven days per week, 24 hours per day. Dedicated telephone support is provided for corporate customers 24 hours per day, seven days per week. Live sales and customer support services are available in various languages, including English, Spanish, Dutch, German, French, Japanese and Cantonese.

Competition

Our Cloud Services segment faces competition from, among others, online fax-providers, traditional fax machine or multi-function printer companies, unified messaging/communications providers, telephone companies, voicemail providers, companies offering PBX systems and outsourced PBX solutions, email providers, various data backup and hosting providers and customer relationship management solutions. Historically, our most popular solutions have related to online faxing, including the ability of our customers to access faxes via email and our outbound desktop faxing capabilities. These solutions compete primarily against traditional fax machine manufacturers, which are generally large and well-established companies, as well as publicly traded and privately-held providers of fax servers and related software and outsourced fax services. Some of these companies may have greater financial and other resources than we do.

We believe that the primary competitive factors determining our success in the market for our Cloud Services include financial strength and stability; pricing; reputation for reliability and security of service; intellectual property ownership; effectiveness of customer support; sign-up, service and software ease-of-use; service scalability; customer messaging and branding; geographic coverage; scope of services; currency and payment method acceptance; and local language sales, messaging and support.

For more information regarding the competition that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Digital Media

Our Digital Media segment consists of a portfolio of web properties which includes *IGN.com, Mashable.com, PCMag.com*, *HumbleBundle.com, Speedtest.net*, *AskMen.com*, *MedPageToday.com*, *Offers.com* and *Everydayhealth.com*, among many others.

Our properties provide trusted reviews of technology, gaming and lifestyle products and services; news and commentary related to their vertical markets; professional networking tools, targeted emails and white papers for IT professionals; speed testing for internet and mobile network connections; online deals and discounts for consumers; interactive tools and mobile applications that enable consumers to manage a broad array of health and wellness needs on a daily basis, including medical conditions, pregnancy, diet and fitness news; and tools and information for healthcare professionals to stay abreast of industry, legislative and regulatory developments in major medical specialties.

We generate Digital Media revenues from the sale of display and video advertising on our owned-and-operated properties as well as third-party sites; from the sale of customer clicks to online merchants as well as commissions on sales attributed to clicks to online merchants; from business-to-business leads to IT vendors; from the licensing of technology, data and other intellectual material to clients; and from the sale of subscription services to consumers and businesses.

During 2017, our Digital Media web properties attracted approximately 5.7 billion visits and 23.7 billion page views.

We believe competitive factors relating to attracting and retaining users include the ability to provide premium and exclusive content and the reach, effectiveness, and efficiency of our marketing services to attract consumers, advertisers, healthcare professionals and publishers. We continue to seek opportunities to acquire additional web properties, both within and outside of the technology, gaming, lifestyle and healthcare verticals, with the goal of monetizing their audiences and content though application of our proprietary technologies and insight.

Web Properties

Our Digital Media properties and services include the following:

Technology

Ookla is a global leader in fixed broadband and mobile network testing applications, data and analysis. Over ten million tests are actively initiated by consumers each day across all of Ookla's Speedtest platforms, with more than 17 billion completed to date. As a result, Ookla maintains comprehensive analytics on worldwide internet performance and accessibility. Ookla solutions have been adopted by a significant number of internet service providers and mobile carriers worldwide and have been translated into over 30 languages for use by thousands of businesses, governments, universities and trade organizations.

Offers.com is a leading coupons & deals website featuring offers from more than 16,000 of the internet's more popular stores and brands. Saving shoppers since 2009, Offers.com's objective is to help consumers find the best deals on the web. Additionally, Offers.com employs a process to verify that its coupon codes work, saving consumers time and money.

Ziff Davis B2B is a leading provider of digital content for buyers of information technology (IT) products and services, allowing IT vendors to identify, reach and influence corporate IT decision makers who are actively researching specific IT purchases.

PCMag is a leading online resource for laboratory-based product reviews, technology news and buying guides. We operate one of the largest and oldest independent testing facilities for consumer technology products. Founded in 1984, our lab produces more than 2,200 unbiased technology product and service reviews annually. *PCMag's* "Editor's Choice" award is recognized globally as a trusted mark for buyers and sellers of technology products and services.

Mashable.com is a global media brand publishing premium content for individuals interested in technology and culture. Powered by a proprietary data suite, Mashable is recognized as a trusted global brand and produces stories for more than a dozen platforms, including Snapchat, Twitter and Facebook.

Gaming & Entertainment

IGN Entertainment is a leading internet media brand focused on the video game and entertainment enthusiast markets. IGN reaches more than 154 million monthly users and is followed by more than 11 million subscribers on YouTube and 30 million users on social platforms.

HumbleBundle.com is a digital subscription and storefront for video games, ebooks, and software. Customers purchase monthly subscriptions, product bundles, and individual products through our website. In addition, raising money for charity is a core mission for Humble Bundle. Each product sale transaction at Humble Bundle results in a charitable contribution, and, as of January 2018, Humble Bundle had helped raise over $117 million for charity.

Healthcare

The *Everyday Health* properties include a collection of premier content and tools for the consumer and healthcare professional.

Everyday Health Consumer

Consumer-focused properties include online content, interactive tools and applications designed to allow consumers to manage a broad array of health and wellness needs on a daily basis. *Everyday Health*, our flagship brand, is a broad-based health information portal that provides consumers with trusted and actionable health information intended to empower users to better manage their health and wellness.

We operate the *Mayo Clinic Diet* digital program, a subscription-based plan for weight loss, and ultimately better health, developed by the weight loss experts at Mayo Clinic. Based on the bestselling book by the same name, the *Mayo Clinic Diet* digital program provides a step-by-step program to jump-start quick weight loss, achieve a goal weight and maintain it for life.

Everyday Health Professional Properties

For healthcare professionals, we provide premier digital content that enables healthcare professionals to stay abreast of clinical, industry, legislative and regulatory developments across all major medical specialties. Our flagship professional property, *MedPage Today*, delivers breaking medical news in 34 medical specialties and major public policy developments at the state and federal levels seven days a week. *MedPage Today* coordinates with approximately 4,000 leading researchers and clinicians, as well as more than 300 academic medical centers, to aid in gathering in-depth information for articles. *MedPage Today's* excellence has been recognized with awards from the American Society of Healthcare Business Editors, the National Institute for Healthcare Management, the eHealthcare Leadership Awards, the Medical Marketing and Media Awards and the Web Health Awards. Additionally, *MedPage Today* was named as a finalist for the Jesse M. Neal Award and the Gerald M. Loeb Award.

What to Expect When You're Expecting

We operate the digital properties for the *What to Expect* brand, the leading pregnancy and parenting media resource. Based on the best-selling pregnancy book, *What to Expect When You're Expecting*, by author Heidi Murkoff, the *What to Expect* website and mobile applications contain content on conception planning and pregnancy, as well as information on newborns and toddlers.

Display and Video Advertising

We sell online display and video advertising on our owned-and-operated web properties and on third party sites as well as targeted advertising across the internet through various unaffiliated third party digital advertising networks.

We have contractual arrangements with advertisers either directly or through agencies. The terms of these contracts specify the price of the advertising to be sold and the volume of advertisements that will be served over the course of a campaign.

In addition to the contracts with advertisers and agencies, we have contractual arrangements with certain third party websites not owned by us and third party advertising networks to deliver online display and video advertising to their websites or to third-party sites.

Performance Marketing

We generate business-to-business leads for IT vendors through the marketing of content, including white papers and webinars, and offer additional lead qualification and nurturing services. On the consumer side, we generate clicks to online merchants by promoting deals and discounts on our web properties.

Licensing

We license our proprietary technology, data and intellectual property to third parties for various purposes. For instance, we will license the right to use PCMag's "Editors' Choice" logo and other copyrighted editorial content to businesses whose products have earned such distinction.

Subscriptions

We offer subscriptions to businesses for Speedtest Intelligence, which offers up-to-date insights into global fixed broadband and mobile performance data. We offer subscriptions to consumers for our Mayo Clinic Diet program, PCMag Digital Edition and Humble Bundle.

Competition

Competition in the digital media space is fierce and continues to intensify.

Our digital media business competes with online publishers including CNET, GameSpot, WebMd, Vox and others as well as with portals, advertising networks, social media sites and other platforms, including Google, Facebook, Twitch and others. We believe that the primary competitive factors determining our success in the market for our digital media include the reputation of brands as trusted sources of objective information and our ability to attract internet users and advertisers to our web properties.

For more information regarding the competition that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Patents and Proprietary Rights

We regard the protection of our intellectual property rights as important to our success. We aggressively protect these rights by relying on a combination of patents, trademarks, copyrights, trade dress and trade secrets. We also enter into confidentiality and intellectual property assignment agreements with employees and contractors, and nondisclosure agreements with parties with whom we conduct business in order to limit access to and disclosure of our proprietary information.

Through a combination of internal technology development and acquisitions, we have built a portfolio of numerous U.S. and foreign patents. We generate licensing revenues from some of these patents. We are currently engaged in litigation to enforce several of our patents. For a more detailed description of the lawsuits in which we are involved, see Item 3. Legal Proceedings. We intend to continue to invest in patents, to aggressively protect our patent assets from unauthorized use and to generate patent licensing revenues from authorized users.

Several of our U.S. patents have been reaffirmed through reexamination proceedings before the United States Patent and Trademark Office ("USPTO"). We have generated royalties from licensing certain of our patents and have enforced certain patents against companies using our patented technology without our permission.

We seek patents for inventions that may contribute to our business or technology sector. In addition, we have multiple pending U.S. and foreign patent applications, covering components of our technology and in some cases technologies beyond those that we currently offer. Unless and until patents are issued on the pending applications, no patent rights can be enforced.

We have obtained patent licenses for certain technologies where such licenses are necessary or advantageous.

We own and use a number of trademarks in connection with our services, including word and/or logo trademarks for eFax, MyFax, eFax Corporate, Sfax, eVoice, KeepItSafe, Fusemail, Onebox, PCMag, IGN, Everyday Health, AskMen, Humble Bundle, Mashable, Health eCareers, Ookla, Speedtest, and Geek.com, among others. Many of these trademarks are registered worldwide, and numerous trademark applications are pending around the world. We hold numerous internet domain names, including "efax.com", "efaxcorporate.com", "myfax.com", "fax.com", "evoice.com", "keepitsafe.com", "fusemail.com", "campaigner.com", "onebox.com", "pcmag.com", "techbargains.com", "ign.com", "askmen.com", "speedtest.net", "offers.com", "humblebundle.com", "mashable.com", "healthecareers.com", and "geek.com", among others. We have filed to protect our rights to our brands in certain alternative top-level domains such as ".org", ".net", ".biz", ".info" and ".us", among others.

Like other technology-based businesses, we face the risk that we will be unable to protect our intellectual property and other proprietary rights, and the risk that we will be found to have infringed the proprietary rights of others. For more information regarding these risks, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Government Regulation

We are subject to a number of foreign and domestic laws and regulations that affect companies conducting business over the internet and, in some cases, using services of third-party telecommunications and internet service providers. These include, among others, laws and regulations addressing privacy, data storage, retention and security, freedom of expression, content, taxation, numbers, advertising and intellectual property. We are not a regulated telecommunications provider in the U.S. For information about the risks we face with respect to governmental regulation, please see Item 1A of this Annual Report on Form 10-K entitled Risk Factors.

Seasonality

Our Cloud Services revenues are impacted by the number of effective business days in a given period. We traditionally experience lower than average Cloud Services usage and customer sign-ups in the fourth quarter. Revenues associated with our Digital Media operations are subject to seasonal fluctuations, becoming most active during the fourth quarter holiday period due to increased retail activity.

Research and Development

The markets for our services are evolving rapidly, requiring ongoing expenditures for research and development and timely introduction of new services and service enhancements. Our future success will depend, in part, on our ability to enhance our current services, to respond effectively to technological changes, attract and retain engineering talent, sell additional services to our existing customer base and introduce new services and technologies that address the increasingly sophisticated needs of our customers.

We devote significant resources to develop new services and service enhancements. Our research, development and engineering expenditures were $46.0 million, $38.0 million and $34.3 million for the fiscal years ended December 31, 2017, 2016 and 2015, respectively. For more information regarding the technological risks that we face, please refer to the section entitled Risk Factors contained in Item 1A of this Annual Report on Form 10-K.

Employees

As of December 31, 2017, we had approximately 2,487 employees, the majority of whom are in the U.S.

Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing and management personnel. Our employees are not represented by any collective bargaining unit or agreement. We have never experienced a work stoppage. We believe our relationship with our employees is good.

Web Availability of Reports

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on the Company's website at www.j2.com as soon as reasonably practicable after we file such reports with, or furnish them to, the SEC's website. The information on our website is not part of this report. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings we file electronically with the SEC at www.sec.gov.

Item 1A. Risk Factors

Before deciding to invest in j2 Global or to maintain or increase your investment, you should carefully consider the risks described below in addition to the other cautionary statements and risks described elsewhere in this Annual Report on Form 10-K and our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, prospects, financial condition, operating results and cash flows could be materially adversely affected. In that event, the market price of our common stock will likely decline and you may lose part or all of your investment.

Risks Related To Our Business

Acquisitions and investments in our business have historically played a significant role in our growth and we anticipate that they will continue to do so.

We must acquire additional or invest in new or current businesses, products, services and technologies that complement or augment our service offerings and customer base in order to sustain our rate of growth. We may not successfully identify suitable acquisition candidates or investment strategies, manage disparate technologies, lines of business, personnel and corporate cultures, realize our business strategy or the expected return on our investment or manage a geographically dispersed company. If we are unable to identify and execute on acquisitions or execute on our investment strategies, our revenues, business, prospects, financial condition, operating results and cash flows could suffer.

The majority of our revenue within the Digital Media segment is derived from short-term advertising arrangements and a reduction in spending by or loss of current or potential advertisers would cause our revenue and operating results to decline.

In most cases, our agreements with advertisers have a term of one year or less and may be terminated at any time by the advertiser or by us without penalty. Advertising agreements often provide that we receive payment based on "served" impressions but the online ad industry has started to shift so that payment will be made based on "viewable" impressions, and that change in basis could have a negative effect on available impressions thereby reducing our revenue potential. Accordingly, it is difficult to forecast display revenue accurately. In addition, our expense levels are based in part on expectations of future revenue. Moreover, we believe that advertising on the internet, as in traditional media, fluctuates significantly as a result of a variety of factors, many of which are outside of our control. Some of these factors include budget constraints of our advertisers, cancellations or delays of projects by our advertisers, the cyclical and discretionary nature of advertising spending, general economic, internet-related and media industry conditions, as well as extraordinary events. The state of the global economy and availability of capital has impacted and could further impact the advertising spending patterns of existing and potential advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

If we are unable to develop, commission or acquire compelling content in our Digital Media segment at acceptable prices, our expenses may increase, the number of visitors to our online properties may not grow as anticipated, or may decline, and/or visitors' level of engagement with our websites may decline, any of which could harm our operating results.

Our future success depends in part on the ability of our Digital Media segment to aggregate compelling content and deliver that content through our online properties. We believe that users will increasingly demand high-quality content and services including more video and mobile-specific content. Such content and services may require us to make substantial payments to third parties if we are unable to develop content of our own. Our ability to maintain and build relationships with such third-party providers is critical to our success. In addition, as new methods for accessing the internet become available, including through alternative devices, we may need to enter into amended agreements with existing third-party providers to cover the new devices. We may be unable to monetize the activity on these alternative devices including mobile devices which may supplant current traffic that we monetize. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content or services we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our third-party providers may increase the prices at which they offer their content and services to us and potential providers may not offer their content or services to us at all, or may offer them on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers could harm our operating results and financial condition. Further, many of our content and services licenses with third parties are non-exclusive. Accordingly, other media providers may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling content and personalization of this content for users in order to differentiate our properties from other businesses. If we are unable to develop compelling content of our own, we may be required to engage freelance services or obtain licensed content which may not be at reasonable prices which could harm our operating results.

We have made and expect to continue to make acquisitions that could disrupt our operations and harm our operating results.

We intend to continue to develop new services, enhance existing services and expand our geographic presence through acquisitions of other companies, service lines, technologies and personnel.

Acquisitions involve numerous risks, including the following:

- Difficulties in integrating the operations, systems, technologies, products and personnel of the acquired businesses;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets may have stronger market positions;
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions; and
- The potential loss of key employees, customers, distributors, vendors and other business partners of the businesses we acquire.

Acquisitions may also cause us to:

- Use a substantial portion of our cash resources or incur debt;
- Significantly increase our interest expense, leverage and debt service requirements if we incur additional debt to pay for an acquisition;
- Assume liabilities;
- Issue common stock that would dilute our current stockholders' percentage ownership;
- Record goodwill and intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges;
- Incur amortization expenses related to certain intangible assets; and
- Become subject to intellectual property or other litigation.

Mergers and acquisitions are inherently risky and subject to many factors outside of our control. We cannot give assurance that our previous or future acquisitions will be successful and will not materially adversely affect our business, operating results or financial condition. Failure to manage and successfully integrate acquisitions could materially harm our business and operating results. In addition, our effective tax rate for future periods is uncertain and could be impacted by mergers and acquisitions.

In our Digital Media business, if we are unable to prove that our advertising and sponsorship solutions provide an attractive return on investment for our customers, our financial results could be harmed.

Our ability to grow revenue from our Digital Media business will be dependent on our ability to demonstrate to marketers that their marketing campaigns with us provide a meaningful return on investment ("ROI") relative to offline and other online opportunities. Certain of the marketing campaigns with respect to our Digital Media business are designed such that the revenues received are based entirely upon the ROI delivered for customers. Our Digital Media business has invested significant resources in developing its research, analytics and campaign effectiveness capabilities and expects to continue to do so in the future. Our ability, however, to demonstrate the value of advertising and sponsorship on Digital Media business properties will depend, in part, on the sophistication of the analytics and measurement capabilities, the actions taken by our competitors to enhance their offerings, whether we meet the ROI expectations of our customers and a number of other factors. If we are unable to maintain sophisticated marketing and communications solutions that provide value to our customers or demonstrate our ability to provide value to our customers, our financial results will be harmed.

Our fax services constitute a significant percentage of our revenue.

Currently, fax-to-email revenue constitutes approximately 29% of our consolidated revenues. The success of our business is therefore dependent upon the continued use of fax as a messaging medium and/or our ability to diversify our service offerings and derive more revenue from other services, such as voice, online backup, email, unified messaging solutions and services related to our Digital Media segment. If the demand for online fax-to-email as a messaging medium decreases, and we are unable to replace lost revenues from decreased usage or cancellation of our fax services with a proportional increase in our customer base or with revenues from our other services, our business, financial condition, operating results and cash flows could be materially and adversely affected.

We believe that one of the attractive features of our eFax® and similar products is that fax signatures are a generally accepted method of executing contracts. There are ongoing efforts by governmental and non-governmental entities to create a universally accepted method for electronically signing documents. Widespread adoption of so-called "digital signatures" could reduce demand for our fax services and, as a result, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

A system failure, security breach or other technological risk could delay or interrupt service to our customers, harm our reputation or subject us to significant liability.

Our operations are dependent on our network being free from interruption by damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, computer viruses, cyber-attacks or any other events beyond our control. Similarly, the operations of our partners and other third parties with which we work are also susceptible to the same risks. There can be no assurance that our existing and planned precautions of backup systems, regular data backups, security protocols and other procedures will be adequate to prevent significant damage, system failure or data loss and the same is true for our partners, vendors and other third parties on which we rely. Also, many of our services are web-based, and the amount of data we store for our users on our servers has been increasing. Despite the implementation of security measures, our infrastructure, and that of our partners, vendors and other third parties, may be vulnerable to computer viruses, hackers or similar disruptive problems caused by our vendors, partners, other third parties, subscribers, employees or other internet users who attempt to invade public and private data networks. As seen in the industries in which we operate and others, these activities have been, and will continue to be, subject to continually evolving cybersecurity and technological risks. Further, in some cases we do not have in place disaster recovery facilities for certain ancillary services. Moreover, a significant portion of our operations relies heavily on the secure processing, storage and transmission of confidential and other sensitive data. For example, a significant number of our cloud services customers authorize us to bill their credit or debit card accounts directly for all transaction fees charged by us. We rely on encryption and authentication technology to effect secure transmission of confidential information, including customer credit and debit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in a compromise or breach of the technology used by us, our partners, vendors, or other third parties, to protect transaction and other confidential data. Any system failure or security breach that causes interruptions or data loss in our operations, our partners, vendors, or other third parties, or in the computer systems of our customers or leads to the misappropriation of our or our customers' confidential information could result in a significant liability to us (including in the form of judicial decisions and/or settlements, regulatory findings and/or forfeitures, and other means), cause considerable harm to us and our reputation (including requiring notification to customers, regulators, and/or the media), cause a loss of confidence in our products and services, and deter current and potential customers from using our services. Our Board is briefed on cybersecurity risks and we implement cybersecurity risk management under our Board's oversight. We use vendors to assist with cybersecurity risks, but these vendors may not be able to assist us adequately in preparing for or responding to a cybersecurity incident. We maintain insurance related to cybersecurity risks, but this insurance may not be sufficient to cover all of our losses from any breaches or other adverse consequences related to a

cybersecurity-event. Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows, or cause us to suffer other negative consequences. For example, we may incur remediation costs (such as liability for stolen assets or information, repairs of system damage, and incentives to customers or business partners in an effort to maintain relationships after an attack); increased cybersecurity protection costs (which may include the costs of making organizational changes, deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants); lost revenues resulting from the unauthorized use of proprietary information or the failure to retain or attract customers following an attack; litigation and legal risks (including regulatory actions by state and federal governmental authorities and non-U.S. authorities); increased insurance premiums; reputational damage that adversely affects customer or investor confidence; and damage to the company's competitiveness, stock price, and diminished long-term shareholder value.

Political instability and volatility in the economy may adversely affect segments of our customers, which may result in decreased usage and advertising levels, customer acquisition and customer retention rates and, in turn, could lead to a decrease in our revenues or rate of revenue growth.

Certain segments of our customers may be adversely affected by political instability and volatility in the general economy or renewed downturns. To the extent these customers' businesses are adversely affected by political instability or volatility, their usage of our services and/or our customer retention rates could decline. This may result in decreased cloud services subscription and/or usage revenues and decreased advertising, e-commerce or other revenues, which may adversely impact our revenues and profitability.

Users are increasingly using mobile devices to access our content within our Digital Media business segment and if we are unsuccessful in attracting new users to our mobile offerings, and expanding the capabilities of our content and other offerings with respect to our mobile platforms, our net revenues could decline.

Web usage and the consumption of digital content are increasingly shifting to mobile platforms such as smartphones and other connected devices. Visits to our mobile websites and applications have increased but if the percentage of visits to our mobile websites does not continue to grow or we are unable to effectively monetize our mobile content, net revenue will be impacted. In addition, we are less effective at monetizing digital content on our mobile websites and applications compared to our desktop websites. The growth of our business depends in part on our ability to continue to adapt to the mobile environment and to deliver compelling solutions to consumers and retailers through these new mobile marketing channels. In addition, our success on mobile platforms will be dependent on our interoperability with popular mobile operating systems that we do not control, and any changes in such systems that degrade our functionality or give preferential treatment to competitive services could adversely affect usage of our services through mobile devices.

We could be subject to changes in our tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities which may adversely impact our financial results.

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

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

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

We are subject to examination of our income tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities. We are currently under audit by the IRS for tax years 2012 through 2014 and the California Franchise Tax Board ("FTB") for tax years 2012 and 2013. The FTB, however, has agreed to suspend its audit for 2012 and 2013 pending the outcome of the IRS audit for such tax years. We are also under audit or review by other state and foreign taxing authorities for various periods. Our future income tax returns are likely to become the subject of audits by these or other taxing authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our income tax reserves and expense. If our reserves are not sufficient to cover these contingencies, such inadequacy could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

Our growth will depend on our ability to develop, strengthen, and protect our brands, and these efforts may be costly and have varying degrees of success.

Our brand recognition has significantly contributed to the success of our business. Strengthening our current brands and launching competitive new brands will be critical to achieving widespread commercial acceptance of our products and services. This will require our continued focus on active marketing, the costs of which have been increasing and may continue to increase. In addition, substantial initial investments may be required to launch new brands and expand existing brands to cover new geographic territories and technology fields. Accordingly, we may need to spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other efforts to cultivate brand recognition and customer loyalty. In addition, we are supporting an increasing number of brands, each of which requires its own investment of resources. Brand promotion activities may not yield increased revenues and, even if they do, increased revenues may not offset the expenses incurred. If we fail to launch, promote, and maintain our brands, or if we incur substantial expenses in doing so, our business could be harmed.

Our brand recognition depends, in part, on our ability to protect our trademark portfolio and establish trademark rights covering new brands and territories. Some regulators and competitors have taken the view that certain of our brands, such as eFax and eVoice, are descriptive or generic when applied to the products and services offered by our Cloud Services segment. Nevertheless, we have obtained U.S. and foreign trademark registrations for our brand names, logos, and other brand identifiers, including, eFax and eVoice. If we are unable to obtain, maintain or protect trademark rights covering our brands across the territories in which they are or may be offered, the value of these brands may be diminished, competitors may be able to dilute, harm, or freeload off our brand recognition and reputation, and our ability to attract subscribers may be adversely affected.

We hold domain names relating to our brands, in the U.S. and internationally. The acquisition and maintenance of domain names are generally regulated by governmental agencies and their designees. The regulation of domain names may change. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain all relevant domain names that relate to our brands. Furthermore, international rules governing the acquisition and maintenance of domain names in foreign jurisdictions are sometimes different from U.S. rules, and we may not be able to obtain all of our domains internationally. As a result of these factors, we may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our brands, trademarks or other proprietary rights. In addition, failure to secure or maintain domain names relevant to our brands could adversely affect our reputation and make it more difficult for users to find our websites and services.

Our business, customers and users may be subject to telecommunications and sales taxes.

As a provider of cloud services for business, we do not provide telecommunications services. Thus, we believe that our business and our users (by using our services) are not subject to various telecommunications and utility taxes. However, several state taxing authorities have challenged this belief and have and may continue to audit and assess our business and operations with respect to telecommunications and sales taxes.

In addition, the application of other indirect taxes (such as sales and use tax, business tax and gross receipt tax) to e-commerce businesses such as j2 Global and our users is a complex and evolving issue.

The application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

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

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

Increased numbers of credit and debit card declines in our Cloud Services segment could lead to a decrease in our Cloud Services revenues or rate of revenue growth.

A significant number of our paid cloud services subscribers pay for their services through credit and debit cards. Weakness in certain segments of the credit markets and in the U.S. and global economies could result in increased numbers of rejected credit and debit card payments. We believe this could result in increased cloud services customer cancellations and decreased customer signups. Rejected credit or debit card payments, cloud services customer cancellations and decreased customer sign up may adversely impact our revenues and profitability.

If our Cloud Services segment experiences excessive fraudulent activity or cannot meet evolving credit card company merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment and our subscriber base could decrease significantly.

A significant number of our paid cloud services subscribers authorize us to bill their credit card accounts directly for all service fees charged by us. If people pay for these services with stolen credit cards, we could incur substantial unreimbursed third-party vendor costs. We also incur losses from claims that the customer did not authorize the credit card transaction to purchase our service. If the numbers of unauthorized credit card transactions become excessive, we could be assessed substantial fines for excess chargebacks and could lose the right to accept credit cards for payment. In addition, we are subject to Payment Card Industry ("PCI") data security standards, which require periodic audits by independent third parties to assess our compliance. PCI standards are a comprehensive set of requirements for enhancing payment account data security. Failure to comply with the security requirements or rectify a security issue may result in fines or a restriction on accepting payment cards. Credit card companies may change the standards required to utilize their services from time to time. If we are unable to meet these new standards, we could be unable to accept credit cards. Further, the law relating to the liability of providers of online payment services is currently unsettled and states may enact their own rule with which we may not comply. Substantial losses due to fraud or our inability to accept credit card payments, which could cause our paid cloud services subscriber base to significantly decrease, could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

The markets in which we operate are highly competitive and our competitors may have greater resources to commit to growth, superior technologies, cheaper pricing or more effective marketing strategies. Also, we face significant competition for users, advertisers, publishers, developers and distributors.

For information regarding our competition, and the risks arising out of the competitive environment in which we operate, see the section entitled Competition contained in Item 1 of this Annual Report on Form 10-K. In addition, some of our competitors include major companies with much greater resources and significantly larger subscriber bases than we have. Some of these competitors offer their services at lower prices than we do. These companies may be able to develop and expand their network infrastructures and capabilities more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we can. There can be no assurance that additional competitors will not enter markets that we are currently serving and plan to serve or that we will be able to compete effectively. Competitive pressures may reduce our revenue, operating profits or both.

Our Digital Media segment faces significant competition from online media companies as well as from social networking sites, mobile application, traditional print and broadcast media, general purpose and search engines and various e-commerce sites.

Several of our competitors offer an integrated variety of internet products, advertising services, technologies, online services and content. We compete against these and other companies to attract and retain users, advertisers and developers. We also compete with social media and networking sites which are attracting a substantial and increasing share of users and users' online time, and may continue to attract an increasing share of online advertising dollars.

In addition, several competitors offer products and services that directly compete for users with our Digital Media segment offerings. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad networks, demand side platforms, ad serving technologies and sponsored search offerings. We also compete with traditional print and broadcast media companies to attract advertising spending. Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market. Some of the competitors for our Cloud Services segment in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

As a creator and a distributor of content over the internet, we face potential liability for legal claims based on the nature and content of the materials that we create or distribute.

Users access health-related content through our Everyday Health properties, including information regarding particular medical conditions, diagnosis and treatment and possible adverse reactions or side effects from medications. If our content, or content we obtain from third parties, contains inaccuracies, it is possible that consumers who rely on that content or others may make claims against us with various causes of action. Although our properties contain terms and conditions, including disclaimers of liability, that are intended to reduce or eliminate our liability, third parties may claim that these online agreements are unenforceable.

Our editorial and other quality control procedures may not be sufficient to ensure that there are no errors or omissions in our content offerings or to prevent such errors and omissions in content that is controlled by our partners. Even if potential claims do not result in liability to us, investigating and defending against these claims could be expensive and time consuming and could divert management's attention away from our operations.

Inadequate intellectual property protections could prevent us from defending our proprietary technology and intellectual property.

Our success depends, in part, upon our proprietary technology and intellectual property. We rely on a combination of patents, trademarks, trade secrets, copyrights, contractual restrictions, and other confidentiality safeguards to protect our proprietary technology. However, these measures may provide only limited protection and it may be costly and time-consuming to enforce compliance with our intellectual property rights. In some circumstances, we may not have adequate, economically feasible or realistic options for enforcing our intellectual property and we may be unable to detect unauthorized use. While we have a robust worldwide portfolio of issued patents and pending patent applications, there can be no assurance that any of these patents will not be challenged, invalidated or circumvented, that we will be able to successfully police infringement, or that any rights granted under these patents will in fact provide a competitive advantage to us.

In addition, our ability to register or protect our patents, copyrights, trademarks, trade secrets and other intellectual property may be limited in some foreign countries. As a result, we may not be able to effectively prevent competitors in these regions from utilizing our intellectual property, which could reduce our competitive advantage and ability to compete in those regions and negatively impact our business.

We also strive to protect our intellectual property rights by relying on federal, state and common law rights, as well as contractual restrictions. We typically enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business in order to limit access to, and disclosure

and use of, our proprietary information. However, we may not be successful in executing these agreements with every party who has access to our confidential information or contributes to the development of our technology or intellectual property rights. Those agreements that we do execute may be breached, and we may not have adequate remedies for any such breach. These contractual arrangements and the other steps we have taken to protect our intellectual property rights may not prevent the misappropriation or disclosure of our proprietary information nor deter independent development of similar technology or intellectual property by others.

Monitoring unauthorized use of the content on our websites and mobile applications, and our other intellectual property and technology, is difficult and costly. Our efforts to protect our proprietary rights and intellectual property may not have been and may not be adequate to prevent their misappropriation or misuse. Third parties from time to time copy content or other intellectual property or technology from our solutions without authorization and seek to use it for their own benefit. We generally seek to address such unauthorized copying or use, but we have not always been successful in stopping all unauthorized use of our content or other intellectual property or technology, and may not be successful in doing so in the future. Further, we may not have been and may not be able to detect unauthorized use of our technology or intellectual property, or to take appropriate steps to enforce our intellectual property rights.

Companies that operate in the same industry as our Cloud Services and Digital Media segments have experienced substantial litigation regarding intellectual property. Currently, we have pending patent infringement lawsuits, both offensive and defensive, against several companies in this industry. Furthermore, we may find it necessary or appropriate to initiate claims or litigation to enforce our intellectual property rights or determine the validity and scope of intellectual property rights claimed by others. This or any other litigation to enforce or defend our intellectual property rights may be expensive and time-consuming, could divert management resources and may not be adequate to protect our business.

We may be found to have infringed the intellectual property rights of others, which could expose us to substantial damages or restrict our operations.

We have been and expect to continue to be subject to legal claims that we have infringed the intellectual property rights of others. The ready availability of damages and royalties and the potential for injunctive relief have increased the costs associated with litigating and settling patent infringement claims. In addition, we may be required to indemnify our resellers and users for similar claims made against them. Any claims, whether or not meritorious, could require us to spend significant time, money, and other resources in litigation, pay damages and royalties, develop new intellectual property, modify, design around, or discontinue existing products, services, or features, or acquire licenses to the intellectual property that is the subject of the infringement claims. These licenses, if required, may not be available at all or have acceptable terms. As a result, intellectual property claims against us could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We may be subject to risks from international operations.

As we continue to expand our business operations in countries outside the U.S., our future results could be materially adversely affected by a variety of uncontrollable and changing factors including, among others, foreign currency exchange rates; political or social unrest or economic instability in a specific country or region; trade protection measures and other regulatory requirements which may affect our ability to provide our services; difficulties in staffing and managing international operations; and adverse tax consequences, including imposition of withholding or other taxes on payments by subsidiaries and affiliates. Any or all of these factors could have a material adverse impact on our future business, prospects, financial condition, operating results and cash flows.

We have only limited experience in marketing and operating our services in certain international markets. Moreover, we have in some cases experienced and expect to continue to experience in some cases higher costs as a percentage of revenues in connection with establishing and providing services in international markets versus the U.S. In addition, certain international markets may be slower than the U.S. in adopting the internet and/or outsourced messaging and communications solutions and so our operations in international markets may not develop at a rate that supports our level of investments.

As we continue to grow our international operations, adverse currency fluctuations and foreign exchange controls could have a material adverse effect on our balance sheet and results of operations.

As we expand our international operations, we could be exposed to significant risks of currency fluctuations. In some countries outside the U.S., we offer our services in the applicable local currency, including but not limited to 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, among others. As a result, fluctuations in foreign currency exchange rates affect the results of our operations, which in turn may materially adversely affect reported earnings and the comparability of period to period results of operations. Changes in currency exchange rates may also affect the relative prices at which we and foreign competitors sell our services in the same market. In addition, changes in the value of the relevant currencies may affect the cost of certain items required in our operations. Furthermore, we may become subject to exchange control regulations, which might restrict or prohibit our conversion of other currencies into U.S. Dollars. We cannot assure you that future exchange 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 foreign currency hedging transactions to control or minimize these risks.

We may be engaged in legal proceedings that could cause us to incur unforeseen expenses and could divert significant operational resources and our management's time and attention.

From time to time, we are subject to litigation or claims or are involved in other legal disputes or regulatory inquiries, including in the areas of patent infringement and anti-trust, that could negatively affect our business operations and financial condition. Such disputes could cause us to incur unforeseen expenses, divert operational resources, occupy a significant amount of our management's time and attention and negatively affect our business operations and financial condition. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief. We do not always have insurance coverage for defense costs, judgments, and settlements. We may also be subject to indemnification requirements with business partners, vendors, current and former officers and directors, and other third parties. Payments under such indemnification provisions may be material. For a more detailed description of certain lawsuits in which we are involved, see Item 3. Legal Proceedings.

The successful operation of our business depends upon the supply of critical business elements and marketing relationships from other companies.

We depend upon third parties for critical elements of our business, including technology, infrastructure, customer service and sales and marketing components. We rely on private third-party providers for our internet, telecommunications, website traffic and other connections and for co-location of a significant portion of our servers. Any disruption in the services provided by any of these suppliers, any adverse change in their terms and conditions of use or services, or any failure by them to handle current or higher volumes of activity could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. To obtain new cloud services customers, we have marketing agreements with operators of leading search engines and websites and employ the use of resellers to sell our products. These arrangements typically are not exclusive and do not extend over a significant period of time. Failure to continue these relationships on terms that are acceptable to us or to continue to create additional relationships could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Our business is highly dependent on our billing systems.

A significant part of our revenues depends on prompt and accurate billing processes. Customer billing is a highly complex process, and our billing systems must efficiently interface with third-party systems, such as those of credit card processing companies. Our ability to accurately and efficiently bill our customers is dependent on the successful operation of our billing systems and the third-party systems upon which we rely, such as our credit card processor, and our ability to provide these third parties the information required to process transactions. In addition, our ability to offer new services or alternative-billing plans is dependent on our ability to customize our billing systems. Any failures or errors in our billing systems or procedures could impair our ability to properly bill our current customers or attract and service new customers, and thereby could materially and adversely affect our business and financial results.

Our success depends on our retention of our executive officers, senior management and our ability to hire and retain key personnel.

Our success depends on the skills, experience and performance of executive officers, senior management and other key personnel. The loss of the services of one or more of our executive officers, senior managers or other key employees could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows. Our future success also

depends on our continuing ability to attract, integrate and retain highly qualified technical, sales and managerial personnel. Competition for these people is intense, and there can be no assurance that we can retain our key employees or that we can attract, assimilate or retain other highly qualified technical, sales and managerial personnel in the future.

We are exposed to risk if we cannot maintain or adhere to our internal controls and procedures.

We have established and continue to maintain, assess and update our internal controls and procedures regarding our business operations and financial reporting. Our internal controls and procedures are designed to provide reasonable assurances regarding our business operations and financial reporting. However, because of the inherent limitations in this process, internal controls and procedures may not prevent or detect all errors or misstatements. To the extent our internal controls are inadequate or not adhered to by our employees, our business, financial condition and operating results could be materially adversely affected.

If we are not able to maintain internal controls and procedures in a timely manner, or without adequate compliance, we may be unable to accurately report our financial results or prevent fraud and may be subject to sanctions or investigations by regulatory authorities such as the SEC or NASDAQ. Any such action or restatement of prior-period financial results as a result could harm our business or investors' confidence in j2 Global, and could cause our stock price to fall.

Our level of indebtedness could adversely affect our financial flexibility and our competitive position.

Our level of indebtedness could have significant effects on our business. For example, it could:

- make it more difficult for us to satisfy our obligations, including our current indebtedness and any other indebtedness we may incur in the future;
- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
  restrict us from exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the indenture governing the 6.0% Senior Notes of our subsidiary, j2 Cloud Services, LLC ("j2 Cloud Services") contains and the agreements evidencing or governing other future indebtedness may contain, restrictive covenants that may limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

The indenture governing the 6.0% Senior Notes contains a number of restrictive covenants that impose significant operating and financial restrictions and may limit our ability to plan for or react to market conditions, meet capital needs or make acquisitions, or otherwise restrict our activities or business plans. These include restrictions on our ability to:

- incur additional indebtedness;
- create liens;
- engage in sale-leaseback transactions;
- pay dividends or make distributions in respect of capital stock;
- purchase or redeem capital stock;
- make investments or certain other restricted payments;
- sell assets;
- enter into transactions with affiliates; or
- effect a consolidation or merger.

A breach of the covenants under the indenture governing the 6.0% Senior Notes could result in an event of default. Such a default may allow the creditors to accelerate the related indebtedness and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies. In the event our lenders or the holders of our 6.0% Senior Notes accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness or our other indebtedness.

To service our debt and fund our other capital requirements, we will require a significant amount of cash, and our ability to generate cash will depend on many factors beyond our control.

Our ability to meet our debt service obligations and to fund working capital, capital expenditures, acquisitions and other elements of our business strategy and other general corporate purposes, including share repurchases and payment of dividends, will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations. To some extent, this is subject to general and regional economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot ensure that we will generate cash flow from operations, or that future borrowings will be available, in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional indebtedness or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. The indenture governing the 6.0% Senior Notes restrict our ability to dispose of assets and may also restrict our ability to raise indebtedness or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms, or at all, would materially and adversely affect our financial position and results of operations.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes or to repurchase the Convertible Notes upon a fundamental change or on a repurchase date or the Senior Notes upon a change in control, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Convertible Notes or the Senior Notes.

Holders of the 3.25% convertible senior notes due June 15, 2029 (the "Convertible Notes") will have the right to require us to repurchase their Convertible Notes on each of June 15, 2021 and June 15, 2024 and upon the occurrence of a fundamental change (as defined in the indenture governing the Convertible Notes), in each case, at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest, if any. Holders of the Senior Notes also have the right to require our subsidiary, j2 Cloud Services, to repurchase the Senior Notes upon the occurrence of a change in control (as defined in the indenture governing the Senior Notes) at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Convertible Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Convertible Notes being converted. It is our intention to satisfy our conversion obligation by paying and delivering a combination of cash and shares of our 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 our common stock. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Convertible Notes or Senior Notes surrendered therefor or Convertible Notes being converted. In addition, our ability to repurchase the Convertible Notes or Senior Notes or to pay cash upon conversions of the Convertible Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Convertible Notes or Senior Notes at a time when the repurchase is required by the applicable indenture or to pay any cash payable on future conversions of the Convertible Notes as required by the Convertible Notes indenture would constitute a default under the Convertible Notes indenture. A default under either indenture or the fundamental change or change of control itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or the Senior Notes or make cash payments upon conversions of the Convertible Notes.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders of Convertible Notes will be entitled to convert the Convertible Notes at any time during specified periods at their option. If one or more holders elect to convert their Convertible Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Convertible Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Our interest deductions attributable to the Convertible Notes may be deferred, limited or eliminated under certain conditions.

We believe that the Convertible Notes are subject to the IRS contingent payment debt instrument regulations. This conclusion is subject to complex factual and legal uncertainty and is not binding on the IRS or the courts. If the IRS takes a contrary position and a court sustains the IRS' position, our tax deductions would be severely diminished with a resulting adverse effect on our cash flow and ability to service the Convertible Notes.

Risks Related To Our Industries

Our services may become subject to burdensome regulation, which could increase our costs or restrict our service offerings.

We believe that our cloud services are "information services" under the Telecommunications Act of 1996 and related precedent, or, if not "information services," that we are entitled to other exemptions, meaning that we are not currently subject to U.S. telecommunications services regulation at both the federal and state levels. In connection with our cloud services business, we utilize data transmissions over public telephone lines and other facilities provided by third-party carriers. These transmissions are subject to foreign and domestic laws and regulation by the Federal Communications Commission (the "FCC"), state public utility commissions and foreign governmental authorities. These regulations affect the availability of numbers, the prices we pay for transmission services, the administrative costs associated with providing our services, the competition we face from telecommunications service providers and other aspects of our market. However, as messaging and communications services converge and as the services we offer expand, we may become subject to FCC or other regulatory agency regulation. It is also possible that a federal or state regulatory agency could take the position that our offerings, or a subset of our offerings, are properly classified as telecommunications services or otherwise not entitled to certain exemptions upon which we currently rely. Such a finding could potentially subject us to fines, penalties or enforcement actions as well as liabilities for past regulatory fees and charges, retroactive contributions to various telecommunications-related funds, telecommunications-related taxes, penalties and interest. It is also possible that such a finding could subject us to additional regulatory obligations that could potentially require us either to modify our offerings in a costly manner, diminish our ability to retain customers, or discontinue certain offerings, in order to comply with certain regulations. Changes in the regulatory environment could decrease our revenues, increase our costs and restrict our service offerings. In many of our international locations, we are subject to regulation by the applicable governmental authority.

In the U.S., Congress, the FCC, and a number of states require regulated telecommunications carriers to contribute to federal and/or state Universal Service Funds ("USF"). Generally, USF is used to subsidize the cost of providing service to low-income customers and those living in high cost or rural areas. Congress, the FCC and a number of states are reviewing the manner in which a provider's contribution obligation is calculated, as well as the types of entities subject to USF contribution obligations. If any of these reforms are adopted, they could cause us to alter or eliminate our non-paid services and to raise the price of our paid services, which could cause us to lose customers. Any of these results could lead to a decrease in our revenues and net income and could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

The Telephone Consumer Protection Act (the "TCPA") and FCC rules implementing the TCPA, as amended by the Junk Fax Act, prohibit sending unsolicited facsimile advertisements to telephone fax machines. The FCC, the Federal Trade Commission ("FTC"), or both may initiate enforcement action against companies that send "junk faxes" and individuals also may have a private cause of action. Although entities that merely transmit facsimile messages on behalf of others are not liable for compliance with the prohibition on faxing unsolicited advertisements, the exemption from liability does not apply to fax transmitters that have a high degree of involvement or actual notice of an illegal use and have failed to take steps to prevent such transmissions. We take significant steps to ensure that our services are not used to send unsolicited faxes on a large scale, and we do not believe that we have a high degree of involvement in or notice of the use of our service to broadcast junk faxes. However, because fax transmitters

do not enjoy an absolute exemption from liability under the TCPA and related FCC and FTC rules, we could face inquiries from the FCC and FTC or enforcement actions by these agencies, or private causes of action, if someone uses our service for such impermissible purposes. If this were to occur and we were to be held liable for someone's use of our service for transmitting unsolicited faxes, the financial penalties could cause a material adverse effect on our operations and harm our business reputation.

Likewise, the TCPA also prohibits placing calls or sending text messages to mobile phones without "prior express consent" subject to limited exceptions. Parties that solely enable calling or text messaging are only directly liable under the TCPA pursuant to federal common law vicarious liability principles. We take significant steps to ensure that users understand that they are responsible for how they use our technology including complying with relevant federal and state law. However, because we do not enjoy absolute exemption from liability under the TCPA and related FCC and FTC rules, we could face inquiries from the FCC and FTC or enforcement actions by these agencies, or private causes of action, if someone uses our service for such impermissible purposes. If this were to occur and we were to be held liable for someone's use of our service for unauthorized calling or text messaging mobile users, the financial penalties could cause a material adverse effect on our operations and harm our business reputation.

Also, in the U.S., the Communications Assistance to Law Enforcement Act ("CALEA") requires telecommunications carriers to be capable of performing wiretaps and recording other call identifying information. In September 2005, the FCC released an order defining telecommunications carriers that are subject to CALEA obligations as facilities-based broadband internet access providers and Voice-over-Internet-Protocol ("VoIP") providers that interconnect with the public switched telephone network. As a result of this definition, we do not believe that j2 Global is subject to CALEA. However, if the category of service providers to which CALEA applies broadens to also include information services, that change may impact our operations.

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

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

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

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

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

The Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (the "CAN-SPAM Act"), which allows for penalties that run into the millions of dollars, requires commercial emails to include identifying information from the sender and a mechanism for the receiver to opt out of receiving future emails. Several states have enacted additional, more restrictive and punitive laws regulating commercial email. Foreign legislation exists as well, including Canada's Anti-Spam Legislation ("CASL") and the European laws that have been enacted pursuant to European Union Directive 2002/58/EC and its amendments. We use email as a significant means of communicating with our existing and potential users. We believe that our email practices comply with the requirements of the CAN-SPAM Act, state laws, and applicable foreign legislation. If we were ever found to be in violation of these laws and regulations, or any other laws or regulations, our business, financial condition, operating results and cash flows could be materially adversely affected.

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

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

Native advertising is an increasing part of our Digital Media segment's online advertising revenue. On December 22, 2015 the FTC issued Guidelines and an Enforcement Policy Statement on native advertising, described by the FTC as, in part, ads which often "resemble the design, style, and functionality of the media in which they are disseminated". The Company, as well as trade groups and our consultants, are assessing the requirements of these guidelines on our current practices and industry practices and what, if any, effect this could have on our native advertising business. In addition, the timing and extent of any enforcement by the FTC with regard to the native advertising practices by the Company, or others, could reduce the revenue we generate from this line of business.

For certain data transfers between the European Union ("EU") and the U.S., j2 Global, like many other companies, had relied on what is referred to as the "EU-U.S. Safe Harbor," in order to comply with privacy obligations imposed by EU countries. Recently, the European Court of Justice invalidated the EU-U.S. Safe Harbor. Subsequently, a group comprised of the majority of EU data protection regulators issued a statement that it would further consider the decision issued by the European Court of Justice and coordinate any potential enforcement actions after January 31, 2016. But some individual data protection regulators located in EU countries have threatened to begin enforcement actions independently of this larger representative group of such entities. Although U.S. and EU policymakers approved a new framework known as "Privacy Shield" that would allow companies like us to continue to rely on some form of a safe harbor for the transfer of certain data from the EU to the U.S., it remains to be seen if this new safe harbor meets the standards of the European laws on data privacy. It is also unclear whether the UK will offer a similar program to Privacy Shield when the UK leaves the EU. Additionally, other countries that relied on the EU-U.S. Safe Harbor that were not part of the EU have also found that data transfers to the U.S. are no longer valid based on the European Court of Justice ruling. We cannot predict how or if this issue will be resolved nor can we evaluate any potential liability at this time.

The Company is working to put into place various alternative grounds on which to rely in order to be in compliance with relevant law for the transfer of data from overseas locations to the U.S. which have not been invalidated by the European Court of Justice. Some independent data regulators have adopted the position that other forms of compliance are also invalid though the

legal grounds for these findings remain unclear at this time. We cannot predict at this time whether the alternative grounds that j2 Global continues to implement will be found to be consistent with relevant laws nor what any potential liability may be at this time.

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

Government and private actions or self-regulatory developments regarding internet privacy matters could adversely affect our ability to conduct our business.

Our Digital Media business collects and sells data about its users' online behavior and the revenue associated with this activity could be impacted by government regulation and enforcement, industry trends, self-regulation, technology changes, consumer behavior and attitude, and private action. We also use such information to work with our advertisers to more effectively target ads to relevant users and consumers, which ads command a higher rate.

Many of our users voluntarily provide us with demographic and other information when they register for one of our service or properties. In order for our Everyday Health brand to deliver marketing and communications solutions to pharmaceutical companies, health insurers and hospital systems, we rely on data provided by our customers. We also purchase data from third-party sources to augment our user profiles and marketing databases so we are better able to personalize content, enhance our analytical capabilities and better target our marketing programs. If changes in user sentiment regarding the sharing of information results in a significant number of visitors to our websites and applications refusing to provide us with demographic information or information about their specific health interests, our ability to personalize content for our users and provide targeted marketing solutions would be impaired. If our users choose to opt-out of having their data used for behavioral targeting, it would be more difficult for us to offer targeted marketing programs to our customers.

We append data from third-party sources to augment our user profiles. If we are unable to acquire data from third-party sources for whatever reason, or if there is a marked increase in the cost of obtaining such data, our ability to personalize content and provide marketing solutions could be negatively impacted.

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

New and expanding "Do Not Track" regulations have recently been enacted or proposed that protect users' right to choose whether or not to be tracked online. These regulations seek, among other things, to allow consumers to have greater control over the use of private information collected online, to forbid the collection or use of online information, to demand a business to comply with their choice to opt out of such collection or use, and to place limits upon the disclosure of information to third party websites. These laws and regulations could have a significant impact on the operation of our advertising and data businesses. U.S. regulatory agencies have also placed an increased focus on online privacy matters and, in particular, on online advertising activities that utilizes cookies or other tracking tools. Consumer and industry groups have expressed concerns about online data collection and use by companies, which has resulted in the release of various industry self-regulatory codes of conduct and best practice guidelines that are binding for member companies and that govern, among other things, the ways in which companies can collect, use and disclose user information, how companies must give notice of these practices and what choices companies must provide to consumers regarding these practices.

We may be required or otherwise choose to adopt Do Not Track mechanisms or self-regulation principles, in which case our ability to use our existing tracking technologies, to collect and sell user behavioral data, and permit their use by other third parties could be impaired. This could cause our net revenues to decline and adversely affect our operating results.

U.S. and foreign governments have enacted or considered or are considering legislation or regulations that could significantly restrict our ability to collect, augment, analyze, use and share anonymous data, which could increase our costs and reduce our revenue.

We operate across many different jurisdictions both domestically and internationally which may subject us to cybersecurity, privacy, data security and data protection laws with uncertain interpretations as well as impose conflicting obligations on us.

Cybersecurity, privacy, data security, and data protection laws are constantly evolving at the federal and state levels in the United States, as well as abroad. We are currently subject to such laws both at the federal and state levels in the U.S. as well as similar laws in a variety of international jurisdictions. The interpretation of these laws may be uncertain and may also impose confliction obligations on us. While we work to comply with all applicable law and relevant "best practices" addressing cybersecurity, privacy, data security and data protection, this is an area of the law that is constantly evolving as are the relevant industry codes and threat matrix. Further it is possible that applicable law and "best practices" are interpreted in an inconsistent or conflicting manner either by differing federal, state or international authorities or across the jurisdictions in which we operate. Any failure or perceived failure by us, our partners, our vendors, or third parties on which we rely could result in a significant liability to us (including in the form of judicial decisions and/or settlements, regulatory findings and/or forfeitures, and other means), cause considerable harm to us and our reputation (including requiring notification to customers, regulators, and/or the media), cause a loss of confidence in our products and services, and deter current and potential customers from using our services. Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

The EU's General Data Protection Regulation will impose significant compliance costs and expose the Company to substantial risks.

The EU has traditionally imposed more strict obligations under data privacy laws and regulations. Individual EU member countries have had discretion with respect to their interpretation and implementation of EU data privacy laws, resulting in variation of privacy standards from country to country. However, the 1995 Data Protection Directive will be replaced when the General Data Protection Regulation ("GDPR") that was adopted in April 2016 comes into effect in May 2018. The GDPR harmonizes EU data privacy laws and contains significant obligations and requirements that will result in a greater compliance burden with respect to our operations and data use in Europe, which will increase our costs. Additionally, government authorities will have more power to enforce compliance and impose substantial penalties for any failure to comply. In addition, individuals have the right to compensation under GDPR. In the event the Company is not in compliance by the implementation date, or fails to maintain compliance thereafter, the Company would be exposed to material damages, costs and/or fines if an EU government authority or EU resident commenced an action. Failure to comply or maintain compliance could cause considerable harm to us and our reputation (including requiring notification to customers, regulators, and/or the media), cause a loss of confidence in our products and services, and deter current and potential customers from using our services. Any of these events could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

We face potential liability related to the privacy and security of health-related information we collect from, or on behalf of, our consumers and customers.

The privacy and security of information about the physical or mental health or condition of an individual is an area of significant focus in the U.S. because of heightened privacy concerns and the potential for significant consumer harm from the misuse of such sensitive data. We have procedures and technology in place intended to safeguard the information we receive from customers and users of our services from unauthorized access or use.

The Privacy Standards and Security Standards under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") establish a set of basic national privacy and security standards for the protection of individually identifiable health information by health plans, healthcare clearinghouses and certain healthcare providers, referred to as "covered entities", and the business associates with whom such covered entities contract for services. Notably, whereas HIPAA previously directly regulated only these covered entities, the Health Information Technology for Economic and Clinical Health Act of 2009 ("HITECH") makes certain of HIPAA's Privacy and Security Standards directly applicable to covered entities' business associates. As a result, business associates are now subject to significant civil and criminal penalties for failure to comply with applicable Privacy and Security Standards. Additionally, certain states have adopted comparable privacy and security laws and regulations, some of which may be more stringent than HIPAA.

HIPAA directly applies to covered entities such as hospital clients of certain of our subsidiaries. Since these clients disclose protected health information to our subsidiaries so that those subsidiaries can provide certain services to them, those subsidiaries are business associates of those clients. In addition, we may sign business associate agreements in connection with the provision of the products and services developed for other third parties or in connection with certain of our other services that may transmit or store protected health information.

Failure to comply with the requirements of HIPAA or HITECH or any of the applicable federal and state laws regarding patient privacy, identity theft prevention and detection, breach notification and data security may subject us to penalties, including civil monetary penalties and, in some circumstances, criminal penalties or contractual liability under agreements with our customers and clients. Any failure or perception of failure of our products or services to meet HIPAA, HITECH and related regulatory requirements could expose us to risks of investigation, notification, litigation, penalty or enforcement, adversely affect demand for our products and services and force us to expend significant capital and other resources to modify our products or services to address the privacy and security requirements of our clients and HIPAA and HITECH.

Developments in the healthcare industry could adversely affect our business.

A significant portion of Everyday Health's advertising and sponsorship revenues is derived from the healthcare industry, including pharmaceutical, over-the-counter and consumer-packaged-goods companies, and could be affected by changes affecting healthcare spending. Industry changes affecting healthcare spending could impact the market for these offerings. General reductions in expenditures by healthcare industry participants could result from, among other things:

- government regulation or private initiatives that affect the manner in which healthcare industry participants interact with consumers and the general public;
- consolidation of healthcare industry participants;
- reductions in governmental funding for healthcare; and
- adverse changes in business or economic conditions affecting pharmaceutical companies or other healthcare industry participants.

Even if general expenditures by industry participants remain the same or increase, developments in the healthcare industry may result in reduced spending in some or all of the specific market segments that we serve now or in the future. For example, use of our content offerings and the sale of our products and services could be affected by:

- changes in the design and provision of health insurance plans;
- a decrease in the number of new drugs or pharmaceutical products coming to market; and
- decreases in marketing expenditures by pharmaceutical companies as a result of governmental regulation or private initiatives that discourage or prohibit advertising or sponsorship activities by pharmaceutical companies.

The healthcare industry has changed significantly in recent years, and we expect that significant changes to the healthcare industry will continue to occur. However, the timing and impact of developments in the healthcare industry are difficult to predict. We cannot assure you that the demand for our offerings will continue to exist at current levels or that we will have adequate technical, financial and marketing resources to react to changes in the healthcare industry.

Government regulation of healthcare creates risks and challenges with respect to our compliance efforts and our business strategies with our Everyday Health brand.

The healthcare industry is highly regulated and subject to changing political, legislative, regulatory and other influences. Existing and future laws and regulations affecting the healthcare industry could create unexpected liabilities for us, cause us to incur additional costs and restrict our operations. Many healthcare laws are complex, and their application may not be clear. Our failure to accurately anticipate the application of these laws and regulations, or other failure to comply with such laws and regulations, could create liability for us. Even in areas where we are not subject to healthcare regulation directly, we may become involved in governmental actions or investigations through our relationships with customers that are regulated, and participation in such actions or investigations, even if we are not a party and not the subject of an investigation, may cause us to incur significant expenses.

For example, there are federal and state laws that govern patient referrals, physician financial relationships and inducements to healthcare providers and patients. The federal healthcare programs' anti-kickback provisions prohibit any person or entity from willingly offering, paying, soliciting or receiving anything of value, directly or indirectly, to induce or reward, or in return for either the referral of patients covered by Medicare, Medicaid and other federal healthcare programs or the leasing, purchasing, ordering or arranging for or recommending the lease, purchase or order of any item, good, facility or service covered by these programs. Many states also have similar anti-kickback laws that are not necessarily limited to items or services for which payment is made by a federal healthcare program. Our sale of advertising and sponsorships to healthcare providers implicates these laws. However, we review our practices to ensure that we comply with all applicable laws. The laws in this area are broad and we cannot determine precisely how they will be applied to our business practices. Any determination by a state or federal regulatory agency that any of our practices violate any of these laws could subject us to liability and require us to change or terminate some portions of our business.

Further, we derive revenues from the sale of advertising and promotion of prescription and over-the-counter drugs. If the FDA or the FTC finds that any of the information provided on our properties violates FDA or FTC regulations, they may take regulatory or judicial action against us and/or the advertiser of that information. State attorneys general may also take similar action based on their state's consumer protection statutes. Any increase or change in regulation of advertising and promotion in the healthcare industry could make it more difficult for us to generate and grow our advertising and sponsorship revenues.

In addition, the practice of most healthcare professions requires licensing under applicable state law and state laws may further prohibit business entities from practicing medicine, which is referred to as the prohibition against the corporate practice of medicine. Similar state prohibitions may exist with respect to other licensed professions. We believe that we do not engage in the practice of medicine or any other licensed healthcare profession, or provide, through our properties, professional medical advice, diagnosis, treatment or other advice that is tailored in such a way as to implicate state licensing or professional practice laws. However, a state may determine that some portion of our business violates these laws and may seek to have us discontinue those portions or subject us to penalties or licensure requirements. Any determination that we are a healthcare provider and acted improperly as a healthcare provider may result in liability to us.

Our business could suffer if providers of broadband internet access services block, impair or degrade our services.

Our business is dependent on the ability of our cloud services customers and visitors to our digital media properties to access our services and applications over broadband internet connections. Internet access providers and internet backbone providers may be able to block, degrade or charge for access or bandwidth use of certain of our products and services, which could lead to additional expenses and the loss of users. Our products and services depend on the ability of our users to access the internet. Use of our services and applications through mobile devices, such as smartphones and tablets, must have a high-speed data connection. Broadband internet access services, whether wireless or landline, are provided by companies with significant market power. Many of these providers offer products and services that directly compete with ours.

On January 4, 2018, the FCC, released an order that largely repeals rules that the FCC had in place which prevented broadband internet access providers from degrading or otherwise disrupting a broad range of services provisioned over consumers' and enterprises' broadband internet access lines. The FCC's January 4, 2018, Order is not yet effective and there are efforts in Congress to prevent the Order from becoming effective. Additionally, a number of state attorneys general have filed an appeal of the FCC's January 4, 2018, Order and others may also appeal the Order. A number of states have either passed legislation, adopted state executive agency policies or are in the process of adopting legislation that would prevent broadband internet access providers from blocking, degrading and otherwise impairing consumers' and internet applications service providers' broadband internet access services. We cannot predict whether the FCC's January 4, 2018, Order will become effective, whether it will withstand appeal, or whether states have the authority to adopt legislation and executive policies that may conflict with the FCC's January 4, 2018, Order.

Many of the largest providers of broadband services have publicly stated that they will not degrade or disrupt their customers' use of applications and services, like ours. If such providers were to degrade, impair or block our services, it would negatively impact our ability to provide services to our customers and likely result in lost revenue and profits, and we would incur legal fees in attempting to restore our customers' access to our services. Broadband internet access providers may also attempt to charge us or our customers additional fees to access services like ours that may result in the loss of customers and revenue, decreased profitability, or increased costs to our retail offerings that may make our services less competitive. We cannot predict the potential impact of the FCC's January 4, 2018, Order on us at this time nor can we evaluate the potential impact at this time.

Our cloud services business is dependent on a small number of telecommunications carriers in each region and our inability to maintain agreements at attractive rates with such carriers may negatively impact our business.

Our cloud services business substantially depends on the capacity, affordability, reliability and security of our network and services provided to us by our telecommunications suppliers. Only a small number of carriers in each region, and in some cases only one carrier, offer the number and network services we require. We purchase certain telecommunications services pursuant to short-term agreements that the providers can terminate or elect not to renew. As a result, any or all of our current carriers could discontinue providing us with service at rates acceptable to us, or at all, and we may not be able to obtain adequate replacements, which could materially and adversely affect our business, prospects, financial condition, operating results and cash flows.

Our business could suffer if we cannot obtain or retain numbers, are prohibited from obtaining local numbers or are limited to distributing local numbers to only certain customers.

The future success of our number-based cloud services business depends on our ability to procure large quantities of local numbers in the U.S. and foreign countries in desirable locations at a reasonable cost and offer our services to our prospective customers without restrictions. Our ability to procure and distribute numbers depends on factors such as applicable regulations, the practices of telecommunications carriers that provide numbers, the cost of these numbers and the level of demand for new numbers. For example, several years ago the FCC conditionally granted petitions by Connecticut and California to adopt specialized "unified messaging" area codes, but neither state has adopted such a code. Adoption of a specialized area code within a state or nation could harm our ability to compete in that state or nation if it materially affects our ability to acquire numbers for our operations or makes our services less attractive due to the unavailability of numbers with a local geographic area.

In addition, although we are the customer of record for all of our U.S. numbers, from time to time, certain U.S. telephone carriers inhibit our ability to port numbers or port our numbers away from us to other carriers. If a federal or regulatory agency determines that our customers should have the ability to port numbers without our consent, we may lose customers at a faster rate than what we have experienced historically, potentially resulting in lower revenues. Also, in some foreign jurisdictions, under certain circumstances, our customers are permitted to port their numbers to another carrier. These factors could lead to increased cancellations by our cloud services customers and loss of our number inventory. These factors may have a material adverse effect on our business, prospects, financial condition, operating results, cash flows and growth in or entry into foreign or domestic markets.

In addition, future growth in our number-based cloud services subscriber base, together with growth in the subscriber bases of other providers of number-based services, has increased and may continue to increase the demand for large quantities of numbers, which could lead to insufficient capacity and our inability to acquire sufficient numbers to accommodate our future growth.

We may be subject to increased rates for the telecommunications services we purchase from regulated carriers which could require us to either raise the retail prices of our offerings and lose customers or reduce our profit margins.

The FCC adopted wide-ranging reforms to the system under which regulated providers of telecommunications services compensate each other for the exchange of various kinds of traffic. While we are not a provider of regulated telecommunications services, we rely on such providers to offer our cloud services to our customers. As a result of the FCC's reforms, regulated providers of telecommunications services are determining how the rates they charge customers like us will change in order to comply with the new rules. It is possible that some or all of our underlying carriers will increase the rates we pay for certain telecommunications services. Should this occur, the costs we incur to provide number-based cloud services may increase which may require us to increase the retail price of our services. Increased prices could, in turn, cause us to lose customers, or, if we do not pass on such higher costs to our subscribers, our profit margins may decrease.

New technologies have been developed that are able to block certain of our advertisements or impair our ability to serve interest-based advertising which could harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block internet or mobile display advertising. Most of our Digital Media segment revenues are derived from fees paid by advertisers in connection with the display of advertisements or clicks on advertisements on web pages or mobile devices. As a result, such technologies and tools are reducing the number of display advertisements that we are able to deliver or our ability to serve our interest-based advertising and this, in turn, could reduce our advertising revenue and operating results. Adoption of these types of technologies by more of our users could have a material impact on our revenues. We have implemented third party products to combat these ad-blocking technologies and are developing other strategies to address advertisement blocking. However, our efforts may not be successful to offset the potential increasing impact of these advertising blocking products.

If we or our third-party service providers fail to prevent click fraud or choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability may decline.

A portion of our display revenue comes from advertisers that pay for advertising on a price-per-click basis, meaning that the advertisers pay a fee every time a user clicks on their advertising. This pricing model can be vulnerable to so-called "click fraud," which occurs when clicks are submitted on ads by a user who is motivated by reasons other than genuine interest in the subject of the ad. We or our third-party service providers may be exposed to the risk of click fraud or other clicks or conversions that advertisers may perceive as undesirable. If fraudulent or other malicious activity is perpetrated by others and we or our third-

party service providers are unable to detect and prevent it, or choose to manage traffic quality in a way that advertisers find unsatisfactory, the affected advertisers may experience or perceive a reduced return on their investment in our advertising programs which could lead the advertisers to become dissatisfied with our advertising programs and they might refuse to pay, demand refunds, or withdraw future business. Undetected click fraud could damage our brands and lead to a loss of advertisers and revenue.

If we are unable to continue to attract visitors to our websites from search engines, then consumer traffic to our websites could decrease, which could negatively impact the sales of our products and services, our advertising revenue and the number of purchases generated for our retailers through our Digital Media marketplace.

We generate consumer traffic to our websites using various methods, including search engine marketing, or SEM, search engine optimization, or SEO, email campaigns and social media referrals. Our net revenues and profitability levels are dependent upon our continued ability to use a combination of these methods to generate consumer traffic to our websites in a cost-efficient manner. We have experienced and continue to experience fluctuations in search result rankings for a number of our websites. There can be no assurances that we will be able to grow or maintain current levels of consumer traffic.

Our SEM and SEO techniques have been developed to work with existing search algorithms utilized by the major search engines. Major search engines frequently modify their search algorithms. Changes in these algorithms could cause our websites to receive less favorable placements, which could reduce the number of users who visit our websites. In addition, we use keyword advertising to improve our search ranking and to attract users to our sites. If we fail to follow legal requirements regarding the use of keywords or search engine guidelines and policies properly, search engines may rank our content lower in search results or could remove our content altogether from their indices.

Any decline in consumer traffic to our websites could adversely impact the amount of ads that are displayed and the number of purchases we generate for our retailers, which could adversely affect our net revenues. An attempt to replace this traffic through other channels may require us to increase our sales and marketing expenditures, which would adversely affect our operating results and which may not be offset by additional net revenues.

The industries in which we operate are undergoing rapid technological changes and we may not be able to keep up.

The industries in which we operate are subject to rapid and significant technological change. We cannot predict the effect of technological changes on our business. We expect that new services and technologies will emerge in the markets in which we compete. These new services and technologies may be superior to the services and technologies that we use or these new services may render our services and technologies obsolete. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes and evolving industry standards. We may be unable to obtain access to new technologies on acceptable terms or at all, and may therefore be unable to offer services in a competitive manner. Any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Increased cost of email transmissions could have a material adverse effect on our business.

We rely on email for the delivery of certain cloud services. We also offer email security, encryption and archival services. If regulations or other changes in the industry lead to a charge associated with the sending or receiving of email messages, the cost of providing our services could increase and, if significant, could materially adversely affect our business, prospects, financial condition, operating results and cash flows.

Risks Related To Our Stock

The fundamental change purchase feature of the Convertible Notes and the change of control features of the Senior Notes may delay or prevent an otherwise beneficial attempt to take over our company.

The terms of the Convertible Notes require us to offer to purchase the Convertible Notes for cash in the event of a fundamental change (as defined in the indenture governing the Convertible Notes), and the terms of the Senior Notes require our subsidiary, j2 Cloud Services, to offer to repurchase the Senior Notes for cash in the event of a change of control (as defined in the indenture governing the Senior Notes). These features may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to investors.

Conversions of the Convertible Notes will dilute the ownership interest of our existing stockholders, including holders who had previously converted their Convertible Notes.

The conversion of some or all of the Convertible Notes will dilute the ownership interests of our existing stockholders. Any sales in the public market of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the Convertible Notes could depress the price of our common stock.

We are a holding company and our operations are conducted through, and substantially all of our consolidated assets are held by, our subsidiaries, which are subject to certain restrictions on their ability to pay dividends to us to fund dividends on our stock, pay interest on the Convertible Notes and fund other holding company expenses.

We are a holding company. We conduct substantially all of our operations through our subsidiaries. A substantial portion of our consolidated assets is held by our subsidiaries. Accordingly, our ability to pay dividends on our stock, service our debt, including the Convertible Notes and fund other holding company expenses depends on the results of operations of our subsidiaries and upon the ability of such subsidiaries to provide us with cash, whether in the form of dividends, loans or otherwise.

In addition, dividends, loans or other distributions to us from such subsidiaries are subject to contractual and other restrictions and are subject to other business considerations. j2 Cloud Services, is subject to restrictions on dividends in its existing indenture with respect to the Senior Notes. The Senior Notes indenture generally prohibits dividends except out of a basket of 50% of cumulative net income (as defined in the indenture) and proceeds from equity offerings, although it permits any dividends if j2 Cloud Services' pro forma leverage ratio (as calculated as required by the indenture) is less than 3.0 to 1. While j2 Cloud Services is currently in compliance with such covenants, its ability to comply with such covenants is subject to conditions outside its control. If we cannot obtain cash from our subsidiaries, we may not be able to pay dividends on our stock, pay interest on the Convertible Notes and fund other operating company expenses without additional sources of cash.

Quarterly dividends may not continue, may not continue to grow or could decrease.

We may not continue to issue quarterly dividends or we could decrease the amount of any future dividends or cease to increase the amount of any future dividends. We paid our first quarterly dividend of $0.20 per share of common stock on September 19, 2011. We have declared increasing dividends in each subsequent quarter. Future dividends are subject to Board approval. We cannot assure that the Company will continue to pay a dividend in the future or the amount of any future dividends.

Future sales of our common stock may negatively affect our stock price.

As of February 26, 2018, substantially all of our outstanding shares of common stock were available for resale, subject to volume and manner of sale limitations applicable to affiliates under SEC Rule 144. Sales of a substantial number of shares of common stock in the public market or the perception of such sales could cause the market price of our common stock to decline. These sales also might make it more difficult for us to sell equity securities in the future at a price that we think is appropriate, or at all.

Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and of our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire control of us. For example, we are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of Directors. Additionally, our certificate of incorporation authorizes our Board of Directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third-party to acquire us even if an acquisition might be in the best interest of our stockholders.

Our stock price may be volatile or may decline.

Our stock price and trading volumes have been volatile and we expect that this volatility will continue in the future due to factors, such as:

- Assessments of the size of our subscriber base and our average revenue per subscriber, and comparisons of our results in these and other areas versus prior performance and that of our competitors;
- Variations between our actual results and investor expectations;
- Regulatory or competitive developments affecting our markets;
- Investor perceptions of us and comparable public companies;
- Conditions and trends in the communications, messaging and internet-related industries;
- Announcements of technological innovations and acquisitions;
- Introduction of new services by us or our competitors;
- Developments with respect to intellectual property rights;
- Conditions and trends in the internet and other technology industries;
- Rumors, gossip or speculation published on public chat or bulletin boards;
- General market conditions; and
- Geopolitical events such as war, threat of war or terrorist actions.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the common stocks of technology and other companies, particularly communications and internet companies. These broad market fluctuations have previously resulted in a material decline in the market price of our common stock. In the past, following periods of volatility in the market price of a particular company's securities, securities class action litigation has often been brought against that company. We may become involved in this type of litigation in the future. Litigation is often expensive and diverts management's attention and resources, which could have a material adverse effect on our business, prospects, financial condition, operating results and cash flows.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2017, we are leasing approximately 40,000 square feet of office space for our global headquarters in Los Angeles, California under a lease that expires on January 31, 2020. The Digital Media business is headquartered in New York City, where it leases approximately 43,000 square feet of office space pursuant to a lease that extends through May 2019 and 87,000 square feet of office space for Everyday Health pursuant to a lease that extends through October 2023. Additionally, we have smaller leased offices throughout Asia, North America, Europe and Australia.

All of our network equipment is housed either at our leased properties or at one of our multiple co-location facilities around the world. We believe our current facilities are generally in good operating condition and are sufficient to meet our needs for the foreseeable future.

Item 3. Legal Proceedings

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

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

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

On October 16, 2013, a j2 Global affiliate entered an appearance as a plaintiff in a multi-district litigation pending in the Northern District of Illinois (No. 1:12-cv-06286). In this litigation, Unified Messaging Solutions, LLC ("UMS"), a company with rights to assert certain patents owned by the j2 Global affiliate, has asserted five j2 Global patents against a number of defendants. While claims against some defendants have been settled, other defendants have filed counterclaims for, among other things, non-infringement, unenforceability, and invalidity of the patents-in-suit. On December 20, 2013, the Northern District of Illinois issued a claim construction opinion and, on June 13, 2014, entered a final judgment of non-infringement for the remaining defendants based on that claim construction. UMS and the j2 Global affiliate filed a notice of appeal to the Federal Circuit on June 27, 2014 (No. 14-1611). On December 8, 2017, the Federal Circuit affirmed the decision of the lower court.

On January 21, 2016, Davis Neurology, P.A. filed a putative class action against two j2 Global affiliates in the Circuit Court for the County of Pope, State of Arkansas (58-cv-2016-40), alleging violations of the TCPA. The case was ultimately removed to the U.S. District Court for the Eastern District of Arkansas (the "Eastern District of Arkansas") (No. 4:16-cv-00682). On June 6, 2016, the j2 Global affiliates filed a motion for judgment on the pleadings. On March 20, 2017, the Eastern District of Arkansas dismissed all claims against the j2 Global affiliates. On April 17, 2017, Davis Neurology filed a notice of appeal. On June 20, 2017, Davis Neurology filed its appeal brief. On August 4, 2017 j2 Global affiliates filed a response brief. On August 21, 2017, Davis Neurology filed a reply brief. Oral argument was held January 11, 2018. j2 Global affiliates submitted a supplemental letter brief on January 31, 2018. Davis Neurology submitted a supplemental letter brief on February 15, 2018. The appeal is pending.

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

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "JCOM". The following table sets forth the high and low closing sale prices for our common stock for the periods indicated, as reported by the NASDAQ Global Select Market.

	High	Low
Year ended December 31, 2017		
First Quarter	86.96	81.42
Second Quarter	91.17	80.86
Third Quarter	85.85	72.08
Fourth Quarter	78.96	72.17
Year ended December 31, 2016		
First Quarter	80.51	56.90
Second Quarter	68.30	60.01
Third Quarter	69.99	61.89
Fourth Quarter	83.47	62.69

Holders

We had 280 registered stockholders as of February 26, 2018. That number excludes the beneficial owners of shares held in "street" name or held through participants in depositories.

Dividends

We initiated a quarterly cash dividend program in August 2011 with a payment of $0.20 per share of common stock on September 19, 2011. We have paid an increasing quarterly cash dividend in each subsequent calendar quarter. The following is a summary of each dividend declared during fiscal year 2017 and 2016:

Declaration Date	Dividend per Common Share	Record Date	Payment Date
February 10, 2016	$ 0.3250	February 23, 2016	March 10, 2016
May 5, 2016	$ 0.3350	May 18, 2016	June 2, 2016
August 2, 2016	$ 0.3450	August 17, 2016	September 1, 2016
November 1, 2016	$ 0.3550	November 18, 2016	December 5, 2016
February 9, 2017	$ 0.3650	February 22, 2017	March 9, 2017
May 4, 2017	$ 0.3750	May 19, 2017	June 2, 2017
August 2, 2017	$ 0.3850	August 14, 2017	September 1, 2017
October 31, 2017	$ 0.3950	November 17, 2017	December 5, 2017

On February 2, 2018, the Company's Board of Directors approved a quarterly cash dividend of $0.4050 per share of common stock payable on March 9, 2018 to all stockholders of record as of the close of business on February 22, 2018 (see Note 20 - Subsequent Events). Future dividends are subject to Board approval.

Recent Sales of Unregistered Securities

Not applicable.

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"). On February 2, 2018, the Company announced that it has extended the 2012 Program set to expire February 19, 2018 by an additional year (see Note 20 - Subsequent Events). Cumulatively at December 31, 2017, we repurchased 2.1 million shares under the 2012 Program at an aggregated cost of $58.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (see Note 3 - Business Acquisitions). As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program.

The following table details the repurchases that were made under and outside the 2012 Program during the three months ended December 31, 2017:

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2017 - October 31, 2017	2,828	$ 73.78	—	1,938,689
November 1, 2017 - November 30, 2017	—	$ —	—	1,938,689
December 1, 2017 - December 31, 2017	23,705	$ 75.20	—	1,938,689
Total	26,533		—	1,938,689

(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.

Equity Compensation Plan Information

The following table provides information as of December 31, 2017 regarding shares outstanding and available for issuance under j2 Global's existing equity compensation plans:

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	375,675	$ 31.30	5,073,717
Equity compensation plans not approved by security holders	—	—	—
Total	375,675	$ 31.30	5,073,717

The number of securities remaining available for future issuance includes 3,450,474 and 1,623,243 under our 2015 Stock Option Plan and 2001 Employee Stock Purchase Plan, respectively. Please refer to Note 13 to the accompanying consolidated

financial statements for a description of these Plans as well as our 2007 Stock Option Plan, which terminated on February 14, 2017.

Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act of 1934, or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of j2 Global under the Securities Act of 1933, as amended, or the Exchange Act.

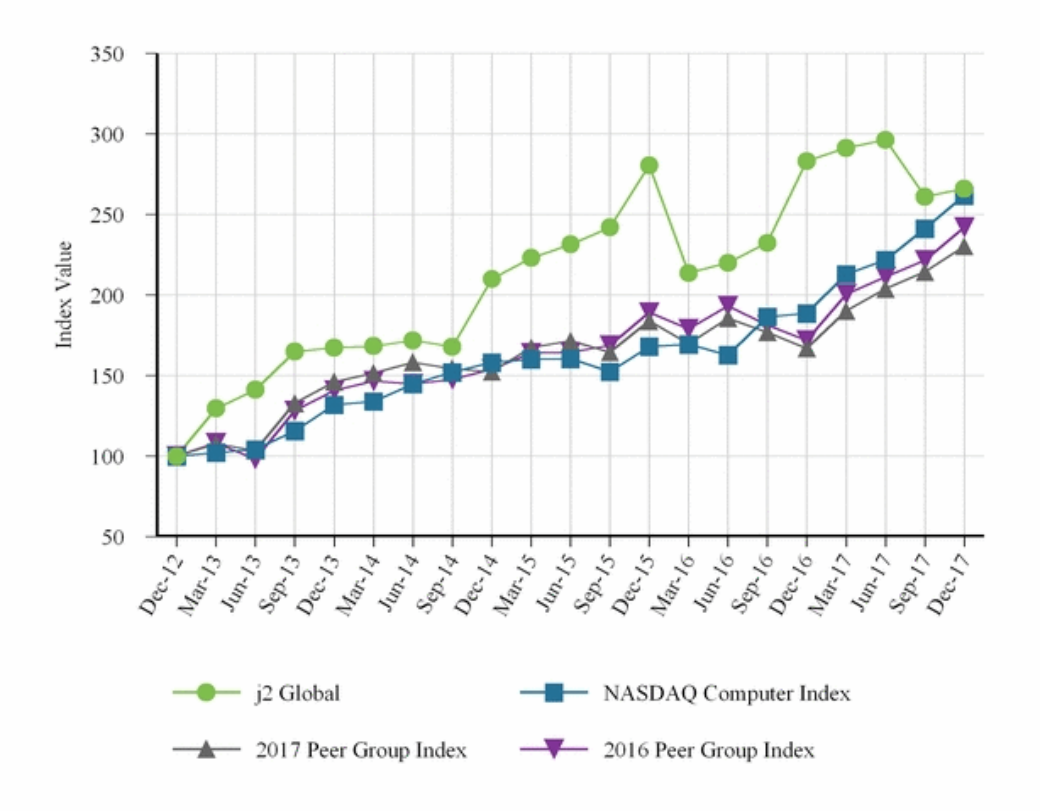
The following graph compares the cumulative total stockholder return for j2 Global, the NASDAQ Computer Index and an index of companies that j2 Global has selected as its peer group in the cloud service for business space.

j2 Global's peer group index for 2017 consists of IAC/InterActive Corp., TripAdvisor, Inc., LivePerson, Inc., LogMeIn, Inc., Zillow Group, Inc., Salesforce.com, Inc., Open Text Corp. and The Ultimate Software Group, Inc. Given the growth in our Digital Media segment, we have removed Athenahealth, Inc., WebMD Health Corp and Bankrate Inc. and have added IAC/InterActive Corp., TripAdvisor, Inc. and the Zillow Group, Inc. to our peer group. Both WebMD Health Corp. and Bankrate Inc. were acquired during the current year.

j2 Global's 2016 peer group index consisted of Athenahealth, Inc., WebMD Health Corp., LivePerson, Inc., LogMeIn, Inc., Bankrate Inc., Salesforce.com, Inc., Open Text Corp. and The Ultimate Software Group, Inc.

Measurement points are December 31, 2012 and the last trading day in each of j2 Global's fiscal quarters through the end of fiscal 2017. The graph assumes that $100 was invested on December 31, 2012 in j2 Global's common stock and in each of the indices, and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

Measurement Date	j2 Global	NASDAQ Computer Index	2017 Peer Group Index	2016 Peer Group Index
Dec-12	100.00	100.00	100.00	100.00
Mar-13	129.63	102.24	107.66	108.26
Jun-13	141.20	104.17	103.56	98.21
Sep-13	164.92	115.66	132.84	128.19
Dec-13	167.35	131.95	146.20	140.99
Mar-14	168.34	133.99	151.62	146.65
Jun-14	171.87	144.87	158.34	144.71
Sep-14	167.88	152.06	154.40	147.66
Dec-14	210.12	158.17	152.57	153.99
Mar-15	223.10	160.20	167.48	164.14
Jun-15	231.47	160.53	171.68	164.61
Sep-15	241.98	152.46	164.53	168.63
Dec-15	280.49	168.05	183.96	189.29
Mar-16	213.78	169.49	169.73	178.95
Jun-16	220.07	162.79	185.71	193.22
Sep-16	232.44	186.51	177.00	181.27
Dec-16	283.24	188.67	166.99	171.84
Mar-17	291.33	212.97	190.22	200.63
Jun-17	296.41	221.89	203.92	211.44
Sep-17	261.03	241.28	214.46	221.78
Dec-17	266.08	261.81	230.34	242.28



[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements, the related notes contained in this Annual Report on Form 10-K and the information contained herein in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Historical results are not necessarily indicative of future results.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except for share and per share amounts)				
Statement of Income Data:					
Revenues	$ 1,117,838	$ 874,255	$ 720,815	$ 599,030	$ 520,801
Cost of revenues	172,313	147,100	122,958	105,989	86,893
Gross profit	945,525	727,155	597,857	493,041	433,908
Operating expenses:					
Sales and marketing	330,296	206,871	159,009	141,967	131,317
Research, development and engineering	46,004	38,046	34,329	30,680	25,485
General and administrative	323,517	239,672	205,137	134,188	101,683
Total operating expenses	699,817	484,589	398,475	306,835	258,485
Income from operations	245,708	242,566	199,382	186,206	175,423
Interest expense, net	67,777	41,370	42,458	31,204	21,254
Other (income) expense, net	(22,035)	(10,243)	5	(165)	11,472
Income before income taxes	199,966	211,439	156,919	155,167	142,697
Income tax expense	60,541	59,000	23,283	29,840	35,175
Net income	$ 139,425	$ 152,439	$ 133,636	$ 125,327	$ 107,522
Less extinguishment of Series A preferred stock	—	—	—	(991)	—
Net income attributable to j2 Global, Inc. common shareholders	$ 139,425	$ 152,439	$ 133,636	$ 124,336	$ 107,522
Net income per common share:					
Basic	$ 2.89	$ 3.15	$ 2.76	$ 2.60	$ 2.31
Diluted	$ 2.83	$ 3.13	$ 2.73	$ 2.58	$ 2.28
Weighted average shares outstanding:					
Basic	47,586,242	47,668,357	47,627,853	46,778,015	45,548,767
Diluted	48,669,027	47,963,226	48,087,760	47,106,538	46,140,019
Cash dividends declared per common share	$ 1.52	$ 1.36	$ 1.22	$ 1.10	$ 0.98

	2017	2016	2015	2014	2013
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 350,945	$ 123,950	$ 255,530	$ 433,663	$ 207,801
Working capital	355,325	(106,090)	286,151	486,816	274,133
Total assets	2,453,093	2,062,328	1,783,719	1,705,202	1,153,789
Other long-term liabilities	31,434	3,475	18,228	22,416	1,458
Total stockholders' equity	$ 1,020,305	$ 914,536	$ 890,208	$ 820,235	$ 706,418

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. These forward-looking statements involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed in Part I, Item 1A - "Risk Factors" in this Annual Report on Form 10-K. 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, except as required by law. 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.

Overview

j2 Global, Inc., together with its subsidiaries ("j2 Global", "the Company", "our", "us" or "we"), is a leading provider of internet services. Through our Cloud Services segment, we provide cloud services to consumers and businesses and license our intellectual property ("IP") to third parties. In addition, the Cloud Services segment includes fax, voice, backup, security and email marketing products. Our Digital Media segment specializes in the technology, gaming, lifestyle and healthcare markets offering content, tools and services to consumers and businesses.

Our Cloud Services segment generates revenues primarily from customer subscription and usage fees and from IP licensing fees. Our Digital Media segment generates revenues from advertising and sponsorships, subscription and usage fees, performance marketing and licensing fees.

In addition to growing our business organically, on a regular basis we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technologies, acquire skilled personnel and enter into new markets.

Our consolidated revenues are currently generated from three basic business models, each with different financial profiles and variability. Our Cloud Services segment is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some seasonal weakness in the fourth quarter. The Cloud Services segment also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period to period. Our Digital Media segment is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.

j2 Global was incorporated in 2014 as a Delaware corporation through the creation of a new holding company structure, and our Cloud Services segment, operated by our wholly owned subsidiary, j2 Cloud Services, LLC (formerly j2 Cloud Services, Inc.), and its subsidiaries, was founded in 1995. We manage our operations through two business segments: Cloud Services and Digital Media. Information regarding revenue and operating income attributable to each of our reportable segments and certain geographic information is included within Note 16, "Segment Information" of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference.

Cloud Services Segment Performance Metrics

The following table sets forth certain key operating metrics for our Cloud Services segment for the years ended December 31, 2017, 2016 and 2015 (in thousands, except for percentages):

	Years Ended December 31,		
	2017	2016	2015
Subscriber revenues:			
Fixed	$ 471,269	$ 468,395	$ 414,919
Variable	102,928	93,950	83,804
Total subscriber revenues	574,197	562,345	498,723
Other license revenues	4,759	4,593	5,915
Total revenues	$ 578,956	$ 566,938	$ 504,638
Percentage of total subscriber revenues:			
Fixed	82.1%	83.3%	83.2%
Variable	17.9%	16.7%	16.8%
Total revenues:			
Number-based	$ 384,929	$ 367,741	$ 352,656
Non-number-based	194,027	199,197	151,982
Total revenues	$ 578,956	$ 566,938	$ 504,638
Average monthly revenue per Cloud Business Customer (ARPU) [1][2]	$ 15.31	$ 15.21	$ 14.79
Cancel rate [3]	2.0%	2.1%	2.1%

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

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

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

Digital Media Segment Performance Metrics

The following table sets forth certain key operating metrics for our Digital Media segment for the years ended December 31, 2017, 2016 and 2015 (in millions):

	Years Ended December 31,		
	2017	2016	2015
Visits	5,720	4,992	4,001
Page views	23,731	18,063	10,276

Sources: Google Analytics and Partner Platforms

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements and related disclosures in accordance with U.S. generally accepted accounting principles ("GAAP") and our discussion and analysis of our financial condition and operating results require us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. See Note 2, "Basis of Presentation and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K which describes the significant accounting policies and methods used in the preparation of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ significantly from those estimates under different assumptions and conditions and may be material.

We believe that our most critical accounting policies are those related to revenue recognition, valuation and impairment of investments, share-based compensation expense, long-lived and intangible asset impairment, contingent consideration, income taxes and contingencies and allowance for doubtful accounts. We consider these policies critical because they are those that are most important to the portrayal of our financial condition and results and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Senior management has reviewed these critical accounting policies and related disclosures with the Audit Committee of the Company's Board of Directors.

Revenue Recognition

Cloud Services

The Company's Cloud Services revenues substantially consist of monthly fixed subscription and variable usage-based fees, which are primarily paid in advance by credit card. In accordance with GAAP, the Company recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed and determinable and collection is probable. The Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance and recognizes them in the period earned. Additionally, the Company defers and recognizes subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

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 determines whether reseller 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 for principal-agent considerations and the Company places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

The Company records revenue on a gross basis with respect to reseller revenue as the Company is the primary obligator in the arrangement, has latitude in determining pricing and bears all credit risk associated with our reseller program partners.

j2 Global's Cloud Services also include patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to j2 Global in exchange for the grant of non-exclusive, retroactive and future licenses to our intellectual property, including patented technology. Patent revenues may also consist of revenues generated from the sale of patents. Patent license revenues are recognized when earned over the term of the license agreements. With regard to fully paid-up license arrangements, the Company recognizes as revenue in the period the license agreement is executed the portion of the payment attributable to past use of the intellectual property and amortizes the remaining portion of such payments on a straight-line basis, or pro-rata revenue basis, as appropriate over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes as revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

The Cloud Services business also generates revenues by licensing certain technology to third parties. These licensing revenues are recognized when earned in accordance with the terms of the underlying agreement. Generally, revenue is recognized as the third party uses the licensed technology over the period.

Digital Media

The Company's Digital Media revenues primarily consist of revenues generated from the sale of advertising campaigns that are targeted to the Company's proprietary websites and to those websites operated by third parties that are part of the Digital Media business's advertising network. Revenues for these advertising campaigns are recognized as earned either when an ad is placed for viewing by a visitor to the appropriate web page or when the visitor "clicks through" on the ad, depending upon the terms with the individual advertiser.

Revenues for Digital Media business-to-business operations consist of lead-generation campaigns for IT vendors and are recognized as earned when the Company delivers the qualified leads to the customer.

j2 Global also generates Digital Media revenues through the license of certain assets to clients, for the 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 when the assets are delivered to the client. Also, Digital Media revenues are generated through the license of certain speed testing technology which is recognized when delivered to the client and through providing data services primarily to Internet Service Providers ("ISPs") and wireless carriers which is recognized as earned over the term of the access period. The Digital Media business also generates other types of revenues, including business listing fees, subscriptions to online publications, and from other sources. Such other revenues are recognized as earned.

The Company determines whether Digital Media 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 for principal-agent considerations and the Company places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

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 Digital Media licensing program. 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.

Valuation and Impairment of Investments

We account for our investments in debt and equity securities in accordance with Financial Accounting Standards Board ("FASB") ASC Topic No. 320, Investments - Debt and Equity Securities ("ASC 320"). ASC 320 requires that certain debt and equity securities be classified into one of three categories: trading, available-for-sale or held-to-maturity securities. Our investments are comprised primarily of readily marketable corporate and governmental debt securities, money-market accounts and time deposits. We determine the appropriate classification of our investments at the time of acquisition and reevaluate such determination at each balance sheet date. Held-to-maturity securities are those investments that we have the ability and intent to hold until maturity. Held-to-maturity securities are recorded at amortized cost. Available-for-sale securities are recorded at fair value, with unrealized gains or losses recorded as a separate component of accumulated other comprehensive income (loss) in stockholders' equity until realized. Trading securities are carried at fair value, with unrealized gains and losses included in interest and other income on our consolidated statement of income. All securities are accounted for on a specific identification basis. We assess whether an other-than-temporary impairment loss on an investment has occurred due to declines in fair value or other market conditions (see Note 4 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K).

Share-Based Compensation Expense

We comply with the provisions of FASB ASC Topic No. 718, Compensation - Stock Compensation ("ASC 718"). Accordingly, we measure share-based compensation expense at the grant date, based on the fair value of the award, and recognize 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, we may change the input factors used in determining future share-based compensation expense. Any such changes could materially impact our results of operations in the period in which the changes are made and in periods thereafter. We elected to adopt the alternative transition method for calculating the tax effects of share-based compensation.

Long-lived and Intangible Assets

We account for long-lived assets in accordance with the provisions of FASB ASC Topic No. 360, Property, Plant, and Equipment ("ASC 360"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets.

We assess the impairment of identifiable definite-lived intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could individually or in combination trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

If we determined that the carrying value of definite-lived intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we would record an impairment equal to the excess of the carrying amount of the asset over its estimated fair value.

We have assessed whether events or changes in circumstances have occurred that potentially indicate the carrying value of definite-lived intangibles and long-lived assets may not be recoverable and noted no indicators of potential impairment for the years ended December 31, 2017, 2016 and 2015.

Goodwill and Purchased Intangible Assets

We evaluate our 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 for impairment annually or more frequently if circumstances indicate potential impairment. In connection with the annual impairment test for goodwill, we have 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 we determine that it was more likely than not that the fair value of the reporting unit is less than its carrying amount, then we perform the impairment test upon goodwill. The impairment test is comprised of two steps: (1) a reporting unit's fair value is compared to its carrying value; if the fair value is less than its carrying value, impairment is indicated; and (2) if impairment is indicated in the first step, it is measured by comparing the implied fair value of goodwill and intangible assets to their carrying value at the reporting unit level. In connection with the annual impairment test for intangible assets, we have the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value is less than its carrying amount, then we perform the impairment test upon intangible assets. We completed the required impairment review for the years ended December 31, 2017, 2016, and 2015 and noted no impairment. Consequently, no impairment charges were recorded.

Contingent Consideration

Certain of our acquisition agreements include contingent earn-out arrangements, which are generally based on the achievement of future income thresholds. The contingent earn-out arrangements are based upon our 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, we estimate the fair value of contingent earn-out payments as part of the initial purchase price and record the estimated fair value of contingent consideration as a liability on the consolidated balance sheets. We consider 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 our other key employees. The contingent earn-out payments are not affected by employment termination.

We measure our contingent earn-out liabilities at fair value on a recurring basis using significant unobservable inputs classified within Level 3 of the fair value hierarchy (see Note 6 "Fair Value Measurements" of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference). We may use various valuation techniques depending on the terms and conditions of the contingent consideration including a Monte-Carlo simulation. This simulation uses 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 amount paid will be recorded in earnings. The amount paid that is less than or equal to the liability on the acquisition date is reflected as cash used in financing activities in our consolidated statements of cash flows. Any amount paid in excess of the liability on the acquisition date is reflected as cash used in operating activities.

We review and re-assess the estimated fair value of contingent consideration on a quarterly basis, and the updated fair value could differ materially from the initial estimates. Changes in the estimated fair value of our contingent earn-out liabilities related to the time component of the present value calculation are reported in interest expense. Adjustments to the estimated fair value related to changes in all other unobservable inputs are reported in operating income.

Income Taxes

We account 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. Our valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, we review historical and future expected operating results and other factors to determine whether it is more likely than not that deferred tax assets are realizable.

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change, with or without notice, due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be affected by numerous factors, such as intercompany transactions, the relative amount of our foreign earnings, including earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, the applicability of special tax regimes, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies, changes to our existing businesses and operations, acquisitions (including integrations) and investments and how they are financed, changes in our stock price, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations. In addition, a number of countries are actively pursuing changes to their tax laws applicable to corporate multinationals, such as the recently enacted the 2017 Tax Act. Finally, foreign governments may enact tax laws in response to the 2017 Tax Act that could result in further changes to global taxation and materially affect our financial position and results of operations.

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

Income Tax Contingencies

We calculate current and deferred tax provisions based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the following year. Adjustments based on filed returns are recorded when identified in the subsequent year.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax position is required to meet before it can be recognized in the financial statements and applies to all 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 income 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. We recognize accrued interest and penalties related to uncertain income tax positions in income tax expense on our consolidated statement of income. On a quarterly basis, we evaluate uncertain income tax positions and establish or release reserves as appropriate under GAAP.

As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Our estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities. In addition, we may be subject to examination of our tax returns by the U.S. Internal Revenue Service ("IRS") and other domestic and foreign tax authorities.

It is possible that one or more of these audits may conclude in the next 12 months and that the unrecognized tax benefits we have recorded in relation to these tax years may change compared to the liabilities recorded for the periods. However, it is not possible to estimate the amount, if any, of such change. We establish reserves for these tax contingencies when we believe that certain tax positions might be challenged despite our belief that our tax positions are fully supportable. We adjust these reserves when changing events and circumstances arise.

Non-Income Tax Contingencies

We are currently under audit by various state, local and foreign taxing authorities for direct and indirect non-income related taxes, including Canadian sales tax. In accordance with the provisions of FASB ASC Topic No. 450, Contingencies ("ASC 450") we make judgments regarding the future outcome of contingent events and record loss contingency amounts that are probable and reasonably estimable based upon available information.

As a provider of cloud services for business, we do not provide telecommunications services. Thus, we believe that our business and our users (by using our services) are generally not subject to various telecommunication taxes. However, several state taxing authorities have challenged this belief and have and may continue to audit and assess our business and operations with respect to telecommunications and other sales taxes. In addition, the application of other indirect taxes (such as sales and use tax, business tax and gross receipt tax) to e-commerce businesses such as j2 Global and our users is a complex and evolving issue.

The application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

On March 3, 2017, the New York State Department of Taxation and Finance issued a notice of assessment for sales and use tax for the period of March 1, 2009 through February 28, 2014. We have reached a settlement with the Department which has expanded the period up to November 30, 2017. We have accrued $2.80 million as of December 31, 2017. On February 18, 2018, we paid $2.77 million to New York in settlement. On August 24, 2016, the Office of Finance for the City of Los Angeles notified us that they will commence an audit of business and communications taxes for the period of January 1, 2013 through December 31, 2016 which has concluded with no material impact. For other jurisdictions, we currently have no reserves established for these matters, as we have determined that the liability is not probable and estimable. However, it is reasonably possible that such a liability could be incurred, which would result in additional expense, which could materially impact our financial results.

Allowances for Doubtful Accounts

We reserve for receivables we may not be able to collect. These reserves are typically driven by the volume of credit card declines and past due invoices and are based on historical experience as well as an evaluation of current market conditions. On an ongoing basis, management evaluates the adequacy of these reserves.

Recent Accounting Pronouncements

See Note 2, "Basis of Presentation and Summary of Significant Accounting Policies", to our accompanying consolidated financial statements for a description of recent accounting pronouncements and our expectations of their impact on our consolidated financial position and results of operations.

Results of Operations

Years Ended December 31, 2017, 2016 and 2015

Cloud Services Segment

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

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

Digital Media Segment

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

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

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

j2 Global Consolidated

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

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

The following table sets forth, for the years ended December 31, 2017, 2016 and 2015, information derived from our statements of income as a percentage of revenues. This information should be read in conjunction with the accompanying financial statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

	Years Ended December 31,		
	2017	**2016**	**2015**
Revenues	100%	100%	100%
Cost of revenues	15	17	17
Gross profit	85	83	83
Operating expenses:			
Sales and marketing	30	24	22
Research, development and engineering	4	4	5
General and administrative	29	27	28
Total operating expenses	63	55	55
Income from operations	22	28	28
Interest expense, net	6	5	6
Other expense (income), net	(2)	(1)	—
Income before income taxes	18	24	22
Income tax expense	5	7	3
Net income	12%	17%	19%

Revenues

(in thousands, except percentages)	**2017**	**2016**	**2015**	**Percentage Change 2017 versus 2016**	**Percentage Change 2016 versus 2015**
Revenues	**$ 1,117,838**	**$ 874,255**	**$ 720,815**	**28%**	**21%**

Our revenues consist of revenues from our Cloud Services segment and from our Digital Media segment. Cloud Services revenues primarily consist of revenues from "fixed" customer subscription revenues and "variable" revenues generated from actual

usage of our services. We also generate Cloud Services revenues from IP licensing. Digital Media revenues primarily consist of advertising revenues, fees paid for generating business leads, and licensing and sale of editorial content and trademarks.

Our revenues have increased over the past three years primarily due to the following factors:

- Acquisitions within our Digital Media properties, plus organic growth in that segment;
- Acquisitions within our Cloud Services segment, plus organic growth in that segment.

Cost of Revenues

(in thousands, except percentages)	2017	2016	2015	Percentage Change 2017 versus 2016	Percentage Change 2016 versus 2015
Cost of revenue	**$ 172,313**	**$ 147,100**	**$ 122,958**	**17%**	**20%**
As a percent of revenue	**15%**	**17%**	**17%**		

Cost of revenues is primarily comprised of costs associated with data and voice transmission, numbers, editorial and production costs, network operations, customer service, online processing fees and equipment depreciation. The increase in cost of revenues for the year ended December 31, 2017 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2016 that resulted in additional editorial and production costs. The increase in cost of revenues for the year ended December 31, 2016 was primarily due to an increase in costs associated with businesses acquired in and subsequent to fiscal 2015 that resulted in additional network operations, editorial and production costs, customer service and depreciation.

Operating Expenses

Sales and Marketing.

(in thousands, except percentages)	2017	2016	2015	Percentage Change 2017 versus 2016	Percentage Change 2016 versus 2015
Sales and Marketing	**$ 330,296**	**$ 206,871**	**$ 159,009**	**60%**	**30%**
As a percent of revenue	**30%**	**24%**	**22%**		

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 years ended December 31, 2017, 2016 and 2015 was $143.3 million (primarily consisting of $95.4 million of third-party advertising costs and $41.0 million of personnel costs), $96.8 million (primarily consisting of $64.8 million of third-party advertising costs and $26.3 million of personnel costs) and $63.5 million (primarily consisting of $41.2 million of third-party advertising costs and $21.9 million of personnel costs), respectively. The increase in sales and marketing expenses from 2016 to 2017 was primarily due to increased personnel costs and advertising associated with the acquisition of Everyday Health within the Digital Media segment, which was acquired in December 2016. The increase in sales and marketing expenses from 2015 to 2016 was primarily due to increased advertising associated with businesses acquired within the Digital Media and Cloud Services segments and additional personnel costs.

Research, Development and Engineering.

(in thousands, except percentages)	2017	2016	2015	Percentage Change 2017 versus 2016	Percentage Change 2016 versus 2015
Research, Development and Engineering	**$ 46,004**	**$ 38,046**	**$ 34,329**	**21%**	**11%**
As a percent of revenue	**4%**	**4%**	**5%**		

Our research, development and engineering costs consist primarily of personnel-related expenses. The increase in research, development and engineering costs from 2016 to 2017 and 2015 to 2016 were primarily due to an increase in professional services and personnel costs associated with acquisitions within the Cloud Service and Digital Media segments.

General and Administrative.

(in thousands, except percentages)	2017	2016	2015	Percentage Change 2017 versus 2016	Percentage Change 2016 versus 2015
General and Administrative	**$ 323,517**	**$ 239,672**	**$ 205,137**	**35%**	**17%**
As a percent of revenue	**29%**	**27%**	**28%**		

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 from 2016 to 2017 was primarily due to additional amortization of intangible assets and personnel costs relating to acquisitions closed during 2016 and 2015 and increased depreciation expense. The increase in general and administrative expense from 2015 to 2016 was primarily due to an increase in amortization of intangible assets, an increase in the fair value associated with contingent consideration issued in certain acquisitions within the Digital Media segment, personnel costs relating to acquisitions closed during 2015 and 2016 and bad debt expense.

Share-Based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of income for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Cost of revenues	$ 500	$ 436	$ 373
Operating expenses:			
Sales and marketing	1,723	1,782	2,435
Research, development and engineering	1,182	904	863
General and administrative	19,332	10,528	8,122
Total	$ 22,737	$ 13,650	$ 11,793

During the year, the Company accelerated the vesting of certain shares held by employees which were surrendered to the Company to satisfy tax withholding obligations in connection with such employees' restricted stock. The Company recognized share-based compensation of $1.4 million during year due to this vesting acceleration.

In connection with Nehemia Zucker's resignation as Chief Executive Officer effective as of December 31, 2017, all of his outstanding and unvested stock options and time-based restricted shares, along with the tranche of performance-vesting restricted shares that was then next scheduled to vest, vested in full on December 29, 2017. As a result, the Company has accelerated the recognition of share-based compensation expense associated with these awards which impacted the fourth quarter by approximately $5.1 million.

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 short and long-term investments. Interest expense, net was $67.8 million, $41.4 million, and $42.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. The increase from 2016 to 2017 was due to increased interest expense associated with the issuance of the $650 million 6.0% Senior Notes and our line of credit borrowings, the loss on the extinguishment of the $250 million 8.0% Senior Notes and decreased interest income on cash, cash equivalents and investments. The decrease between 2015 and 2016 was primarily due to additional interest income.

Other (income) expense, net. Our other (income) expense, net is generated primarily from miscellaneous items, gain or losses on currency exchange and the sale of investments. Other (income) expense, net was $(22.0) million, $(10.2) million, and $0.0 million for the years ended December 31, 2017, 2016 and 2015, respectively. The change from 2016 to 2017 was attributable to an increase in gains earned in the current period related to the sales of subsidiaries in our Digital Media and Cloud segments; partially offset by increased losses on currency exchange compared to the prior period which included the sale of our strategic investment in Carbonite resulting in a gain on sale of $7.6 million and a breakup fee of $2.5 million associated with the competitive bid for certain assets of Gawker Media. The change from 2015 to 2016 is primarily due to the gain on sale of our Carbonite investment and the Gawker Media Group break-up fee.

Income Taxes

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

The 2017 Tax Act signed into law on December 22, 2017 significantly revises the U.S. corporate income tax by, among other things, lowering the statutory corporate tax rate from 35.0% to 21.0%, eliminating certain deductions, imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries as of 2017, introducing new tax regimes, and changing how foreign earnings are subject to U.S. tax. The 2017 Tax Act also enhanced and extended through 2026 the option to claim accelerated depreciation deductions on qualified property. The SEC staff acknowledged the challenges companies face incorporating the effects of tax reform by their financial reporting deadlines and issued SAB 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete accounting for certain income tax effects of the 2017 Tax Act.

As of December 31, 2017, we have not completed our determination of the accounting implications of the 2017 Tax Act on our tax accruals. However, we have reasonably estimated the effects of the 2017 Tax Act and recorded provisional amounts in our financial statements as of December 31, 2017. We recorded a provisional tax expense for the impact of the 2017 Tax Act of $15.9 million. This amount is comprised of $49.2 million expense associated with the mandatory one-time tax on the accumulated untaxed earnings of our foreign subsidiaries, offset with $33.3 million benefit related to the re-measurement of federal net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21.0% from 35.0%. The one-time transition tax on the accumulated earnings of our foreign subsidiaries will be paid over eight years as provided in the 2017 Tax Act. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts. Those adjustments may materially impact our provision for income taxes in the period in which the adjustments are made.

As of December 31, 2017, we had federal net operating loss carryforwards ("NOLs") of $102.2 million after considering substantial restrictions on the utilization of these NOLs due to "ownership changes", as defined in the Internal Revenue Code of 1986, as amended. We estimate that all of the above-mentioned federal NOLs will be available for use before their expiration. These NOLs expire through the year 2036. The $102.2 million NOL carryforward amount includes $89.1 million acquired pursuant to the Everyday Health transaction.

As of December 31, 2017 and 2016, the Company has foreign tax credits of zero and $11.9 million, respectively. The Company has provided a valuation allowance on the foreign tax credits of zero and $11.9 million as of December 31, 2017 and 2016, respectively, as the weight of available evidence does not support full utilization of these credits. The foreign tax credits were fully utilized in 2017 as a result of the transition tax on repatriated foreign earnings. If these tax credits were not fully utilized, the foreign tax credits would have expired in the year 2025. In addition, as of December 31, 2017 and 2016, we had available unrecognized state research and development tax credits of $2.3 million and $3.5 million, respectively, which last indefinitely.

Income tax expense amounted to $60.5 million, $59.0 million and $23.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. Our effective tax rates for 2017, 2016 and 2015 were 30.3%, 27.9% and 14.8%, respectively.

The increase in our annual effective income tax rate from 2016 to 2017 was primarily attributable to the following:

1. an increase during 2017 in the transition tax due to the 2017 Tax Act; partially offset by:
2. a decrease during 2017 in the valuation of deferred tax liabilities due to the decrease in the federal tax rate per the 2017 Tax Act; and
3. a decrease during 2017 in the amount of deemed distribution income (Section 956) from our foreign subsidiaries.

The increase in our annual effective income tax rate from 2015 to 2016 was primarily attributable to the following:

1. the reversal of uncertain income tax positions during 2015;
2. an increase during 2016 in the amount of deemed distribution income (Section 956) from our foreign subsidiaries; partially offset by:
3. a decrease during 2016 in the valuation allowance for foreign tax credit carryforwards.

In order to provide additional understanding in connection with our foreign taxes, the following represents the statutory and effective tax rate by significant foreign country:

	Ireland	United Kingdom	Canada
Statutory tax rate	12.5%	20.0% (19.0% from April 1, 2017)	26.5%
Effective tax rate [(1)]	12.5%	20.1%	26.5%

[(1)] Effective tax rate excludes certain discrete items.

The statutory tax rate is the rate imposed on taxable income for corporations by the local government in that jurisdiction. The effective tax rate measures the taxes paid as a percentage of pretax profit. The effective tax rate can differ from the statutory tax rate when a company can exempt some income from tax, claim tax credits, or due to the effect of book-tax differences that do not reverse and discrete items.

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.

Segment Results

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

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

Cloud Services

The following segment results are presented for fiscal years 2017, 2016 and 2015 (in thousands):

	2017		2016		2015	
External net sales	$ 578,956	100.0%	$ 566,938	100.0%	$ 504,638	100.0%
Inter-segment net sales	—	—	—	—	—	—
Segment net sales	578,956	100.0	566,938	100.0	504,638	100.0
Cost of revenues	118,746	20.5	120,562	21.3	101,209	20.1
Gross profit	460,210	79.5	446,376	78.7	403,429	79.9
Operating expenses	234,166	40.4	235,497	41.5	193,227	38.3
Segment operating income	$ 226,044	39.0%	$ 210,879	37.2%	$ 210,202	41.7%

Segment net sales of $579.0 million in 2017 increased $12.0 million, or 2.1%, from the prior comparable period primarily due to business acquisitions. Segment net sales of $566.9 million in 2016 increased $62.3 million, or 12.3%, from the prior comparable period primarily due to business acquisitions.

Segment gross profit of $460.2 million in 2017 increased $13.8 million from 2016 and segment gross profit of $446.4 million in 2016 increased $42.9 million from 2015 primarily due to an increase in net sales between the periods. The gross profit as a percentage of revenues for 2017 was consistent with the previous comparable period. The gross profit as a percentage of revenues for 2016 was lower in comparison to the previous comparable period primarily due to increased transition-related costs within network operations. In addition, acquisitions historically have lower initial profitability than our existing business until synergies with respect to those acquisitions are realized.

Segment operating expenses of $234.2 million in 2017 decreased $1.3 million from 2016 primarily due to lower depreciation and amortization. Segment operating expenses of $235.5 million in 2016 increased $42.3 million from 2015 primarily due to (a) additional depreciation and amortization and an increase in personnel costs associated with businesses acquired in and subsequent to 2015; and (b) sales and marketing costs primarily due to additional advertising.

As a result of these factors, segment operating earnings of $226.0 million in 2017 increased $15.2 million, or 7.2%, from 2016, and segment operating earnings of $210.9 million in 2016 increased $0.7 million, or 0.3%, from 2015. Our Cloud Services segment consists of several services which have similar economic characteristics, including the nature of the services and their production processes, the type of customers, as well as the methods used to distribute these services.

Digital Media

The following segment results are presented for fiscal years 2017, 2016 and 2015 (in thousands):

	2017		2016		2015	
External net sales	$ 538,882	100.0%	$ 307,317	100.0%	$ 216,177	99.9%
Inter-segment net sales	57	—	146	—	197	0.1
Segment net sales	538,939	100.0	307,463	100.0	216,374	100.0
Cost of revenues	53,574	9.9	26,538	8.6	21,749	10.1
Gross profit	485,365	90.1	280,925	91.4	194,625	89.9
Operating expenses	437,297	81.1	230,225	74.9	164,188	75.9
Segment operating income	$ 48,068	8.9%	$ 50,700	16.5%	$ 30,437	14.1%

Segment net sales of $538.9 million in 2017 increased $231.5 million, or 75.3%, and segment net sales of $307.5 million increased $91.1 million, or 42.1%, from the prior comparable period primarily due to business acquisitions subsequent to the prior comparable period.

Segment gross profit of $485.4 million in 2017 increased $204.4 million and segment gross profit of $280.9 million in 2016 increased $86.3 million from the prior comparable period primarily due to an increase in net sales between the periods. Gross profit as a percentage of revenues in 2017 and 2016 was consistent with the prior comparable periods.

Segment operating expenses of $437.3 million in 2017 increased $207.1 million from the prior comparable period primarily due to (a) increased sales and marketing costs primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2016; and (b) amortization of intangible assets and depreciation associated with business acquisitions subsequent to the prior comparable period. Segment operating expenses of $230.2 million in 2016 increased $66.0 million from the prior comparable period primarily due to (a) increased sales and marketing costs primarily due to additional advertising and personnel costs associated with businesses acquired in and subsequent to 2015; (b) amortization of intangible assets associated with business acquisitions subsequent to the prior comparable period; and (c) an increase in the fair value associated with contingent consideration issued in certain acquisitions.

As a result of these factors, segment operating income of $48.1 million in 2017 decreased $2.6 million, or 5.2%, from 2016, and segment operating income of $50.7 million in 2016 increased $20.3 million, or 66.6%, from 2015.

Liquidity and Capital Resources

Cash and Cash Equivalents and Investments

At December 31, 2017, we had cash and investments of $408.7 million compared to $124.0 million at December 31, 2016. The increase in cash and investments resulted primarily from the issuance of long-term debt and cash from operations, partially offset by the repayment of the line of credit, business acquisitions, dividends and interest paid, and purchases of property and equipment. At December 31, 2017, cash and investments consisted of cash and cash equivalents of $350.9 million and long-term investments of $57.7 million. Our investments are comprised primarily of certain preferred stock and preferred stock warrants. For financial statement presentation, we classify our investments 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. We retain a substantial portion of our cash and investments in foreign jurisdictions for future reinvestment. As of December 31, 2017 cash and investments held within foreign and domestic jurisdictions were $137.5 million and $271.2 million, respectively. As of December 31, 2016 cash and investments held within foreign and domestic jurisdictions were $48.1 million and $75.9 million, respectively. On December 22, 2017, the U.S. government enacted comprehensive tax legislation, the 2017 Tax Act. We will continue to assess the impact of the 2017 Tax Act on the tax consequences of future repatriations of foreign earnings and our assertion of indefinite reinvestment of foreign earnings. See Note 11 "Income Taxes" of the Notes to the Consolidated Financial Statements for additional information.

The Company's Board of Directors approved four quarterly cash dividends during the year ended December 31, 2017, totaling $1.5200 per share of common stock. On February 2, 2018, the Company approved a quarterly cash dividend of $0.4050 per share of common stock payable on March 9, 2018 to all stockholders of record as of the close of business on February 22, 2018. Future dividends are subject to Board approval.

On June 27, 2017, j2 Cloud Services, LLC ("j2 Cloud"), a wholly-owned subsidiary of j2 Global, Inc., and j2 Cloud Co-Obligor, Inc., a wholly-owned subsidiary of j2 Cloud (the "Co-Issuer" and together with j2 Cloud, the "Issuers") completed the issuance and sale of $650 million aggregate principal amount of 6.0% senior notes due 2025 in a private placement. The proceeds were used to redeem all of j2 Cloud's 8.0% notes due in 2020, and to distribute sufficient net proceeds to j2 Global to pay off all amounts outstanding under its existing credit facility (as described further below), with the remaining net proceeds to be used for general corporate purposes, including acquisitions.

On December 5, 2016, j2 Global, Inc. entered into a Credit Agreement (the "Credit Agreement") with MUFG Union Bank, N.A., as administrative agent, and certain other lenders from time to time party thereto (collectively, the "Lenders"). Pursuant to the Credit Agreement, the Lenders provided j2 with a credit facility of $225.0 million (the "Credit Facility"), $180.0 million of which was drawn at closing of the Everyday Health acquisition and used to finance a portion of the cash consideration in the acquisition. During the second quarter of 2016, the Company drew an additional $45.0 million. On June 27, 2017, the Company repaid the outstanding Credit Facility with cash received from its subsidiary, j2 Cloud, and terminated the Credit Agreement.

On August 1, 2017, j2 Cloud redeemed all of its outstanding $250 million 8.0% senior unsecured notes due in 2020 for $265 million, including a redemption premium and relevant accrued interest.

In order to timely complete the Everyday Health acquisition, the Company borrowed $126.8 million from its non-US subsidiaries. During the third quarter 2017, the Company repaid its borrowings from its non-U.S. subsidiaries.

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 February 2018, the Company received a capital call notice from the management of OCV for approximately $12.2 million, inclusive of certain management fees.

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

Cash Flows

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents and short-term investments. Net cash provided by operating activities was $264.4 million, $282.4 million and $229.1 million for the years ended December 31, 2017, 2016 and 2015, 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 decrease in our net cash provided by operating activities in 2017 compared to 2016 was primarily attributable to decrease in accounts payable and accrued expenses including a $20.0 million payment of certain contingent compensation obligations of Everyday Health as well as a payment of contingent consideration of $20.0 million associated with the acquisition of Ookla; an increase in deferred income tax balances and a decrease in income tax payable and liability for uncertain tax positions; partially offset by an increase in depreciation and amortization, share-based compensation and increase in other long term liabilities. The increase in our net cash provided by operating activities in 2016 compared to 2015 was primarily attributable to an increase in depreciation and amortization, income tax payable, liability for uncertain tax positions and deferred income tax balances, additional amortization of financing costs and discounts and share-based compensation, partially offset by an increase in accounts receivable and decrease in other long term liabilities. Our prepaid tax payments were $6.0 million and zero at December 31, 2017 and 2016, respectively. Our cash and cash equivalents and short-term investments were $350.9 million, $124.0 million and $335.2 million at December 31, 2017, 2016 and 2015, respectively.

Net cash used in investing activities was $(158.5) million, $(448.9) million and $(335.7) million for the years ended December 31, 2017, 2016 and 2015, respectively. Net cash used in investing activities in 2017 was primarily attributable to business acquisitions, capital expenditures associated with the purchase of property and equipment and the purchase of intangible assets; partially offset by proceeds from the sale of businesses. Net cash used in investing activities in 2016 was primarily attributable to business acquisitions, purchase of available-for-sale investments, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments. Net cash used in investing activities in 2015 was primarily attributable to business acquisitions, purchase of available-for-sale investments, purchases of property and equipment and investments in intangible assets, partially offset by the sale of available-for-sale investments and maturity of certificates of deposit.

Net cash provided by (used in) financing activities was $111.8 million, $41.2 million and $(67.4) million for the years ended December 31, 2017, 2016 and 2015, respectively. Net cash provided by financing activities in 2017 was primarily attributable to proceeds from the issuance of long-term debt, additional borrowings under our line of credit and exercise of stock options; partially offset by the repayment in full of the line of credit and other debt, dividends paid, repurchases of stock and business acquisitions. Net cash used in by financing activities in 2016 was primarily attributable to proceeds from a line of credit, exercise of stock options and excess tax benefit from share-based compensation, partially offset by dividends paid, deferred payments for acquisitions and the repurchase of stock. Net cash provided by financing activities in 2015 was primarily attributable to dividends paid, deferred payments for acquisitions and the repurchase of stock, partially offset by the exercise of stock options and excess tax benefit from share-based compensation.

Stock Repurchase Program

In February 15, 2012, the Company's Board of Directors authorized the repurchase of up to five million shares of our common stock through February 20, 2013 which was subsequently extended through February 19, 2018 (see Note 20 - Subsequent Events for discussion regarding the extension of the share repurchase program by an additional year).

Contractual Obligations and Commitments

The following table summarizes our contractual obligations and commitments as of December 31, 2017:

	Payment Due by Period (in thousands)				
Contractual Obligations	**1 Year**	**2-3 Years**	**4-5 Years**	**More than 5 Years**	**Total**
Long-term debt - principal (a)	$ —	$ —	$ 402,500	$ 650,000	$ 1,052,500
Long-term debt - interest (b)	54,031	104,163	84,541	117,000	359,735
Operating leases (c)	18,589	31,046	23,248	13,258	86,141
Capital leases (d)	9	—	—	—	9
Telecom services and co-location facilities (e)	4,226	3,641	855	—	8,722
Holdback payment (f)	2,097	1,500	—	—	3,597
Transition tax (g)	3,807	7,614	7,614	28,553	47,588
Other (h)	1,866	2,310	2,310	—	6,486
Total	$ 84,625	$ 150,274	$ 521,068	$ 808,811	$ 1,564,778

_____

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

As of December 31, 2017, our liability for uncertain tax positions was $52.2 million. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of cash settlement with the taxing authorities.

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

Off-Balance Sheet Arrangements

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

Item 7A. 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 the 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, except as required by law. Readers should carefully review the risk factors described in this document as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2018.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2017, 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 December 31, 2017, we had no investments in debt securities with effective maturities greater than one year. As of December 31, 2017 and December 31, 2016, we had cash and cash equivalent investments in time deposits and money market funds with maturities of three months or less of $350.9 million and $124.0 million, respectively.

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

Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada, Australia and the European Union. Our principal exposure to foreign currency risk relates to investment and inter-company debt in foreign subsidiaries that transact business in functional currencies other than the U.S. Dollar, primarily the Australian Dollar, the Canadian Dollar, the Euro, the Hong Kong Dollar, the Japanese Yen, the New Zealand Dollar, the Norwegian Kroner and the British Pound Sterling. If we are unable to settle our short-term intercompany 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 Annual Report on Form 10-K.

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.

For the years ended December 31, 2017, 2016 and 2015, foreign exchange losses amounted to $5.8 million, $0.7 million and $0.1 million, respectively. The increase in losses to our earnings in the current period were attributable to increased inter-company debt between periods in foreign subsidiaries that were in functional currencies other than the U.S. Dollar. Foreign exchange losses were not material to our earnings in 2017, 2016 and 2015, respectively.

Cumulative translation adjustments, net of tax, included in other comprehensive income for the years ended December 31, 2017 and 2016, was $25.6 million and $(23.1) 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 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
j2 Global, Inc.
Los Angeles, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of j2 Global, Inc. (the "Company") and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 1, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditors since 2014.

Los Angeles, California
March 1, 2018

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(In thousands, except share amounts)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 350,945	$ 123,950
Accounts receivable, net of allowances of $8,701 and $7,988, respectively	234,195	199,871
Prepaid expenses and other current assets	35,287	24,178
Total current assets	620,427	347,999
Long-term investments	57,722	—
Property and equipment, net	79,773	68,094
Trade names, net	123,947	115,853
Patent and patent licenses, net	10,871	13,928
Customer relationships, net	193,606	208,155
Goodwill	1,196,611	1,122,810
Other purchased intangibles, net	157,327	173,755
Deferred income taxes	—	5,289
Other assets	12,809	6,445
Total assets	$ 2,453,093	$ 2,062,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 169,837	$ 178,071
Income taxes payable, current	—	16,753
Deferred revenue, current	95,255	80,384
Line of credit	—	178,817
Other current liabilities	10	64
Total current liabilities	265,102	454,089
Long-term debt	1,001,944	601,746
Deferred revenue, non-current	47	1,588
Income taxes payable, non-current	43,781	—
Liability for uncertain tax positions	52,216	46,537
Deferred income taxes	38,264	40,357
Other long-term liabilities	31,434	3,475
Total liabilities	1,432,788	1,147,792
Commitments and contingencies	—	—
Preferred stock - Series A, $0.01 par value. Authorized 6,000 at December 31, 2017 and 2016, respectively; total issued and outstanding is zero and zero at December 31, 2017 and 2016, respectively.	—	—
Preferred stock - Series B, $0.01 par value. Authorized 20,000 at December 31, 2017 and 2016, respectively; total issued and outstanding is zero and zero at December 31, 2017 and 2016, respectively.	—	—
Common stock, $0.01 par value. Authorized 95,000,000 at December 31, 2017 and 2016; total issued and outstanding 47,854,510 and 47,443,716 shares at December 31, 2017 and 2016, respectively.	479	474
Additional paid-in capital	325,854	308,329
Retained earnings	723,062	660,382
Accumulated other comprehensive loss	(29,090)	(54,649)
Total stockholders' equity	1,020,305	914,536
Total liabilities and stockholders' equity	$ 2,453,093	$ 2,062,328

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2017, 2016 and 2015
(In thousands, except share and per share data)

	2017	2016	2015
Total revenues	$ 1,117,838	$ 874,255	$ 720,815
Cost of revenues [1]	172,313	147,100	122,958
Gross profit	945,525	727,155	597,857
Operating expenses:			
Sales and marketing [1]	330,296	206,871	159,009
Research, development and engineering [1]	46,004	38,046	34,329
General and administrative [1]	323,517	239,672	205,137
Total operating expenses	699,817	484,589	398,475
Income from operations	245,708	242,566	199,382
Interest expense, net	67,777	41,370	42,458
Other (income) expense, net	(22,035)	(10,243)	5
Income before income taxes	199,966	211,439	156,919
Income tax expense	60,541	59,000	23,283
Net income	$ 139,425	$ 152,439	$ 133,636
Net income per common share:			
Basic	$ 2.89	$ 3.15	$ 2.76
Diluted	$ 2.83	$ 3.13	$ 2.73
Weighted average shares outstanding:			
Basic	47,586,242	47,668,357	47,627,853
Diluted	48,669,027	47,963,226	48,087,760
Cash dividends paid per common share	$ 1.52	$ 1.36	$ 1.22

[1] Includes share-based compensation expense as follows:

Cost of revenues	$ 500	$ 436	$ 373
Sales and marketing	1,723	1,782	2,435
Research, development and engineering	1,182	904	863
General and administrative	19,332	10,528	8,122
Total	$ 22,737	$ 13,650	$ 11,793

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Net income	$ 139,425	$ 152,439	$ 133,636
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment	25,559	(23,076)	(15,058)
Change in fair value on available-for-sale investments, net of tax expense (benefit) of zero, $1,495 and ($4,556) for the years ended 2017, 2016 and 2015, respectively.	—	(2,449)	(6,939)
Other comprehensive income (loss), net of tax	25,559	(25,525)	(21,997)
Comprehensive income	$ 164,984	$ 126,914	$ 111,639

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Cash flows from operating activities:			
Net income	$ 139,425	$ 152,439	$ 133,636
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	162,041	122,091	93,213
Amortization of financing costs and discounts	11,952	9,818	9,105
Share-based compensation	22,737	13,650	11,793
Provision for doubtful accounts	13,159	13,169	6,872
Deferred income taxes, net	(21,432)	(13,779)	(17,083)
Loss on extinguishment of debt and related interest expense	7,962	—	—
Gain on sale of businesses	(27,681)	—	—
Changes in fair value of contingent consideration	2,300	4,850	16,200
Gain on available-for-sale investments	—	(7,716)	(549)
Decrease (increase) in:			
Accounts receivable	(37,546)	(30,687)	(18,508)
Prepaid expenses and other current assets	4,001	(957)	1,461
Other assets	(2,712)	(497)	(3,881)
Increase (decrease) in:			
Accounts payable and accrued expenses	(34,116)	6,363	8,757
Income taxes payable	14,888	25,409	3,578
Deferred revenue	941	(4,213)	(3,480)
Liability for uncertain tax positions	4,936	10,620	(5,718)
Other long-term liabilities	3,564	(18,173)	(6,335)
Net cash provided by operating activities	264,419	282,387	229,061
Cash flows from investing activities:			
Maturity of investments	—	241,817	121,752
Purchases of investments	(4)	(80,918)	(135,894)
Purchases of property and equipment	(39,595)	(24,746)	(17,297)
Acquisition of businesses, net of cash received	(174,951)	(580,691)	(302,809)
Proceeds from sale of businesses, net of cash divested	58,300	—	—
Purchases of intangible assets	(2,240)	(4,321)	(1,455)
Net cash used in investing activities	(158,490)	(448,859)	(335,703)
Cash flows from financing activities:			
Issuance of long-term debt, net	636,485	—	—
Repayment of debt	(255,000)	—	—
Proceeds from line of credit, net	44,981	178,710	—
Repayment of line of credit	(225,000)	—	—
Repurchase and retirement of common stock	(9,850)	(56,496)	(3,674)
Issuance of common stock under employee stock purchase plan	259	254	260
Exercise of stock options	1,108	3,570	4,958
Dividends paid	(73,469)	(65,835)	(58,826)
Deferred payments for acquisitions	(7,637)	(20,832)	(14,271)
Other	(54)	1,779	4,190
Net cash provided by (used in) financing activities	111,823	41,150	(67,363)
Effect of exchange rate changes on cash and cash equivalents	9,243	(6,258)	(4,128)
Net change in cash and cash equivalents	226,995	(131,580)	(178,133)
Cash and cash equivalents at beginning of year	123,950	255,530	433,663
Cash and cash equivalents at end of year	$ 350,945	$ 123,950	$ 255,530

See Notes to Consolidated Financial Statements

j2 GLOBAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017, 2016 and 2015
(in thousands, except share amounts)

	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Total Stockholders'
	Shares	Amount	capital	earnings	income/(loss)	equity
Balance, January 1, 2015	47,409,514	$ 474	$ 273,304	$ 553,584	$ (7,127)	$ 820,235
Net income	—	—	—	133,636	—	133,636
Other comprehensive income, net of tax benefit ($4,556)	—	—	—	—	(21,997)	(21,997)
Dividends	—	—	—	(58,826)	—	(58,826)
Exercise of stock options	221,221	2	4,956	—	—	4,958
Issuance of shares under Employee Stock Purchase Plan	4,020	—	260	—	—	260
Vested restricted stock	278,092	3	(3)	—	—	—
Repurchase and retirement of common stock	(53,904)	(1)	(1,955)	(1,718)	—	(3,674)
Exchange of Series B preferred stock	91,734	1	(1)	—	—	—
Share based compensation	—	—	11,017	113	—	11,130
Excess tax benefit on share based compensation	—	—	4,486	—	—	4,486
Balance, December 31, 2015	47,950,677	$ 479	$ 292,064	$ 626,789	$ (29,124)	$ 890,208
Net income	—	—	—	152,439	—	152,439
Other comprehensive income, net of tax expense $1,495	—	—	—	—	(25,525)	(25,525)
Dividends	—	—	—	(65,835)	—	(65,835)
Exercise of stock options	142,870	1	3,569	—	—	3,570
Issuance of shares under Employee Stock Purchase Plan	3,918	—	254	—	—	254
Vested restricted stock	270,098	3	(3)	—	—	—
Repurchase and retirement of common stock	(1,015,584)	(10)	(3,344)	(53,142)	—	(56,496)
Exchange of Series B preferred stock	91,737	1	(1)	—	—	—
Share based compensation	—	—	13,519	131	—	13,650
Excess tax benefit on share based compensation	—	—	2,271	—	—	2,271
Balance, December 31, 2016	47,443,716	$ 474	$ 308,329	$ 660,382	$ (54,649)	$ 914,536
Net income	—	—	—	139,425	—	139,425
Other comprehensive income, net of tax of zero	—	—	—	—	25,559	25,559
Dividends	—	—	—	(73,469)	—	(73,469)
Exercise of stock options	38,183	1	1,107	—	—	1,108
Issuance of shares under Employee Stock Purchase Plan	3,283	—	259	—	—	259
Vested restricted stock	397,781	4	(4)	—	—	—
Repurchase and retirement of common stock	(117,076)	(1)	(6,441)	(3,408)	—	(9,850)
Exchange of Series B preferred stock	88,623	1	(1)	—	—	—
Share based compensation	—	—	22,605	132	—	22,737
Balance, December 31, 2017	47,854,510	$ 479	$ 325,854	$ 723,062	$ (29,090)	$ 1,020,305

See Notes to Consolidated Financial Statements

1. The Company

j2 Global, Inc., together with its subsidiaries ("j2 Global" or the "Company"), is a leading provider of internet services. Through our Cloud Services segment, we provide cloud services to consumers and businesses and license our intellectual property ("IP") to third parties. In addition, the Cloud Services segment includes fax, voice, backup, security and email marketing products. Our Digital Media segment specializes in the technology, gaming, lifestyle and healthcare markets, offering content, tools and services to consumers and businesses.

2. Basis of Presentation and Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying 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.

On August 10, 2016, j2 Cloud Services, Inc., a Delaware corporation and subsidiary of the Company, converted into a Delaware limited liability company which continues as j2 Cloud Services, LLC.

On August 12, 2016, all of the equity interests in Ziff Davis, LLC, a Delaware limited liability company, and all of the equity interests in Advanced Messaging Technologies, Inc., a Delaware corporation, held by j2 Cloud Services, LLC, a Delaware limited liability company, were distributed to j2 Global, the parent company of j2 Cloud Services, LLC.

(b) Use of Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications, and the reported amounts of net revenue and expenses during the reporting period. We believe that our most significant estimates are those related to valuation and impairment of marketable securities, valuation of assets acquired and liabilities assumed in connection with business combinations, long-lived and intangible asset impairment, contingent consideration, income taxes and contingencies and allowance 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.

(c) Allowances for Doubtful Accounts

j2 Global reserves for receivables it may not be able to collect. These reserves for the Company's Cloud Services segment are typically driven by the volume of credit card declines and past due invoices and are based on historical experience as well as an evaluation of current market conditions. These reserves for the Company's Digital Media segment are typically driven by past due invoices based on historical experience. On an ongoing basis, management evaluates the adequacy of these reserves.

(d) Revenue Recognition

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. In accordance with GAAP, the Company recognizes revenue when persuasive evidence of an arrangement exists, services have been provided, the sales price is fixed and determinable and collection is probable. The Company defers the portions of monthly, quarterly, semi-annually and annually recurring subscription and usage-based fees collected in advance and recognizes them in the period earned. Additionally, the Company defers and recognizes subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

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 determines whether reseller 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 for principal-agent considerations and the Company places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

The Company records revenue on a gross basis with respect to reseller revenue as the Company is the primary obligator in the arrangement, has latitude in determining pricing and bears all credit risk associated with our reseller program partners.

j2 Global's Cloud Services also include patent license revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to j2 Global in exchange for the grant of non-exclusive, retroactive and future licenses to our intellectual property, including patented technology. Patent revenues may also consist of revenues generated from the sale of patents. Patent license revenues are recognized when earned over the term of the license agreements. With regard to fully paid-up license arrangements, the Company recognizes as revenue in the period the license agreement is executed the portion of the payment attributable to past use of the intellectual property and amortizes the remaining portion of such payments on a straight-line basis, or pro-rata revenue basis, as appropriate over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, the Company recognizes revenues of license fees earned during the applicable period. With regard to patent sales, the Company recognizes as revenue in the period of the sale the amount of the purchase price over the carrying value of the patent(s) sold.

The Cloud Services business also generates revenues by licensing certain technology to third parties. These licensing revenues are recognized when earned in accordance with the terms of the underlying agreement. Generally, revenue is recognized as the third party uses the licensed technology over the period.

Digital Media

The Company's Digital Media revenues primarily consist of revenues generated from the sale of advertising campaigns that are targeted to the Company's proprietary websites and to those websites operated by third parties that are part of the Digital Media business's advertising network. Revenues for these advertising campaigns are recognized as earned, either when an ad is placed for viewing by a visitor to the appropriate web page or when the visitor "clicks through" on the ad, depending upon the terms with the individual advertiser.

Revenues for Digital Media business-to-business operations consist of lead-generation campaigns for IT vendors and are recognized as earned when the Company delivers the qualified leads to the customer.

j2 Global also generates Digital Media revenues through the license of certain assets to clients, for the 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 when the assets are delivered to the client. Also, Digital Media revenues are generated through the license of certain speed testing technology which is recognized when delivered to the client through providing data services primarily to Internet Service Providers ("ISPs") and wireless carriers which is recognized as earned over the term of the access period. The Digital Media business also generates other types of revenues, including business listing fees, subscriptions to online publications, and from other sources. Such other revenues are recognized as earned.

The Company determines whether Digital Media 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 for principal-agent considerations and the Company places the most weight on three factors: whether or not the Company (i) is the primary obligor in the arrangement, (ii) has latitude in determining pricing and (iii) bears credit risk.

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 Digital Media licensing program. 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.

(e) Fair Value Measurements

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

As of December 31, 2017, the carrying value of cash and cash equivalents, long-term investments, accounts receivable, interest receivable, accounts payable, accrued expenses, interest payable, customer deposits and long-term debt are reflected in the financial statements at cost. With the exception of long-term investments and long-term debt, cost approximates fair value due to the short-term nature of such instruments. The fair value of the Company's outstanding debt was determined using the quoted market prices of debt instruments with similar terms and maturities, if available. As of the same dates, the carrying value of other long-term liabilities approximated fair value as the related interest rates approximate rates currently available to j2 Global.

(f) Cash and Cash Equivalents

j2 Global considers cash equivalents to be only those investments that are highly liquid, readily convertible to cash and with maturities of three months or less at the purchase date.

(g) Investments

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

(h) Debt Issuance Costs and Debt Discount

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

(i) Derivative Instruments

j2 Global currently holds an embedded derivative instrument related to contingent interest in connection with its 3.25% Convertible Notes issued on June 10, 2014. This embedded derivative instrument is carried at fair value with changes recorded to interest expense (see Note 6 - Fair Value Measurements).

(j) Concentration of Credit Risk

All of the Company's cash, cash equivalents and marketable securities are invested at major financial institutions primarily within the United States, United Kingdom and Ireland. These institutions are required to invest the Company's cash in accordance with the Company's investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. The Company's investment policy also requires that investments in marketable securities be in only highly rated instruments, with limitations on investing in securities of any single issuer. However, these investments are not insured against the possibility of a total or near complete loss of earnings or principal and are inherently subject to the credit risk related to the continued credit worthiness of the underlying issuer and general credit market risks. At December 31, 2017, the Company's cash and cash equivalents were maintained in accounts that are insured up to the limit determined by the applicable governmental agency. The Company's deposits held in qualifying financial institutions in Ireland are fully insured through March 28, 2018 to the extent on deposit prior to March 28, 2013. With respect to the Company's deposits with financial institutions in other jurisdictions, the insured amount held in other institutions is immaterial in comparison to the total amount of the Company's cash and cash equivalents held by these institutions which is not insured. These institutions are primarily in the United States and United Kingdom, however, the Company has accounts within several other countries including Australia, Austria, China, France, Germany, Italy, Japan, New Zealand and the Netherlands.

(k) Foreign Currency

Some of j2 Global's foreign subsidiaries use the local currency of their respective countries as their functional currency. Assets and liabilities are translated at exchange rates prevailing at the balance sheet dates. Revenues, costs and expenses are translated into U.S. Dollars at average exchange rates for the period. Gains and losses resulting from translation are recorded as a component of accumulated other comprehensive income (loss). Net translation gain/(loss) was $25.6 million, $(23.1) million and $(15.1) million for the years ended December 31, 2017, 2016 and 2015, respectively. Realized gains and losses from foreign currency transactions are recognized within other (income) expense, net. Foreign exchange losses amounted to $5.8 million, $0.7 million and $0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

(l) Property and Equipment

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

(m) Impairment or Disposal of Long-Lived Assets

j2 Global accounts for long-lived assets, which include property and equipment 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. No impairment was recorded in fiscal year 2017, 2016 or 2015.

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 is classified as held for sale.

(n) Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. Intangible assets subject to amortization are amortized over the period of estimated economic benefit ranging from 1 to 20 years. In accordance with FASB ASC Topic No. 350, Intangibles - Goodwill and Other ("ASC 350"), goodwill and other intangible assets with indefinite lives are not amortized but tested annually for impairment or more frequently if j2 Global believes indicators of impairment exist. In connection with the annual impairment test for goodwill, the Company has the option to perform a qualitative assessment in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it was 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 a two-step process. The first step 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, j2 Global performs the second step of the test to determine the amount of impairment loss. The second step involves measuring the impairment by comparing the implied fair values of the affected reporting unit's goodwill and intangible assets with the respective carrying values. In accordance with ASC 350, the Company performed the annual impairment test for goodwill for fiscal year 2017 using a qualitative assessment primarily taking into consideration macroeconomic, industry and market conditions, overall financial performance and any other relevant company-specific events. The Company performed the annual impairment test for intangible assets with indefinite lives for fiscal 2017 using a qualitative assessment primarily taking into consideration macroeconomic, industry and market conditions, overall financial performance and any other relevant company-specific events. j2 Global concluded that there were no impairments in 2017, 2016 and 2015.

(o) Contingent Consideration

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

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

(p) Income Taxes

j2 Global's income is subject to taxation in both the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating the Company's tax positions and determining its provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. j2 Global establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves for tax contingencies are established when the Company believes that certain positions might be challenged despite the Company's belief that its tax return positions are fully supportable. j2 Global adjusts these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or lapse of a statute of limitations. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

j2 Global accounts for income taxes in accordance with FASB ASC Topic No. 740, Income Taxes ("ASC 740"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the net deferred tax assets will not be realized. The valuation allowance is reviewed quarterly based upon the facts and circumstances known at the time. In assessing this valuation allowance, j2 Global reviews historical and future expected operating results and other factors, including its recent cumulative earnings experience, expectations of future taxable income by taxing jurisdiction and the carryforward periods available for tax reporting purposes, to determine whether it is more likely than not that deferred tax assets are realizable.

ASC 740 provides guidance on the minimum threshold that an uncertain income tax benefit is required to meet before it can be recognized in the financial statements and applies to all income tax positions taken by a company. ASC 740 contains a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. If it is not more likely than not that the benefit will be sustained on its technical merits, no benefit will be recorded. Uncertain income tax positions that relate only to timing of when an item is included on a tax return are considered to have met the recognition threshold. j2 Global recognized accrued interest and penalties related to uncertain income tax positions in income tax expense on its consolidated statements of income.

(q) Share-Based Compensation

j2 Global accounts for share-based awards 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 our employees.

j2 Global accounts for option grants to non-employees in accordance with FASB ASC Topic No. 505, Equity, whereby the fair value of such options is determined using the Black-Scholes option pricing model at the earlier of the date at which the non-employee's performance is complete or a performance commitment is reached.

(r) Earnings Per Common Share ("EPS")

EPS is calculated pursuant to the two-class method as defined in ASC Topic No. 260, Earnings per Share ("ASC 260"), which specifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents are considered participating securities and should be included in the computation of EPS pursuant to the two-class method.

Basic EPS is calculated by dividing net distributed and undistributed earnings allocated to common shareholders, excluding participating securities, by the weighted-average number of common shares outstanding. The Company's participating securities consist of its unvested share-based payment awards that contain rights to nonforfeitable dividends or dividend equivalents. Diluted EPS includes the determinants of basic EPS and, in addition, reflects the impact of other potentially dilutive shares outstanding during the period. The dilutive effect of participating securities is calculated under the more dilutive of either the treasury method or the two-class method.

(s) Research, Development and Engineering

Research, development and engineering costs are expensed as incurred. Costs for software development incurred subsequent to establishing technological feasibility, in the form of a working model, are capitalized and amortized over their estimated useful lives.

(t) Segment Reporting

FASB ASC Topic No. 280, Segment Reporting ("ASC 280"), establishes standards for the way that public business enterprises report information about operating segments in their annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company operates as two segments: (1) Cloud Services and (2) Digital Media.

(u) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2017, 2016 and 2015 was $143.3 million, $96.8 million and $63.5 million, respectively.

(v) Sales Taxes

The Company may collect sales taxes from certain customers which are remitted to governmental authorities as required and are excluded from revenues.

(w) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification ("ASC") Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606). This ASU is related to reporting revenue gross versus net, or principal versus agent considerations. This ASU is meant to clarify the guidance in ASU 2014-09, Revenue from Contracts with Customers, as it pertains to principal versus agent considerations. Specifically, the guidance addresses how entities should identify goods and services being provided to a customer, the unit of account for a principal versus agent assessment, how to evaluate whether a good or service is controlled before being transferred to a customer, and how to assess whether an entity controls services performed by another party. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU is meant to clarify the guidance in FASB ASU 2014-09, Revenue from Contracts with Customers. Specifically, the guidance addresses an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU does not change the core principle of the guidance in Topic 606. Instead, the amendments provide clarifying guidance in a few narrow areas and add some practical expedients. In December 2016, the FASB issued 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in this ASU represent changes to clarify the Codification or to correct unintended application of guidance. This ASU must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. This ASU is effective January 1, 2018 and the Company is using the modified retrospective method and will present the cumulative effect of applying the standard to all contracts not completed as of the adoption date. The Company has (i) finalized its review of customer contracts for its business segments and assessed the impact of the standard on these contracts; (ii) trained internal stakeholders on the changes to revenue recognition policies; and (iii) assessed the need for appropriate changes to the Company's business processes and controls to support revenue recognition and disclosures under the new standard. The Company has concluded that the primary change to its revenue recognition for its customer contracts upon adopting ASC 606 is related to the timing of when revenue is recognized. While revenue from certain contracts will continue to be recognized at a point in time, revenue from other contracts is required to be recognized over time. The Company expects changes in the revenue recognition for licensing and patents and has finalized its detailed assessment of customer contracts, including the specific dollar impact of any changes in recognition that will occur on the Company's consolidated financial statements upon adoption. While the Company will provide expanded disclosures as a result of the adoption of this ASU, the Company does not expect there to be a material impact to the consolidated financial statements as of January 1, 2018.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU modify how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, Fair Value Measurements, and as such these investments may be measured at cost. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. After adoption, investments within the scope of the standard will be recorded at fair value with changes in fair value recognized in earnings.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of this ASU on our financial statements. The Company currently has both capital and operating leases, both domestically and internationally, with varying expiration dates through 2025 in the aggregate amount of $86.1 million for the period ended December 31, 2017.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718). This ASU is related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted.

The new standard requires prospective recognition of excess tax benefits and deficiencies resulting from stock-based compensation awards vesting and exercises be recognized in the income statement. Previously, these amounts were recognized in additional paid-in capital. Net excess tax benefits of $2.3 million for the period ended December 31, 2017, were recognized as a reduction of income tax expense. In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from the assumed future proceeds in the calculation of diluted shares, resulting in an insignificant increase in diluted weighted average shares outstanding for the period ended December 31, 2017, which did not have a material impact on earnings per share.

The Company has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.

The standard also requires that the excess tax benefits from share based compensation awards be reported as operating activities in the consolidated statements of cash flows. Previously, these cash flows were included in financing activities. We have elected to apply this change on a prospective basis, resulting in an increase in net cash provided by operating activities of $2.3 million for the period ended December 31, 2017.

The prior period was not adjusted with the adoption of ASU 2016-09 due to the adoption of this standard on a prospective basis.

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The new guidance is intended to reduce diversity in practice in how transactions are classified in the statement of cash flows. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this guidance on a retrospective basis in 2017 and has determined that there is no material impact on our financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. The amendments in this ASU reduce the complexity in the accounting standards by allowing the recognition of current and deferred income taxes for an intra-entity asset transfer, other than inventory, when the transfer occurs. Historically, the income tax consequence was not recognized until the asset was sold to an outside party. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on our financial statements and related disclosures.

In November 2016, the FASB issued 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash - a consensus of the FASB Emerging Issues Task Force. The amendments in this ASU require restricted cash and restricted cash equivalents to be classified in the statement of cash flows as cash and cash equivalents. The guidance will be applied on a retrospective basis beginning with the earliest period presented. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company adopted this guidance on a retrospective basis in 2017 and has determined that there is no material impact on our financial statements.

In January 2017, the FASB issued 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments in this ASU provide a robust framework to use in determining when a set of assets and activities is a business. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted and the standard should be applied prospectively. The Company does not expect the adoption of this ASU to have a material impact on our financial statements and related disclosures.

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

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

In February 2018, the FASB issued 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU clarify certain aspects of the guidance issued in ASU 2016-01, Financial Instruments - Overall. As is consistent with other clarifying standards, the amendments are not expected to have a significant effect on the current accounting practice. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods beginning after June 15, 2018. Public entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt these amendments until the interim period beginning after June 15, 2018. Early adoption is permitted and should be adopted in conjunction with ASU 2016-01. The Company is currently evaluating the effect of this ASU on our financial statements and related disclosures.

Reclassifications

Certain prior year reported amounts have been reclassified to conform with the 2017 presentation.

3. Business Acquisitions

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

The Company completed the following acquisitions during the year ended December 31, 2017, paying the purchase price in cash in each transaction: (a) an asset purchase of sFax, acquired on March 31, 2017, an Austin-based provider of mobile cloud faxing for health care; (b) a share purchase of the entire issued capital of WeCloud AB, acquired on June 12, 2017, a Swedish-based provider of cloud-based internet security services; (c) an asset purchase of MyPhoneFax.com, acquired on June 30, 2017, a provider of online fax services; (d) an asset purchase of EZ Publishing (dba "StreamSend"), acquired on August 22, 2017, a provider of email marketing solutions; (e) a share purchase of all the issued capital of Humble Bundle Inc., acquired on October 13, 2017, a digital storefront for video games based in California; (f) an asset purchase of blackfriday.com, acquired on November 7, 2017, an online solution that markets popular Black Friday ads that are centrally located connecting shoppers with retailers; (g) a share purchase of all the issued capital of OnTargetJobs, Inc., acquired on December 4, 2017, a provider of online recruitment solutions for job seekers and employers in North America; (h) a share purchase of all the issued capital of Mashable Inc., acquired on December 5, 2017, a global, multi-platform media and entertainment company providing tech, digital culture and entertainment content around the globe; and (i) other immaterial acquisitions of online data backup, email marketing and email security businesses.

The consolidated statement of income since the date of each acquisition and balance sheet as of December 31, 2017, reflect the results of operations of all 2017 acquisitions. For the year ended December 31, 2017, these acquisitions contributed $34.7 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global's integration activities and is impracticable to provide. Total consideration for these transactions was $203.9 million, net of cash acquired and assumed liabilities and subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

The following table summarizes the allocation of the purchase consideration for all 2017 acquisitions (in thousands):

Assets and Liabilities	**Valuation**
Accounts receivable	$ 14,130
Other assets	10,243
Property and equipment	6,411
Deferred tax asset	405
Trade names	20,610
Trademarks	1,373
Customer relationships	61,307
Other intangibles	36,998
Goodwill	121,827
Accounts payables and accrued expenses	(27,995)
Deferred revenue	(11,853)
Deferred tax liability	(29,534)
Total	$ 203,922

During 2017, the purchase price accounting has been finalized for the following acquisitions: (i) Fonebox; (ii) Everyday Health Inc.; (iii) sFax; (iv) MyPhoneFax.com; (v) StreamSend; and (vi) other immaterial fax, online data backup, email security and email marketing businesses. The initial accounting for all other 2017 acquisitions is incomplete and subject to change, which may be significant. j2 Global has recorded provisional amounts which may be based upon past acquisitions with similar attributes for certain intangible assets (including trade names, software and customer relationships), preliminary acquisition date working capital and related tax items.

During the year ended December 31, 2017, the Company recorded adjustments to prior period acquisitions due to the finalization of the purchase accounting in the Cloud Services segment which resulted in a net decrease in goodwill of $(0.8) million. In addition, the Company recorded adjustments to the initial working capital related to prior period acquisitions in the Digital Media segment, which resulted in a net decrease in goodwill of $(4.7) million (see Note 8 - Goodwill and Intangible Assets). Such

adjustments had an immaterial impact to amortization expense within the Consolidated Statement of Income for the year ended December 31, 2017.

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 in connection with these acquisitions during the year ended December 31, 2017 is $121.8 million, of which $34.7 million is expected to be deductible for income tax purposes.

2016

The Company completed the following acquisitions during the year ended December 31, 2016, paying the purchase price in cash for each transaction: (a) an asset purchase of VaultLogix, acquired on February 17, 2016, a Massachusetts-based provider of cloud data backup and storage for business clients; (b) a share purchase of the entire issued capital of Callstream Group Limited, acquired on March 3, 2016, a provider of cloud-based call management solutions to markets in the United Kingdom; (c) an asset purchase of Publicaster, acquired on April 1, 2016, a Maryland-based provider of email marketing services; (d) an asset purchase of SMTP, acquired on June 27, 2016, a Florida-based provider of cloud email services offering solutions ranging from sophisticated transactional email solutions to cost-effective Simple Mail Transfer Protocol ("SMTP") relay services; (e) a share purchase of the entire issued capital of Integrated Global Concepts, Inc. ("IGC"), acquired on July 12, 2016, a Chicago-based provider of fax and voicemail services; (f) a share purchase of the entire issued capital of Front-safe A/S, acquired on July 15, 2016, a Denmark-based provider of cloud backup solutions; (g) an asset purchase of Fonebox Australia, acquired on October 18, 2016, an Australia-based provider of voice, call routing and virtual receptionist business; (h) a share purchase of all the outstanding shares of common stock of Everyday Health Inc. ("Everyday Health"), acquired on December 5, 2016, a New York-based provider of digital health and wellness solutions; and (i) other immaterial acquisitions of online data backup, email marketing, email security and digital media businesses.

The consolidated statement of income since the date of each acquisition and balance sheet, as of December 31, 2016, reflect the results of operations of all 2016 acquisitions. For the year ended December 31, 2016, these acquisitions contributed $52.9 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global's integration activities and is impracticable to provide. Total consideration for these transactions was $596.1 million, net of cash acquired and assumed liabilities and subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

The following table summarizes the allocation of the purchase consideration for all 2016 acquisitions (in thousands):

Assets and Liabilities [1]		**Valuation**
Accounts receivable	$	70,922
Other assets		11,730
Property and equipment		11,109
Trade names		5,866
Trademarks		70,300
Customer relationships		85,482
Other intangibles		91,264
Goodwill		333,190
Accounts payables and accrued expenses		(62,188)
Deferred revenue		(6,904)
Deferred tax liability		(14,503)
Capital lease		(194)
Total	$	596,074

[1] In connection with the purchase of IGC, the majority of the value was associated with the 935,231 shares of j2 Global common stock held by IGC. The value associated with these shares was recorded as a separate transaction from the fax business and has been excluded from the schedule above.

During the year ended December 31, 2016, the Company recorded adjustments to prior period acquisitions primarily due to the finalization of the purchase accounting in the Cloud Services segment which resulted in a net increase in goodwill in the amount of $0.8 million. In addition, the Company recorded adjustments to the initial working capital related to prior period

acquisitions and updated the purchase accounting of Offers.com in the Digital Media segment, which resulted in a net decrease in goodwill in the amount of $(5.0) million with a corresponding increase in trade names, net and other purchased intangibles, net (see Note 8 - Goodwill and Intangible Assets). Such adjustments had an immaterial impact to amortization expense within the Consolidated Statement of Income for the year ended December 31, 2016.

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 in connection with these acquisitions during the year ended December 31, 2016 is $333.2 million, of which $102.4 million is expected to be deductible for income tax purposes.

IGC

The Company acquired the entire issued capital of IGC on July 12, 2016 for a cash purchase price of approximately $6.3 million (excluding amounts allocated to the Company's purchase of its common stock described below), net of cash acquired and assumed liabilities and is subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

At the date of acquisition, IGC held 935,231 of the Company's common stock which the Company determined should be treated as a separate transaction from the acquired fax and voicemail businesses. In order to determine the amount of purchase consideration allocable to the fax and voicemail business and the Company's common stock, the Company used a relative fair value approach and concluded that the amounts of consideration allocable to the fax and voicemail business and the Company's common stock were $6.3 million and $51.5 million, respectively. See Note 12 - Stockholders' Equity for further discussion regarding the Company's common stock acquired in connection with the IGC business combination.

Everyday Health

On December 5, 2016, the Company acquired all the outstanding shares of common stock of Everyday Health, $0.01 par value per share, at a purchase consideration $493.7 million (net of cash acquired and assumed liabilities) or $10.50 per share in cash, and subject to certain post-closing adjustments which may increase or decrease the final consideration paid.

Everyday Health is a leading provider of digital health and marketing and communication solutions. Everyday Health attracts a large and engaged audience of consumers and healthcare professionals to its premier health and wellness properties and utilizes its data and analytics expertise to deliver highly personalized content experiences and efficient and effective marketing and engagement solutions. Everyday Health enables consumers to manage their daily health and wellness needs, healthcare professionals to stay informed and make better decisions for their patients, and marketers, health payers and providers to communicate and engage with consumers and healthcare professionals to drive better health outcomes. Everyday Health's content and solutions are delivered through multiple channels, including desktop, mobile web, mobile phone and tablet applications, as well as video and social media.

The Company acquired Everyday Health to bring together two leading digital media companies with complimentary visions and platforms to engage and monetize audiences. The combined company will be well positioned to deliver compelling benefits to customers with content that connects, informs and empowers audiences. The Company's Digital Media segment maintains leading positions in the technology, gaming and men's lifestyle verticals with strong and well-established brands. Everyday Health adds a new vertical and set of market-leading trusted health properties to the portfolio while diversifying the company's audience mix.

The consolidated statement of income, since the date of acquisition, and balance sheet, as of December 31, 2016, reflect the results of operations Everyday Health. For the year ended December 31, 2016, Everyday Health contributed $23.2 million to the Company's revenues. Net income contributed by Everyday Health was not separately identifiable due to j2 Global's integration activities and is impracticable to provide.

The following table summarizes the allocation of the purchase consideration for the Everyday Health acquisition (in thousands):

Assets and Liabilities	Valuation
Cash	$ 15,918
Accounts receivable	67,968
Other assets	11,168
Property and equipment	6,494
Trademarks	70,300
Customer relationships	45,500
Other intangibles	88,267
Goodwill	263,988
Accounts payables and accrued expenses	(59,091)
Deferred revenue	(5,297)
Deferred tax liability	(11,500)
Total	$ 493,715

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 in connection with the Everyday Health acquisition during the year ended December 31, 2016 is $264.0 million, of which $65.4 million is expected to be deductible for income tax purposes.

Pro Forma Financial Information for Everyday Health Acquisition

The following unaudited pro forma supplemental information is based on estimates and assumptions, which j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and Everyday Health been combined companies during the periods presented. These pro forma results exclude any savings or synergies that would have resulted from the Everyday Health business acquisition had it occurred on January 1, 2015 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the Everyday Health acquisition, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and Everyday Health as if the acquisition had occurred on January 1, 2015 (in thousands, except per share amounts):

	Year ended	
	December 31, 2016	December 31, 2015
	(unaudited)	(unaudited)
Revenues	$ 1,082,813	$ 952,806
Net income	$ 103,541	$ 115,059
EPS - Basic	$ 2.14	$ 2.38
EPS - Diluted	$ 2.13	$ 2.35

Pro Forma Financial Information for All 2016 Acquisitions

The following unaudited pro forma supplemental information is based on estimates and assumptions, that j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and the acquired businesses been combined companies during the periods presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1, 2015 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and its 2016 acquisitions as if each acquisition had occurred on January 1, 2015 (in thousands, except per share amounts):

	Year ended	
	December 31, 2016	December 31, 2015
	(unaudited)	(unaudited)
Revenues	$ 1,102,510	$ 1,009,169
Net income	$ 108,822	$ 111,817
EPS - Basic	$ 2.25	$ 2.31
EPS - Diluted	$ 2.24	$ 2.29

2015

The Company completed the following acquisitions during the year ended December 31, 2015, paying the purchase price in cash for each transaction: (a) a share purchase of the entire issued share capital of Firstway, acquired on February 11, 2015, an Ireland-based distributor of FaxBOX® digital fax services; (b) an asset purchase of Nuvotera (formerly known as Spam Soap), acquired on February 13, 2015, a California-based supplier of email security; (c) an asset purchase of EmailDirect, acquired on February 19, 2015, a California-based provider of email marketing services; (d) an asset purchase of SugarSync®, Inc., acquired on March 23, 2015, a California-based provider of online file backup, synchronization and sharing assets; (e) an asset purchase of Popfax, acquired on September 23, 2015, a France-based global provider of internet fax services; (f) a stock purchase of the entire capital stock of Salesify, acquired on September 17, 2015, a California-based based provider of lead generation solutions; (g) an asset purchase of LiveVault®, acquired on September 30, 2015, a California-based global provider of data backup and recovery services; (h) a membership interest purchase of the entire units of Offers.com, acquired on December 31, 2015, a Texas-based and is an online marketplace connecting millions of consumers with discounts from thousands of leading merchants; and (i) certain other immaterial acquisitions of fax, online data backup and email businesses.

The consolidated statement of income since the date of each acquisition and balance sheet, as of December 31, 2015, reflect the results of operations of all 2015 acquisitions. For the year ended December 31, 2015, these acquisitions contributed $52.4 million to the Company's revenues. Net income contributed by these acquisitions was not separately identifiable due to j2 Global's integration activities. Total consideration for these transactions was $314.0 million, net of cash acquired and assumed liabilities and subject to certain post-closing adjustments.

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

Assets and Liabilities	Valuation
Accounts receivable	$ 14,935
Other assets	1,415
Property and equipment	5,769
Software	18,764
Trade names	22,602
Customer relationships	98,027
Other intangibles	1,873
Goodwill	172,593
Accounts payables and accrued expenses	(9,684)
Deferred revenue	(10,764)
Deferred tax liability	(1,316)
Capital lease	(195)
Total	$ 314,019

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 in connection

with these acquisitions during the year ended December 31, 2015 is $172.6 million, of which $143.3 million is expected to be deductible for income tax purposes.

Pro Forma Financial Information for 2015 Acquisitions

The following unaudited pro forma supplemental information is based on estimates and assumptions that j2 Global believes are reasonable. However, this information is not necessarily indicative of the Company's consolidated financial position or results of income in future periods or the results that actually would have been realized had j2 Global and the acquired businesses been combined companies during the period presented. These pro forma results exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1, 2014 and do not take into consideration the exiting of any acquired lines of business. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

The supplemental information on an unaudited pro forma financial basis presents the combined results of j2 Global and its 2015 acquisitions as if each acquisition had occurred on January 1, 2014 (in thousands, except per share amounts):

	Year ended	
	December 31, 2015	December 31, 2014
	(unaudited)	(unaudited)
Revenues	$ 823,904	$ 744,388
Net income	$ 159,408	$ 126,196
EPS - Basic	$ 3.29	$ 2.64
EPS - Diluted	$ 3.26	$ 2.62

4. Investments

Investments consist of certificates of deposits and equity securities.

The Company's equity investments were received as part of the consideration for the sale of Tea Leaves Health, LLC ("Tea Leaves") which occurred on October 5, 2017 and are without readily determinable fair values because these securities are privately held, not traded on any public exchanges and is not an investment in any mutual fund or similar type investment. As a result, the Company has determined that these investments should be accounted for using the cost method of accounting in accordance with FASB ASC Topic 325, Investments - Other (see Note 5 - Assets Held for Sale).

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

	December 31, 2017	December 31, 2016
Certificates of deposit	$ —	$ 60
Equity securities	57,722	—
Total	$ 57,722	$ 60

For the years ended December 31, 2017, 2016 and 2015, the Company recorded realized gains from the sale of investments of approximately zero, $7.7 million and $0.5 million, respectively.

During the years ended December 31, 2017, 2016 and 2015, we did not recognize any other-than-temporary impairment losses.

5. Assets Held for Sale

During the second quarter 2017, the Company committed to a plan to sell Cambridge BioMarketing Group, LLC ("Cambridge"), a subsidiary within the Digital Media segment, as it was determined to be a non-core asset. On July 12, 2017, in a cash transaction, the Company sold Cambridge for a loss of $0.9 million which was recorded in other (income) expense, net.

During the third quarter 2017, the Company committed to a plan to sell j2 Australia Hosting Pty Ltd (dba "Web24"), a subsidiary within the Cloud Services segment, as it was determined to be a non-core asset. On September 1, 2017, in a cash transaction, the Company sold Web24 for a gain of $1.6 million which was recorded in other (income) expense, net.

During the third quarter 2017, the Company committed to a plan to sell Tea Leaves, a subsidiary within the Digital Media segment, as it was determined to be a non-core asset. On October 5, 2017, in a transaction consisting of a combination of cash and various equity securities, the Company sold Tea Leaves for a gain of $27.0 million which was recorded in other (income) expense, net.

6. Fair Value Measurements

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

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

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

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

The fair value of the Convertible Notes (see Note 9 - Long-Term Debt) is determined using recent quoted market prices or dealer quotes for such securities, which are Level 1 inputs. The fair value of our senior notes (8.0% senior unsecured notes at December 31, 2016 and 6.0% senior unsecured notes at December 31, 2017) (see Note 9 - Long-Term Debt) is determined using quoted market prices or dealer quotes for instruments with similar maturities and other terms and credit ratings, which are Level 2 inputs. The fair value of long-term debt was $1.2 billion and $792.2 million, at December 31, 2017 and December 31, 2016, respectively.

In addition, the Convertible Notes contain terms that may require the Company to pay contingent interest on the Convertible Notes which is accounted for as a derivative with fair value adjustments being recorded to interest expense (see Note 9 - Long Term Debt). This derivative is fair valued using a binomial lattice convertible bond pricing model using historical and implied market information, which are Level 2 inputs.

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

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

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

December 31, 2016	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market and other funds	$ 7,737	$ —	$ —	$ 7,737
Certificates of Deposit	—	60	—	60
Total assets measured at fair value	$ 7,737	$ 60	$ —	$ 7,797
Liabilities:				
Contingent consideration	$ —	$ —	$ 17,450	$ 17,450
Contingent interest derivative	—	958	—	958
Total liabilities measured at fair value	$ —	$ 958	$ 17,450	$ 18,408

At the end of each reporting period, management reviews the inputs to measure the fair value measurements of financial and non-financial assets and liabilities to determine when transfers between levels are deemed to have occurred. For the years ended December 31, 2017 and 2016, there were no transfers that have occurred between levels.

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

	Amount	Affected line item in the Statement of Income
Derivative Liabilities:		
Level 2:		
Balance as of January 1, 2016	$ 1,450	
Total fair value adjustments reported in earnings	(492)	Interest expense, net
Balance as of December 31, 2016	$ 958	
Total fair value adjustments reported in earnings	(190)	Interest expense, net
Balance as of December 31, 2017	$ 768	

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

	Level 3	Affected line item in the Statement of Income
Balance as of January 1, 2016	$ 30,600	
Total fair value adjustments reported in earnings	4,850	General and administrative
Contingent consideration payments	(18,000)	Not Applicable
Balance as of December 31, 2016	$ 17,450	
Contingent consideration	17,577	
Total fair value adjustments reported in earnings	2,300	General and administrative
Contingent consideration payments	(16,850)	Not Applicable
Balance as of December 31, 2017	$ 20,477	

In connection with the acquisition of Ookla on December 1, 2014, contingent consideration of up to an aggregate of $40.0 million may be payable upon achieving certain future income thresholds and had a fair value of $17.0 million at December 31, 2016. Due to the Company achieving certain earnings targets for the year ended December 31, 2016, $20.0 million ($16.9 million of contingent consideration and $3.1 million of compensation) was paid during the second quarter of 2017. There are no further payments pending.

In connection with the acquisition of Salesify on September 17, 2015, contingent consideration of up to an aggregate of $17.0 million may be payable upon achieving certain future income thresholds and had a fair value of zero and $0.6 million at December 31, 2017 and 2016, respectively.

In connection with the acquisition of Humble Bundle, on October 13, 2017, contingent consideration of up to an aggregate of $40.0 million may be payable upon achieving certain future income thresholds and had a fair value of $19.7 million at December 31, 2017 which was recorded as an other long-term liability on the consolidated balance sheet at December 31, 2017.

In connection with the acquisition of blackfriday.com on November 7, 2017, contingent consideration of up to an aggregate of $1.5 million may be payable upon achieving certain future income thresholds and had a fair value of $0.8 million at December 31, 2017 which was recorded as an other long-term liability on the consolidated balance sheet at December 31, 2017.

During the year ended December 31, 2017, the Company recorded a net increase in the fair value of the contingent consideration of $2.3 million and reported such increase in general and administrative expenses.

7. Property and Equipment

Property and equipment, stated at cost, at December 31, 2017 and 2016 consisted of the following (in thousands):

	2017	2016
Computers and related equipment	$ 215,631	$ 173,103
Furniture and equipment	2,035	1,928
Leasehold improvements	16,163	12,929
	233,829	187,960
Less: Accumulated depreciation and amortization	(154,056)	(119,866)
Total property and equipment, net	$ 79,773	$ 68,094

Depreciation and amortization expense was $33.0 million, $26.8 million and $19.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Total disposals of long-lived assets for the years ended December 31, 2017, 2016 and 2015 was $4.0 million, zero and zero, respectively. The disposals during 2017 were primarily related to the sale of Cambridge, Web24, and Tea Leaves (see Note 5 - Assets Held for Sale).

8. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Intangible assets resulting from the acquisitions of entities accounted for using the purchase method of accounting are recorded at the estimated fair value of the assets acquired. Identifiable intangible assets are comprised of purchased customer relationships, trademarks and trade names, developed technologies and other intangible assets. The fair values of these identified intangible assets are based upon expected future cash flows or income, which take into consideration certain assumptions such as customer turnover, 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 years ended December 31, 2017 and 2016 are as follows (in thousands):

	Cloud Services	Digital Media	Consolidated
Balance as of January 1, 2016	$ 502,718	$ 304,943	$ 807,661
Goodwill acquired (Note 3)	69,202	263,988	333,190
Purchase Accounting Adjustments [4]	816	(4,957)	(4,141)
Foreign exchange translation	(13,584)	(316)	(13,900)
Balance as of December 31, 2016	$ 559,152	$ 563,658	$ 1,122,810
Goodwill acquired (Note 3)	34,035	87,792	121,827
Goodwill written off related to sale of a business unit [1][2][3]	(3,614)	(54,127)	(57,741)
Purchase accounting adjustments [4]	(766)	(4,667)	(5,433)
Foreign exchange translation	14,946	202	15,148
Balance as of December 31, 2017	$ 603,753	$ 592,858	$ 1,196,611

[1] On July 12, 2017, in a cash transaction, the Company sold Cambridge which resulted in $17.8 million of goodwill being written off in connection with this sale (see Note 5 - Assets Held for Sale).
[2] On September 1, 2017, in a cash transaction, the Company sold Web24 which resulted in $3.6 million of goodwill being written off in connection with this sale (see Note 5 - Assets Held for Sale).
[3] On October 5, 2017, in a cash and equity transaction, the Company sold Tea Leaves, which resulted in $36.3 million of goodwill being written off in connection with this sale (see Note 5 - Assets Held for Sale).
[4] Purchase accounting adjustments relate to adjustments to goodwill in connection with prior year business acquisitions (see Note 3 - Business Acquisitions).

Intangible assets are summarized as of December 31, 2017 and 2016 as follows (in thousands):

Intangible Assets with Indefinite Lives:

	2017	2016
Trade names	$ 27,379	$ 27,379
Other	5,432	5,432
Total	$ 32,811	$ 32,811

Intangible Assets Subject to Amortization:

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

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

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

As of December 31, 2016, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	11.5 years	$ 127,342	$ 38,868	$ 88,474
Patent and patent licenses	6.6 years	65,605	51,677	13,928
Customer relationships [1]	9.6 years	390,930	182,775	208,155
Other purchased intangibles	6.0 years	195,913	27,590	168,323
Total		$ 779,790	$ 300,910	$ 478,880

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

During the year ended December 31, 2016, the Company acquired Everyday Health. The identified intangible assets recognized as part of the acquisition and their respective estimated weighted average amortizations were as follows (in thousands):

	December 31, 2016	
	Weighted-Average Amortization Period	Fair Value
Trademarks	5.2 years	$ 70,300
Customer relationships	10.1 years	45,500
Other purchased intangibles	1.7 years	88,267
Total		$ 204,067

During the year ended December 31, 2016, the Company completed 21 other acquisitions which were individually immaterial. The identified intangible assets recognized as part of these acquisition and their respective estimated weighted average amortizations were as follows (in thousands):

	December 31, 2016	
	Weighted-Average Amortization Period	Fair Value
Trade names	6.3 years	$ 5,866
Customer relationships	7.5 years	39,982
Other purchased intangibles	3.3 years	2,997
Total		$ 48,845

Expected amortization expenses for intangible assets subject to amortization at December 31, 2017 are as follows (in thousands):

Fiscal Year:	
2018	$ 122,294
2019	103,172
2020	54,315
2021	35,280
2022	30,231
Thereafter	107,648
Total expected amortization expense	$ 452,940

Amortization expense was $129.0 million, $95.3 million and $74.0 million for the years ended December 31, 2017, 2016 and 2015, respectively.

9. Long-Term Debt

6.0% Senior Notes

On June 27, 2017, j2 Cloud Services, LLC ("j2 Cloud") and j2 Cloud Co-Obligor, Inc. (the "Co-Issuer" and together with j2 Cloud, the "Issuers"), wholly-owned subsidiaries of the Company, completed the issuance and sale of $650 million aggregate principal amount of their 6.0% senior notes due in 2025 (the "6.0% Senior Notes") in a private placement offering exempt from the registration requirements of the Securities Act of 1933. j2 Cloud received proceeds of $636.5 million, after deducting the initial purchasers' discounts, commissions and offering expenses. The 6.0% Senior Notes are presented as long-term debt, net of deferred issuance costs, on the condensed consolidated balance sheets as of December 31, 2017. The proceeds were used to redeem all of j2 Cloud's 8.0% notes due in 2020, and to distribute sufficient net proceeds to j2 Global to pay off all amounts outstanding under its existing credit facility, with the remaining net proceeds to be used for general corporate purposes, including acquisitions.

The 6.0% Senior Notes bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2018. The 6.0% Senior Notes mature on July 15, 2025, and are senior unsecured

obligations of the Issuers which are guaranteed on an unsecured basis by certain subsidiaries of j2 Cloud (as defined in the Indenture, dated June 27, 2017 (the "Indenture")). If j2 Cloud or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an insignificant subsidiary (as defined in the Indenture), after the issue date, or any insignificant subsidiary ceases to fit within the definition of insignificant subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Issuers' obligations under the 6.0% Senior Notes.

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

The indenture contains certain restrictive and other covenants applicable to j2 Cloud and subsidiaries designated as restricted subsidiaries including, but not limited to, restrictions on (i) paying dividends or making distributions on j2 Cloud's membership interests or repurchasing j2 Cloud's membership interests; (ii) making certain restricted payments; (iii) creating liens or entering into sale and leaseback transactions; (iv) entering into transactions with affiliates; (v) merging or consolidating with another company; and (vi) transferring and selling assets. These covenants include certain exceptions. Violation of these covenants could result in a default which could result in the acceleration of outstanding amounts if such default is not cured or waived within the time periods outlined in the indenture. Payments, specifically dividend payments, are restricted only if j2 Cloud and its subsidiaries designated as restricted subsidiaries have a leverage ratio of greater than 3.0 to 1.0. In addition, if such leverage ratio is in excess of 3.0 to 1.0, restriction on restricted payments is subject to various exceptions, including an exception for the payment of restricted payments up to $75 million. These contractual provisions did not, as of December 31, 2017, restrict j2 Cloud's ability to pay dividends to j2 Global, Inc. The Company is in compliance with its debt covenants as of December 31, 2017.

As of December 31, 2017, the estimated fair value of the 6.0% Senior Notes was approximately $684.1 million and was based on the quoted market prices of debt instruments with similar terms, credit rating and maturities of the 6.0% Senior Notes which are Level 2 inputs (see Note 6 - Fair Value Measurements).

8.0% Senior Notes

On August 1, 2017, j2 Cloud redeemed all of its outstanding $250 million 8.0% senior unsecured notes due in 2020 for $265 million, including a redemption premium and relevant accrued interest which resulted in a loss on extinguishment of $8.0 million recorded which was recorded in Interest expense, net.

3.25% Convertible Notes

On June 10, 2014, j2 Global issued $402.5 million aggregate principal amount of 3.25% convertible senior notes due June 15, 2029 (the "Convertible Notes"). j2 Global received proceeds of $391.4 million in cash, net of underwriters' discounts and commissions. The net proceeds were available for general corporate purposes. The Convertible Notes bear interest at a rate of 3.25% per annum, payable semiannually in arrears on June 15 and December 15 of each year. Beginning with the six-month interest period commencing on June 15, 2021, the Company must pay contingent interest on the Convertible Notes during any six-month interest period if the trading price per $1,000 principal amount of the Convertible Notes for each of the five trading days immediately preceding the first day of such interest period equals or exceeds $1,300. Any contingent interest payable on the Convertible Notes will be in addition to the regular interest payable on the Convertible Notes.

Holders may surrender their Convertible Notes for conversion at any time prior to the close of business on the business day immediately preceding the maturity date only if one or more of the following conditions is satisfied: (i) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the closing sale price of j2 Global common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs is more than 130% of the applicable conversion price of the Convertible Notes on each such trading day; (ii) during the five consecutive business day period following any ten consecutive trading day period in which the trading price for the Convertible Notes for each such trading day was less than 98% of the product of (a) the closing sale price of j2 Global common stock on each such trading day and (b) the applicable conversion rate on each such trading day; (iii) if j2 Global calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the business day prior to the redemption date; (iv) upon the occurrence of specified corporate events; or (v) during either the period beginning on, and including, March 15, 2021 and ending on, but excluding, June

20, 2021 or the period beginning on, and including, March 15, 2029 and ending on, but excluding, the maturity date. j2 Global will settle conversions of Convertible Notes by paying or delivering, as the case may be, cash, shares of j2 Global common stock or a combination thereof at j2 Global's election. The Company currently intends to satisfy its conversion obligation by paying and delivering a combination of cash and shares of the Company's common stock, where cash will be used to settle each $1,000 of principal and the remainder, if any, will be settled via shares of the Company's common stock.

As of December 31, 2017, the conversion rate is 14.5899 shares of j2 Global common stock for each $1,000 principal amount of Convertible Notes, which represents a conversion price of approximately $68.54 per share of j2 Global common stock. The conversion rate is subject to adjustment for certain events as set forth in the indenture governing the Convertible Notes, but will not be adjusted for accrued interest. In addition, following certain corporate events that occur on or prior to June 20, 2021, j2 Global will increase the conversion rate for a holder that elects to convert its Convertible Notes in connection with such a corporate event.

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

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

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

Accounting for the Convertible Notes

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

j2 Global estimated the borrowing rates of similar debt without the conversion feature at origination to be 5.79% for the Convertible Notes and determined the debt discount to be $59.0 million. As a result, a conversion premium after tax of $37.7 million was recorded in additional paid-in capital. The aggregate debt discount is amortized as interest expense over the period from the issuance date through the first stated repurchase date on June 15, 2021 which management believes is the expected life of the Convertible Notes using an interest rate of 5.81%. As of December 31, 2017, the remaining period over which the unamortized debt discount will be amortized is 3.5 years.

The Convertible Notes are carried at face value less any unamortized debt discount. The fair value of the Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the Convertible Notes, which are Level 1 inputs (see Note 6 - Fair Value Measurements). If such information is not available, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature. As of December 31, 2017 and 2016, the estimated fair value of the Convertible Notes was approximately $504.5 million and $516.8 million, respectively.

As of December 31, 2017 and 2016, the if-converted value of our Convertible Notes exceeded the principal amount of $402.5 million by $38.1 million and $75.2 million, respectively.

The following table provides additional information related to our Convertible Notes (in thousands):

	2017	2016
Additional paid-in capital	$ 37,700	$ 37,700
Principal amount of Convertible Notes	$ 402,500	$ 402,500
Unamortized discount of the liability component	32,189	40,356
Carrying amount of debt issuance costs	5,667	7,002
Net carrying amount of Convertible Notes	$ 364,644	$ 355,142

The following table provides the components of interest expense related to our Convertible Notes (in thousands):

	2017	2016	2015
Cash interest expense (coupon interest expense)	$ 13,081	$ 13,081	$ 13,081
Non-cash amortization of discount on Convertible Notes	8,167	7,707	7,274
Amortization of debt issuance costs	1,335	1,217	1,109
Total interest expense related to Convertible Notes	$ 22,583	$ 22,005	$ 21,464

The Company has recorded additional interest expense associated with the contingent interest feature of the Convertible Notes for the years ended December 31, 2017, 2016, and 2015 of $(0.2) million, $(0.5) million, and $0.7 million, respectively (see Note 6 - Fair Value Measurements).

Long-term debt as of December 31, 2017 and 2016 consists of the following (in thousands):

	2017	2016
Senior Notes:		
6.0% Senior Notes	$ 650,000	$ —
8.0% Senior Notes	—	250,000
3.25% Convertible Notes	402,500	402,500
Less: Unamortized discount	(42,902)	(42,997)
Deferred issuance costs	(7,654)	(7,757)
Total long-term debt	$ 1,001,944	$ 601,746
Less: Current portion	—	—
Total long-term debt, less current portion	$ 1,001,944	$ 601,746

At December 31, 2017, future principal payments for debt were as follows (in thousands):

Years Ended December 31,	
2018	$ —
2019	—
2020	—
2021	402,500
2022	—
Thereafter	650,000
	$ 1,052,500

Interest expense was $59.2 million, $42.7 million and $43.6 million for the years ended December 31, 2017, 2016 and 2015, respectively.

10. Commitments and Contingencies

Litigation

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

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

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

On October 16, 2013, a j2 Global affiliate entered an appearance as a plaintiff in a multi-district litigation pending in the Northern District of Illinois (No. 1:12-cv-06286). In this litigation, Unified Messaging Solutions, LLC ("UMS"), a company with rights to assert certain patents owned by the j2 Global affiliate, has asserted five j2 Global patents against a number of defendants. While claims against some defendants have been settled, other defendants have filed counterclaims for, among other things, non-infringement, unenforceability, and invalidity of the patents-in-suit. On December 20, 2013, the Northern District of Illinois issued a claim construction opinion and, on June 13, 2014, entered a final judgment of non-infringement for the remaining defendants based on that claim construction. UMS and the j2 Global affiliate filed a notice of appeal to the Federal Circuit on June 27, 2014 (No. 14-1611). On December 8, 2017, the Federal Circuit affirmed the decision of the lower court.

On January 21, 2016, Davis Neurology, P.A. filed a putative class action against two j2 Global affiliates in the Circuit Court for the County of Pope, State of Arkansas (58-cv-2016-40), alleging violations of the TCPA. The case was ultimately removed to the U.S. District Court for the Eastern District of Arkansas (the "Eastern District of Arkansas") (No. 4:16-cv-00682). On June 6, 2016, the j2 Global affiliates filed a motion for judgment on the pleadings. On March 20, 2017, the Eastern District of Arkansas dismissed all claims against the j2 Global affiliates. On April 17, 2017, Davis Neurology filed a notice of appeal. On June 20, 2017, Davis Neurology filed its appeal brief. On August 4, 2017 j2 Global affiliates filed a response brief. On August 21, 2017, Davis Neurology filed a reply brief. Oral argument was held January 11, 2018. j2 Global affiliates submitted a supplemental letter brief on January 31, 2018. Davis Neurology submitted a supplemental letter brief on February 15, 2018. The appeal is pending.

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

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

Credit Agreement

On December 5, 2016, j2 Global entered into a Credit Agreement (the Credit Agreement) with MUFG Union Bank, N.A., as administrative agent, and certain other lenders from time to time party thereto (collectively, the Lenders). Pursuant to the Credit Agreement, the Lenders provided j2 Global with a credit facility of $225.0 million (the Credit Facility). On June 27, 2017, the Company paid off the entire line of credit of $225.0 million, in addition to interest and miscellaneous fees of $0.5 million and terminated the Credit Agreement.

Operating Leases

j2 Global leases certain facilities and equipment under non-cancelable operating leases which expire at various dates through 2025. 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. In most cases, the Company expects leases that expire will be renewed or replaced by other leases with similar terms. Future minimum lease payments at December 31, 2017 under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows (in thousands):

	Lease Payments
Fiscal Year:	
2018	$ 18,589
2019	17,325
2020	13,721
2021	12,049
2022	11,199
Thereafter	13,258
Total minimum lease payments	$ 86,141

Rental expense for the years ended December 31, 2017, 2016 and 2015 was $15.3 million, $10.6 million and $9.0 million, respectively.

Sublease

Total sublease income for the years ended December 31, 2017, 2016 and 2015 was $0.7 million and $0.6 million and $0.5 million, respectively. Total estimated aggregate sublease income to be received in the future is $9.0 million.

Non-Income Related Taxes

As a provider of cloud services for business, the Company does not provide telecommunications services. Thus, it believes that its business and its users (by using our services) are generally not subject to various telecommunication taxes. However, several state taxing authorities have challenged this belief and have and may continue to audit and assess our business and operations with respect to telecommunications and other sales taxes. In addition, the application of other indirect taxes (such as sales and use tax, business tax and gross receipt tax) to e-commerce businesses such as j2 Global and our users is a complex and evolving issue. The application of existing, new or future laws could have adverse effects on our business, prospects and operating results. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

The Company is currently under audit for indirect taxes in several states and municipalities. On March 3, 2017, the New York State Department of Taxation and Finance issued a notice of assessment for sales and use tax for the period of March 1, 2009 through February 28, 2014. We have reached a settlement with the Department which has expanded the period up to November 30, 2017. We have accrued $2.80 million as of December 31, 2017. On February 18, 2018, we paid $2.77 million to New York in settlement. On August 24, 2016, the Office of Finance for the City of Los Angeles notified us that they would commence an audit of business and communications taxes for the period of January 1, 2013 through December 31, 2016, which has concluded with no material impact. For other jurisdictions, we currently have no reserves established for these matters, as we have determined that the liability is not probable and estimable. However, it is reasonably possible that such a liability could be incurred, which would result in additional expense, which could materially impact our financial results.

11. Income Taxes

Income tax expense amounted to $60.5 million, $59.0 million and $23.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. Our effective tax rates for 2017, 2016 and 2015 were 30.3%, 27.9% and 14.8%, respectively.

The Company has not completed its accounting for the income tax effects of the 2017 Tax Act. Where the Company has been able to make reasonable estimates of the effects for which its analysis is not yet complete, the Company has recorded provisional amounts in accordance with SEC Staff Accounting Bulletin No. 118. Where the Company has not yet been able to make reasonable estimates of the impact of certain elements, the Company has not recorded any amounts related to those elements and has continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect immediately prior to the enactment of the 2017 Tax Act.

The Company's accounting for the following elements of the 2017 Tax Act is incomplete. However, the Company was able to make reasonable estimates of certain effects and, therefore, has recorded provisional amounts as follows:

Revaluation of deferred tax assets and liabilities: The 2017 Tax Act reduces the U.S. federal corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017. In addition, the 2017 Tax Act makes certain changes to the depreciation rules and implements new limits on the deductibility of certain executive compensation. The Company has evaluated these changes and has recorded a provisional decrease to net deferred tax liabilities of $33.3 million with a corresponding decrease to deferred tax expense. The Company is still completing its calculation of the impact of these changes on its deferred tax balances.

Transition tax on unrepatriated foreign earnings: The transition tax on unrepatriated foreign earnings is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of the Company's foreign subsidiaries. To determine the amount of the transition tax, the Company must determine, among other factors, the amount of post-1986 E&P of its foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The Company was able to make a reasonable estimate of the transition tax and has recorded a provisional transition tax expense of $49.2 million. The Company is continuing to gather additional information to more precisely compute the amount of the transition tax to complete its calculation of E&P as well as the final determination of non-U.S. income taxes paid.

Valuation allowances: The Company must assess whether its valuation allowance analyses for deferred tax assets are affected by various aspects of the 2017 Tax Act (e.g., deemed repatriation of deferred foreign income, future GILTI inclusions, new categories of foreign tax credits). Since, as discussed herein, the Company has recorded provisional amounts related to certain portions of the 2017 Tax Act, any corresponding determination of the need for or change in a valuation allowance is also provisional. Prior to 2017, the Company had recorded valuation allowances for certain tax attributes that the Company estimated were not more likely than not to be utilized prior to their expiration. Based on a preliminary review of its 2017 and future taxable income, the Company has recorded a provisional release of valuation allowance in the amount of $11.9 million with a corresponding deferred tax benefit.

The Company's accounting for the following elements of the 2017 Tax Act is incomplete, and it has not yet been able to make reasonable estimates of the effects of these items. Therefore, no provisional amounts were recorded.

Global intangible low taxed income ("GILTI"): The 2017 Tax Act creates a new requirement that certain income (i.e. GILTI) earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Due to the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the 2017 Tax Act and the application of ASC 740. Under U.S. GAAP, the Company is permitted to make an accounting policy election to either treat taxes due on future inclusions in U.S. taxable income related to GILTI as a current-period expense when incurred or to factor such amounts into the Company's measurement of its deferred taxes. The Company has not yet completed its analysis of the GILTI tax rules and is not yet able to reasonably estimate the effect of this provision of the 2017 Tax Act or make an accounting policy election for the ASC 740 treatment of the GILTI tax. Therefore, the Company has not recorded any amounts related to potential GILTI tax in its financial statements and has not yet made a policy decision regarding whether to record deferred taxes on GILTI.

Indefinite reinvestment assertion: Beginning in 2018, the 2017 Tax Act provides a 100% deduction for dividends received from 10-percent owned foreign corporations by U.S. corporate shareholders, subject to a one-year holding period. Although dividend income is now exempt from U.S. federal tax in the hands of the U.S. corporate shareholders, companies must still apply the guidance of ASC 740-30-25-18 to account for the tax consequences of outside basis differences and other tax impacts of their investments in non-U.S. subsidiaries. While the Company has accrued the transition tax on the deemed repatriated earnings that were previously indefinitely reinvested, the Company was unable to determine a reasonable estimate of the remaining tax liability, if any, under the 2017 Tax Act for its remaining outside basis differences or evaluate how the 2017 Tax Act will affect the Company's

existing accounting position to indefinitely reinvest unremitted foreign earnings. Therefore, the Company has not included a provisional amount for this item in its financial statements for fiscal 2017. The Company will record amounts as needed for this item beginning in the first reporting period during the measurement period in which the Company obtains necessary information and is able to analyze and prepare a reasonable estimate.

The provision for income tax consisted of the following (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ 55,804	$ 46,293	$ 21,745
State	3,265	3,874	1,805
Foreign	22,904	22,612	16,816
Total current	81,973	72,779	40,366
Deferred:			
Federal	(15,682)	(6,822)	(8,581)
State	962	(330)	(3,462)
Foreign	(6,712)	(6,627)	(5,040)
Total deferred	(21,432)	(13,779)	(17,083)
Total provision	$ 60,541	$ 59,000	$ 23,283

A reconciliation of the statutory federal income tax rate with j2 Global's effective income tax rate is as follows:

	Years Ended December 31,		
	2017	2016	2015
Statutory tax rate	35 %	35 %	35 %
State income taxes, net	0.8	1.1	0.3
Foreign rate differential	(16.1)	(14.6)	(15.8)
Foreign income inclusion	7.2	9.4	5.4
Foreign tax credit	(6.2)	(5.5)	(6.1)
Reserve for uncertain tax positions	3.9	4.7	(3.3)
Valuation allowance	(0.9)	(1.0)	1.8
IRC Section 199 deductions	(1.6)	(1.1)	(1.2)
The 2017 Tax Act - provisional transition tax	24.6	—	—
The 2017 Tax Act - tax rate impact on deferred taxes	(16.1)	—	—
Other	(0.3)	(0.1)	(1.3)
Effective tax rates	30.3 %	27.9 %	14.8 %

The Company's effective rate for each year is normally lower than the 35% U.S. federal statutory plus applicable state income tax rates primarily due to earnings of j2 Global's subsidiaries outside of the U.S. in jurisdictions where the effective tax rate is lower than in the U.S.

Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Temporary differences and carryforwards which give rise to deferred tax assets and liabilities are as follows (in thousands):

	Years Ended December 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 29,317	$ 59,806
Tax credit carryforwards	2,645	16,281
Accrued expenses	3,165	14,759
Allowance for bad debt	1,570	2,624
Share-based compensation expense	6,476	5,631
Basis difference in fixed assets	1,881	2,195
Impairment of investments	48	74
Deferred revenue	728	2,361
State taxes	1,777	1,758
Other	14,165	9,227
	61,772	114,716
Less: valuation allowance	(197)	(12,028)
Total deferred tax assets	$ 61,575	$ 102,688
Deferred tax liabilities:		
Basis difference in intangible assets	$ (70,252)	$ (98,830)
Prepaid insurance	(616)	(246)
Convertible debt	(27,504)	(36,592)
Other	(1,467)	(2,088)
Total deferred tax liabilities	(99,839)	(137,756)
Net deferred tax liabilities	$ (38,264)	$ (35,068)

The Company had approximately $61.6 million and $102.7 million in deferred tax assets as of December 31, 2017 and 2016, respectively, related primarily to net operating loss carryforwards, tax credit carryforwards and accrued expenses treated differently between its financial statements and its tax returns. Based on the weight of available evidence, the Company assesses whether it is more likely than not that some portion or all of a deferred tax asset will not be realized. If necessary, j2 Global records a valuation allowance sufficient to reduce the deferred tax asset to the amount that is more likely that not to be realized. The deferred tax assets should be realized through future operating results and the reversal of temporary differences.

As of December 31, 2017, the Company had federal net operating loss carryforwards ("NOLs") of $102.2 million, after considering substantial restrictions on the utilization of these NOLs due to "ownership changes", as defined in the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). j2 Global currently estimates that all of the above-mentioned federal NOLs will be available for use before their expiration. These NOLs expire through the year 2036. The $102.2 million NOL carryforward amount includes $89.1 million acquired pursuant to the Everyday Health transaction.

As of December 31, 2017 and 2016, the Company has foreign tax credits of zero and $11.9 million, respectively. The Company has provided a valuation allowance on the foreign tax credits of zero and $11.9 million, respectively, as the weight of available evidence does not support full utilization of these credits. The foreign tax credits were fully utilized in 2017 as a result of the transition tax on repatriated foreign earnings. If these tax credits were not fully utilized, the foreign tax credits would have expired in the year 2025. In addition, as of December 31, 2017 and 2016, the Company had state research and development tax credits of $2.3 million and $3.5 million, respectively, which last indefinitely.

Certain tax payments are prepaid during the year and included within prepaid expenses and other current assets on the consolidated balance sheet. The Company's prepaid tax payments were $6.0 million and zero at December 31, 2017 and 2016, respectively.

Uncertain Income Tax Positions

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the consolidated balance sheets.

As of December 31, 2017, the total amount of unrecognized tax benefits was $45.0 million, of which $39.8 million, if recognized, would affect the Company's effective tax rate. As of December 31, 2016, the total amount of unrecognized tax benefits was $41.2 million, of which $37.0 million, if recognized, would affect the Company's effective tax rate. As of December 31, 2015, the total amount of unrecognized tax benefits was $32.5 million, of which $29.8 million, if recognized would affect the Company's effective tax rate.

The aggregate changes in the balance of unrecognized tax benefits, which excludes interest and penalties, for 2017, 2016 and 2015, is as follows (in thousands):

	Years Ended December 31,		
	2017	2016	2015
Beginning balance	$ 41,218	$ 32,536	$ 34,635
Increases related to tax positions during a prior year	—	2,082	10,361
Decreases related to tax positions taken during a prior year	(401)	—	(17,107)
Increases related to tax positions taken in the current year	7,223	6,703	8,841
Settlements	(2,639)	—	(4,194)
Decreases related to expiration of statute of limitations	(389)	(103)	—
Ending balance	$ 45,012	$ 41,218	$ 32,536

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of December 31, 2017, 2016 and 2015, the total amount of interest and penalties accrued was $7.2 million, $5.3 million and $3.4 million, respectively, which is classified as non-current liabilities in the consolidated balance sheets. In connection with tax matters, the Company recognized interest and penalty (benefit) expense in 2017, 2016 and 2015 of $2.1 million, $1.9 million and $(1.4) million, respectively.

Uncertain income tax positions are reasonably possible to significantly change during the next 12 months as a result of completion of income tax audits and expiration of statutes of limitations. At this point it is not possible to provide an estimate of the amount, if any, of significant changes in reserves for uncertain income tax positions as a result of the completion of income tax audits that are reasonably possible to occur in the next 12 months. In addition, the Company cannot currently estimate the amount of, if any, uncertain income tax positions which will be released in the next 12 months as a result of expiration of statutes of limitations due to ongoing audits. As a result of ongoing federal, state and foreign income tax audits (discussed below), it is reasonably possible that our entire reserve for uncertain income tax positions for the periods under audit will be released. It is also reasonably possible that the Company's reserves will be inadequate to cover the entire amount of any such income tax liability.

Income before income taxes included income from domestic operations of $61.9 million, $84.8 million and $61.0 million for the years ended December 31, 2017, 2016 and 2015, respectively, and income from foreign operations of $138.1 million, $126.6 million and $95.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Income Tax Audits:

In November 2015, the U.S. Internal Revenue Service ("IRS") began an income tax audit of the Company's 2012 and 2013 tax years. In March 2016, the IRS expanded its income tax audit to include the Company's 2014 tax year. Additionally, the Company was notified on March 22, 2017 that the IRS will be auditing Everyday Health's 2014 tax year. In December 2017, the Company was notified by the IRS that the 2014 audit of Everyday Health will be concluded with no changes.

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

The Company is under income tax audit by the New York State Department of Taxation and Finance ("NYS") for tax years 2011 through 2013. In March 2017, NYS expanded its income tax audit to include the Company's 2014 tax year.

In September 2017, the Massachusetts Department of Revenue notified the Company that it will commence an audit of income tax for tax years 2014 and 2015. In addition, the Georgia Department of Revenue notified the Company that it will commence an audit of income tax for tax years 2014 through 2016.

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

It is reasonably possible that these audits may conclude in the next 12 months and that the uncertain tax positions the Company has recorded in relation to these tax years may change compared to the liabilities recorded for these periods. If the recorded uncertain tax positions are inadequate to cover the associated tax liabilities, the Company would be required to record additional tax expense in the relevant period, which could be material. If the recorded uncertain tax positions are adequate to cover the associated tax liabilities, the Company would be required to record any excess as 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.

12. Stockholders' Equity

Preferred Stock Exchange

In November 2014, the Company provided holders of the Company's Series A Preferred Stock ("j2 Series A Stock") and the Company's Series B Preferred Stock ("j2 Series B Stock") an exchange right in which shares may be exchanged for j2 common stock. The exchange right associated with the shares of j2 Series A Stock provided that such shares were immediately exercisable at an exchange ratio of 20.4319 shares of j2 common stock per share of j2 Series A Stock (the "Series A Exchange Ratio"). Both holders of the j2 Series A Stock exercised this exchange right which resulted in the issuance of 235,665 shares of j2 common stock. The exchange right associated with the vested shares of the j2 Series B Stock is exercisable during specified exchange periods at an exchange ratio of 31.8094 shares of j2 common stock per share of j2 Series B Stock (the "Series B Exchange Ratio"). Holders of vested j2 Series B Stock exercised this exchange right which resulted in the issuance of 88,623 and 91,737 shares of j2 common stock during fiscal years 2017 and 2016, respectively.

In connection with the exercise of the exchange right and the resulting extinguishment of the j2 Series A Stock, the Company recorded the difference between the carrying value of the Series A and the fair value of the j2 common stock exchanged within retained earnings as a preferred stock dividend. In connection with the exercise of the exchange right associated with j2 Series B Stock, the Company recognized incremental fair value in the amount of $6.3 million and recorded additional share-based compensation in the amount of $1.2 million and $1.3 million for the years ended December 31, 2017 and 2016, respectively. The remaining amount of unrecognized incremental fair value will be recognized over the remaining service period.

The Series B Exchange Ratio is adjusted in the event of a subdivision of the outstanding j2 common stock or j2 Series B Stock, a declaration of a dividend payable in shares of j2 common stock or j2 Series B 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 j2 common stock or j2 Series B Stock, a combination or consolidation of the outstanding j2 common stock or j2 Series B Stock into a lesser number of shares of j2 common stock or j2 Series B Stock, respectively, specified changes in control, a recapitalization, a reclassification, or a similar occurrence, the Company shall adjust the Series B Exchange Ratio as it deems appropriate in its sole discretion.

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 j2 Global common stock through February 20, 2013 (the "2012 Program") which was subsequently extended through February 19, 2019 (see Note 20 - Subsequent Events). On February 15, 2012, the Company entered into a Rule 10b5-1 trading plan with a broker to facilitate the repurchase program. No shares were repurchased under the share repurchase program for the years ended December 31, 2017 and 2016. Cumulatively at December 31, 2017, 2.1 million shares were repurchased at an aggregate cost of $58.6 million (including an immaterial amount of commission fees).

In July 2016, the Company acquired and subsequently retired 935,231 shares of j2 Global common stock in connection with the acquisition of Integrated Global Concepts, Inc. (see Note 3 - Business Acquisitions). As a result of the purchase of j2 Global common stock, the Company's Board of Directors approved a reduction in the number of shares available for purchase

under the 2012 Program by the same amount leaving 1,938,689 shares of j2 Global common stock available for purchase under this program.

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 year ended December 31, 2017, the Company purchased 117,076 shares from plan participants for this purpose.

Dividends

The following is a summary of each dividend declared during fiscal year 2017 and 2016:

Declaration Date	Dividend per Common Share	Record Date	Payment Date
February 10, 2016	$ 0.3250	February 23, 2016	March 10, 2016
May 5, 2016	$ 0.3350	May 18, 2016	June 2, 2016
August 2, 2016	$ 0.3450	August 17, 2016	September 1, 2016
November 1, 2016	$ 0.3550	November 18, 2016	December 5, 2016
February 9, 2017	$ 0.3650	February 22, 2017	March 9, 2017
May 4, 2017	$ 0.3750	May 19, 2017	June 2, 2017
August 2, 2017	$ 0.3850	August 14, 2017	September 1, 2017
October 31, 2017	$ 0.3950	November 17, 2017	December 5, 2017

On February 2, 2018, the Company's Board of Directors declared a quarterly cash dividend of $0.4050 per share of common stock payable on March 9, 2018 to all stockholders of record as of the close of business on February 22, 2018 (see Note 20 - Subsequent Events). Future dividends will be subject to Board approval.

13. Stock Options and Employee Stock Purchase Plan

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

(a) The 2007 Stock Option Plan and the 2015 Stock Option Plan

In October 2007, j2 Global's Board of Directors adopted the j2 Global, Inc. 2007 Stock Option Plan (the "2007 Plan"). The 2007 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units and other share-based awards. The number of authorized shares of common stock that may be used for 2007 Plan purposes is 4,500,000. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the fair market value of j2 Global's common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of j2 Global's common stock on the date of grant for non-statutory stock options. The 2007 Plan terminated on February 14, 2017.

In May 2015, j2 Global's Board of Directors adopted the j2 Global, Inc. 2015 Stock Option Plan (the "2015 Plan"). The 2015 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units and other share-based awards and is intended as a successor plan to the 2007 Stock Plan since no further grants will be made under the 2007 Stock Plan. 4,200,000 shares of 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.

At December 31, 2017, 2016 and 2015, options to purchase 361,875, 353,258 and 457,792 shares of common stock were exercisable under and outside of the 2015 Plan and the 2007 Plan combined, at weighted average exercise prices of $29.92, $26.10 and $24.78, respectively. Stock options generally expire after 10 years and vest over a 5-year period.

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

Stock Options

Stock option activity for the years ended December 31, 2017, 2016 and 2015 is summarized as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2015	725,649	$ 24.29		
Granted	62,000	67.35		
Exercised	(221,221)	22.41		
Canceled	—	—		
Options outstanding at December 31, 2015	566,428	$ 29.74		
Granted	—	—		
Exercised	(142,870)	26.04		
Canceled	(9,700)	26.92		
Options outstanding at December 31, 2016	413,858	$ 31.09		
Granted	—	—		
Exercised	(38,183)	29.03		
Canceled	—	—		
Options outstanding at December 31, 2017	375,675	$ 31.30	2.5	$16,429,727
Exercisable at December 31, 2017	361,875	$ 29.92	2.3	$16,323,743
Vested and expected to vest at December 31, 2017	373,168	$ 31.05	2.4	$16,410,477

For the years ended December 31, 2017, 2016 and 2015, j2 Global granted zero, zero and 62,000 options, respectively, to purchase shares of common stock pursuant to the 2015 Plan. These stock options vest 20% per year and expire 10 years from the date of grant.

The per share weighted-average grant-date fair values of stock options granted during the period ended December 31, 2015 was $15.22. There were no stock options granted during the years 2017 and 2016.

The total intrinsic values of options exercised during the years ended December 31, 2017, 2016 and 2015 was $2.1 million, $5.6 million and $10.5 million, respectively. The total fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was $0.6 million, $0.6 million and $0.7 million, respectively.

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2017, 2016 and 2015 was $1.1 million, $3.6 million and $5.0 million, respectively. The actual tax benefit realized for the tax deductions from option exercises under the share-based payment arrangements totaled $0.7 million, $1.9 million and $3.7 million, respectively, for the years ended December 31, 2017, 2016 and 2015.

The following table summarizes information concerning outstanding and exercisable options as of December 31, 2017:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	Number Outstanding December 31, 2017	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable December 31, 2017	Weighted Average Exercise Price
$17.19	22,000	1.18 years	$ 17.19	22,000	$ 17.19
20.91	45,558	0.34 years	20.91	45,558	20.91
21.67	50,040	1.35 years	21.67	50,040	21.67
22.92	84,092	2.35 years	22.92	84,092	22.92
24.61 - 25.93	14,500	4.02 years	25.13	14,500	25.13
27.60	700	3.08 years	27.60	700	27.60
29.34	75,585	3.36 years	29.34	75,585	29.34
29.53	13,700	4.17 years	29.53	13,700	29.53
31.07	7,500	3.82 years	31.07	7,500	31.07
67.35	62,000	3.51 years	67.35	48,200	67.35
$17.19 - $67.35	375,675	2.46 years	$ 31.30	361,875	$ 29.92

As discussed in Note 12, “Stockholders’ Equity”, the Company provided holders of j2 Series B Stock an exchange right in which j2 Series B Stock may be exchanged for j2 common stock during specified exchange periods. The Company determined that such exchange right represents a grant under the 2007 Plan for the year ended December 31, 2014, and accordingly, reduced the awards available under the 2007 Plan. At December 31, 2017, there were 3,450,474 additional shares underlying options, shares of restricted stock and other share-based awards available for grant under the 2015 Plan, and no additional shares are available for grant under or outside of the 2007 Plan.

The Company recognized $0.4 million, $0.4 million and $0.7 million of compensation expense related to stock options for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, there was $0.2 million of total unrecognized compensation expense related to nonvested share-based compensation options granted under the 2015 Plan and the 2007 Plan. That expense is expected to be recognized ratably over a weighted average period of 2.35 years (i.e., the remaining requisite service period).

Fair Value Disclosure

j2 Global uses the Black-Scholes option pricing model to calculate the fair value of each option grant. The expected volatility is based on historical volatility of the Company’s common stock. The Company estimates the expected term based upon the historical exercise behavior of our employees. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a term equal to the expected term of the option assumed at the date of grant. The Company uses an annualized dividend yield based upon the per share dividends declared by its Board of Directors. Estimated forfeiture rates were 14.3%, 12.7% and 14.1% as of December 31, 2017, 2016 and 2015, respectively.

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

	Years Ended December 31,		
	2017	2016	2015
Risk-free interest rate	—%	—%	1.6%
Expected term (in years)	0.0	0.0	5.2
Dividend yield	—%	—%	1.8%
Expected volatility	—%	—%	28.1%
Weighted average volatility	—%	—%	28.1%

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 the the 2007 Plan and the 2015 Plan. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Beginning in fiscal year 2012 vesting periods are approximately one year for awards to members of the Company's Board of Directors and five years for senior staff. The Company granted 300,330, 317,914 and 252,940 shares of restricted stock and restricted units during the years ended December 31, 2017, 2016 and 2015, respectively, and recognized $22.2 million, $13.2 million and $11.0 million, respectively of related compensation expense. As of December 31, 2017, the Company had unrecognized share-based compensation cost of $36.6 million associated with these awards. This cost is expected to be recognized over a weighted-average period of 3.9 years for awards and 3.3 years for units. The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2017, 2016 and 2015 was $15.1 million, $8.0 million and $6.4 million, respectively. The actual tax benefit realized for the tax deductions from the vesting of restricted stock awards and units totaled $2.3 million, $3.5 million and $3.8 million, respectively, for the years ended December 31, 2017, 2016 and 2015. In accordance with ASC 718, share-based compensation is recognized on dividends paid related to nonvested restricted stock not expected to vest, which amounted to approximately $0.1 million, $0.1 million and $0.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

During the year, the Company accelerated the vesting of certain shares held by employees which were surrendered to the Company to satisfy tax withholding obligations in connection with such employees' restricted stock. The Company recognized share-based compensation of $1.4 million during the year due to this vesting acceleration.

In connection with Nehemia Zucker's resignation as Chief Executive Officer effective as of December 31, 2017, all of his outstanding and unvested stock options and time-based restricted shares, along with the tranche of performance-vesting restricted shares that was then next scheduled to vest, vested in full on December 29, 2017. As a result, the Company has accelerated the recognition of share-based compensation expense associated with these awards which impacted the fourth quarter by approximately $5.1 million.

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) for 2016 and 2017, respectively. 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 year ended December 31, 2017 and 2016, the Company awarded 85,825 and 106,780 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 years ended December 31, 2017 and 2016 were $72.20 and $44.67, respectively.

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

	December 31, 2017	December 31, 2016
Underlying stock price at valuation date	$ 91.17	$ 63.73
Expected volatility	29.0%	29.8%
Risk-free interest rate	2.17%	1.51%

Restricted stock award activity for the years ended December 31, 2017, 2016 and 2015 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2015	814,050	$ 26.57
Granted	234,540	68.11
Vested	(254,871)	25.16
Canceled	(88,915)	40.97
Nonvested at December 31, 2015	704,804	$ 39.08
Granted	296,414	41.27
Vested	(255,503)	31.27
Canceled	(40,700)	63.95
Nonvested at December 31, 2016	705,015	$ 41.40
Granted	289,230	61.34
Vested	(381,411)	39.71
Canceled	(7,268)	76.08
Nonvested at December 31, 2017	605,566	$ 51.57

Restricted stock unit activity for the years ended December 31, 2017, 2016 and 2015 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	102,924		
Granted	18,400		
Vested	(23,221)		
Canceled	(41,858)		
Outstanding at December 31, 2015	56,245		
Granted	21,500		
Vested	(14,595)		
Canceled	(11,200)		
Outstanding at December 31, 2016	51,950		
Granted	11,100		
Vested	(16,370)		
Canceled	(8,280)		
Outstanding at December 31, 2017	38,400	1.8	$ 2,881,152
Vested and expected to vest at December 31, 2017	29,397	1.6	$ 2,205,686

Employee Stock Purchase Plan

In May of 2001, j2 Global established the j2 Global, Inc. 2001 Employee Stock Purchase Plan, as amended (the "Purchase Plan"), which provides for the issuance of a maximum of 2,000,000 shares of common stock. Under the Purchase Plan, eligible employees can have up to 15% of their earnings withheld, up to certain maximums, to be used to purchase shares of j2 Global's common stock at certain plan-defined dates. The price of the common stock purchased under the Purchase Plan for the offering periods is equal to 95% of the fair market value of the common stock at the end of the offering period. During 2017, 2016 and 2015, 3,283, 3,918 and 4,020 shares, respectively were purchased under the Purchase Plan at price ranging from $85.73 to $70.43 per share during 2017. As of December 31, 2017, 1,623,243 shares were available under the Purchase Plan for future issuance. See Note 20 "Subsequent Events" for changes to the Purchase Plan.

14. Defined Contribution 401(k) Savings Plan

j2 Global has several 401(k) Savings Plans that qualify under Section 401(k) of the Internal Revenue Code. Eligible employees may contribute a portion of their salary through payroll deductions, subject to certain limitations. The Company may make annual contributions at its sole discretion to these plans. For the years ended December 31, 2017, 2016 and 2015, the Company incurred expenses of $3.0 million, $1.8 million and $1.9 million, respectively, for contributions to these 401(k) Savings Plans.

15. Earnings Per Share

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

	Years Ended December 31,		
	2017	**2016**	**2015**
Numerator for basic and diluted net income per common share:			
Net income attributable to j2 Global, Inc. common shareholders	$ 139,425	$ 152,439	$ 133,636
Net income available to participating securities [(a)]	(1,792)	(2,242)	(2,159)
Net income available to j2 Global, Inc. common shareholders	137,633	150,197	131,477
Denominator:			
Weighted-average outstanding shares of common stock	47,586,242	47,668,357	47,627,853
Dilutive effect of:			
Equity incentive plans	228,166	201,660	293,911
Convertible debt [(b)]	854,619	93,209	165,996
Common stock and common stock equivalents	48,669,027	47,963,226	48,087,760
Net income per share:			
Basic	$ 2.89	$ 3.15	$ 2.76
Diluted	$ 2.83	$ 3.13	$ 2.73

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

(b) Represents the incremental shares issuable upon conversion of the Convertible Notes due June 15, 2029 by applying the treasury stock method when the average stock price exceeds the conversion price of the Convertible Notes (see Note 9 - Long Term Debt)

For the years ended December 31, 2017, 2016 and 2015, 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 shares.

16. Segment Information

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

The Company's Cloud Services segment is driven primarily by subscription revenues that are relatively higher margin, stable and predictable from quarter to quarter with some seasonal weakness in the fourth quarter. The Cloud Services segment also includes the results of our IP licensing business, which can vary dramatically in both revenues and profitability from period to period. The Company's Digital Media segment is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter.

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

	Years Ended December 31,		
	2017	2016	2015
Revenue by segment:			
Cloud Services	$ 578,956	$ 566,938	$ 504,638
Digital Media	538,939	307,463	216,374
Elimination of inter-segment revenues	(57)	(146)	(197)
Total revenue	1,117,838	874,255	720,815
Direct costs by segment [1]:			
Cloud Services	352,912	356,059	294,436
Digital Media	490,871	256,763	185,937
Direct costs by segment [1]:	843,783	612,822	480,373
Cloud Services operating income [2]	226,044	210,879	210,202
Digital Media operating income	48,068	50,700	30,437
Segment operating income	274,112	261,579	240,639
Global operating costs [2][3]	28,404	19,013	41,257
Income from operations	$ 245,708	$ 242,566	$ 199,382

[1] Direct costs for each segment include cost of revenues and other operating expenses that are directly attributable to the segment, such as employee compensation expense, local sales and marketing expenses, engineering and network operations expenses, depreciation and amortization and other administrative expenses.

[2] During 2016, the Company determined certain personnel and third-party costs were directly attributable to a particular segment. As a result, these costs were no longer classified as Global operating costs in 2016. If such costs in 2015 were classified consistent with the 2016 presentation, the operating income for Cloud Services segment would have been $189.1 million and Global operating costs would have been $20.2 million, respectively.

[3] Global operating costs include general and administrative and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment.

	2017	2016
Assets:		
Cloud Services	$ 1,078,577	$ 911,327
Digital Media	1,317,113	1,124,535
Total assets from reportable segments	2,395,690	2,035,862
Corporate	57,403	26,466
Total assets	$ 2,453,093	$ 2,062,328

	2017	2016	2015
Capital expenditures:			
Cloud Services	$ 7,031	$ 6,113	$ 7,546
Digital Media	32,564	18,633	9,389
Total from reportable segments	39,595	24,746	16,935
Corporate	—	—	362
Total capital expenditures	$ 39,595	$ 24,746	$ 17,297
Depreciation and amortization:			
Cloud Services	$ 68,436	$ 79,533	$ 62,385
Digital Media	93,605	42,558	30,008
Total from reportable segments	162,041	122,091	92,393
Corporate	—	—	820
Total depreciation and amortization	$ 162,041	$ 122,091	$ 93,213

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).

	Years Ended December 31,		
	2017	2016	2015
Revenues:			
United States	$ 830,800	$ 607,285	$ 492,682
Canada	78,099	76,775	74,864
Ireland	74,430	71,340	43,717
All other countries	134,509	118,855	109,552
Total	$ 1,117,838	$ 874,255	$ 720,815

	December 31, 2017	December 31, 2016
Long-lived assets:		
United States	$ 452,143	$ 453,053
All other countries	80,571	93,430
Total	$ 532,714	$ 546,483

17. Supplemental Cash Flows Information

Cash paid for interest during the years ended December 31, 2017, 2016 and 2015 was $35.8 million, $33.1 million and $33.1 million, respectively, substantially all of which related to interest on outstanding debt and foreign taxes.

Cash paid for income taxes net of refunds received was $51.1 million, $37.4 million and $42.0 million during the years ended December 31, 2017, 2016 and 2015, respectively.

The Company acquired property and equipment for $0.3 million, $0.4 million and $0.6 million during the years ended December 31, 2017, 2016 and 2015, respectively, which had not been yet paid at the end of each such year.

During the years ended December 31, 2017, 2016 and 2015, j2 Global recorded the tax benefit from the exercise of stock options and restricted stock as a reduction of its income tax liability of $2.9 million, $5.4 million and $7.5 million, respectively.

In connection with the sale of Tea Leaves during the fourth quarter 2017, the Company received certain equity securities as non cash consideration initially valued in the amount of $57.7 million.

18. Accumulated Other Comprehensive Income

The following table summarizes the changes in accumulated balances of other comprehensive income, net of tax, for the years ended December 31, 2017 and 2016 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Balance as of January 1, 2016	$ 2,449	$ (31,573)	$ (29,124)
Other comprehensive income (loss) before reclassifications	744	(23,076)	(22,332)
Amounts reclassified from accumulated other comprehensive income	(3,193)	—	(3,193)
Net current period other comprehensive loss	(2,449)	(23,076)	(25,525)
Balance as of December 31, 2016	$ —	$ (54,649)	$ (54,649)
Other comprehensive income before reclassifications	—	25,559	25,559
Net current period other comprehensive income	—	25,559	25,559
Balance as of December 31, 2017	$ —	$ (29,090)	$ (29,090)

The following table provides details about reclassifications out of accumulated other comprehensive income for the years ended December 31, 2017 and 2016 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement of Income
	Year Ended December 31, 2017	Year Ended December 31, 2016	
Unrealized gain on available-for-sale investments	$ —	$ (5,149)	Other (income) expense, net
	—	(5,149)	Income before income taxes
	—	1,956	Income tax expense
	—	(3,193)	Net income
Total reclassifications for the period	$ —	$ (3,193)	Net income

19. Quarterly Results (unaudited)

The following tables contain selected unaudited statement of income information for each quarter of 2017 and 2016 (in thousands, except share and per share data). j2 Global believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Year Ended December 31, 2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$ 316,380	$ 273,616	$ 273,174	$ 254,669
Gross profit	270,406	231,245	230,015	213,859
Net income	49,871	32,358	31,376	25,820
Net income per common share:				
Basic	$ 1.03	$ 0.67	$ 0.65	$ 0.54
Diluted	$ 1.02	$ 0.66	$ 0.63	$ 0.52
Weighted average shares outstanding				
Basic	47,721,700	47,609,819	47,547,118	47,463,231
Diluted	48,437,580	48,521,082	48,948,315	48,766,031

	Year Ended December 31, 2016			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Revenues	$ 251,837	$ 210,116	$ 211,800	$ 200,502
Gross profit	211,608	173,124	176,209	166,214
Net income	43,158	45,569	33,770	29,943
Net income per common share:				
Basic	$ 0.90	$ 0.95	$ 0.69	$ 0.62
Diluted	$ 0.89	$ 0.94	$ 0.69	$ 0.61
Weighted average shares outstanding				
Basic	47,348,372	47,310,011	48,055,783	47,966,718
Diluted	47,862,218	47,494,744	48,265,298	48,238,098

20. Subsequent Events

On January 4, 2018, in a cash transaction, the Company acquired certain assets of Lifescript, a California based provider of digital health and wellness solutions.

On January 26, 2018, in a cash transaction, the Company acquired all the issued capital of ThreatTrack Security Holdings, Inc., a Florida based provider of cybersecurity solutions.

On February 2, 2018, the Company's Board of Directors approved a quarterly cash dividend of $0.4050 per share of common stock payable on March 9, 2018 to all stockholders of record as of the close of business on February 22, 2018. The Company also announced that it extended the Company's share repurchase program set to expire February 19, 2018 by an additional year.

On February 2, 2018, the Company approved an amendment (the "Amendment") to the Company's Amended and Restated 2001 Employee Stock Purchase Plan, to be effective May 1, 2018, such that (i) the purchase price for each offering period shall be 85% of the lesser of the fair market value of a share of common stock of the Company (a "Share") on the beginning or the end of the offering period, rather than 95% of the fair market value of a Share at the end of the offering period, and (ii) each offering period will be six months, rather than three months.

On February 2, 2018, the Board appointed Sarah Fay as a director, effective immediately.

In February 2018, the Company received a capital call notice from the management of OCV Management, LLC. for approximately $12.2 million, inclusive of certain management fees.

Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure

None.

Item 9A. 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 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 Annual Report on Form 10-K.

(b) Management's Annual Report on Internal Control Over Financial Reporting

j2 Global's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for j2 Global. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) using the 2013 framework. Our system of internal control over financial reporting is designed 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on its assessment, management has concluded that j2 Global's internal control over financial reporting was effective as of December 31, 2017. Management did not assess the effectiveness of
internal control over financial reporting of all the 2017 acquisitions (see Note 3 - Business Acquisitions) because of the timing of these acquisitions. These acquisitions combined constituted 9.9% of total assets as of December 31, 2017 and 3.1% of revenues for the year then ended. Our internal controls over financial reporting as of December 31, 2017 have been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in the attestation report which is included herein.

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) which occurred during the fourth quarter of our fiscal year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
j2 Global, Inc.
Los Angeles, California

Opinion on Internal Control over Financial Reporting

We have audited j2 Global, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedules, and our report dated March 1, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As indicated in the accompanying Item 9A, Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of all the 2017 acquisitions, which are included in the consolidated balance sheet of the Company and subsidiaries as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended. These acquisitions combined constituted approximately 9.9% of total assets as of December 31, 2017, and approximately 3.1% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of all the 2017 acquisitions because of the timing of these acquisitions. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of all the 2017 acquisitions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Los Angeles, California
March 1, 2018

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to the information to be set forth in our proxy statement ("2017 Proxy Statement") for the 2017 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2017.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the information to be set forth in our 2017 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the information to be set forth in our 2017 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the information to be set forth in our 2017 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the information to be set forth in our 2017 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements.

The following financial statements are filed as a part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2. Financial Statement Schedule

The following financial statement schedule is filed as part of this Annual Report on Form 10-K:

Schedule II-Valuation and Qualifying Accounts

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

3. Exhibits

The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference as indicated below (numbered in accordance with Item 601 of Regulation S-K). We shall furnish copies of exhibits for a reasonable fee (covering the expense of furnishing copies) upon request.

Exhibit No.	Exhibit Title
2.1	Agreement and Plan of Merger, dated as of October 21, 2016, by and among Everyday Health, Inc., Ziff Davis, LLC, Project Echo Acquisition Corp. and j2 Global, Inc. (13)
3.1	Amended and Restated Certificate of Incorporation of j2 Global, Inc., dated as of June 10, 2014 (8)
3.2	Second Amended and Restated By-Laws (12)
4.1	Specimen of Common Stock Certificate (6)
4.2.1	Indenture, dated as of July 26, 2012 (7)
4.2.2	First Supplemental Indenture, dated as of June 10, 2014 (8)
4.2.3	Indenture, dated as of June 10, 2014 (9)
4.2.4	First Supplemental Indenture, dated as of June 17, 2014 (10)
4.3	Indenture, dated as of June 27, 2017 (16)
10.1	j2 Global, Inc. 2007 Stock Option Plan (5)
10.2	j2 Global, Inc. 2015 Stock Option Plan (11)
10.3	Form of Restricted Stock Agreement Pursuant to j2 Global, Inc. 2015 Stock Option Plan (15)
10.4	Amended and Restated j2 Global, Inc. 2001 Employee Stock Purchase Plan (4)
10.4.1	Amendment to Amended and Restated j2 Global, Inc. 2001 Employee Stock Purchase Plan (18)
10.5	Letter Agreement, dated as of April 1, 2001, between j2 Global, Inc. and Orchard Capital Corporation (2)
10.5.1	Amendment to Letter Agreement, dated as of December 31, 2001, between j2 Global, Inc. and Orchard Capital Corporation (3)
10.6	Employment Agreement, dated as of March 21, 1997, between j2 Global Inc. and Nehemia Zucker (1)
10.7	Registration Rights Agreement, dated as of June 30, 1998, by and among JFAX Communications, Inc., the Delaware State Employees' Retirement Fund, the Declaration of Trust for Defined Benefit Plan of ICI American Holdings Inc., the Declaration of Trust for Defined Benefit Plan of Zeneca Holdings Inc., the J.W. McConnell Family Foundation, DCJ Fund Investment Partners II, L.P., DLJ Capital Corporation, GMT Partners, LLC, Orchard/JFAX Investors, L.L.C. and DLJ Private Equity Employees Fund, L.P. (1)
10.8	Credit Agreement, dated as of December 5, 2016, among j2 Global Inc., MUFG Union Bank, N.A., as Administrative Agent, and the lenders party thereto (14)
10.9	Second Amended and Restated Limited Partnership Agreement, dated as of January 19, 2018, by and among OCV I GP, LLC and j2 Global, Inc.
10.10	Letter Agreement, dated as of December 20, 2017, by and between j2 Global, Inc. and Nehemia Zucker (17)
21.1	List of subsidiaries of j2 Global, Inc.
23.1	Consent of Independent Registered Public Accounting Firm – BDO USA, LLP
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

_____

(1) Incorporated by reference to j2 Global's Registration Statement on Form S-1 filed with the Commission on April 16, 1999, Registration No. 333-76477.
(2) Incorporated by reference to j2 Global's Annual Report on Form 10-K/A filed with the Commission on April 30, 2001.
(3) Incorporated by reference to j2 Global's Annual Report on Form 10-K filed with the Commission on April 1, 2002.
(4) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on May 3, 2006.
(5) Incorporated by reference to Exhibit A to j2 Global's Definitive Proxy Statement on Schedule 14A filed with the Commission on September 18, 2007.
(6) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on December 7, 2011.
(7) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on July 27, 2012.
(8) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on June 10, 2014.
(9) Incorporated by reference to j2 Global's Registration Statement on Form S-3ASR filed with the Commission on June 10, 2014, Registration No. 333-196640.
(10) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on June 17, 2014.
(11) Incorporated by reference to Annex A to j2 Global's Definitive Proxy Statement on Schedule 14A filed with the Commission on March 26, 2015.
(12) Incorporated by reference to j2 Global's Current Registration Statement on Form S-8 filed with the Commission on May 6, 2015.
(13) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on October 27, 2016.
(14) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on December 5, 2016.
(15) Incorporated by reference to j2 Global's Annual Report on Form 10-K filed with the Commission on March 1, 2017.
(16) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on June 27, 2017.
(17) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on December 27, 2017.
(18) Incorporated by reference to j2 Global's Current Report on Form 8-K filed with the Commission on February 8, 2018.

Item 16. Form 10-K Summary

None.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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, on March 1, 2018.

j2 Global, Inc.

By: /s/ VIVEK SHAH
Vivek Shah
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated, in each case on March 1, 2018.

Signature	Title
/s/ VIVEK SHAH **Vivek Shah**	Chief Executive Officer and a Director (Principal Executive Officer)
/s/ R. SCOTT TURICCHI **R. Scott Turicchi**	President and Chief Financial Officer (Principal Financial Officer)
/s/ STEVE P. DUNN **Steve P. Dunn**	Chief Accounting Officer
/s/ RICHARD S. RESSLER **Richard S. Ressler**	Chairman of the Board and a Director
/s/ DOUGLAS Y. BECH **Douglas Y. Bech**	Director
/s/ ROBERT J. CRESCI **Robert J. Cresci**	Director
/s/ WILLIAM B. KRETZMER **William B. Kretzmer**	Director
/s/ STEPHEN ROSS **Stephen Ross**	Director
/s/ JON MILLER **Jon Miller**	Director
/s/ SARAH FAY **Sarah Fay**	Director

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Deductions: Write-offs (1) and recoveries	Balance at End of Period
Year Ended December 31, 2017:				
Allowance for doubtful accounts	$ 7,988	$ 13,159	$ (12,446)	$ 8,701
Deferred tax asset valuation allowance	$ 12,028	$ 70	$ (11,901)	$ 197
Year Ended December 31, 2016:				
Allowance for doubtful accounts	$ 4,261	$ 13,168	$ (9,441)	$ 7,988
Deferred tax asset valuation allowance	$ 14,242	$ 339	$ (2,553)	$ 12,028
Year Ended December 31, 2015:				
Allowance for doubtful accounts	$ 3,685	$ 6,873	$ (6,297)	$ 4,261
Deferred tax asset valuation allowance	$ 11,358	$ 6,959	$ (4,075)	$ 14,242

(1) Represents specific amounts written off that were considered to be uncollectible.

Exhibit 10.9

OCV FUND I, L.P.

SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

Table of Contents

Page

ARTICLE 1 NAME, PURPOSE AND OFFICES OF PARTNERSHIP 1

1.1 Name 1

1.2 Purpose 1

1.3 Principal Offices 1

1.4 Registered Agent and Office 2

ARTICLE 2 TERM OF PARTNERSHIP 2

2.1 Term 2

2.2 Events Affecting a Member of the General Partner 2

2.3 Events Affecting a Limited Partner of the Partnership 2

2.4 Events Affecting the General Partner 2

2.5 Removal of the General Partner 2

2.6 Withdrawal of Initial Limited Partner 3

ARTICLE 3 NAME AND ADMISSION OF PARTNERS 3

3.1 Schedule of Partners 3

3.2 Admission of Additional Partners 4

ARTICLE 4 CAPITAL ACCOUNTS, CAPITAL CONTRIBUTIONS AND NONCONTRIBUTING PARTNERS 5

4.1 Capital Accounts 5

4.2 Capital Contributions of the Limited Partners 5

4.3 Capital Contributions of the General Partner 7

4.4 Noncontributing Partners 7

4.5 Suspension Period 11

ARTICLE 5 PARTNERSHIP ALLOCATIONS 11

5.1 Allocation of Profit or Loss 11

5.2 Reallocation of Contingent Losses 13

5.3 Regulatory Allocations 13

5.4 Income Tax Allocations 14
ARTICLE 6 MANAGEMENT FEE; PARTNERSHIP EXPENSES 14
6.1 Management Fee 14
6.2 Expenses 16
ARTICLE 7 WITHDRAWALS BY AND DISTRIBUTIONS TO THE PARTNERS 17
7.1 Interest 17
7.2 Withdrawals by the Partners 17
7.3 Partners' Obligation to Repay or Restore 17
7.4 Tax Distributions 17
7.5 Discretionary Distributions 18
7.6 Withholding Obligations 19
ARTICLE 8 MANAGEMENT DUTIES AND RESTRICTIONS 20
8.1 Management 20
8.2 No Control by the Limited Partners; No Withdrawal 20
8.3 Existing Funds; Successor Funds; Other Activities and Investment Opportunities 21
8.4 Investment Restrictions 23
ARTICLE 9 INVESTMENT REPRESENTATION AND TRANSFER OF PARTNERSHIP INTERESTS 25
9.1 Investment Representation of the Limited Partners 25
9.2 Qualifications of the Limited Partners 25
9.3 Transfer by General Partner 25
9.4 Transfer by Limited Partner 25
9.5 Requirements for Transfer 26
9.6 Substitution as a Limited Partner 27
ARTICLE 10 DISSOLUTION AND LIQUIDATION OF THE PARTNERSHIP 28
10.1 Extension of Partnership Term 28
10.2 Early Termination of the Partnership 28

10.3 Winding Up Procedures 28
10.4 Payments in Liquidation 29
10.5 Return of Excess Distributions 29
ARTICLE 11 FINANCIAL ACCOUNTING, REPORTS AND MEETINGS 30
11.1 Financial Accounting; Fiscal Year 30
11.2 Supervision; Inspection of Books 30
11.3 Quarterly Reports 30
11.4 Annual Report; Financial Statements of the Partnership 31
11.5 Tax Returns 31
11.6 Tax Matters Partner; Partnership Representative 31
11.7 Website Based Reporting 33
ARTICLE 12 VALUATION AND ADVISORY COMMITTEE 33
12.1 Valuation 33
12.2 Advisory Committee 34
ARTICLE 13 REGULATED PARTNERS 35
13.1 ERISA Partners 35
13.2 Governmental Plan Partners 36
13.3 Private Foundation Partners 36
13.4 Bank Holding Company Act Partners 37
ARTICLE 14 CERTAIN DEFINITIONS 37
14.1 Accounting Period 37
14.2 Adjusted Asset Value 37
14.3 Affiliate 38
14.4 Capital Account 38
14.5 Capital Commitment; Committed Capital 38
14.6 Carry Percentage 38

14.7 Code 38
14.8 Deemed Gain or Deemed Loss 39
14.9 Fee Date 39
14.10 Final Closing Date 39
14.11 Idle Funds Income 39
14.12 Investment Period 39
14.13 Management Fee Percentage 39
14.14 Marketable; Marketable Securities; Marketability 39
14.15 Nonmarketable Securities 39
14.16 Partnership Expenses 39
14.17 Partnership Percentage 39
14.18 Percentage in Interest; Majority in Interest 40
14.19 Person 40
14.20 Portfolio Company 40
14.21 Prime Rate 40
14.22 Principals 40
14.23 Profit or Loss 40
14.24 Securities 41
14.25 Securities Act 41
14.26 Subscription Agreement 41
14.27 Treasury Regulations 41
ARTICLE 15 OTHER PROVISIONS 41
15.1 Governing Law 41
15.2 Limitation of Liability of the Limited Partners 41
15.3 Exculpation 42
15.4 Indemnification 42
15.5 Arbitration 45
15.6 Execution and Filing of Documents 46
15.7 Other Instruments and Acts 46

15.8 Binding Agreement 46
15.9 Notices; Electronic Transmission of Reports 46
15.10 Power of Attorney 46
15.11 Amendment 47
15.12 Entire Agreement 48
15.13 Titles; Subtitles 48
15.14 Partnership Name 48
15.15 Confidentiality 48
15.16 Liability for Third Party Reports 51
15.17 Anti-Money Laundering 51
15.18 Partnership Legal Matters 51

Index of Defined Terms

Accounting Period	14.1
Act	Preamble
Activation Date	4.2(a)
Additional Partners	3.2(b)
Adjusted Asset Value	14.2
Administrator	15.5(a)
Advisers Act	8.1(b)
Advisory Committee	12.2
Affected Parties	15.15(a)
Affiliate	14.3
Affiliates Fund	8.3(b)
Agreement	Preamble
Applicable Tax Rate	7.4
Arbitration	15.5(a)
Arbitrator	15.5(a)
BHC Partner	13.4
Capital Account	14.4
Capital Commitment	14.5
Carry Percentage	14.6
Claim	15.5(a)
Code	14.7

Co-Investment Fund	8.3(d)
Co-Investment Opportunity	8.3(d)
Committed Capital	14.5
Company Act	8.3(c)
Confidential Information	15.15(a)
Contingent Loss	5.2(a)
Cooley	15.18(a)
Covered Persons	15.3
Deemed Gain	14.8
Deemed Loss	14.8
Defaulting Limited Partner	4.4(b)
Default Notice	4.4(b)
Delaware Arbitration Act	15.5(f)
DOL Regulations	4.2(b)
ERISA	9.5(a)(iv)
ERISA Partner	13.1(a)
FATCA	7.6(c)
Fee Date	14.9
Final Closing Date	14.10
FOIA Limited Partner	15.15(d)
Foreign Entity	8.4(i)
Fully Invested	8.3(a)
Fund Level Information	15.15(d)
GAAP	11.1
General Partner	Preamble
Governmental Plan Partner	13.2
GP Group	8.3(d)
Idle Funds Income	14.11
Indemnified Parties	15.4(a)

Initial Closing Date	2.6
Interest Charge	3.2(c)
Internal Dispute	15.4(a)
Investment Period	14.12
Limited Partners	Preamble
Loss	14.23
Majority in Interest	14.18
Management Company	8.1(b)
Management Fee	6.1(a)
Management Fee Percentage	14.13
Management Fee Savings	6.1(d)
Marketable	14.14
Marketability	14.14
Marketable Securities	14.14
NASDAQ	12.1(a)(i)
Nonmarketable Securities	14.15
Optionees	4.4(b)(vi)
Optionor	4.4(b)(vi)
Parallel Funds	8.3(b)
Partner(s)	3.1
Partnership	Preamble
Partnership Expenses	14.16
Partnership Legal Matters	15.18(b)
Partnership Percentage	14.17
Partnership Representative	11.6(b)
Payback	7.5(a)(i)
Percentage in Interest	14.18
Person	14.19
Pooled Vehicle Partner	15.15(e)

Portfolio Company 14.20
Portfolio Confidential Information 15.15(e)
Prime Rate 3.2(c)/14.21
Prior Agreement Preamble
Principals 14.22
Private Foundation Partner 13.3
Profit 14.23
Qualified Purchaser Fund 8.3(c)
Qualified Purchaser Limited Partner 8.3(c)(i)
Regulatory Allocations 5.3(a)
Remaining Portion 4.4(b)(vi)(2)
Reporting Site 11.7
Securities 14.24
Securities Act 14.25
Side Funds 8.3(b)
Subject Reports 11.7
Successor Fund 8.3(a)
Subscription Agreement 14.26
Suspension Event 4.5(b)
Suspension Event Notice 4.5(b)
Tax Payments 7.6(a)
Termination Date 2.1
Transfer Expenses 9.5(b)
Treasury Regulations 14.27
Trigger Event 2.5(c)
VCOC 4.2(b)
VCOC Notice 4.2(b)

OCV FUND I, L.P.

SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

THIS SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (this "Agreement") is made and entered into as of January 19, 2018, by and among OCV I GP, LLC, a Delaware limited liability company (the "General Partner"), and each of those persons admitted as limited partners from time to time (the "Limited Partners"), who hereby amend and restate the Amended and Restated Limited Partnership Agreement, dated October 19, 2016, of OCV FUND I, L.P., a Delaware limited partnership (the "Partnership"), in accordance with the provisions of the Delaware Revised Uniform Limited Partnership Act, as amended (the "Act"), to read entirely as follows:

WITNESSETH

WHEREAS, the Partnership was formed under the Act pursuant to a Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware on September 8, 2016 and was originally governed by the Limited Partnership Agreement of the Partnership dated as of September 8, 2016 (the "Original Agreement");

WHEREAS, the Original Agreement was amended and restated by the Amended and Restated Limited Partnership Agreement of the Partnership, dated as of October 19, 2016 (the "Prior Agreement") in connection with the initial closing of the Partnership;

WHEREAS, the initial closing date of the Partnership occurred on October 19, 2016 (the "Initial Closing Date"); and

WHEREAS, the parties hereto desire to enter into this Second Amended and Restated Limited Partnership Agreement of the Partnership to make the modifications hereinafter set forth.

NOW THEREFORE, in consideration of the mutual promises and agreements herein made and intending to be legally bound hereby, the parties hereto agree to amend and restate the Prior Agreement in its entirety to read as follows:

ARTICLE 1

NAME, PURPOSE AND OFFICES OF PARTNERSHIP

1.1 Name. The name of the Partnership is OCV Fund I, L.P. The affairs of the Partnership shall be conducted under the Partnership name, or such other name as the General Partner may, in its discretion, determine.

1.2 Purpose. The primary purpose of the Partnership 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 purposes of the Partnership are 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 Partnership; 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.

1.3 Principal Offices. The principal office of the Partnership shall be at 4700 Wilshire Blvd., Los Angeles, California 90010, or such other place or places in the United States as the General Partner may from time to time designate, and the General Partner is authorized to amend the Certificate of Limited Partnership of the Partnership to reflect the foregoing, without the consent of any other Partner or other Person being required.

1.4 Registered Agent and Office. The name of the registered agent for service of process of the Partnership and the address of the Partnership's registered office in the State of Delaware shall be Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, or such other agent or office in the State of Delaware as the General Partner may from time to time designate, and the General Partner is authorized to amend the Certificate of Limited Partnership of the Partnership to reflect the foregoing without the consent of any other Partner or other Person being required.

ARTICLE 2

TERM OF PARTNERSHIP

2.1 Term. The term of the Partnership commenced upon the date of the filing of the Certificate of Limited Partnership of the Partnership with the office of the Secretary of State of the State of Delaware and shall continue until the tenth anniversary of the Activation Date (as defined in paragraph 4.2(a)) (the "Termination Date"), unless extended pursuant to paragraph 10.1 or sooner dissolved as provided in paragraph 10.2.

2.2 Events Affecting a Member of the General Partner. The death, temporary or permanent incapacity, insanity, incompetency, retirement, bankruptcy, expulsion, resignation, withdrawal or removal, liquidation, dissolution, reorganization, merger, sale of all or substantially all the stock or assets of, or other change in the ownership or nature of, any member of the General Partner shall not, in and of itself, dissolve the Partnership.

2.3 Events Affecting a Limited Partner of the Partnership. The death, temporary or permanent incapacity, insanity, incompetency, bankruptcy, expulsion, resignation, withdrawal or removal, liquidation, dissolution, reorganization, merger, sale of all or substantially all the stock or assets of, or other change in the ownership or nature of, a Limited Partner shall not, in and of itself, dissolve the Partnership.

2.4 Events Affecting the General Partner. Except as provided in paragraph 10.2 and to the fullest extent permitted by law, the bankruptcy, expulsion, resignation, withdrawal or removal, liquidation, dissolution, reorganization, merger, sale of all or substantially all the stock or assets of, or other change in the ownership or nature of, the General Partner shall not, in and of itself, constitute an "event of withdrawal" of the General Partner under the Act, and upon the happening of any such event, the affairs of the Partnership shall be continued without dissolution by the General Partner or any successor entity thereto.

2.5 Removal of the General Partner.

(a) Promptly following a Trigger Event (as defined below), the General Partner shall provide written notice to the Limited Partners of the Trigger Event, and at the election of Sixty-Six and Two-Thirds Percent (66 2/3%) in Interest of the Limited Partners, pursuant to a written vote occurring during any time during the ninety (90) day period following such notice to the Limited Partners, the General Partner may be removed from its capacity as the general partner of the Partnership.

(b) In the event of the removal of the General Partner pursuant to paragraph 2.5(a), the Limited Partners, acting by Sixty-Six and Two-Thirds Percent (66 2/3%) in Interest of the Limited Partners, shall be entitled to appoint a replacement general partner of the Partnership and thereafter the removed General Partner shall not be entitled to have any rights or powers of a general partner; provided, however, that the removed General Partner and any Indemnified Party shall remain entitled to exculpation and indemnification pursuant to paragraphs 15.3 and 15.4 hereof with respect to any matter arising prior to or out of events or circumstances existing prior to the General Partner's removal. Such successor general partner will and is hereby authorized to continue the Partnership and exercise the rights, powers and obligations hereunder of the General Partner and, upon execution of a written acceptance of this Agreement shall be deemed admitted to the Partnership as a General Partner immediately prior to the removal of the prior general partner. The removed General Partner shall no longer be required to make additional capital contributions pursuant to paragraph 4.3 hereof. The removed General Partner's interest shall be converted to that of a non-voting Limited Partner, and the removed General Partner shall be entitled thereafter to seventy-five percent (75%) of the allocations and distributions to which it would otherwise be entitled to receive had it not been removed when, as and if such allocations and distributions are made, in respect of all activities of and investments by the Partnership that occurred prior to the effective date of removal, subject to its repayment obligation with respect to such activities and investments under paragraph 10.5. The removed General Partner shall not be entitled to receive any payments of management fee that first become payable pursuant to paragraph 6.1 after the date of its removal.

(c) For purposes of this paragraph 2.5, a "Trigger Event" shall have occurred if the General Partner or any Principal is (i) convicted of, or pleads guilty or nolo contendere to (A) any felony involving fraud, embezzlement, misappropriation of funds or any other act involving material improper personal benefit against the Partnership or its assets, or (B) any willful and material violation of any federal securities law that results in a material adverse effect to the Limited Partners that remains uncured for sixty (60) days following the date on which the General Partner receives written notice of such violation, or (ii) found by a court of competent jurisdiction or by a binding arbitration to have engaged in conduct constituting gross negligence or willful misconduct in connection with the performance of their obligations under this Agreement.; provided, however, that a Trigger Event shall be deemed not to have occurred with respect to clause (ii) above if, in the case of acts by an employee (for the avoidance of doubt, other than a Principal)

or other representative of the General Partner, the offending party is removed as an employee and/or other representative of the General Partner within thirty (30) days of the General Partner's determination that such party had engaged in conduct that would otherwise have given rise to a Trigger Event and the Partnership has been made whole for any direct losses solely attributable to such offending party, if any; provided that the General Partner shall use reasonable diligence to ensure discovery of all "Trigger Events".

ARTICLE 3

NAME AND ADMISSION OF PARTNERS

3.1 Schedule of Partners. Each Limited Partner being admitted to the Partnership on the date hereof shall be deemed admitted to the Partnership as a limited partner of the Partnership upon its execution and delivery (by or on behalf of such Person) of a counterpart of this Agreement and the acceptance thereof by the General Partner. The name and address of the General Partner and the Limited Partners (hereinafter the General Partner and Limited Partners shall be referred to collectively as the "Partners" and each individually as a "Partner"), the amount of each Partner's Capital Commitment to the Partnership and such Partner's Partnership Percentage shall be maintained as part of the Partnership's books and records on a schedule of partners in the Partnership's principal office. The General Partner shall, without the necessity of obtaining the consent of any other Partner, cause the books and records of the Partnership to be amended from time to time to reflect the admission of any new Partner, the withdrawal, partial withdrawal or substitution of any Partner, the transfer of interests among Partners, receipt by the Partnership of notice of any change of address of a Partner, or the change in any Partner's Capital Commitment or Partnership Percentage. A confidential copy of the schedule of partners shall be kept on file at the principal office of the Partnership. Upon the request of any Limited Partner, the General Partner shall provide such Limited Partner with a version of the most recent schedule of partners disclosing only the Partnership's Committed Capital, the General Partner's Capital Commitment and such Limited Partner's Capital Commitment and Partnership Percentage.

3.2 Admission of Additional Partners.

(a) Except as provided in paragraphs 3.2(b), 4.4(b)(vi) and 9.6, an additional Person may be admitted as a Partner only with the consent of the General Partner and a Majority in Interest of the Limited Partners.

(b) Notwithstanding paragraph 3.2(a), one or more Persons may be admitted to the Partnership as additional Limited Partners ("Additional Partners") or existing Limited Partners may increase their Capital Commitments (such existing Limited Partners are referred to herein as Additional Partners for purposes of this Agreement to the extent of such Capital Commitment increase) with the consent of only the General Partner on or before December 31, 2017; provided that after such admission (or Capital Commitment increase), the amount of aggregate capital committed to the Partnership and all Parallel Funds does not exceed three hundred million dollars ($300,000,000).

(c) Each Person who is to be admitted as an Additional Partner to the Partnership pursuant to this Agreement shall accede to this Agreement, and shall be admitted to the Partnership as a Limited Partner upon executing and delivering to the Partnership (i) a Subscription Agreement or other written document providing for such admission or Capital Commitment increase, (ii) a counterpart signature page to this Agreement or other written document as the General Partner deems appropriate in order for such Additional Partner to become bound by the terms of this Agreement, neither of which shall require the consent or approval of any other Partner, and (iii) unless waived by the General Partner in its sole discretion, pay simple interest with respect to the amount described in paragraph 3.2(d), at an annual rate equal to the floating commercial rate of interest published in the Wall Street Journal (or its successors) as its prime rate (the "Prime Rate") as of the date of such Partner's admission plus four percent (4%), for the period of time from the date each such capital contribution would have been due through the date of payment (an "Interest Charge"). Limited Partners admitted to the Partnership after the Initial Closing Date will not be entitled to share in any Idle Funds Income accruing prior to or contemporaneously with their admission date. An Interest Charge shall not be treated as a capital contribution by the additional person admitted as a Partner but rather shall be allocable as Idle Funds Income to the Partners in proportion to their respective Partnership Percentages during the applicable periods.

(d) Each such Additional Partner shall contribute, on or after the date of its admission or the acceptance by the General Partner of its Capital Commitment increase, the same percentage of its Capital Commitment or its Capital Commitment increase, as the case may be, as has been contributed by the Limited Partners of the Partnership admitted prior to such date.

(e) Upon the admission or Capital Commitment increase of any Additional Partner pursuant to this paragraph 3.2, the General Partner may, in its sole discretion, make a special distribution of all or a portion of the contribution of capital made by such Additional Partner pursuant to paragraph 3.2(d). Such distribution shall be made to all Partners in accordance with Partnership Percentages (as adjusted to reflect the admission of such Additional Partner), shall be deemed to be a return of capital to such Partners (and shall not be treated as a distribution for purposes of paragraph 4.2(d)(ii)), shall be added back to the unfunded Capital Commitments of such Partners and shall be subject to a capital call by the General Partner pursuant to paragraph 4.2(a).

ARTICLE 4

CAPITAL ACCOUNTS, CAPITAL CONTRIBUTIONS

AND NONCONTRIBUTING PARTNERS

4.1 Capital Accounts. An individual Capital Account shall be maintained for each Partner.

4.2 Capital Contributions of the Limited Partners.

(a) Each Limited Partner shall contribute capital to the Partnership in cash as requested by the General Partner upon fifteen (15) business days' prior written notice. The due date of the initial capital call of the Partnership shall be referred to as the "Activation Date." Each capital contribution shall be made in accordance with Partnership Percentages. Notwithstanding anything in the foregoing to the contrary, no Limited Partner shall be required to contribute any capital following the Investment Period, except as may be necessary for (1) Partnership Expenses and the payment of the Management Fee pursuant to Article 6; (2) completion of transactions with respect to which the Partnership has entered into a binding commitment or which were in process prior to the expiration of the Investment Period; (3)

follow-on investments in the Securities of issuers in which the Partnership holds a pre-existing interest as of the date of such proposed follow-on investment; provided that the aggregate amount of capital invested in such follow-on investments shall not exceed forty percent (40%) of aggregate Capital Commitments; and (4) fulfillment of indemnification obligations to the Partnership, including, but not limited to, such Limited Partner's obligations pursuant to paragraph 4.2(d). As soon as reasonably practicable following the Investment Period, the General Partner shall provide the Advisory Committee with a list of any binding commitments or transactions in process referenced in clause (2) above, where any such transaction has not been completed as of the end of the Investment Period. All capital contributions from the Limited Partners shall be made to the Partnership by wire transfer or other transfer of immediately available U.S. funds on or before the relevant due date to the account designated for such purpose. In no event shall any Limited Partner be required to contribute capital in an aggregate amount in excess of its Capital Commitment. Notwithstanding anything contained herein to the contrary, the General Partner may accept capital contributions from a Limited Partner in an amount that exceeds the amount requested by the General Partner. For the avoidance of doubt, the amount of capital contributed by a Limited Partner in excess of the amount of capital that such Limited Partner would have contributed pursuant to this paragraph had such Limited Partner contributed capital as requested by the General Partner shall be considered as an advance fulfillment of the eventual obligation of such Limited Partner to contribute capital to the Partnership and shall not accrue interest. Any such advanced amounts shall not (a) be treated as a capital contribution available to the Partnership until such time as such amounts would have been requested by the General Partner pursuant to the terms of this Agreement, or (b) be deemed delivered to the Partnership for purposes of the right of such Limited Partner to any allocations or distributions pursuant to the terms of this Agreement, and the General Partner may make any other necessary adjustments, in good faith, to further the intended economic arrangement with respect to such advanced amounts.

(b) Notwithstanding paragraph 4.2(a) to the contrary, with respect to the Partnership's initial request for capital contributions under paragraph 4.2, in the event that the sum of the Capital Commitments of all ERISA Partners (as defined in paragraph 13.1(a)) together equals or exceeds twenty-five percent (25%) of the Capital Commitments of all Limited Partners, then no ERISA Partner shall be required to contribute capital pursuant to this Agreement until such time as the General Partner shall have delivered notice (the "VCOC Notice"), to such ERISA Partner to the effect that the Partnership's first portfolio company investment has qualified or will qualify upon its closing as a "venture capital investment" within the meaning of the U.S. Department of Labor regulations ("DOL Regulations") such that the Partnership will qualify as a "venture capital operating company" (a "VCOC") under applicable DOL Regulations. In the event that an ERISA Partner has not received the VCOC Notice prior to the date on which any capital contribution would otherwise be due under paragraph 4.2(a), such ERISA Partner shall pay such capital contribution into an interest-bearing escrow account designated by the General Partner. The terms of any such escrow account shall be reasonably satisfactory to such ERISA Partner and in compliance with ERISA (as defined in paragraph 9.5(a)(iv)) (including Dept. of Labor Adv. Op. 95-04A). Upon delivery of the VCOC Notice, all amounts in the escrow account shall be delivered to the Partnership in fulfillment of the ERISA Partner's obligation under paragraph 4.2(a), and (ii) all income earned on amounts contributed to such escrow account shall be returned to the ERISA Partners pro rata according to their respective capital contributions to such escrow account.

(c) The General Partner may, in its sole discretion, return to the Partners all or a portion of any cash capital contribution intended for a proposed investment that is not consummated as anticipated, or applied

to the payment or reimbursement of expenses, or any other purpose, pro rata in accordance with their respective capital contributions; provided that such returned capital shall not otherwise be treated as a distribution under this Agreement and shall be added back to the unfunded Capital Commitments of such Partners and be subject to a capital call by the General Partner pursuant to paragraph 4.2(a).

(d) (i) If, in the sole discretion of the General Partner, Partnership assets are insufficient to fulfill any liability or obligation of the Partnership (including, but not limited to, any indemnification obligation of the Partnership pursuant to paragraph 15.4), prior to the termination of the Partnership the General Partner may require each Partner to contribute capital to the Partnership in an amount up to such Partner's unfunded Capital Commitment, if any.

(ii) If, in the sole discretion of the General Partner, Partnership assets remain insufficient to fulfill any indemnification obligations or liabilities of the Partnership pursuant to paragraph 15.4 following the contribution to the Partnership of the maximum amount permitted by paragraph 4.2(d)(i), the General Partner may recall distributions previously made to the Partners solely for the purpose of fulfilling or satisfying such an obligation or liability. The obligation to recontribute distributions under this paragraph 4.2(d)(ii) shall be applied pro rata in proportion to the amount such obligation or liabilities would have reduced the distributions received by the Partners pursuant to this Agreement had such obligations or liabilities been incurred by the Partnership prior to the time such distributions were made (in each case, with any in kind distributions valued as of the date of distribution). In no event shall any Limited Partner be required to contribute capital pursuant to this paragraph 4.2(d)(ii) in an amount in excess of the lesser of (1) distributions previously received by such Partner (or such Partner's predecessor in interest) from the Partnership (and not previously returned to the Partnership by such Partner pursuant to this Agreement or otherwise), and (2) twenty-five percent (25%) of such Partner's Capital Commitment. In no event will the General Partner be permitted to recall any amounts distributed after the date two (2) years from the date of final liquidation of the Partnership.

4.3 Capital Contributions of the General Partner. The General Partner shall have an aggregate Capital Commitment to the Partnership and the Parallel Funds equal to at least one percent (1%) of the aggregate Capital Commitments of all Partners payable on the same schedule and in the same proportions as the Limited Partners' capital contributions are made. Each capital contribution made by the General Partner shall be made in cash.

4.4 Noncontributing Partners.

(a) The Partnership shall be entitled to enforce the obligations of each Limited Partner to make the contributions to capital set forth in paragraph 4.2 or this paragraph 4.4, and the Partnership shall have all remedies available at law or in equity if any such contribution is not so made. Such Limited Partner shall pay all costs and expenses incurred by the Partnership in connection with such Limited Partner's failure to make a capital contribution, including, without limitation, attorneys' fees and all fees and expenses incurred in connection with any legal proceeding relating to the failure of such Limited Partner to make such a contribution.

(b) Additionally, without in any way limiting any remedy that the Partnership may pursue pursuant to paragraph 4.4(a), should any Limited Partner fail to make any of the capital contributions required of it under this Agreement, such Limited Partner shall be in default (a "Defaulting Limited Partner"). In the event of such default, the General Partner may, in its sole discretion, elect to enforce one or more of the provisions of this paragraph 4.4(b) in connection with such a default, to which each Limited Partner

hereby expressly consents, provided such default shall have continued uncured for ten (10) or more days after delivery of the Default Notice described in the following sentence. The General Partner shall deliver written notice to such Defaulting Limited Partner if it determines to utilize one or more of the powers set forth in paragraph 4.4(a) or this paragraph 4.4(b) (a "Default Notice"). If the default shall have continued uncured for ten (10) or more days after delivery of the Default Notice, the Defaulting Limited Partner may not make any additional contributions of capital against such Defaulting Limited Partner's Capital Commitment (other than to fund the Management Fee and Partnership Expenses, which contribution such Defaulting Limited Partner shall be required to make notwithstanding its failure to make a required capital contribution) without the written consent of the General Partner, which consent may be granted or denied in the sole discretion of the General Partner.

(i) The General Partner may waive, in whole or in part, the requirement of payment with respect to any due and unpaid capital contributions by a Defaulting Limited Partner pursuant to this Agreement and reduce such Defaulting Limited Partner's Capital Commitment and Partnership Percentage accordingly.

(ii) The General Partner may extend the time for payment for a Defaulting Limited Partner of any due and unpaid capital contributions by such Defaulting Limited Partner pursuant to this Agreement.

(iii) The General Partner may declare the entire amount of a Defaulting Limited Partner's then unfunded Capital Commitment to be immediately due and payable.

(iv) On behalf of the Partnership, the General Partner may enforce, by appropriate legal proceedings, the Defaulting Limited Partner's obligation to make payment on the amount of any due and unpaid capital contributions by such Defaulting Limited Partner pursuant to this Agreement or to pay the entire amount of such Defaulting Limited Partner's then unfunded Capital Commitment.

(v) Should the General Partner, in its sole discretion, elect to exercise the provisions of this paragraph 4.4(b)(v), such Defaulting Limited Partner shall pay all expenses incurred or anticipated to be incurred by the Partnership in connection with the default and interest on the amount of the unpaid contribution to the Partnership then due at the Prime Rate plus four percent (4%) per annum (or if less, the highest rate permitted by applicable law), such interest to accrue from the date the contribution to the Partnership was required to be made pursuant to this Agreement until the date the contribution is made by such Defaulting Limited Partner, unless such payment is waived by the General Partner. The accrued interest shall be paid by the Defaulting Limited Partner to the Partnership upon payment of such contribution. The accrued interest so paid shall not be treated as an additional contribution to the capital of the Partnership, but shall be deemed to be income to the Partnership; provided that such income shall not be allocated to the Capital Account of the Defaulting Limited Partner. Until such time as the unpaid contribution and accrued interest thereon shall have been paid by the Defaulting Limited Partner, the General Partner may elect to withhold any or all distributions to be made to such Defaulting Limited Partner pursuant to Article 7 or Article 10 and recover any such unpaid contribution and accrued interest thereon by set off against any such distribution withheld.

(vi) Should the General Partner, in its sole discretion, elect to exercise the provisions of this paragraph 4.4(b)(vi), the General Partner and the nondefaulting Limited Partners (the "Optionees"), shall have the right and the option, but not the obligation, to acquire the Partnership interest of the Defaulting Limited Partner (the "Optionor"), as follows:

(1) The General Partner shall notify the Optionees of the default within twenty (20) days of the expiration of the ten (10) day notice period commencing upon delivery of the Default Notice. Such notice shall advise each Optionee of the portion and the price of the Optionor's interest available to it. The portion available to each Optionee shall be a fraction, the numerator of which is its Capital Commitment and the denominator of which is the aggregate Capital Commitments of the Optionees. The aggregate price for the Optionor's interest shall be fifty percent (50%) of the amount of the Optionor's Capital Account calculated as of the due date of the additional contribution and adjusted to reflect the allocation of the appropriate proportion of the Partnership's unrealized gains and losses as of the due date of such defaulted contribution. The price for each Optionee shall be prorated according to the portion of the Optionor's interest purchased by each such Optionee. The option granted hereunder shall be exercisable for a period of thirty (30) days commencing on the date that is thirty (30) days following the date of the initial notice of default from the General Partner to the Optionor by delivery to the Optionor of a notice of exercise of option together with a nonrecourse promissory note for the purchase price and a security agreement in accordance with subparagraph (5) below, which notice and documents the General Partner shall promptly forward to the Optionor.

(2) Should any Optionee not exercise its option within said thirty (30) day period provided in subparagraph (1), the General Partner shall immediately notify the other Optionees who have elected to exercise their option, which Optionees shall have the right and option ratably among them to acquire the portion of the Optionor's interest not so acquired (the "Remaining Portion") within thirty (30) days of the date of the notice specified in this subparagraph (2) on the same terms as provided in subparagraph (1).

(3) Any amount of the Remaining Portion not acquired by the Optionees pursuant to subparagraph (2) may be acquired by the General Partner within thirty (30) days of the expiration of the thirty (30) day period specified in subparagraph (2) on the same terms as set forth in subparagraph (1); provided, however, that the General Partner may, but shall not be obligated to, make the additional contributions otherwise due from the Optionor with respect to the Remaining Portion so acquired (provided that the Capital Commitment shall be adjusted to reflect any nonpayment of such additional contributions). The General Partner shall provide notice to the Limited Partners regarding its acquisition of all or any portion of an Optionor's interest in the Partnership pursuant to this subparagraph (3).

(4) Any amount of the Remaining Portion not acquired by the Optionees and the General Partner pursuant to subparagraphs (2) or (3) may, if the General Partner deems it in the best interest of the Partnership, be sold by the General Partner to any other investor, on terms not more favorable to such parties than those applicable to the Optionees' option, and upon the consent of the General Partner, any such third party purchaser may become a Limited Partner to the extent of the interest purchased hereunder.

(5) The price due from each of the General Partner and the Optionees (and, if applicable, any third party purchaser pursuant to subparagraph (4)) shall be payable by a noninterest bearing, nonrecourse promissory note (in such form as the General Partner shall designate) due upon final liquidation of the Partnership. Each such note shall be secured by the portion of the Optionor's Partnership interest so purchased by its maker pursuant to a security agreement in a form designated by the General Partner and shall be enforceable by the Optionor only against such security.

(6) Upon exercise of any option hereunder, each Optionee (and, if applicable, any third party purchaser pursuant to subparagraph (4)) shall be obligated (A) to contribute to the Partnership that portion

of the additional capital then due from the Optionor equal to the percentage of the Optionor's interest purchased by such person and (B) except as otherwise provided in subparagraph (3), to pay the same percentage of any further contributions otherwise due from such Optionor on the date such contributions are otherwise due. Each person who purchases a portion of the Optionor's Partnership interest shall be deemed to have acquired such portion as of the due date of the additional capital contribution with respect to which the Optionor defaulted, and any distributions made after the due date on account of the Optionor's interest shall be distributed among such purchasers (and, unless the entire interest was purchased, the Optionor) in accordance with their ultimate respective interests in the Optionor's interest. Distributions otherwise allocable to the Optionor under the preceding sentence shall first be used to offset any defaulted contribution of the Optionor still due to the Partnership. Upon completion of any transaction hereunder, the General Partner shall cause the schedule of partners to be amended to reflect all necessary changes resulting therefrom including, without limitation, admission of a purchaser as a Limited Partner, and adjustment of Capital Account balances, Capital Commitment amounts and Partnership Percentages as of the date of Optionor's default to reflect the acquisition from Optionor of the appropriate pro rata portion of each such item (including, if applicable, the reduction of aggregate Capital Commitments and resulting adjustment of Partnership Percentages in connection with any acquisition of any Remaining Portion by the General Partner pursuant to subparagraph (3)). The purchase and transfer of the Partnership interest of the Optionor shall occur automatically upon exercise by any Optionee or the General Partner of its option hereunder, without any action by Optionor.

(7) Notwithstanding the sale of any portion of an Optionor's interest pursuant to this paragraph 4.4(b)(vi), such Optionor shall not be released from its unfunded Capital Commitment except as actually funded by the acquirer of any such portion of Optionor's interest.

(8) In the event that any amount of the Remaining Portion is not acquired by the Optionees, the General Partner and any third party purchasers pursuant to paragraphs 4.4(b)(vi)(1)-(4), then, in its sole discretion, the General Partner may apply any of the remedies described in paragraphs 4.4(a) and (b) to such unsold portion.

(vii) The General Partner may, in its sole discretion, elect to remove such Defaulting Limited Partner from the Partnership, in which such event (1) one hundred percent (100%) of the Defaulting Limited Partner's Capital Account balance shall be forfeited and reallocated to the Capital Accounts of the non-defaulting Partners proportionally, based on, with respect to each such Partner, the ratio that its Partnership Percentage immediately prior to such calculation bears to the aggregate Partnership Percentages of all Partners (other than the Defaulting Limited Partner) and (2) the Defaulting Limited Partner's Partnership Percentage shall be reduced to zero.

(viii) In addition to the foregoing, the General Partner may pursue any other remedy that the General Partner, in its sole discretion, deems advisable.

(c) Notwithstanding any other provision of this Agreement, each Limited Partner (1) agrees that it will execute any instruments or perform any other acts that are or may be necessary to effectuate and carry out the transactions contemplated by this paragraph 4.4, and (2) designates and appoints the General Partner its true and lawful representative and attorney-in-fact, in its name, place, and stead to make, execute, sign, acknowledge, deliver or file any and all instruments, documents or certificates on behalf of any Defaulting Limited Partner in order to give effect to any remedy against such Defaulting Limited Partner (including, but not limited to, the remedies set forth in paragraph 4.4(b)).

(d) The Partners agree that the General Partner's authority and discretion to enforce any remedy against a Defaulting Limited Partner (including but not limited to the remedies set forth in this paragraph 4.4) supersede any fiduciary duties of the General Partner to such Defaulting Limited Partner. The Partners further agree that the remedies set forth in this paragraph 4.4 are fair and reasonable in light of the difficulty in ascertaining the actual damages that would be incurred by the Partnership and the non-defaulting Partners as a result of the Defaulting Limited Partner's failure to contribute capital when due pursuant to the terms of this Agreement.

4.5 Suspension Period.

(a) Notwithstanding any other provision of this Agreement, no Limited Partner shall be required to contribute capital to the Partnership in respect of its Capital Commitment during any suspension of the Investment Period except for:

(i) Partnership Expenses and the payment of the Management Fee pursuant to Article 6;

(ii) completion of transactions with respect to which the Partnership has entered into a binding commitment or which were in process prior to the suspension of the Investment Period;

(iii) follow-on investments in the Securities of issuers in which the Partnership holds a pre-existing interest as of the date of such proposed follow-on investment; provided that the aggregate amount of capital invested in such follow-on investments shall not exceed forty percent (40%) of aggregate Capital Commitments and no such follow-on investment shall be made later than eighteen (18) months from the date of a Suspension Event Notice, unless the Advisory Committee otherwise provides its written consent to approve such follow-on investments; and

(iv) fulfillment of indemnification obligations to the Partnership, including, but not limited to, such Limited Partner's obligations pursuant to paragraph 4.2(d);

(b) In the event that Richard Ressler (i) is no longer a principal of the General Partner, or (ii) ceases to fulfill his time commitment requirement set forth in paragraph 8.3(a) (regardless of whether he continues to be a principal of the General Partner) (each, a "Suspension Event"), the General Partner shall promptly notify (and no later than five business days from the occurrence of the Suspension Event) the Limited Partners (the "Suspension Event Notice") and the Investment Period shall be automatically suspended as of the occurrence of the Suspension Event. The Investment Period may be reinstated and the Partnership may re-commence normal operations upon the affirmative vote of a Majority in Interest of the Limited Partners. If the Investment Period has not been reinstated by the Limited Partners and normal Partnership operations have not re-commenced pursuant to the preceding sentence within one hundred eighty (180) days after the Suspension Event Notice, then the Investment Period shall be automatically terminated and the Principals shall be permitted to raise a new fund or other entity with objectives similar to the Partnership.

ARTICLE 5

PARTNERSHIP ALLOCATIONS

5.1 Allocation of Profit or Loss. Except as otherwise provided in this Article 5:

(a) Profit shall initially be allocated (solely as an interim step in calculating final allocations pursuant to the remainder of this paragraph 5.1) to the Capital Accounts of all Partners in proportion to their respective Partnership Percentages. The amount of such Profits so apportioned to each Partner shall be finally allocated between such Partner and the General Partner as follows:

(i) First, one hundred percent (100%) to the Partner in an amount equal to the allocations of Management Fees made to the Partner pursuant to paragraph 5.1(c) that have not been restored by previous allocations made pursuant to this paragraph 5.1(a)(i) until the cumulative Profit allocated pursuant to this paragraph 5.1(a)(i) for all prior Accounting Periods equals the cumulative amount of Management Fees allocated to the Partner pursuant to paragraph 5.1(c) for the current Accounting Period and all prior Accounting Periods

(ii) Second,

(1) The Carry Percentage of the Partnership's remaining Profit shall be allocated to the Capital Account of such Partner to the extent that such account was previously allocated a Contingent Loss that has not been restored by previous allocations pursuant to this paragraph 5.1(a)(ii)(1). Such Profit shall be allocated to such Partner’s Capital Account on the basis of the proportion that the unrestored Contingent Losses contained in such Partner’s Capital Account bear to the aggregate unrestored Contingent Losses contained in all Partners’ Capital Accounts. Any balance of such Carry Percentage of the Partnership’s Profit shall be allocated to the Capital Account of the General Partner; and

(2) The percentage equal to one hundred percent (100%) less the Carry Percentage of the Partnership's remaining Profit shall be allocated to the Capital Account of such Partner.

(b) Loss shall initially be allocated (solely as an interim step in calculating final allocations pursuant to this paragraph 5.1) to the Capital Accounts of all Partners in proportion to their respective Partnership Percentages. The amount of such Losses so apportioned to each Partner shall be finally allocated between such Partner and the General Partner as follows:

(i) The Carry Percentage of the Partnership’s Loss shall be allocated to the Capital Account of the General Partner.

(ii) The percentage equal to one hundred percent (100%) less the Carry Percentage of the Partnership’s Loss shall be allocated to the Capital Account of such Partner.

(c) Management Fees paid pursuant to paragraph 6.1 below shall be allocated to all the Partners in proportion to their respective Management Fee Percentages.

(d) All Idle Funds Income (net of directly associated expenses) of the Partnership for each Accounting Period shall be allocated to the Capital Accounts of all of the Partners in proportion to their respective Partnership Percentages (as modified by paragraph 3.2(c)).

(e) If Additional Partners are admitted to the Partnership as Limited Partners (or increase their respective Capital Commitments) subsequent to the Initial Closing Date, then allocations of Profit and Loss (including, without limitation Partnership Expenses and Management Fees) attributable to periods subsequent to the Initial Closing Date shall be adjusted by the General Partner as necessary to, as quickly as possible, cause the Capital Account balances of the Partners to reflect the same amounts that they would have reflected if all Partners had been admitted to the Partnership and made all of their Capital Commitments and their respective capital contributions had been received at the same time at the Initial Closing Date and had received allocations of Profit and Loss in accordance with Article 5, all as the General Partner may in its discretion determine to be equitable.

5.2 Reallocation of Contingent Losses.

(a) Except as provided in paragraph 5.2(b), if, for any Accounting Period, after the allocations provided in this Article 5 have been made, the balance of the Capital Account of the General Partner has been reduced to less than the General Partner's Partnership Percentage of the sum of the balances of the Capital Accounts of all Partners, an amount of the Partnership's Loss for such Accounting Period (the "Contingent Loss") shall be reallocated from the General Partner's Capital Account to all of the Partners' Capital Accounts (in proportion to each Partner's respective Partnership Percentage) so that the General Partner's Capital Account balance is equal to the General Partner's Partnership Percentage of the sum of the balances of the Capital Accounts of all Partners. For purposes of this paragraph 5.2, the General Partner's Capital Account shall not be deemed to include any amounts attributable to a Limited Partner's interest held by the General Partner, but shall be deemed to include any outstanding obligations by the General Partner to contribute capital to the Partnership.

(b) The amount of Contingent Loss that would otherwise be reallocated from the General Partner's Capital Account under paragraph 5.2(a) shall instead remain allocated to the General Partner's Capital Account until allocations of Loss to the General Partner's Capital Account pursuant to this paragraph 5.2(b) equal the amount of distributions, if any, that the General Partner would have to return to the Partnership under paragraph 10.5 if the Partnership were then in liquidation.

5.3 Regulatory Allocations.

(a) This Agreement is intended to comply with the safe harbor provisions set forth in Treasury Regulation 1.704-1(b) and the allocations set forth in paragraph 5.3(b) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulation Section 1.704-1(b). If the Regulatory Allocations result in allocations being made that are inconsistent with the manner in which the Partners intend to divide Partnership Profit and Loss as reflected in paragraphs 5.1 and 5.2, the General Partner shall use its best efforts to adjust subsequent allocations of any items of profit, gain, loss, income or expense such that the net amount of the Regulatory Allocations and such subsequent special adjustments to each Partner is zero.

(b) The allocations provided in this Article 5 shall be subject to the following exceptions:

(i) Any loss or expense otherwise allocable to a Limited Partner that exceeds the positive balance in such Limited Partner's Capital Account shall instead be allocated first to all Partners who have positive

balances in their Capital Accounts in proportion to their respective Partnership Percentages, and when all Partners' Capital Accounts have been reduced to zero, then to the General Partner; income shall first be allocated to reverse any loss allocated under this paragraph 5.3(b)(i), in reverse order of such loss allocations, until all such prior loss allocations have been reversed.

(ii) If any Limited Partner unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4) through (d)(6), which causes or increases a deficit balance in such Limited Partner's Capital Account, items of Partnership income and gain shall be specially allocated promptly to such Limited Partner in an amount and manner sufficient to eliminate the deficit balance in its Capital Account created by such adjustments, allocations, or distributions.

(iii) For purposes of this paragraph 5.3(b), the balance in a Partner's Capital Account shall take into account the adjustments provided in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4) through (d)(6).

5.4 Income Tax Allocations.

(a) Except as otherwise provided in this paragraph or as otherwise required by the Code and the rules and Treasury Regulations promulgated thereunder, a Partner's distributive share of Partnership income, gain, loss, deduction, or credit for income tax purposes shall be the same as is entered in the Partner's Capital Account pursuant to this Agreement.

(b) In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss and deduction with respect to any asset contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its initial Adjusted Asset Value and to comply with the special allocation requirements of Code Section 704.

(c) If the Adjusted Asset Value of any Partnership asset is adjusted pursuant to the terms of this Agreement, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Adjusted Asset Value in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder.

ARTICLE 6

MANAGEMENT FEE; PARTNERSHIP EXPENSES

6.1 Management Fee.

(a) Commencing with the Activation Date, the Management Company (as defined in paragraph 8.1) shall be compensated on a quarterly basis for services rendered during the term of the Partnership by the payment in advance by the Partnership in cash to the Management Company on the first day of each fiscal quarter (or portion thereof) of a management fee (the "Management Fee"). The Management Fee for each fiscal year shall be payable in advance on each Fee Date.

(b) The Management Fee for each Fee Date (prior to the adjustments described in paragraph 6.1(c)) shall be an amount equal to the sum of the individual amounts calculated by multiplying each Partner's Management Fee Percentage by such Partner's Capital Commitment. Notwithstanding the foregoing, (i) the Management Fee for each of the Partnership's first and last fiscal quarters shall be proportionately reduced based upon the ratio that the number of days in each such period bears to ninety (90), (ii) an

additional Management Fee shall be payable upon the date of admission or increase in Capital Commitment of any Additional Partner admitted or increasing such Additional Partner's Capital Commitment subsequent to the Initial Closing Date to reflect the increased Capital Commitments calculated as if such Additional Partner had been admitted to the Partnership as of the Initial Closing Date with a Capital Commitment equal to each such Additional Partner's Capital Commitment immediately following such admission or increase, and (iii) for each period of four successive fiscal quarters commencing on or after the sixth anniversary of the Activation Date, the Management Fee Percentage (prior to the adjustments described in paragraph 6.1(c)) shall be reduced by ten percent (10%) of the original Management Fee Percentage annually, until the Management Fee Percentage is reduced to a percentage that is equal to sixty percent (60%) of the original Management Fee Percentage (i.e., an original annual rate of 2.5% will not be reduced below 1.5%); provided that the Management Fee Percentage shall be reduced to a percentage equal to fifty percent (50%) of the original Management Fee Percentage (i.e., an original annual rate of 2.5% will be reduced to 1.25%) during the first one-year extension of the Partnership term pursuant to paragraph 10.1 and the Management Fee Percentage thereafter shall be zero percent (0%).

(c) The Management Fee otherwise payable by the Partnership to the Management Company pursuant to paragraph 6.1(a) for a fiscal quarter shall be offset by the following amounts:

(i) an amount equal to one hundred percent (100%) of the amount of any cash or other compensation paid as directors, consulting, management service, advisory, consultant, transaction, commitment, breakup or broken deal fees or similar fees to the General Partner, the Management Company, the Principals or any of their respective Affiliates (expressly excluding any such amounts relating to any operators in residence or operating partners of the General Partner or the Management Company) during the immediately preceding quarter by or in connection with any Portfolio Company or any company in which the Partnership expected to invest but issuance of Securities was not consummated (net of any unreimbursed expenses of the General Partner, the Management Company or the Principals). For the purposes of this paragraph 6.1(c), all non-cash compensation in the form of options, warrants or other similar rights received by any parties set forth in this paragraph 6.1(c) shall offset Management Fees only at such time as they are valued by the Partnership pursuant to this paragraph 6.1(c). All non-cash compensation shall be valued upon the earliest to occur of (a) the distribution to the Partners of any Securities of the Portfolio Company issuing such non-cash compensation, (b) the exercise of such options, warrants or other similar rights, or (c) the date of dissolution of the Partnership. The value of options and warrants shall be, on a per share basis, the difference, as of the valuation date, between the exercise price and the fair market value of the Securities on such date, net of any applicable taxes (determined by reference to the Applicable Tax Rate) deemed attributable to such option or warrant. No value shall be attributable to an option or warrant if the securities are of a Portfolio Company that has been written off or written down to a nominal amount as of the valuation date; and

(ii) an amount equal to any private placement or finder's fees paid by the Partnership during the immediately preceding quarter in connection with the formation and organization of the Partnership pursuant to paragraph 6.2(c).

(d) To account for the fact that the Partnership may pay a reduced management fee with respect to certain Partners (such foregone amount shall be referred to as the "Management Fee Savings"), the General Partner may, from time to time in its sole discretion (and notwithstanding anything in Article 7 to the contrary) cause the Partnership to return to those certain Partners that are paying a reduced

management fee the respective capital contributions made by such Partners to the Partnership, until, as of any time, such aggregate returns to such Partners equal its cumulative amount of Management Fee Savings as of such time. Any amounts distributed to such Partners pursuant to this paragraph 6.1(d) shall be disregarded for purposes of paragraphs 4.2 and 4.3 and Article 7, and shall not increase such Partners' unfunded Capital Commitment (and, for purposes of Article 7, any corresponding capital contribution of such Partners shall also be disregarded).

6.2 Expenses.

(a) From the Management Fee, the Management Company shall bear all normal operating expenses incurred in connection with the management of the Partnership, the General Partner and the Management Company, except for those expenses borne directly by the Partnership as set forth in subparagraphs (b), (c) and (d) below and elsewhere herein. Such normal operating expenses to be borne by the Management Company shall include, without limitation, expenditures on account of salaries, wages, travel and other expenses of employees of the General Partner or the Management Company, overhead and rentals payable for space used by the General Partner (or its designee) or the Partnership, office expenses and expenses incurred in connection with research and analysis of industry sectors in which the Partnership invests and identifying potential investment opportunities (other than those borne by the Partnership as provided in paragraph 6.2(b) below). The General Partner shall bear and pay any such expenses that are required to be borne and paid by the Management Company pursuant to this paragraph 6.2(a) and elsewhere herein to the extent not so borne and paid by the Management Company, and in no event will any such expense be borne by the Partnership.

(b) The Partnership shall bear all costs and expenses (in each case to the extent not borne by a Portfolio Company or prospective Portfolio Company) incurred in the holding, purchase, sale or exchange of Securities (whether or not ultimately consummated), including, but not by way of limitation, private placement fees, finder's fees, interest on and fees and expenses arising out of borrowed money, real property or personal property taxes on investments, including documentary, recording, stamp and transfer taxes, brokerage fees or commissions, or other similar charges (including any merger fees payable to third parties), travel expenses, legal fees and expenses, expenses incurred in connection with the investigation, prosecution or defense of any claims by or against the Partnership, including claims by or against a governmental authority, audit and accounting fees, consulting fees relating to investments or proposed investments, taxes applicable to the Partnership on account of its operations, fees incurred in connection with the maintenance of bank or custodian accounts, and all expenses incurred in connection with the registration of the Partnership's Securities under applicable securities laws or regulations; provided, however, that any placement fees and related expenses payable with respect to the sale of limited partnership interests in the Partnership shall reduce the management fee payable to the General Partner in accordance with paragraph 6.1(c)(ii). The Partnership shall also bear expenses incurred by the General Partner in serving as the tax matters partner or Partnership Representative (as described in paragraph 11.6), any sales or other taxes or government charges which may be assessed against the Partnership, the cost of liability and other premiums for insurance protecting the Partnership, the General Partner, the Management Company, the Advisory Committee, and their respective partners, members, stockholders, managers, principals, officers, directors, trustees, employees, agents or affiliates in connection with the activities of the Partnership, legal fees and expenses associated with reporting, registration or compliance requirements of the General Partner or the Management Company imposed by the United States Securities and Exchange Commission solely in connection with the Partnership, all out-of-pocket

expenses of preparing and distributing reports to Partners, out-of-pocket expenses associated with Partnership communications with Partners, including preparation and distribution of annual, quarterly or other reports to the Partners, costs incurred by the Partnership, the General Partner, or the Management Company in connection with Partnership meetings or Advisory Committee matters, all legal, accounting, tax, consulting and professional services fees and expenses (including tax preparation) relating to the Partnership and its activities, bookkeeping services, fees and expenses relating to outsourced finance, administration, accounting and back-office services, costs and expenses relating to litigation and threatened litigation involving the Partnership, including the Partnership's indemnification obligation pursuant to this Agreement, and all expenses that are not normal operating expenses and all other expenses properly chargeable to the activities of the Partnership. Notwithstanding the foregoing, the Managing Directors and other personnel of the General Partner shall not use chartered aircraft that is expensed to the Partnership unless either (i) it is the lowest cost option available, or (ii) only the amount corresponding to the cost of commercial airfare for similar travel is allocated as an expense to the Partnership.

(c) The Partnership shall bear all organizational, syndication and marketing costs, fees and expenses incurred by or on behalf of the General Partner or Management Company in connection with the formation and organization of the Partnership and the General Partner (including the definitive agreements related thereto), including legal and accounting fees and expenses incident thereto; provided that the amount of such costs, fees and expenses that are borne by the Partnership shall not exceed in the aggregate five hundred thousand dollars ($500,000).

(d) The Partnership shall bear all liquidation costs, fees and expenses incurred by the General Partner (or its designee) in connection with the liquidation of the Partnership and General Partner at the end of the Partnership's term, specifically including but not limited to legal and accounting fees and expenses.

(e) Each of the Partnership and the Management Company agree to reimburse the other as appropriate to give effect to the provisions of this paragraph 6.2 in the event that either such party pays an obligation that is properly the responsibility of the other.

(f) To the extent that any expenses borne by the Partnership pursuant to subparagraphs (b), (c), (d) and (e) above also benefit another investment entity managed by the General Partner or its Affiliates, such expenses shall be allocated among the Partnership and the other investment entity in a manner reasonably determined by the General Partner, (i) pro rata in proportion to the aggregate capital commitments of the Partnership together with any such funds, (ii) pro rata in proportion to relative investment amounts, where the expenses relate to a particular transaction in which the applicable funds participate, or (iii) by another reasonable method of allocating expenses.

(g) Notwithstanding anything herein to the contrary, any Partnership Expenses borne by the Partnership pursuant to subparagraphs (b), (c), (d) and (e) above shall be reasonable.

ARTICLE 7

WITHDRAWALS BY AND DISTRIBUTIONS TO THE PARTNERS

7.1 Interest. Except as otherwise provided in this Agreement, no interest shall be paid to any Partner on account of its interest in the capital of or on account of its investment in the Partnership.

7.2 Withdrawals by the Partners. No Partner may withdraw any amount from its Capital Account unless such withdrawal is made pursuant to this Article 7 or Article 10.

7.3 Partners' Obligation to Repay or Restore. Except as required by law or the terms of this Agreement, no Partner shall be obligated at any time to repay or restore to the Partnership all or any part of any distribution made to it from the Partnership in accordance with the terms of this Article 7.

7.4 Tax Distributions. Within ninety (90) days after the end of each calendar year during the Partnership term, the Partnership shall distribute to each Partner in cash an amount up to the excess, if any of (a) the Applicable Tax Rate multiplied by the net taxable income allocated to such Partner as a result of such Partner's ownership of an interest in the Partnership for such calendar year, over (b) all prior cash distributions made pursuant to this paragraph 7.4 or paragraph 7.5 during such calendar year (except for any such distributions made pursuant to this paragraph 7.4 with respect to a prior calendar year). Notwithstanding the foregoing, (a) the General Partner shall have no obligation to make the foregoing distributions if the total amount to be distributed to all Partners would be less than one million dollars ($1,000,000) and (b) the General Partner shall have the authority, in its sole discretion, to make good faith estimates of amounts expected to be distributable pursuant to the first sentence of this paragraph 7.4 with respect to a given calendar year and to distribute such estimated amounts to the Partners as advances from time to time during such calendar year. The "Applicable Tax Rate" shall mean the highest state, federal and local income, self-employment and Medicare tax rates then applicable to individuals resident in the State of California, applied by taking into account the character of the taxable income in question (i.e., capital gain, ordinary income, etc.). Distributions made pursuant to this paragraph 7.4 shall be treated as advances against distributions payable pursuant to paragraph 7.5 and shall reduce amounts otherwise distributable to Partners pursuant to paragraph 7.5 as necessary to achieve the same result as would pertain if all distributions made pursuant to paragraphs 7.4 and 7.5 had been made pursuant to paragraph 7.5.

7.5 Discretionary Distributions.

(a) The General Partner may make distributions of cash or Marketable Securities from time to time. Any such distribution shall be apportioned (solely as an interim step in calculating final distributions pursuant to the remainder of this paragraph 7.5(a)) to all Partners in proportion to their respective Partnership Percentages. The amount of such distributions so apportioned to each Partner shall be finally distributed between such Partner and the General Partner as follows:

(i) Prior to the time that such Partner has received distributions pursuant to this subparagraph (a)(i) or deemed distributed hereunder pursuant to paragraph 7.4 (with any in-kind distributions valued at the time of distribution in accordance with paragraph 12.1) equal to the sum of the capital contributions such Partner has previously made to the Partnership ("Payback"), all such distributions shall be made to such Partner until Payback has been achieved. The determination of whether Payback has occurred shall be made at the time of each distribution.

(ii) Subsequent to Payback, all such distributions shall be made in a percentage equal to one hundred percent (100%) less the Carry Percentage to such Partner and the Carry Percentage to the General Partner.

(b) Notwithstanding paragraph 7.5(a), the General Partner may make any distribution described in this paragraph 7.5 to all Partners in proportion to their respective Partnership Percentages; provided, however, that the General Partner may make subsequent distributions to the General Partner to the extent of any distribution that would have been made to the General Partner but for a distribution made pursuant to this paragraph 7.5(b).

(c) Whenever more than one type of Securities is being distributed in kind in a single distribution or whenever more than one class of Securities of a Portfolio Company (or a portion of a class of such Securities having a tax basis per share or unit different from other portions of such class) are distributed in kind by the Partnership, each Partner shall receive its ratable portion of each type, class or portion of such class of Securities distributed in kind (except to the extent that a disproportionate distribution is necessary to avoid distributing fractional shares).

(d) Securities distributed in kind shall be subject to such conditions and restrictions as the General Partner determines are legally required or appropriate. Subject to paragraph 7.5(g), whenever types or classes of Securities are distributed in kind, each Partner shall receive its ratable portion of each type or class of Securities distributed in kind.

(e) Notwithstanding any other provision of this paragraph 7.5, prior to the dissolution of the Partnership, the Partnership shall not make a distribution of Nonmarketable Securities.

(f) Immediately prior to any distribution in kind, the Deemed Gain or Deemed Loss of any Securities distributed shall be allocated to the Capital Accounts of all Partners as Profit or Loss pursuant to Article 5.

(g) Notwithstanding any other provision of this paragraph 7.5 to the contrary, no distribution shall be made to any Partner to the extent such distribution would increase or result in a negative Capital Account balance for such Partner and the portion of such distribution otherwise allocable to such Partner may be made to the other Partners in proportion to and in the amounts of the positive balance, if any, in their respective Capital Accounts.

7.6 Withholding Obligations.

(a) If and to the extent the Partnership is required by law, including FATCA (as defined below), (as determined in good faith by the General Partner) to make payments ("Tax Payments") with respect to any Partner in amounts required to discharge any legal obligation of the Partnership or the General Partner to make payments to any governmental authority with respect to any federal, state, local or foreign tax liability of such Partner arising as a result of such Partner's interest in the Partnership, then the amount of any such Tax Payments shall be deemed to be a loan by the Partnership to such Partner, which loan shall: (i) be secured by such Partner's interest in the Partnership, (ii) bear interest at the Prime Rate, and (iii) be payable upon demand. Amounts paid in respect of interest on such loan shall be treated as Profit of the Partnership and shall not be treated as a capital contribution by such Partner. The General Partner shall promptly notify each Limited Partner of any Tax Payments made with respect to such Limited Partner.

(b) If and to the extent the Partnership is required to make any Tax Payments with respect to any distribution to a Partner, either (i) such Partner's proportionate share of such distribution shall be reduced by the amount of such Tax Payments (provided that such Partner's Capital Account shall be adjusted pursuant to paragraph 14.4 for such Partner's full proportionate share of the distribution), or (ii) such Partner shall promptly pay to the Partnership prior to such distribution an amount of cash equal to such Tax Payments. In the event a portion of a distribution in kind is retained by the Partnership pursuant to

clause (i), such retained Securities may, in the sole discretion of the General Partner, either (1) be distributed to the Partners in accordance with the terms of this Article 7 including this paragraph 7.6(b), or (2) be sold by the Partnership to generate the cash necessary to satisfy such Tax Payments. If the Securities are sold, then for purposes of income tax allocations only under this Agreement, any gain or loss on such sale or exchange shall be allocated to the Partner to whom the Tax Payments relate.

(c) Each Limited Partner will, as applicable, take such actions as are required to establish to the reasonable satisfaction of the General Partner that the Limited Partner is (i) not subject to the withholding tax obligations imposed by Section 1471 of the Code and (ii) not subject to withholding tax obligations imposed by Section 1472 of the Code. In addition, each Limited Partner will assist the Partnership and the General Partner with any applicable information reporting or other obligation imposed on the Partnership, the General Partner, or their respective Affiliates, pursuant to FATCA that is attributable to such Limited Partner. As used herein, "FATCA" means the Foreign Account Tax Compliance provisions enacted as part of the U.S. Hiring Incentives to Restore Employment Act and codified in Sections 1471 through 1474 of the Code, all rules, regulations and other guidance issued thereunder, and all administrative and judicial interpretations thereof.

ARTICLE 8

MANAGEMENT DUTIES AND RESTRICTIONS

8.1 Management.

(a) The General Partner shall have the sole and exclusive right to manage, control, and conduct the affairs of the Partnership and to do any and all acts on behalf of the Partnership, including, without limitation, exercise rights to elect to adjust the tax basis of Partnership assets, revoke such elections, and make such other tax elections as the General Partner shall deem appropriate.

(b) The General Partner will enter into, by itself or on behalf of the Partnership, an agreement (and any modifications, amendments extensions, renewal, or termination thereof) with OCV Management, LLC (the "Management Company"), a relying adviser of OFS Capital Management, an investment adviser registered under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act"), for the provision of certain advisory, management, administrative, operational or other services with respect to the Partnership on terms to be determined by the General Partner; provided, that (i) the General Partner shall remain ultimately responsible for the overall management of the Partnership and for its duties and responsibilities hereunder, and (ii) such agreement shall not contain any term or provision that is inconsistent with this Agreement or that would impose any additional cost or expense on the Partnership solely by reason of any term in such agreement (but, for the avoidance of doubt, may include the assignment to such entity or entities of all or any portion of the Management Fee otherwise payable to the General Partner pursuant to paragraph 6.1).

(c) The Limited Partners hereby acknowledge that the General Partner may be prohibited from taking action for the benefit of the Partnership: (i) due to confidential information acquired or obligations incurred in connection with an outside activity permitted to be done by the General Partner, the Management Company, or any of their respective members, managers, employees, or Affiliates pursuant to this Agreement; (ii) in consequence of any member, manager, employee, agent or Affiliate of the General Partner or Management Company serving as an officer, director, consultant, agent, advisor or employee of a Portfolio Company; or (iii) in connection with activities undertaken by the General Partner,

the Management Company, or any of their respective members, managers, employees, or Affiliates prior to the Initial Closing Date. No Person shall be liable to the Partnership or any Partner for any failure to act for the benefit of the Partnership in consequence of a prohibition described in the preceding sentence.

8.2 No Control by the Limited Partners; No Withdrawal. No Limited Partner, in its capacity as such, shall take any part in the control or management of the affairs of the Partnership nor shall any Limited Partner have any authority to act for or on behalf of the Partnership or to vote on any matter relative to the Partnership and its affairs except as is specifically permitted by this Agreement. Except as specifically set forth in this Agreement, no Limited Partner shall have the right or power to: (a) withdraw or reduce its contribution to the capital of the Partnership or reduce its Capital Commitment; (b) to the fullest extent permitted by law, cause the dissolution and winding up of the Partnership; or (c) demand or receive property in return for its capital contributions. For purposes of the Act, the Limited Partners shall constitute a single class or group of limited partners.

8.3 Existing Funds; Successor Funds; Other Activities and Investment Opportunities.

(a) Except as otherwise agreed to by the Advisory Committee or as provided below, each Principal shall, so long as he shall remain a manager of the General Partner, devote such time as is reasonably necessary to effectively manage the affairs of the Partnership; provided, that until the expiration or the termination of the Investment Period, Mark Yung will devote substantially all of his business time to the affairs of the Partnership, his pre-existing engagements and obligations that are not competitive with the Partnership, the Parallel Funds (as defined below), any Co-Investment Funds (as defined below) and any successor fund permitted by the next sentence. The foregoing notwithstanding, each Principal may (i) form and operate one or more Parallel Funds (as defined in paragraph 8.3(b) below) and one or more Co-Investment Funds (as defined in paragraph 8.3(d)), and (ii) form a successor investment fund with an investment focus and strategy similar to the Partnership (a "Successor Fund") on or after such time as at least seventy-seven and one-half of one percent (77.5%) of the Partnership's Committed Capital has been invested, committed or reserved for investment in portfolio companies, or applied, committed or reserved for Partnership working capital or expenses ("Fully Invested"). The restriction set forth in the first sentence of this paragraph 8.3(a) shall not apply following the earlier of (A) the expiration or termination of the Investment Period and (B) the date upon which the Partnership is Fully Invested; provided that at all times each Principal, for so long as he shall remain a manager of the General Partner, shall devote such time and effort as is reasonably necessary to diligently manage the Partnership's business and affairs.

(b) Pursuant to paragraph 8.3(a)(i), the General Partner and the Principals may form and serve as general partner (or in a similar management role) of (i) one or more investment partnerships or similar entities to accommodate the tax, regulatory or other special needs of investors who otherwise would invest as Limited Partners of the Partnership on substantially similar terms, including economic terms, as the Partnership (collectively, the "Side Funds") and (ii) one or more entities organized to accommodate the capital investment of the members of the General Partner and the Management Company and their employees, consultants and parties expected to have a strategic or other important benefit to the Partnership (collectively, the "Affiliates Fund" and together with the Side Funds, the "Parallel Funds"). In the event that any Parallel Fund is formed, upon each purchase of Securities (other than short term obligations) by the Partnership, each Parallel Fund will simultaneously invest on the same terms and at the same price as the Partnership pro rata in accordance with the remaining available capital of each such fund; provided, however, that a Parallel Fund shall not be required to make any such investment in a Security (i) if the General Partner receives from the issuer thereof a written notice to the effect that the

issuer will not permit such Parallel Fund to invest on the same terms as the Partnership, or (ii) where such investment is not permitted by applicable law or, for non-Affiliates Funds only, by the terms of the governing agreement of such Parallel Fund. Each Parallel Fund shall also dispose of each such Security at substantially the same time and on substantially the same terms as the Partnership. Each of the Limited Partners hereby consents and agrees to the activities and investments identified in subparagraph (a) above and in this subparagraph (b) and further consents and agrees that neither the Partnership nor any of its Partners shall have any rights in or to such activities or investments, or any profits derived therefrom.

(c) Notwithstanding any provision herein, in the event that the General Partner determines that the number of "beneficial owners" of the Partnership equals or exceeds seventy-five (75) (as defined and calculated pursuant to Section 3(c)(1) of the Investment Company Act of 1940, as amended (the "Company Act"), the General Partner shall have the option, at any time subsequent to such determination and exercisable by the General Partner by notice to the Limited Partners, to form a Parallel Fund pursuant to the terms of this clause (c) for purposes of maintaining exemptions from registration under the Company Act (the "Qualified Purchaser Fund").

(i) Upon the formation of the Qualified Purchaser Fund, the General Partner may elect that the interest of any "qualified purchaser" (as defined in Section 2(a)(51) of the Company Act) (a "Qualified Purchaser Limited Partner") in the Partnership be automatically converted to an equivalent interest in the Qualified Purchaser Fund and each Qualified Purchaser Limited Partner that becomes a limited partner in the Qualified Purchaser Fund shall automatically cease to be a limited partner in the Partnership; provided, that the General Partner has reasonably determined after consultation with the Partnership's counsel that such conversion is not reasonably likely to result in an adverse effect with respect to such Qualified Purchaser Limited Partner. Such conversion shall occur at the time of notice by the General Partner to such Qualified Purchaser Limited Partner, and shall be effected by a transfer of such Qualified Purchaser Limited Partner's indirect interest in each of the Partnerships' assets and liabilities to the Qualified Purchaser Fund in return for limited partnership interests in the Qualified Purchaser Fund followed by a distribution by the Partnership of such limited partnership interests in the Qualified Purchaser Fund to such Qualified Purchaser Limited Partner in full redemption of such Qualified Purchaser Limited Partner's interests in the Partnership. A portion of the General Partner's interest in the Partnership shall likewise be converted to a similar interest in the Qualified Purchaser Fund as necessary to cause the General Partner to have the same percentage interests in each of the Partnership and the Qualified Purchaser Fund.

(ii) The initial capital account balances in the Qualified Purchaser Fund of each Qualified Purchaser Limited Partner placed in the Qualified Purchaser Fund shall be equal to such Qualified Purchaser Limited Partner's capital account balances in the Partnership immediately before such conversion. Each Qualified Purchaser Limited Partner placed in the Qualified Purchaser Fund shall have the same duties and obligations to the Qualified Purchaser Fund as set forth in the Partnership Agreement and under applicable law, including, without limitation, the obligation to contribute its remaining Capital Commitment to the Qualified Purchaser Fund instead of the Partnership. Each Qualified Purchaser Limited Partner hereby agrees to execute any instruments or perform any other acts that are or may be necessary to effectuate and carry out the transactions contemplated by this clause (ii) and otherwise authorized under this Agreement. In addition, each Qualified Purchaser Limited Partner hereby designates and appoints the General Partner its true and lawful attorney, in its name, place and stead to make, execute and sign any and all documents necessary or appropriate to consummate and implement

the transactions contemplated by this clause (ii) and otherwise authorized under this Agreement, including, without limitation, the limited partnership agreement of the Qualified Purchaser Fund and any Subscription Agreement relating to the Qualified Purchaser Fund.

(d) Each Limited Partner hereby agrees that the General Partner may offer the right to participate in investment opportunities of the Partnership to other private investors, groups, partnerships or corporations, including, without limitation, any Limited Partner and any Successor Funds managed by one or more Affiliates of the General Partner, whenever the General Partner, in its sole and absolute discretion, so determines; provided, however, that none of the General Partner, the Principals, the Management Company, any of their respective employees nor any of their respective Affiliates (the "GP Group") shall invest personally, or through any entity (other than a Successor Fund) in which any such person has investment decision making authority or management control, in Securities of any Portfolio Company in which such person has not previously invested except (x) through a Parallel Fund or a co-investment vehicle managed by the General Partner or the Principals to invest in the Co-Investment Opportunities of the Partnership formed pursuant to paragraph 8.3(a)(i) (a "Co-Investment Fund"); provided that such investments through a Co-Investment Fund shall be disclosed to the Advisory Committee, (y) where the Securities of such Person are at the time of such investment Marketable Securities, or (z) where such investment has been approved by the Advisory Committee. Notwithstanding the foregoing, for so long as the Partnership has adequate reserves to make investments in issuers in which it does not then hold an interest or until the expiration or suspension of the Investment Period, the Principals shall present to the Partnership all investment opportunities of which they become aware which are within the Partnership's investment criteria (for the avoidance of doubt, investments permitted under paragraph 8.3(e) shall not be considered within the Partnership's investment criteria). A "Co-Investment Opportunity" shall mean (i) an opportunity to invest in a portfolio company concurrently with the Partnership to the extent of the available excess capacity over the Partnership's desired allocation, and (ii) an opportunity to participate in a follow-on investment opportunity of the Partnership to the extent that the Partnership elects not to participate, in each case as determined in the sole discretion of the General Partner.

(e) Without the prior consent of the Advisory Committee, none of the GP Group shall invest, except through a Parallel Fund that is co-investing with the Partnership in accordance with paragraph 8.3(b), through a Co-Investment Fund or through a Successor Fund, in any Securities of any private company in which neither such party nor the Partnership then holds an investment if such Securities would be within the Partnership's investment criteria.

(f) Without the consent of the Advisory Committee, the Partnership may not purchase Securities from or sell Securities to any of the GP Group; provided, however, following the final admission of Limited Partners pursuant to paragraph 3.2(b), the Partnership may purchase Securities from or sell Securities to a Parallel Fund at cost for the purpose of allocating then existing Securities between such entities in proportion to their respective available capital.

8.4 Investment Restrictions.

(a) Without the consent of the Advisory Committee, the General Partner may not incur indebtedness on behalf of the Partnership, or guaranty indebtedness of Portfolio Companies, in an aggregate amount exceeding ten percent (10%) of the Partnership's Committed Capital (determined on a cost basis at the time of investment); provided, however, that (i) no such borrowing or guaranty shall be made to the extent

that any Limited Partner (or its equity owners) would be required to recognize unrelated business taxable income under Section 512 of the Code or unrelated debt-financed income under Section 514 of the Code, and (ii) without the consent of the Advisory Committee, no such borrowing may be made from the General Partner or the Principals.

(b) In the event that the sum of the capital commitments of all ERISA Partners equals or exceeds twenty-five percent (25%) of the capital commitments of all Limited Partners, the General Partner shall use its reasonable best efforts to operate the Partnership such that it qualifies as a "venture capital operating company" under the DOL Regulations.

(c) Without the approval of the Advisory Committee, the Fund may not invest in any portfolio company in which the General Partner, the Principals, or any of their affiliates, or any entity managed or operated or controlled by any of them, holds an interest.

(d) Without the prior approval of the Advisory Committee, no more than ten percent (10%) of the Partnership's Committed Capital (determined on a cost basis at the time of investment) may be invested in publicly-traded Securities (excluding (i) private placements of public company securities, (ii) Securities which were not publicly traded at the time of such investment, (iii) Securities acquired in a "going private" transaction or series of transactions and (iv) Money Market Fund Investments).

(e) Without the prior approval of the Advisory Committee, no more than twenty-five percent (25%) of the Partnership's Committed Capital (determined on a cost basis at the time of investment) may be invested in the Securities of any single Portfolio Company, including any Affiliates of such Portfolio Company.

(f) The aggregate cost basis of Portfolio Company investments made by the Partnership, whether or not realized, may not exceed one hundred fifteen percent (115%) of the Partnership's Committed Capital.

(g) The General Partner shall use its reasonable efforts to operate the Partnership in a manner that will not cause any Partner subject to Section 511 of the Code to recognize unrelated business taxable income under Section 512 of the Code or unrelated debt-financing income under Section 514 of the Code ("UBTI"); provided, however, that the Partnership may, subject to paragraph 8.4(a), borrow money pending the due date of a capital call so long as such borrowing would be fully repaid promptly following the delivery of capital due in connection with such capital call; and provided further, that the operation of paragraph 6.1(c) shall be deemed not to violate this covenant.

(h) The General Partner shall use its reasonable best efforts to conduct the affairs of the Partnership so as to avoid having the Partnership, or any Partner or partner or member thereof, treated as engaged in a trade or business within the United States for purposes of Sections 871, 875, 882, 884 and 1446 of the Code or generate effectively connected income as defined in Section 864(c) of the Code; provided, that the operation of paragraph 6.1(c) shall be deemed not to violate this covenant.

(i) Without the consent of the Advisory Committee, not more than ten percent (10%) of the Partnership's Committed Capital shall be invested in Foreign Entities. For purposes of this subparagraph (d), a "Foreign Entity" shall be any entity with a majority of its assets or operations located outside of the United States or Canada, other than any entity in which either (i) a majority of its assets, (ii) a majority of its operations, (iii) its principal executive office, or (iv) its jurisdiction of organization is within the United States or Canada.

(j) Without the consent of the Advisory Committee, the General Partner shall not cause the Partnership to invest in any other investment fund (excluding investments in money market or similar funds) if such investment would cause the Limited Partners to effectively incur any management fee expenses or any allocation of "carried interest" on investment gains in excess of the levels set forth herein (it being intended that the foregoing be permitted to allow the General Partner either to invest in an investment fund which is free of management fees and "carried interest", or to adhere to the foregoing restriction by reducing an appropriate amount of such items at the level of the Partnership).

(k) The Partnership shall not invest in any entity if such investment is actively opposed by such entity's board of directors or other governing body at the time of such proposed investment.

(l) The Partnership shall not make investments in a Portfolio Company the principal business of which is the passive ownership, development or management of real estate.

(m) The General Partner shall use its reasonable efforts, based upon the information available to it from time to time, to avoid causing the Partnership to make an investment in any foreign corporation that is likely to become a direct or indirect investment in a passive foreign investment company ("PFIC") within the meaning of Section 1297 of the Code, unless the PFIC has agreed to provide the statements and information necessary to enable the Partnership to make (and it does so make) a "qualified electing fund" election within the meaning of Section 1295 of the Code with respect to such PFIC.

ARTICLE 9

INVESTMENT REPRESENTATION AND TRANSFER

OF PARTNERSHIP INTERESTS

9.1 Investment Representation of the Limited Partners. This Agreement is made with each of the Limited Partners in reliance upon each Limited Partner's representation to the Partnership, which by executing this Agreement each Limited Partner hereby confirms, that its interest in the Partnership is to be acquired for investment, and not with a view to the sale or distribution of any part thereof, and that it has no present intention of selling, granting participation in, or otherwise distributing the same, and each Limited Partner understands that its interest in the Partnership has not been registered under the Securities Act and that any transfer or other disposition of the interest may not be made without registration under the Securities Act or pursuant to an applicable exemption therefrom. Each Limited Partner further represents that it does not have any contract, undertaking, agreement, or arrangement with any Person to sell, transfer, or grant participations to such Person, or to any third Person, with respect to its interest in the Partnership.

9.2 Qualifications of the Limited Partners. Each Limited Partner represents that it is an "accredited investor" within the meaning of that term as defined in Regulation D promulgated under the Securities Act.

9.3 Transfer by General Partner. The General Partner shall not sell, assign, mortgage, pledge or otherwise dispose of its interest in the Partnership or in its capital assets or property without the prior written consent of a Majority in Interest of the Limited Partners. Admissions of new members of the General Partner or the transfer of interests in the General Partner by its members shall not be deemed to be a sale or other disposition of the General Partner's interest in the Partnership so long as the Principals (including for this purpose, trusts or investment vehicles formed for the benefit of a Principal or his

family members or entities affiliated with such Principal) continue to retain direct ownership of and control over at least fifty percent (50%) of the equity and economic interests in the General Partner after such admission or transfer.

9.4 Transfer by Limited Partner. No Limited Partner shall sell, assign, pledge, mortgage, hypothecate, gift or otherwise dispose of or transfer any interest in the Partnership without the prior written consent of the General Partner, which consent may be granted or denied in the sole discretion of the General Partner. Notwithstanding the foregoing, after delivery of the opinion of counsel hereinafter required by this Article 9 (provided, however, that the General Partner may, in its sole discretion, waive, in whole or in part, the requirement of an opinion of counsel), no consent shall be required to a Limited Partner selling, assigning, pledging, mortgaging, hypothecating, gifting or otherwise disposing of or transfering its interest in the Partnership, directly or indirectly, (a) to any entity directly or indirectly holding eighty percent (80%) or more of the ownership interests of the Limited Partner (including profits or other economic interests) or any entity of which eighty percent (80%) or more of the beneficial ownership (including profits or other economic interests) are held directly or indirectly by such entity, including any entity of which the Limited Partner holds, directly or indirectly, eighty percent (80%) or more of the beneficial ownership (including profits or other economic interests), (b) to any successor in interest upon the sale of all or substantially all of the assets of the Limited Partner, or in connection with a merger, consolidation or dissolution or any corporate Limited Partner, (c) to certain affiliated corporations or business entities of a Limited Partner, (d) as may be required by any law or regulation, (e) by testamentary disposition or intestate succession, or (f) to a trust, profit sharing plan or other entity controlled by, or for the benefit of, such Limited Partner or one or more family members. A change in any trustee or fiduciary of a Limited Partners shall not be considered to be a sale, assignment, pledge, mortgage, hypothecation, gift or other disposition or transfer under this paragraph 9.4, provided written notice of such change is given to the General Partner within a reasonable period of time after the effective date thereof. Unless otherwise consented to by the General Partner, any sale, assignment, pledge, mortgage, hypothecation, gift or other disposition of or transfer by a Limited Partner of its interest in the Partnership shall be effective as of the end of the fiscal quarter in which the General Partner consents to such transfer.

9.5 Requirements for Transfer.

(a) No sale, assignment, pledge, mortgage, hypothecation, gift or other disposition of or transfer by a Limited Partner of its interest in the Partnership, directly or indirectly, shall be permitted until the General Partner shall have received an opinion of counsel satisfactory to it in form and substance (or waived, in whole or in part, such opinion requirement) that the effect of such transfer or disposition would not:

(i) result in a violation of the Securities Act or any comparable state law;

(ii) require the Partnership to register as an investment company under the U.S. Investment Company Act of 1940, as amended;

(iii) require the Partnership, the General Partner, any member of the General Partner, the Management Company or their respective Affiliates to register as an investment adviser under the Advisers Act;

(iv) result in the Partnership's assets being considered, in the opinion of counsel for the Partnership, as "plan assets" within the meaning of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any regulations proposed or promulgated thereunder;

(v) result in a termination of the Partnership's status as a partnership for tax purposes;

(vi) cause the Partnership to be characterized as a "publicly traded partnership" as such term is defined in Section 7704(b) of the Code;

(vii) result in a violation of any law, rule, or regulation by any Limited Partner, the Partnership, the General Partner, any member of the General Partner, the Management Company or any of their respective Affiliates; or

(viii) result in a violation of this Agreement.

Such legal opinion shall be provided to the General Partner by the transferring Limited Partner or the proposed transferee. Upon request, the General Partner will use its good faith diligent efforts to provide any information possessed by the Partnership and reasonably requested by a transferring Limited Partner to enable it to render the foregoing opinion. Notwithstanding any provision of this Article 9 to the contrary, the General Partner may, in its sole discretion, waive, in whole or in part, the requirement of an opinion of counsel provided for in this paragraph 9.5(a).

(b) Any Limited Partner who requests or otherwise seeks to effect a sale, assignment, pledge, mortgage, hypothecation, gift or other disposition of or transfer of all or a portion of its interest in the Partnership hereby agrees to reimburse the Partnership, at the request of the General Partner, for any expenses reasonably incurred by the Partnership in connection with such transaction, including the costs of seeking and obtaining any legal opinion required by paragraph 9.5(a) and any other legal, tax, accounting and miscellaneous expenses ("Transfer Expenses"), whether or not such transfer is consummated. At its election, and in any event if the transferor has not reimbursed the Partnership for any Transfer Expenses incurred by the Partnership in preparing for or consummating a proposed or completed transfer within thirty (30) days after the General Partner has delivered to such Partner written demand for payment, the General Partner may seek reimbursement from the transferee of such interest (or portion thereof). If the transferee does not reimburse the Partnership for such Transfer Expenses within a reasonable time (or, in the case of a transfer not consummated, the prospective transferor does not reimburse the Partnership within a reasonable time), the General Partner may charge the Capital Account related to such interest with such Transfer Expenses.

9.6 Substitution as a Limited Partner.

(a) A transferee of a Limited Partner's interest in the Partnership pursuant to this Article 9 shall be admitted as a substituted Limited Partner with respect to the limited partner interest transferred only with the written consent of the General Partner, which consent may be granted or denied in the sole discretion of the General Partner, and only if such transferee (a) elects to become a substituted Limited Partner and (b) executes, acknowledges and delivers to the Partnership such other instruments as the General Partner may deem necessary or advisable to effect the admission of such transferee as a substituted Limited Partner, including, without limitation, the written acceptance and adoption by such transferee of the provisions of this Agreement. Subject to paragraph 9.4, without the written consent of the General Partner to such substitution and the written opinion of counsel required by paragraph 9.5(a) (or waiver thereof, in whole or in part, by the General Partner), no transferee of a limited partner interest shall be admitted as a substituted Limited Partner.

(b) The transferee of a limited partner interest in the Partnership transferred pursuant to this Article 9 that is admitted to the Partnership as a substituted Limited Partner shall succeed to the rights and

liabilities of the transferor Limited Partner (to the extent of the interest transferred) and, after the effective date of such admission, the Capital Commitment, contribution and Capital Account of the transferor shall become the Capital Commitment, contribution and Capital Account, respectively, of the transferee, to the extent of the interest transferred. If a transferee is not admitted to the Partnership as a substituted Limited Partner, (i) such transferee shall have no right to participate with the Limited Partners in any votes taken or consents granted or withheld by the Limited Partners hereunder, and (ii) the transferor shall remain liable to the Partnership for all contributions and other amounts payable with respect to the transferred interest to the same extent as if no transfer had occurred. Subject to clause (i) above, a Person in whom a Limited Partner's interest in the Partnership becomes vested by operation of law may be entered in the books and records of the Partnership as the holder of such interest upon notification to the General Partner by such Person and delivery of sufficient supporting documentation to the General Partner.

(c) If a transfer has been proposed or attempted but the requirements of this Article 9 have not been satisfied, the General Partner shall not admit the purported transferee as a substituted Limited Partner but, to the contrary, shall use its reasonable best efforts to ensure that the Partnership (i) continues to treat the transferor as the sole owner of the interest in the Partnership purportedly transferred, (ii) makes no distributions to the purported transferee and (iii) does not furnish to the purported transferee any tax, financial information or other Confidential Information regarding the Partnership. The General Partner shall also use its reasonable best efforts to ensure that the Partnership does not otherwise treat the purported transferee as an owner of any interest in the Partnership (either legal or equitable), unless required by law to do so. The Partnership shall be entitled to seek injunctive relief, at the expense of the purported transferor, to prevent any such purported transfer.

ARTICLE 10

DISSOLUTION AND LIQUIDATION OF THE PARTNERSHIP

10.1 Extension of Partnership Term. Upon or before the Termination Date, the General Partner may in its reasonable discretion by written notice to the Limited Partners extend the Partnership term for one additional one (1) year period, and upon the conclusion of such extension period, with the consent of the Advisory Committee, the General Partner may extend the Partnership term for a second additional one (1) year period, and upon the conclusion of this second one (1) year extension period, with the consent of a Majority in Interest of the Limited Partners, the General Partner may extend the Partnership term for additional one (1) year periods. During such one (1) year extension periods, the General Partner shall use its reasonable efforts to convert the Partnership's Nonmarketable Securities into Marketable Securities or cash, and all Securities that become Marketable Securities during such period or periods shall be promptly distributed to the Partners. The General Partner shall not purchase the Securities of any new issuer in which the Partnership does not already hold an interest during such period; provided, however, that the General Partner may purchase additional Securities of a Portfolio Company if it deems such a purchase to be in the best interests of the Partnership. The management fee during any extension period shall be as set forth in Article 6.

10.2 Early Termination of the Partnership.

(a) Subject to the Act, the Partnership shall dissolve, and the affairs of the Partnership shall be wound up prior to the Termination Date (or such subsequent date to which the Partnership term has previously been extended pursuant to paragraph 10.1):

(i) ninety (90) days after the withdrawal, bankruptcy, or dissolution of the General Partner, unless a Majority in Interest of the Limited Partners elect to continue the Partnership within such ninety (90) day period; or

(ii) at any time upon the election of Eighty-Five Percent (85.0%) in Interest of the Limited Partners with or without cause (i.e., "no fault termination").

(b) In the event that the Partnership is dissolved pursuant to paragraph 10.2(a), a Majority in Interest of the Limited Partners shall elect one or more liquidators to manage the liquidation of the Partnership in the manner described in paragraphs 10.3 and 10.4.

10.3 Winding Up Procedures.

(a) Promptly upon dissolution of the Partnership (unless the Partnership is continued in accordance with this Agreement or the provisions of the Act), the affairs of the Partnership shall be wound up and the Partnership liquidated.

(b) Distributions during the winding up period may be made in cash or in kind or partly in cash and partly in kind. The General Partner or the liquidator shall use its best judgment as to the most advantageous time for the Partnership to sell Securities or to make distributions in kind. All cash and each Security distributed in kind after the date of dissolution of the Partnership shall be distributed ratably in accordance with paragraph 10.4(c) with the Partners Capital Accounts being adjusted through the date of each distribution, unless such distribution would result in a violation of a law or regulation applicable to a Limited Partner, in which event, upon receipt by the General Partner of notice to such effect, such Limited Partner may designate a different entity to receive the distribution, or designate, subject to the approval of the General Partner, an alternative distribution procedure (provided such alternative distribution procedure does not prejudice any of the other Partners). Each Security so distributed shall be subject to reasonable conditions and restrictions necessary or advisable, as determined in the reasonable discretion of the General Partner or the liquidator, in order to preserve the value of such Security or for legal reasons.

10.4 Payments in Liquidation. The assets of the Partnership shall be distributed in final liquidation of the Partnership in the following order:

(a) to the creditors of the Partnership, other than Partners, in the order of priority established by law, either by payment or by establishment of reserves;

(b) to the Partners, in repayment of any loans made to, or other debts owed by, the Partnership to such Partners; and

(c) the balance, if any, to the General Partner and the Limited Partners in respect of the positive balances in their Capital Accounts in compliance with Treasury Regulation Section 1.704-1(b)(2)(ii)(b)(2).

10.5 Return of Excess Distributions.

(a) Notwithstanding paragraphs 7.3 and 10.4, upon liquidation of the Partnership pursuant to this Article 10, the General Partner shall be required to pay back to the Partnership the amount by which the cumulative net distributions received by the General Partner over the life of the Partnership (excluding amounts received by the General Partner in respect of its Partnership Percentage and amounts returned to the Partnership by the General Partner pursuant to paragraph 4.2(d)(ii) prior to final liquidation of the Partnership) exceeds the sum of the aggregate allocations of net profits minus the aggregate allocations of net losses and expenses made to the General Partner in respect of its "carried interest"; provided, however, that the amount of repayment described in this paragraph 10.5 shall be limited to the cumulative net distributions received by the General Partner over the life of the Partnership (excluding amounts received by the General Partner in respect of its Partnership Percentage and amounts returned to the Partnership by the General Partner pursuant to paragraph 4.2(d)(ii) prior to final liquidation of the Partnership) reduced by the federal and state income taxes payable on such excess amount by the members of the General Partner (assuming for this purpose that all in kind distributions were immediately sold upon receipt and such taxes were paid at the Applicable Tax Rate).

(b) In the event that the assets of the General Partner are insufficient to satisfy the obligation described in the preceding sentence, each member of the General Partner shall be severally, but not jointly, liable for and shall personally guaranty his or her pro rata share of the General Partner's remaining obligation to the Partnership under this paragraph 10.5. The pro rata shares described in the preceding sentence shall be based on relative distributions received by each member of the General Partner from the General Partner. The General Partner shall cause each member of the General Partner to execute a guarantee agreement for the benefit of the Limited Partners.

(c) If Partners are required to recontribute distributions pursuant to paragraph 4.2(d)(ii) after the final liquidation and winding up of the Partnership, the amount of the General Partner's obligation under paragraph 10.5(a) shall be recomputed by treating the expense giving rise to the return of distributions pursuant to paragraph 4.2(d)(ii) as if it had occurred prior to final liquidation. The difference between the amount originally computed pursuant to paragraph 10.5(a) as of the final liquidation and winding up of the Partnership and the amount described in the immediately preceding sentence shall reduce dollar for dollar the aggregate amount otherwise required to be recontributed by the Partners pursuant to paragraph 4.2(d)(ii).

ARTICLE 11

FINANCIAL ACCOUNTING, REPORTS AND MEETINGS

11.1 Financial Accounting; Fiscal Year. The books and records of the Partnership shall be kept in accordance with the provisions of this Agreement and otherwise in accordance with U.S. generally accepted accounting principles consistently applied ("GAAP") or another recognized method of accounting, including without limitation tax basis accounting, and shall be audited at the end of each fiscal year by an independent public accountant of national or regional standing selected by the General Partner beginning with the first calendar year commencing after the Activation Date; provided, that such initial audit of the books and records of the Partnership shall cover the Partnership's prior fiscal years beginning on the Initial Closing Date. The Partnership's fiscal year shall be the calendar year.

11.2 Supervision; Inspection of Books. Proper and complete books of account of the Partnership, copies of the Partnership's federal, state and local tax returns for each fiscal year, the schedule of partners, this Agreement and the Partnership's Certificate of Limited Partnership and any amendments thereto shall

be kept under the supervision of the General Partner at the principal office of the Partnership. Such books and records shall be open to inspection by the Limited Partners, or their accredited representatives, at any reasonable time during normal business hours after reasonable advance notice. Notwithstanding anything in this Agreement to the contrary, the schedule of partners shall be available for inspection or copying unless either (i) the General Partner is prohibited from disclosing such schedule due to confidentiality obligations owed to another Limited Partner but only to the extent of such confidentiality obligations, or (ii) withheld from any particular Limited Partner if the General Partner reasonably determines that the disclosure of such schedule to such Limited Partner may result in the general public gaining access to such schedule. Such books and records shall be maintained by the General Partner or its designee for a period of three (3) years following final dissolution of the Partnership. Notwithstanding the foregoing, the General Partner shall have the benefit of the confidential information provisions of Section 17-305(b) of the Act and the obligation to make Confidential Information available or to furnish Confidential Information shall be subject to paragraph 15.15.

11.3 Quarterly Reports. The General Partner shall use commercially reasonable efforts to transmit to the Limited Partners within forty-five (45) days, or as soon thereafter as practicable, after the close of each of the first three quarters of each fiscal year, (a) a summary of acquisitions and dispositions of investments made by the Partnership during such quarter and (b) a list of investments then held together with a valuation of the investments then held. Notwithstanding anything in this paragraph to the contrary, the obligations under this paragraph 11.3 shall commence with the first full fiscal quarter beginning on or after the Activation Date.

11.4 Annual Report; Financial Statements of the Partnership. Beginning with the first calendar year commencing after the Activation Date, the General Partner shall use commercially reasonable efforts to transmit to the Limited Partners within ninety (90) days after the close of the Partnership's fiscal year, audited financial statements of the Partnership prepared in accordance with the terms of this Agreement and otherwise in accordance with U.S. GAAP, including an income statement for the year then ended and a balance sheet as of the end of such year, and a list of investments then held together with a valuation of the investments then held.

11.5 Tax Returns.

(a) The General Partner shall use commercially reasonable efforts to cause IRS Form 1065, Schedule K-1 and any other tax information reasonably requested by a Limited Partner, to be prepared and delivered to the Limited Partners within ninety (90) days after the close of the Partnership's fiscal year.

(b) Each Limited Partner hereby agrees and covenants that it shall not make an election under Section 732(d) of the Code with respect to property distributed to it by the Partnership without the prior written consent of the General Partner. The General Partner may, but shall not be obligated to, cause the Partnership to make an election under Section 754 of the Code or an election to be treated as an "electing investment partnership" within the meaning of Section 743(e) of the Code. If the Partnership elects to be treated as an electing investment partnership, each Limited Partner shall (i) reasonably cooperate with the Partnership to maintain such status, (ii) shall not take any action that would be reasonably inconsistent with such election, (iii) provide the General Partner with any information necessary to allow the Partnership to comply with its obligations to make tax basis adjustments under Sections 734 or 743 of the Code and its tax reporting and other obligations as an electing investment partnership, and (iv) provide the General Partner and such Limited Partner's transferee, promptly upon request, with the information

required under Section 6031(b) of the Code or otherwise to be furnished to the Partnership or such transferee, including such information as is reasonably necessary to enable the Partnership and such transferee to compute the amount of losses disallowed under Section 743(e) of the Code, but in no event shall such Limited Partner be required to provide such information prior to its receipt of its Schedule K-1 for such taxable year, except to the extent of information, if any, required by the Partnership to complete its Schedule K-1s. Whether or not the Partnership makes such election, promptly upon request, each Limited Partner shall provide the General Partner with any information related to such Partner reasonably necessary (as determined in the General Partner's sole discretion) to allow the Partnership to comply with (i) its obligations to make tax basis adjustments under Sections 734 or 743 of the Code and (ii) any other U.S. federal income tax reporting obligations of the Partnership.

11.6 Tax Matters Partner; Partnership Representative.

(a) This paragraph 11.6(a) shall apply for fiscal years of the Partnership beginning on or before December 31, 2017 (or if the effective date of Section 1101 of the Bipartisan Budget Act of 2015 is extended, such later extended date). The General Partner shall be the Partnership's tax matters partner under the Code and under any comparable provision of state law. The General Partner shall have the right to resign as tax matters partner by giving thirty (30) days written notice to each Partner. Upon such resignation a successor tax matters partner shall be elected by Two-Thirds in Interest of the Limited Partners. The tax matters partner shall employ experienced tax counsel to represent the Partnership in connection with any audit or investigation of the Partnership by the Internal Revenue Service and in connection with all subsequent administrative and judicial proceedings arising out of such audit. If the tax matters partner is required by law or regulation to incur fees and expenses in connection with tax matters not affecting all the Partners, then the Partnership shall be entitled to reimbursement from those Partners on whose behalf such fees and expenses were incurred. The tax matters partner shall keep the Partners informed of all administrative and judicial proceedings, as required by Section 6223(g) of the Code, and shall furnish to each Partner, if such Partner so requests in writing, a copy of each notice or other communication received by the tax matters partner from the Internal Revenue Service, except such notices or communications as are sent directly to such requesting Partner by the Internal Revenue Service. The relationship of the tax matters partner to the Limited Partners is that of a fiduciary, and the tax matters partner has fiduciary obligations to perform its duties as tax matters partner in such manner as will serve the best interests of the Partnership and all of the Partnership's Partners. To the fullest extent permitted by law, but subject to the limitations and exclusions of paragraph 15.4 below, the Partnership agrees to indemnify the tax matters partner and its agents and save and hold them harmless, from and in respect to all (a) fees, costs and expenses in connection with or resulting from any claim, action, or demand against the tax matters partner, the General Partner or the Partnership that arise out of or in any way relate to the tax matters partner's status as tax matters partner for the Partnership, and (b) all such claims, actions, and demands and any losses or damages therefrom, including amounts paid in settlement or compromise of any such claim, action, or demand; provided, that this indemnity shall not extend to conduct by the tax matters partner and/or its agents adjudged (x) not to have been undertaken in good faith or (y) to have constituted intentional wrongdoing.

(b) For fiscal years of the Partnership beginning after December 31, 2017 (or if the effective date of Section 1101 of the Bipartisan Budget Act of 2015 is extended, such later extended date): (i) the General Partner (or such other person selected by the General Partner) shall be designated the "partnership representative" within the meaning of Code Section 6223(a) (the "Partnership Representative") and the

General Partner shall be authorized to take any actions necessary under Treasury Regulations or other guidance to cause the General Partner to be designated as such; (ii) the Partnership and each Partner agree that they shall be bound by the actions taken by the Partnership Representative, as described in Code Section 6223(b); (iii) the Partners consent to the election set forth in Code Section 6226(a) and agree to take any action, and furnish the General Partner with any information necessary, to give effect to such election if the General Partner decides to make such election; (iv) any imputed underpayment imposed on the Partnership (or any fiscally transparent entity in which the Partnership owns an interest) pursuant to Code Section 6232 (and any related interest, penalties or other additions to tax) that the General Partner reasonably determines is attributable to one or more Partners (including any former Partner) shall be, in the General Partner's sole discretion either (A) treated as a Tax Payment subject to the provisions of paragraph 7.6 or (B) promptly paid by such Partners to the Partnership (pro rata in proportion to their respective shares of such underpayment) within fifteen (15) days following the General Partner's request for payment, which request for payment, for the avoidance of doubt, will be made only after the Partnership has received a notice of final partnership adjustment pursuant to Code Section 6231 (and any failure to pay such amount shall result in a subsequent reduction in distributions otherwise payable to such Partner plus interest on such amount calculated at the Prime Rate plus four percent (4%)) and/or shall constitute a failure "to make any of the capital contributions required of it under this Agreement" subject to the terms of paragraph 4.5); provided, that in making the determination of which Partners (including former Partners) any such imputed underpayment is attributable to, the General Partner will allocate any imputed underpayment imposed on the Partnership (and any related interest, penalties, additions to tax and audit costs) among the Partners in good faith taking into account each Partner's particular status, including, for the avoidance of doubt, a Partner's tax-exempt status; and (v) paragraph 15.3 and paragraph 15.4 shall apply to the General Partner in its capacity as Partnership Representative. Any references to Code Sections set forth in this paragraph 11.6(b) refer to those Sections as in effect for fiscal years of the Partnership beginning after December 31, 2017 (or if the effective date of Section 1101 of the Bipartisan Budget Act of 2015 is extended, such later extended date). The General Partner, in its capacity as the Partnership Representative, shall be authorized to take any of the foregoing actions (or any similar actions), to the extent necessary to allow the Partnership to comply with the partnership audit provisions of the Bipartisan Budget Act of 2015. Regarding the potential obligation of a former Partner under this paragraph, the following shall apply: (i) each Partner agrees that notwithstanding any other provision in this Agreement if it is no longer a Partner it shall nevertheless be obligated for any responsibilities under this paragraph as if it were a Partner at the time of demand hereunder; and (ii) the General Partner will not consent to the transfer of interest of any Limited Partner unless the transferee receiving such interest agrees that in the event the transferor of such interest does not fulfill its obligation under the preceding clause (i) within twenty (20) business days following written demand by the General Partner, such transferee shall be jointly and severally liable with such transferor for such obligation and the General Partner may thereafter treat the transferee as the relevant Partner for purposes of this paragraph. The General Partner will provide prompt written notification to each Limited Partner in the event of any audit of the Partnership by the United States Internal Revenue Service.

11.7 Website Based Reporting. The General Partner shall be entitled, in its sole discretion, to transmit the reports and statements described in paragraphs 11.3 and 11.4 (the "Subject Reports") to one or more Limited Partners solely by means of granting such Limited Partners access to a database or other forum hosted on a website designated by the General Partner (the "Reporting Site"), with such parameters regarding access and availability of information for review as the General Partner deems reasonably necessary to protect the confidentiality and proprietary nature of the information contained therein

(including, but not limited to, establishing password protections for access to the Reporting Site, preventing the Subject Reports posted on the Reporting Site from being copied or otherwise print capable and having such Subject Reports available for review for a restricted period of time (but in no event less than 30 days from the first date such Subject Reports are posted on the Reporting Site)). Unless the General Partner exercises its discretion pursuant to and in compliance with paragraph 15.15(c) to restrict access to certain Confidential Information that may be included in a Subject Report posted on the Reporting Site, the Subject Reports posted on the Reporting Site shall contain all of the material information included in those Subject Reports transmitted to Limited Partners other than pursuant to this paragraph 11.7. The Subject Reports shall be posted on the Reporting Site within the same number of days after the end of the applicable fiscal quarter or Fiscal Year as is required pursuant to paragraphs 11.3 and 11.4.

ARTICLE 12

VALUATION AND ADVISORY COMMITTEE

12.1 Valuation. Subject to the specific standards set forth below, the valuation of Securities and other assets and liabilities under this Agreement shall be at fair market value. Except as may be required under applicable Treasury Regulations, no value shall be placed on the goodwill or the name of the Partnership or the General Partner, the Partnership's office, records, files and statistical data or any intangible assets of the Partnership in the nature of or similar to goodwill in determining the value of the interest of any Partner in the Partnership or in any accounting among the Partners.

(a) The following criteria shall be used for determining the fair market value of Securities:

(i) If traded on one or more securities exchanges or quoted on the automated screen-based quotation and trade execution system operated by Nasdaq, Inc., or any successor thereto ("NASDAQ"), the value shall be deemed to be the Securities' closing price on the principal of such exchanges on the valuation date.

(ii) If actively traded over the counter (other than on the NASDAQ), the value shall be deemed to be the average of the closing bid and ask prices of such Securities on the valuation date.

(iii) If there is no active public market, the value shall be the fair market value thereof, as determined by the General Partner, taking into consideration the purchase price of the Securities, developments concerning the investee company subsequent to the acquisition of the Securities, any financial data and projections of the investee company provided to the General Partner, any contractual restrictions on sale of the Securities, indications of public float and liquidity of Securities, and such other factor or factors as the General Partner may deem relevant in accordance with a valuation policy established by the General Partner, which shall be reasonably acceptable to the Advisory Committee.

(b) If the General Partner in good faith determines that, because of special circumstances, the valuation methods set forth in paragraph 12.1 do not fairly determine the value of a Security, the General Partner shall make such adjustments or use such alternative valuation method as it reasonably deems appropriate.

(c) The General Partner shall have the power at any time to determine, for all purposes of this Agreement, the fair market value of any assets and liabilities of the Partnership.

(d) If within thirty (30) days of receipt of either the quarterly or annual reports described in paragraphs 11.3 and 11.4, respectively, the Advisory Committee notifies the General Partner of an objection to such proposed valuation contained in such reports, then, if the General Partner and a majority of the members of the Advisory Committee cannot otherwise mutually agree on the valuation, the General Partner and the Advisory Committee may each appoint an independent securities expert to render a valuation, and the average of such experts valuations shall be adopted as the Partnership's valuation. The Advisory Committee shall receive a copy of all such expert valuations. The fees and expenses of any expert retained in accordance with this paragraph 12.1(d) shall be borne by the Partnership.

12.2 Advisory Committee. The General Partner will appoint an Advisory Committee (the "Advisory Committee"), which shall consist of no more than, unless the Advisory Committee consents otherwise, four (4) representatives of the Limited Partners selected by the General Partner from time to time in its reasonable judgment; provided, however, no member of the Advisory Committee may be a representative of the General Partner, a Principal, or an Affiliate thereof. The duties of the Advisory Committee will include (a) consideration of any approvals sought by the General Partner pursuant to the terms of this Agreement; and (b) such advice and counsel as is requested by the General Partner in connection with the Partnership's investments and other Partnership matters, including with respect to all matters pertaining to conflicts of interest submitted to the Advisory Committee by the General Partner with respect to the Partnership, the General Partner or any of the members of the General Partner (excluding matters otherwise expressly addressed pursuant to the terms of this Agreement). Subject to paragraph 12.1(d), the General Partner (or its designee) will retain ultimate responsibility for asset valuations and for making all investment decisions. All actions, consents or approvals of the Advisory Committee shall require a majority of its members serving at the time such action, consent or approval is taken, which actions, consents or approvals may be carried out by telephone, facsimile or electronic mail or other means reasonably acceptable to the General Partner. To the fullest extent permitted by law, neither the members of the Advisory Committee, nor the Limited Partners on behalf of whom such members act as representatives, shall owe any duties (fiduciary or otherwise) to the Partnership or any other Partner in respect of the activities of the Advisory Committee, except to refrain from bad faith violations of the implied contractual obligation of good faith. For the avoidance of doubt, any member of the Advisory Committee may vote in his or her own interest or in the interest of their constituent Limited Partner, which interest may or may not be aligned with the interest of the Management Company, the General Partner or the other Limited Partners, and shall not be deemed to have acted in bad faith for voting in such manner. The General Partner may, in its sole discretion, seek the approval of the Advisory Committee in connection with (i) approval required under the Advisers Act, including, without limitation, (i) any approvals required under Section 206(3) thereof, or (ii) any consent to a transaction that would result in an "assignment" (within the meaning of the Advisers Act) of the Partnership's contract with the Management Company or the General Partner's interest in the Partnership, and it is agreed by the Partners that such approval of the Advisory Committee shall constitute the consent of the Partnership and the Limited Partners for purposes of the Advisers Act.

ARTICLE 13

REGULATED PARTNERS

13.1 ERISA Partners.

(a) Each Limited Partner that is, or whose equity interests are at least partially owned by, an "employee benefit plan" (the "ERISA Partner") within the meaning of, and subject to the provisions of, ERISA hereby (i) acknowledges that it is its understanding that neither the Partnership, the General Partner, nor any of the Affiliates of the General Partner, are "fiduciaries" of such Limited Partner within the meaning of ERISA by reason of the Limited Partner investing its assets in, and being a Limited Partner of, the Partnership; (ii) acknowledges that it has been informed of and understands the investment objectives and policies of, and the investment strategies that may be pursued by, the Partnership; (iii) acknowledges that it is aware of the provisions of Section 404 of ERISA relating to the requirements for investment and diversification of the assets of employee benefit plans and trusts subject to ERISA; (iv) represents that it has given appropriate consideration to the facts and circumstances relevant to the investment by that ERISA Partner's plan in the Partnership and has determined that such investment is reasonably designed, as part of such portfolio, to further the purposes of such plan; (v) represents that, taking into account the other investments made with the assets of such plan, and the diversification thereof, such plan's investment in the Partnership is consistent with the requirements of Section 404 and other provisions of ERISA; (vi) acknowledges that it understands that current income will not be a primary objective of the Partnership; and (vii) represents that, taking into account the other investments made with the assets of such plan, the investment of assets of such plan in the Partnership is consistent with the cash flow requirements and funding objectives of such plan.

(b) Notwithstanding any provision contained herein to the contrary, each ERISA Partner may elect to withdraw from the Partnership, or upon demand by the General Partner shall withdraw from the Partnership, at the time and in the manner hereinafter provided, if either the ERISA Partner or the General Partner shall obtain a materially unqualified opinion of counsel (which counsel shall be reasonably acceptable to both the ERISA Partner and the General Partner) to the effect that, as a result of applicable statutes, regulations, case law, administrative interpretations, or similar authority (i) the continuation of the ERISA Partner as a Limited Partner of the Partnership or the conduct of the Partnership will result, or there is a material likelihood the same will result, in a material violation of ERISA, or (ii) all or any portion of the assets of the Partnership constitute assets of the ERISA Partner and are subject to the provisions of ERISA to substantially the same extent as if owned directly by the ERISA Partner. In the event such opinion of counsel is issued to the General Partner, a copy of such opinion shall promptly be given to all the ERISA Partners, together with the written notice of the election of the ERISA Partner to withdraw or the written demand of the General Partner for withdrawal, whichever the case may be. In the event such opinion of counsel is issued to the ERISA Partner, a copy of such opinion shall promptly be given the General Partner. Thereupon, unless within ninety (90) days after receipt of such written notice and opinion the General Partner is able to eliminate the necessity for such withdrawal to the reasonable satisfaction of the ERISA Partner and the General Partner, whether by correction of the condition giving rise to the necessity of the ERISA Partner's withdrawal, or the amendment of this Agreement, or otherwise, such ERISA Partner shall withdraw its entire interest in the Partnership, such withdrawal to be effective upon the last day of the fiscal quarter during which such ninety (90) day period expired.

(c) The withdrawing ERISA Partner shall be entitled to receive within ninety (90) days after the date of such withdrawal an amount equal to the fair market value of such Partner's interest in the Partnership valued as of the effective date of such withdrawal.

(d) Any distribution or payment to a withdrawing ERISA Partner pursuant to this paragraph 13.1 may, in the sole discretion of the General Partner, be made in cash, in securities, in the form of a

promissory note, the terms of which shall be mutually agreed upon by the General Partner and the withdrawing ERISA Partner, or any combination thereof.

(e) Any valuation necessary for the purposes of a distribution or payment to a withdrawing ERISA Partner pursuant to this paragraph shall be made by the General Partner in good faith pursuant to paragraph 12.1.

13.2 Governmental Plan Partners. Notwithstanding any provision of this Agreement to the contrary, any Limited Partner that is either a "governmental plan" as defined in Title 29, Section 1002(32) of the United States Code or an employee benefit plan subject to Governmental Plan Regulations (a "Governmental Plan Partner") may elect to withdraw from the Partnership, or upon demand by the General Partner shall withdraw from the Partnership, if either the Governmental Plan Partner or the General Partner shall obtain an opinion of counsel (which counsel shall be reasonably acceptable to both the Governmental Plan Partner and the General Partner) to the effect that the Governmental Plan Partner, the Partnership, or the General Partner would be in violation, or there is a material likelihood the same would result, of any Governmental Plan Regulation, as a result of the Governmental Plan Partner continuing as a Limited Partner, and, in the case of an opinion obtained by the General Partner, that such violation would have a material adverse effect on the General Partner or the Partnership. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the withdrawal of and disposition of the Governmental Plan Partner's interest in the Partnership shall be governed by paragraph 13.1 of the Agreement, as if the Governmental Plan Partner were an ERISA Partner.

13.3 Private Foundation Partners. Notwithstanding any provision of the Agreement to the contrary, any Limited Partner that is, or whose equity interests are at least partially owned by, a "private foundation" as described in Section 509 of the Code (a "Private Foundation Partner"), may elect to withdraw from the Partnership, or upon demand by the General Partner shall withdraw from the Partnership, if either the Private Foundation Partner or the General Partner shall obtain an opinion of counsel (which counsel shall be reasonably acceptable to both the Private Foundation Partner and the General Partner) to the effect that such withdrawal is necessary in order for the Private Foundation Partner to avoid (a) excise taxes imposed by Subchapter A of Chapter 42 of the Code (other than Sections 4940 and 4942 thereof), or (b) a material breach of the fiduciary duties of its trustees under any federal or state law applicable to private foundations or any rule or regulation adopted thereunder by any agency, commission, or authority having jurisdiction. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the withdrawal of and disposition of the Private Foundation Partner's interest in the Partnership shall be governed by paragraph 13.1, as if the Private Foundation Partner were an ERISA Partner.

13.4 Bank Holding Company Act Partners. Notwithstanding any provision of the Agreement to the contrary, any Limited Partner that is subject to the BHC Act (a "BHC Partner"), may elect to withdraw from the Partnership, or upon demand by the General Partner shall withdraw from the Partnership, if the BHC Partner or the General Partner shall obtain an opinion of counsel (which counsel shall be reasonably acceptable to both the BHC Partner and the General Partner) to the effect that the BHC Partner would be in violation of any provision of the BHC Act, including any regulation, written interpretation or directive of any governmental authority having regulatory authority over the BHC Partner, enacted or promulgated after the date of formation of the Partnership, as a result of the BHC Partner continuing as a Limited Partner. In the event of the issuance of the opinion of counsel referred to in the preceding sentence, the

withdrawal of and disposition of the BHC Partner's interest in the Partnership shall be governed by paragraph 13.1, as if the BHC Partner were an ERISA Partner.

ARTICLE 14

CERTAIN DEFINITIONS

14.1 Accounting Period. Accounting Period shall refer to the period beginning on the 1st day of January and ending on the 31st of December; provided, however, that the General Partner may elect to commence a new Accounting Period on (i) the date of any change in the Partners' respective interests in the Profits or Losses of the Partnership during such calendar year except on the first day thereof, or (ii) any other date the General Partner shall determine. An Accounting Period shall terminate immediately prior to the commencement of a new Accounting Period (or if no new Accounting Period has been commenced, on December 31) and the final Accounting Period shall terminate on the date the Partnership shall terminate.

14.2 Adjusted Asset Value. The Adjusted Asset Value with respect to any asset shall be the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Adjusted Asset Value of any asset contributed by a Partner to the Partnership shall be the gross fair market value of such asset at the time of contribution, as determined by the contributing Partner and the Partnership.

(b) In the discretion of the General Partner, the Adjusted Asset Values of all Partnership assets may be adjusted to equal their respective gross fair market values, as determined by the General Partner, and the resulting unrealized profit or loss allocated to the Capital Accounts of the Partners pursuant to Article 5, as of the following times: (i) upon distribution by the Partnership to a Partner of more than a de minimis amount of Partnership assets, unless all Partners receive simultaneous distributions of either undivided interests in the distributed property or identical Partnership assets in proportion to their interests in Partnership distributions as provided in paragraphs 7.4 and 7.5 and (ii) the grant of an additional interest in the Partnership to any new or existing Partner.

(c) The Adjusted Asset Values of all Partnership assets shall be adjusted to equal their respective gross fair market values, as determined by the General Partner, and the resulting unrealized profit or loss allocated to the Capital Accounts of the Partners pursuant to Article 5, as of the termination of the Partnership either by expiration of the Partnership's term or the occurrence of an event described in paragraph 10.2.

14.3 Affiliate. An Affiliate of any Person shall mean any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by or is under common control with the Person specified or over which the Person specified has direct or indirect investment control; provided, however, the term "Affiliate" with respect to the General Partner and the Management Company shall not include (i) any Person that is not engaged in the day-to-day management or operations of the General Partner or the Management Company, or (ii) any investment held by the Partnership.

14.4 Capital Account. The Capital Account of each Partner shall consist of its original capital contribution, (a) increased by any additional capital contributions, its share of income or gain that is allocated to it pursuant to this Agreement, and the amount of any Partnership liabilities that are assumed by it or that are secured by any Partnership property distributed to it, and (b) decreased by the amount of any distributions to or withdrawals by it, its share of expense or loss that is allocated to it pursuant to this Agreement, and the amount of any of its liabilities that are assumed by the Partnership or that are secured by any property contributed by it to the Partnership. The foregoing provision and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulation Section 1.704-1(b)(2)(iv), and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto, are computed in order to comply with such Treasury Regulations, the General Partner may make such modification, provided that it is not likely to have more than an insignificant effect on the total amounts distributable to any Partner pursuant to Article 7 and Article 10.

14.5 Capital Commitment; Committed Capital. A Partner's Capital Commitment shall mean the amount that such Partner has agreed to contribute to the capital of the Partnership as set forth in the books and records of the Partnership. The Partnership's Committed Capital shall equal the sum of the aggregate Capital Commitments of all Partners.

14.6 Carry Percentage. Carry Percentage means, with respect to each Partner, the percentage rate so designated on the General Partner's acceptance page to such Partner's Subscription Agreement or as otherwise set forth in writing by the General Partner; provided, that if no such rate is designated with respect to a Partner, then such rate percentage shall be twenty percent (20%).

14.7 Code. The Code is the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

14.8 Deemed Gain or Deemed Loss. The Deemed Gain from any in kind distribution of Securities shall be equal to the excess, if any, of the fair market value of the Securities distributed (valued as of the date of distribution in accordance with paragraph 12.1), over the aggregate Adjusted Asset Value of the Securities distributed. The Deemed Loss from any in kind distribution of Securities shall be equal to the excess, if any, of the aggregate Adjusted Asset Value of the Securities distributed over the fair market value of the Securities distributed (valued as of the date of distribution in accordance with paragraph 12.1).

14.9 Fee Date. Fee Date shall mean each of the following dates each fiscal year: January 1, April 1, July 1 and October 1, or the next business day thereafter if any of the foregoing falls on a non-business day in a particular fiscal year.

14.10 Final Closing Date. The Final Closing Date shall mean the final day upon which the General Partner has admitted Limited Partners to the Partnership pursuant to paragraph 3.2(b) (including any extensions of the period applicable therein).

14.11 Idle Funds Income. Idle Funds Income shall mean all income received by the Partnership from commercial paper, certificates of deposit, treasury bills, and other money market investments with maturities of less than twelve (12) months.

14.12 Investment Period. The Investment Period shall mean the period beginning on the date of the Initial Closing Date and terminating upon the sixth anniversary of the Activation Date.

14.13 Management Fee Percentage. Management Fee Percentage means, with respect to each Limited Partner, the percentage rate so designated on the General Partner's acceptance page to such Limited Partner's Subscription Agreement; provided, that if no such rate is designated with respect to a Limited Partner, then such rate percentage shall be 0.625% (i.e., 2.50% annually).

14.14 Marketable; Marketable Securities; Marketability. These terms shall refer to Securities that are (a) traded on a national securities exchange, on NASDAQ, or over the counter, and (i) freely transferable pursuant to either Rule 144 of the Securities Act (without being subject to any volume restrictions set forth in Rule 144(e)) or Rule 145 of the Securities Act it being agreed that the General Partner may assume that none of the Partners is an "affiliate" of the issuer thereof as defined under Rule 144 of the Securities Act and (ii) not subject to any underwriter "lock-up" or other contractual restrictions on transferability, or (b) currently the subject of an effective Securities Act registration statement.

14.15 Nonmarketable Securities. Nonmarketable Securities are all Securities other than Marketable Securities.

14.16 Partnership Expenses. Partnership Expenses shall be those expenses borne directly by the Partnership pursuant to paragraphs 6.2(b), (c) and (d).

14.17 Partnership Percentage. The Partnership Percentage for each Partner shall be determined by dividing the amount of such Partner's Capital Commitment by the Committed Capital of the Partnership. The sum of the Partners' Partnership Percentages shall be one hundred percent (100%).

14.18 Percentage in Interest; Majority in Interest. A specified fraction or percentage in interest of the Partners or of the Limited Partners shall mean partners or limited partners of the Partnership and the Parallel Funds whose Capital Commitments, stated as a percentage of the aggregate Capital Commitments of the Partnership and the Parallel Funds, equal or exceed the required fraction or percentage in interest of all such Partners or Limited Partners (not subject to any rounding); provided, however, that for purposes of determining the foregoing, the partnership percentage share of each limited partner of the Partnership and the Parallel Funds shall be equal to (a) its aggregate capital commitment to the Partnership and the Parallel Funds, as applicable, divided by (b) the sum of the aggregate committed capital of the Partnership and the Parallel Funds. In addition, to the extent that a particular matter is specifically applicable or unique to one (1) or more of the Partnership and the Parallel Funds and not specifically applicable or unique to one or more of the Partnership or the Parallel Funds, the capital commitments of all limited partners to the entities to whom such matter is not specifically applicable or unique shall be disregarded in such calculation but only with respect to that particular matter. A Majority in Interest shall mean more than fifty percent (50%) in interest. Any interest owned or controlled by the General Partner, an Affiliate of the General Partner or any Defaulting Limited Partner shall not be counted for purposes of any determination under this Agreement or in the operating agreement of any applicable Parallel Fund of a particular percentage in interest of the Limited Partners and the limited partners of the Parallel Fund (as applicable) including, for the avoidance of doubt, the foregoing determinations of percentages in interest.

14.19 Person. Person shall mean any individual, general partnership, limited partnership, limited liability partnership, limited liability company, corporation, unincorporated organization, joint venture, trust, business or statutory trust, cooperative or association, governmental agency, or other entity, whether

domestic or foreign, and the heirs, executors, administrators, legal representative, successors and assigns of such Person where the context so permits.

14.20 Portfolio Company. Portfolio Company shall mean any corporation or other business entity that is an issuer of Securities held by the Partnership. Any corporation or other business entity in which the Partnership holds an indirect beneficial ownership interest through a special purpose vehicle shall also be considered a Portfolio Company for purposes of this Agreement.

14.21 Prime Rate. Prime Rate shall mean the annual rate of interest published in the Wall Street Journal from time to time as the "Prime Rate" or a comparable source selected by the General Partner in its reasonable discretion.

14.22 Principals. Principals shall refer to Richard Ressler and Mark Yung, as well as each additional Person, if any, appointed by the General Partner as a manager pursuant to the terms of its then controlling operating or other definitive agreement.

14.23 Profit or Loss. Profit or Loss shall be an amount computed for each Accounting Period as of the last day thereof that is equal to the Partnership's taxable income or loss for such Accounting Period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(a) Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profit or Loss pursuant to this paragraph shall be added to such taxable income or loss;

(b) Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(i) and not otherwise taken into account in computing Profit or Loss pursuant to this paragraph shall be subtracted from such taxable income or loss;

(c) Gain or loss resulting from any disposition of a Partnership asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Adjusted Asset Value of the asset disposed of rather than its adjusted tax basis;

(d) The difference between the gross fair market value of all Partnership assets and their respective Adjusted Asset Values shall be added to such taxable income or loss in the circumstances described in paragraph 14.2;

(e) Items which are specially allocated pursuant to paragraphs 3.2(c), 4.4(b)(v), 5.1(c), 5.1(d), 5.1(e), 5.3 and 5.4 shall not be taken into account in computing Profit or Loss; and

(f) The amount of any Deemed Gain or Deemed Loss on any Securities distributed in kind shall be added to or subtracted from (as the case may be) such taxable income or loss to the extent not taken into account under paragraph 14.23(d).

14.24 Securities. Securities shall mean securities of every kind and nature and rights and options with respect thereto, including stock, notes, bonds, debentures, options, evidences of indebtedness and other business interests of every type, including partnerships, joint ventures, proprietorships and other business entities.

14.25 Securities Act. Securities Act shall mean the U.S. Securities Act of 1933, as amended.

14.26 Subscription Agreement. With respect to each Limited Partner, the Subscription Agreement and Investor Questionnaire among such Limited Partner, the Partnership and the General Partner effecting the purchase and sale of such Limited Partner's interest in the Partnership.

14.27 Treasury Regulations. Treasury Regulations shall mean the Income Tax Regulations promulgated by the United States Department of Treasury under the Code, as such Regulations may be amended from time to time (including corresponding provisions of succeeding Regulations).

ARTICLE 15

OTHER PROVISIONS

15.1 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as such law would be applied to agreements among the residents of such state made and to be performed entirely within such state.

15.2 Limitation of Liability of the Limited Partners. Except as required by law, no Limited Partner shall be personally liable for the expenses, liabilities or obligations of the Partnership. Notwithstanding the foregoing, each Limited Partner shall be required to pay to the Partnership, at such times and subject to the conditions set forth herein, all amounts that such Limited Partner has agreed to pay in respect of its Capital Commitment and to deliver such other amounts it is obligated to pay over to the Partnership pursuant to this Agreement.

15.3 Exculpation. Neither the General Partner, the Management Company, the tax matters partner or Partnership Representative, the members of the Advisory Committee, and their respective officers, employees, principals, managers, members, agents and affiliates (collectively, the "Covered Persons") shall be liable, responsible or accountable in damages or otherwise to any Partner or the Partnership for honest mistakes of judgment, or for action or inaction, taken in good faith and in the reasonable belief that such action or inaction was in, or not opposed to, the best interest of the Partnership, or for losses due to such mistakes, action, or inaction, or to the negligence, dishonesty, or bad faith of any employee, broker, or other agent of the Partnership, provided that such employee, broker, or agent was selected and monitored with reasonable care. To the fullest extent permitted by law, no Covered Person shall be liable to the Partnership or any Partner with respect to any action or omission taken or suffered by any of them in good faith if such action or omission is taken or suffered in reliance upon and in accordance with the opinion or advice of legal counsel (as to matters of law), or of accountants (as to matters of accounting), or of investment bankers, accounting firms, or other appraisers (as to matters of valuation), provided that any such professional or firm is selected and monitored with reasonable care. Notwithstanding any of the foregoing to the contrary, the provisions of this paragraph 15.3 and the immediately following paragraph shall not be construed so as to relieve (or attempt to relieve) any Covered Person of any liability by reason of such Covered Person's commission of gross negligence, willful misconduct, recklessness or willful and material breach of the Agreement that results in a material adverse effect to the Limited Partners; provided that members of the Advisory Committee, the Limited Partners of which such Persons are representatives, and any liquidator other than the General Partner shall be entitled to the benefit of exculpation under this paragraph 15.3 so long as such Person acted in good faith. Notwithstanding any other provision of this Agreement, to the extent that, at law or in equity, a Partner has duties (including

fiduciary duties) and liabilities relating thereto to the Partnership, any Partner or any other Person bound by this Agreement, such Partner acting under this Agreement shall not be liable to the Partnership, any Partner or any other Person bound by this Agreement for breach of fiduciary duty for its good faith reliance on the provisions of this Agreement, and the provisions of this Agreement, to the extent that they restrict or eliminate the duties (including fiduciary duties) and liabilities (by specifying a duty of care or otherwise) of any Covered Person to the Partnership or any Partner otherwise existing at law or in equity or otherwise, are agreed by the Partners to replace such duties and liabilities of such Covered Person.

15.4 Indemnification.

(a) The Partnership agrees to indemnify, out of the assets of the Partnership only (including the proceeds of liability insurance and any amounts that the Partners may be required to contribute pursuant to paragraph 4.2), the General Partner, the Management Company, the tax matters partner, the Partnership Representative, the members of the Advisory Committee, and unless otherwise determined by the General Partner, their respective officers, employees, principals, managers, members, agents and Affiliates (the "Indemnified Parties") to the fullest extent permitted by law and to save and hold them harmless from and in respect of all (i) fees, costs, and expenses, including reasonable legal fees, paid in connection with or resulting from any claim, action, suit, controversy, dispute, judgment, demand or proceeding against the Indemnified Parties that arise out of or in any way relate to the Partnership, its properties, business, or affairs, or any other enterprise for which such Indemnified Party is or was serving, as a director, officer, employee or otherwise, at the request of the Partnership and (ii) such claims, actions, suits, controversies, disputes, judgments, demands and proceedings and any losses, damages or liabilities resulting from such claims, actions, suits, controversies, disputes, judgments, demands, and proceedings, including amounts paid in settlement or compromise of any such claim, action, suit, controversy, dispute, judgment, demand and proceeding; provided, that such Indemnified Party acted in good faith and in the reasonable belief that such Indemnified Party's action or inaction was in, or not opposed to, the best interest of the Partnership; and provided further, that this indemnity shall not extend (except in the case of members of the Advisory Committee or their constituent Limited Partners, who need only have acted in good faith in order to receive the benefit of indemnification under this paragraph 15.4) to any conduct which constitutes gross negligence, willful misconduct, recklessness or willful and material breach of the Agreement that results in a material adverse effect to the Limited Partners. Notwithstanding any of the foregoing, in no event shall the Partnership indemnify or advance fees and expenses for any "Internal Disputes". For purposes of this paragraph 15.4, "Internal Dispute" shall refer to claims, actions and demands in which: (x) the General Partner or any of its Affiliates (including for this purpose, the General Partner's members and managers) are pursuing a claim, action or demand solely against the General Partner or any of its Affiliates (including for this purpose the General Partner's members and managers); and (y) neither the Partnership, nor any Parallel Fund, is a plaintiff or defendant in such claim, action or demand (or will, or could reasonably be expected to, receive any monetary benefit from the outcome of such proceeding).

(b) At the election of the General Partner, expenses incurred by any Indemnified Party in defending a claim or proceeding covered by this paragraph 15.4 may, to the fullest extent permitted by law, be paid by the Partnership in advance of the final disposition of such claim or proceeding, provided the Indemnified Party undertakes in writing to repay such amount to the extent it is ultimately determined that such Indemnified Party was not entitled to be indemnified.

(c) At its election, the General Partner may cause the Partnership to purchase and maintain insurance, at the expense of the Partnership and to the extent available, for the protection of any Indemnified Party or potential Indemnified Party against any liability incurred in any capacity which results in such Person being an Indemnified Party (provided that such Person is serving in such capacity at the request of the Partnership or the General Partner), whether or not the Partnership has the power to indemnify such Person against such liability. The General Partner may purchase and maintain insurance on behalf of and at the expense of the Partnership for the protection of any officer, director, manager, employee or other agent of any other organization in which the Partnership directly or indirectly owns an interest or of which the Partnership is a creditor against similar liabilities, whether or not the Partnership has the power to indemnify any Person against such liabilities.

(d) The provisions of this paragraph 15.4 shall remain in effect as to each Indemnified Party whether or not such Indemnified Party continues to serve in the capacity that entitled such Person to be indemnified. The foregoing right of indemnification shall inure to the benefit of the executors, administrators, personal representatives, successors or assigns of each such Indemnified Party.

(e) The rights to indemnification and advancement of expenses conferred in this paragraph 15.4 shall not be exclusive and shall be in addition to any rights to which any Indemnified Party may otherwise be entitled or hereafter acquire under any law, statute, rule, regulation, charter document, by-law, contract or agreement.

(f) The General Partner may make, execute, record and file on its own behalf and on behalf of the Partnership all instruments and other documents (including one or more separate indemnification agreements between the Partnership and individual Indemnified Parties or Covered Persons) that the General Partner deems necessary or appropriate in order to extend the benefit of the provisions of this paragraph 15.4 to the Indemnified Parties and Covered Persons; provided that, such other instruments and documents authorized hereunder shall be on the same terms as provided for in this paragraph 15.4 except as otherwise may be required by applicable law.

(g) The Partners intend that, to the maximum extent provided by law, as between (1) Portfolio Companies, (2) the Partnership, and (3) the General Partner or the Management Company (or an Affiliate thereof), this paragraph 15.4(g) shall be interpreted to reflect an ordering of liability for potentially overlapping or duplicative indemnification payments as follows: first, any applicable Portfolio Company shall have primary liability; second, the Partnership and any Successor Fund (if applicable) shall have secondary liability; and third, the General Partner, the Management Company and/or its Affiliates shall be liable only after exhausting all available indemnification and/or insurance resources of the applicable Portfolio Company and the Partnership. The possibility that an Indemnified Party may receive indemnification payments from a Portfolio Company shall not restrict the Partnership from making payments under this paragraph 15.4(g) to an Indemnified Party that is otherwise eligible for such payments, but such payments by the Partnership are not intended to relieve any Portfolio Company from liability that it would otherwise have to make indemnification payments to such Indemnified Party. If an Indemnified Party that has received indemnification payments from the Partnership actually receives indemnification payments from a Portfolio Company or under any insurance policy for the same damages, such Indemnified Party shall repay the Partnership as soon as practicable to the extent of such duplicative payments. Indemnification payments (if any) made to an Indemnified Party by the General Partner or the Management Company (or an Affiliate thereof) in respect of damages for which (and to the extent) such Indemnified Party is otherwise eligible for payments from the Partnership under this

paragraph 15.4 and/or any Successor Fund under the limited partnership agreement or other governing agreement of such Successor Fund shall not relieve the Partnership and/or any Successor Fund from its obligation to such Indemnified Party and/or the General Partner or the Management Company (or any Affiliate thereof), as applicable, for such payments (and the General Partner and the Management Company shall not be required to provide any indemnification payments until the Partnership's or any Successor Fund's obligation to provide such benefits has been exhausted). To the extent that the Partnership is required to provide such indemnification payments pursuant to the terms of this Agreement, it hereby waives and releases the General Partner and the Management Company and their respective Affiliates (other than the Partnership and any Successor Funds), from any claims for contribution, subrogation or any other recovery of any kind in respect of indemnification payments paid by the Partnership. As used in this paragraph 15.4, "indemnification payments" made or to be made by a Portfolio Company shall be deemed to include (i) advancement of expenses with regard to indemnification obligations, (ii) payments made or to be made by any successor to the indemnification obligations of such Portfolio Company and (iii) payments made or to be made by or on behalf of such Portfolio Company (or such successor) pursuant to an insurance policy or similar arrangement.

15.5 Arbitration.

(a) Except as otherwise agreed to in writing by the General Partner, any claim, dispute, or controversy of whatever nature arising out of or relating to this Agreement, including, without limitation, any action or claim based on tort, contract, or statute (including any claims of breach), or concerning the interpretation, effect, termination, validity, performance and/or breach of this Agreement ("Claim"), shall be resolved by final and binding arbitration ("Arbitration") before three arbitrators ("Arbitrator") selected from and administered by JAMS, Inc. (the "Administrator") in accordance with its then existing arbitration rules or procedures regarding commercial or business disputes. The arbitration shall be held in Los Angeles, California.

(b) Depositions may be taken and full discovery may be obtained in any arbitration commenced under this provision.

(c) The Arbitrator shall, within fifteen (15) calendar days after the conclusion of the Arbitration hearing, issue a written award and statement of decision describing the essential findings and conclusions on which the award is based, including the calculation of any damages awarded. The Arbitrator shall be authorized to award compensatory damages, but shall not be authorized (i) to award non-economic damages, such as for emotional distress, pain and suffering or loss of consortium, (ii) to award punitive damages, or (iii) to reform, modify or materially change this Agreement or any other agreements contemplated hereunder; provided, however, that the damage limitations described in parts (i) and (ii) of this sentence will not apply if such damages are statutorily imposed. The Arbitrator also shall be authorized to grant any temporary, preliminary or permanent equitable remedy or relief he deems just and equitable and within the scope of this Agreement, including, without limitation, an injunction or order for specific performance.

(d) Each party shall bear its own attorney's fees, costs, and disbursements arising out of the arbitration, and shall pay an equal share of the fees and costs of the Administrator and the Arbitrator; provided, however, that the Arbitrator shall be authorized to determine whether a party is substantially the prevailing party, and if so, to award to that substantially prevailing party reimbursement for its reasonable attorneys' fees, costs and disbursements (including, for example, expert witness fees and expenses,

photocopy charges, travel expenses, etc.), and/or the fees and costs of the Administrator and the Arbitrator. Absent the filing of an application to correct or vacate the arbitration award under Title 10 of the Delaware Code sections 5713 through 5717, each party shall fully perform and satisfy the arbitration award within fifteen (15) days of the service of the award.

(e) BY AGREEING TO THIS BINDING ARBITRATION PROVISION, THE PARTIES UNDERSTAND THAT, EXCEPT AS OTHERWISE AGREED TO IN WRITING BY THE GENERAL PARTNER, THEY ARE WAIVING CERTAIN RIGHTS AND PROTECTIONS WHICH MAY OTHERWISE BE AVAILABLE IF A CLAIM BETWEEN THE PARTIES WERE DETERMINED BY LITIGATION IN COURT, INCLUDING, WITHOUT LIMITATION, THE RIGHT TO SEEK OR OBTAIN CERTAIN TYPES OF DAMAGES PRECLUDED BY THIS PARAGRAPH 15.5, THE RIGHT TO A JURY TRIAL, CERTAIN RIGHTS OF APPEAL, AND A RIGHT TO INVOKE FORMAL RULES OF PROCEDURE AND EVIDENCE.

(f) This paragraph 15.5 shall be construed to the maximum extent possible to comply with the laws of the State of Delaware, including, to the extent applicable, the Uniform Arbitration Act (10 Del. C. § 5701 et seq.) (the "Delaware Arbitration Act"). If, nevertheless, it shall be determined by a court of competent jurisdiction that any provision or wording of this paragraph 15.5 shall be invalid or unenforceable under the Delaware Arbitration Act, to the extent applicable, or other applicable law, such invalidity shall not invalidate all of this paragraph 15.5. In that case, this paragraph 15.5 shall be construed so as to limit any term or provision so as to make it valid or enforceable within the requirements of the Delaware Arbitration Act or other applicable law, and, in the event such term or provision cannot be so limited, this paragraph 15.5 shall be construed to omit such invalid or unenforceable provision.

15.6 Execution and Filing of Documents. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile, DocuSign or by electronic mail in portable document format (PDF) will be effective as delivery of a manually executed signature page of this Agreement.

15.7 Other Instruments and Acts. The Partners shall use commercially reasonable efforts to execute any other instruments or perform any other acts that are or may be reasonably necessary to effectuate and carry on the limited partnership created by this Agreement.

15.8 Binding Agreement. This Agreement shall be binding upon the transferees, successors, assigns, and legal representatives of the Partners.

15.9 Notices; Electronic Transmission of Reports. Any notice or other communication that one Partner desires to give to another Partner shall be in writing, and shall be deemed effectively given: (a) upon Personal delivery to the Partner to be notified, (b) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) three (3) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be addressed to the other Partner at the address shown in the books and records of the Partnership or at such other address as a Partner may designate by ten (10) days' advance written notice to the other Partners. In addition to the provisions in paragraph

11.7, the General Partner shall be entitled to transmit to Limited Partners by email the reports required by paragraphs 11.3, 11.4 and 11.5.

15.10 Power of Attorney. By signing this Agreement, each Limited Partner designates and appoints the General Partner its true and lawful representative and attorney-in-fact, in its name, place, and stead to make, execute, sign, acknowledge, deliver or file the Certificate of Limited Partnership and any amendment thereto and such other instruments, documents, or certificates that may from time to time be required of the Partnership by the laws of the United States of America, the laws of the state of the Partnership's formation, or any other state in which the Partnership shall conduct its affairs in order to qualify or otherwise enable the Partnership to conduct its affairs in such jurisdictions. Such attorney is not hereby granted any authority on behalf of the Limited Partners to amend this Agreement except that as attorney for each of the Limited Partners, the General Partner shall have the authority to amend this Agreement and the Certificate of Limited Partnership (and to execute any amendment to the Agreement or the Certificate of Limited Partnership on behalf of itself and as attorney-in-fact for each of the Limited Partners) as may be required to effect:

(a) Admission of additional Partners pursuant to Article 3;

(b) Additional capital commitments pursuant to Article 4;

(c) Transfers of Limited Partner interests pursuant to Article 9; and

(d) Any other amendments of this Agreement adopted in accordance with paragraph 15.11 or the Certificate of Limited Partnership of the Partnership contemplated by this Agreement including, without limitation, amendments reflecting any action of the Partners duly taken pursuant to this Agreement whether or not such Partner voted in favor of or otherwise approved such action.

The foregoing grant of authority (i) is a special power of attorney coupled with an interest in favor of the General Partner and as such shall be irrevocable and shall survive the death or disability of a Partner that is a natural Person or the merger, dissolution or other termination of the existence of a Partner that is a corporation, association, partnership, limited liability company or trust, and (ii) shall survive the assignment by the Partner of the whole or any portion of its interest, except that where the assignee of the whole thereof has furnished a power of attorney, this power of attorney shall survive such assignment for the sole purpose of enabling the General Partner to execute, acknowledge and file any instrument necessary to effect any permitted substitution of the assignee for the assignor as a Partner and shall thereafter terminate. Notwithstanding the foregoing, this power of attorney and the power of attorney granted in paragraphs 4.4(c) and 8.3(c)(ii) granted by each Limited Partner shall expire as to such Partner immediately after the dissolution of the Partnership or the amendment of the Partnership's books and records to reflect the complete withdrawal of such Partner as a Partner of the Partnership. The execution of this power of attorney is not intended to, and does not, revoke any prior powers of attorney executed by each such Limited Partner. This power of attorney is not intended to, and shall not, be revoked by any subsequent power of attorney each such Limited Partner may execute. This power of attorney shall be governed by and construed in accordance with the internal laws of the State of Delaware.

15.11 Amendment.

(a) Except as provided by clauses (a) – (c) of paragraph 15.10 and subject to paragraph 15.11(b), this Agreement may be amended only with the written consent of the General Partner and a Majority in Interest of the Limited Partners. Notwithstanding the foregoing, the General Partner may amend this

Agreement without the consent of any of the other Partners to reflect changes validly made in the membership of the Partnership and the capital contributions of the Partners.

(b) Notwithstanding paragraph 15.11(a), (i) no amendment to the provisions of Article 13 may be made without the consent of each ERISA Partner, Governmental Plan Partner, Private Foundation Partner or BHC Partner who may be adversely affected by such amendment and (ii) no amendment may modify any provision regarding the limited liability of the Limited Partners without the consent of all of the Partners.

(c) Notwithstanding paragraphs 15.11(a) and (b), no amendment of this Agreement may (i) modify any provision requiring the consent of more than a Majority in Interest of the Limited Partners without the consent of such higher Percentage in Interest, (ii) increase any Partner's Capital Commitment or any Partner's obligations or liabilities under this Agreement, unless such Partner has expressly consented in writing to such amendment, (iii) (1) modify the method of making Partnership allocations or distributions, modify the method of determining the Partnership Percentage of any Partner, reduce any Partner's Capital Account, modify any provision of this Agreement pertaining to limitations on liability of the Limited Partners, or (2) change the restrictions contained in this paragraph 15.11(c), unless each Partner materially adversely affected thereby in a manner materially different than the other Partners has expressly consented in writing to such amendment, or (iv) modify the number of Advisory Committee members pursuant to paragraph 12.2 without the consent of the Advisory Committee.

(d) The Partnership's or General Partner's (or its managers', members' or employees') noncompliance with any provision hereof in any single transaction or event may be waived prospectively or retroactively in writing by the same Percentage in Interest of the Limited Partners that would be required to amend such provision pursuant to paragraphs 15.11(a), (b) or (c). No waiver shall be deemed a waiver of any subsequent event of noncompliance except to the extent expressly provided in such waiver.

15.12 Entire Agreement. This Agreement constitutes the full, complete and final agreement of the Partners and supersedes all prior agreements between the Partners with respect to the Partnership. Notwithstanding the provisions of this Agreement, including paragraph 15.11, or of any Subscription Agreement, it is hereby acknowledged and agreed that the General Partner on its own behalf or on behalf of the Partnership, without the approval of any Limited Partner or any other Person, may enter into a side letter or similar agreement to or with a Limited Partner that has the effect of establishing rights under, or altering or supplementing the terms of, this Agreement or of any Subscription Agreement. The parties hereto agree that any terms contained in a side letter or similar agreement to or with a Limited Partner shall govern with respect to such Limited Partner notwithstanding the provisions of this Agreement or of any Subscription Agreement.

15.13 Titles; Subtitles. The titles and subtitles used in this Agreement are used for convenience only and shall not be considered in the interpretation of this Agreement.

15.14 Partnership Name. The Limited Partners acknowledge that the Partnership is using the name pursuant to a limited grant of the right to use the name from the Management Company, which right may be terminated during the term of the Partnership, that the name of the Partnership may be changed without the consent of the Limited Partners and that the Limited Partners have no rights to, or interest in, the name of the Partnership, any intellectual property associated therewith or any goodwill derived therefrom. No

value shall be placed upon the name or the goodwill attached to it for the purpose of determining the value of any Partner's Capital Account or interest in the Partnership.

15.15 Confidentiality.

(a) This Agreement, the offering documents of the Partnership, any Subscription Agreement, and all financial statements, tax reports, portfolio valuations, reviews or analyses of potential or actual investments, reports or other materials and all other documents and information concerning the affairs of the Partnership and its investments, including, without limitation, information about the Portfolio Companies (collectively, the "Confidential Information"), that any Limited Partner may receive or that may be disclosed, distributed or disseminated (whether in writing, orally, electronically or by other means) to any Limited Partner or its representatives, including Confidential Information disclosed to members of the Advisory Committee, pursuant to or in accordance with this Agreement, or otherwise as a result of its ownership of an interest in the Partnership, constitute proprietary and confidential information about the Partnership, the General Partner, their respective Affiliates and the Portfolio Companies (the "Affected Parties"). Each Limited Partner acknowledges and agrees that the Affected Parties derive independent economic value from the Confidential Information not being generally known and that the Confidential Information is the subject of reasonable efforts to maintain its secrecy. Each Limited Partner further acknowledges and agrees that the Confidential Information is a trade secret, the disclosure of which is likely to cause substantial and irreparable competitive harm to the Affected Parties or their respective businesses.

(b) Each Limited Partner agrees to hold all Confidential Information in confidence, and not to disclose any Confidential Information to any third party without the prior written consent of the General Partner. Notwithstanding the preceding sentence, each Limited Partner may disclose such Confidential Information: (i) to its officers, directors, trustees, equity owners, wholly-owned subsidiaries, Affiliates, employees and outside experts (including but not limited to its attorneys, accountants, investment advisers, auditors and representatives) on a "need to know" basis, so long as such Persons are bound by similar duties of confidentiality to the Partnership as such Limited Partner, and so long as such Limited Partner shall remain liable for any breach of this paragraph 15.15 by such Persons; (ii) to the extent that such information is required to be disclosed by applicable law in connection with any governmental, administrative or regulatory proceeding or filing (including any inspection or examination or any disclosure necessary in connection with a request for information made under a state or federal freedom of information act or similar law), after reasonable prior written notice to the General Partner (except where such notice is expressly prohibited by law); (iii) to the extent that the information provided by the Partnership is otherwise available in the public domain in the absence of any improper or unlawful action on the part of such Partner; or (iv) to other Limited Partners. Any Limited Partner seeking to make disclosure in reliance on the foregoing clause (ii) above, such Limited Partner shall use its commercially reasonable efforts to claim any relevant exception under such laws or obligations which would prevent or limit public disclosure of the Confidential Information and provide the General Partner immediate notice upon the Limited Partner's receipt of a request for disclosure of any Confidential Information pursuant to such laws or obligations.

(c) Each Limited Partner also agrees that any document constituting or containing, or any other embodiment of, any Confidential Information shall be returned to the Partnership upon the General Partner's request. Notwithstanding any provision of this Agreement to the contrary, the General Partner may withhold disclosure of any Confidential Information (other than this Agreement or tax reports) to any

particular Limited Partner if the General Partner reasonably determines that the disclosure of such Confidential Information to such Limited Partner may result in the general public gaining access to such Confidential Information or that such disclosure is not in the best interests of the Partnership or its investments; provided, however, that to the extent that any information is not delivered to a Limited Partner based on the General Partner's exercise of its discretion under this sentence, such information shall be made available for review, but not copying, during regular business hours at a location mutually determined by the General Partner and such Limited Partner. In no event shall a Limited Partner be denied access to information deliverable pursuant to paragraph 11.5 of this Agreement. The Limited Partners acknowledge and agree that: (1) the Partnership, the General Partner and their respective Affiliates may acquire confidential information related to third parties (e.g., Portfolio Companies) that pursuant to fiduciary, contractual, legal or similar obligations may not be disclosed to the Limited Partners without violating such obligations; and (2) neither the Partnership, the General Partner nor their respective Affiliates shall be in breach of any duty under this Agreement or the Act in consequence of acquiring, holding or failing to disclose Confidential Information to a Limited Partner so long as such obligations were undertaken in good faith.

(d) In addition, with respect to each Limited Partner that is subject to any "freedom of information," "sunshine" or other law, rule or regulation that imposes upon such Limited Partner an obligation to make information available to the public (a "FOIA Limited Partner"), the Partnership hereby requests confidential treatment of the Confidential Information, and such Limited Partner shall use commercially reasonable efforts to take such action as necessary for such Confidential Information to be exempt from disclosure, to the maximum extent permitted under such law, rule or regulation. Notwithstanding anything contained in this paragraph 15.15 to the contrary, each FOIA Limited Partner may publicly disclose the following: (i) the FOIA Limited Partner's status as a Limited Partner of the Partnership, (ii) the amount of such FOIA Limited Partner's Capital Commitment, (iii) the total amount of such FOIA Limited Partner's Capital Commitment that has been drawn down pursuant to capital calls, (iv) the total amount of distributions received by the FOIA Limited Partner from the Partnership, and (v) the FOIA Limited Partner's net internal rate of return with respect to the Partnership's performance as prepared by such FOIA Limited Partner; provided that any disclosure of the FOIA Limited Partner's net internal rate of return shall state expressly or be accompanied by a statement that such information has been prepared by the FOIA Limited Partner and not the Partnership, the General Partner or any Affiliate thereof (collectively, the "Fund Level Information"). Only with respect to FOIA Limited Partners, for purposes of this paragraph 15.15, Confidential Information shall be deemed not to include Fund Level Information.

(e) In addition, with respect to each Limited Partner that is a "fund of funds" or a similar pooled investment vehicle (but specifically excluding any pension, retirement or similar benefit plan) (a "Pooled Vehicle Partner"), the Pooled Vehicle Partner shall be permitted to make disclosure to its direct equity owners (expressly excluding permission to make disclosure to any indirect or other beneficial owners) that are subject to a written confidentiality agreement or obligation that provides a degree of protection to the Partnership comparable to that provided in this paragraph 15.15 of solely the following Confidential Information: (i) the Pooled Vehicle Partner's status as a Limited Partner of the Partnership, (ii) the amount of such Pooled Vehicle Partner's Capital Commitment, (iii) the total amount of such Pooled Vehicle Partner's Capital Commitment that has been drawn down pursuant to capital calls, (iv) the total amount of distributions received by the Pooled Vehicle Partner from the Partnership, (v) the Pooled Vehicle Partner's net internal rate of return with respect to the Partnership's performance as prepared by such Pooled Vehicle Partner; provided that any disclosure of the Pooled Vehicle Partner's net internal rate

of return shall state expressly or be accompanied by a statement that such information has been prepared by the Pooled Vehicle Partner and not the Partnership, the General Partner or any Affiliate thereof, (vi) the net asset value of the Pooled Vehicle Partner's interest in the Partnership (both cost and market value), (vii) such ratios and performance information calculated by the Pooled Vehicle Partner using the information in clauses (ii) through (vi) above, including the ratio of net asset value plus distributions to contributions (i.e., the "multiple"); provided that any disclosure of such ratios and performance information shall state expressly or be accompanied by a statement that such information has been prepared by the Pooled Vehicle Partner and not the Partnership, the General Partner or any Affiliate thereof, (viii) quarterly and annual reports summarizing the status of the Pooled Vehicle Partner's investment in the Partnership (without disclosure of any information concerning a Portfolio Company, other than the name of such Portfolio Company, a description of the business of such Portfolio Company and information regarding the industry and geographic location of such Portfolio Company, the Partnership's cost basis in each such Portfolio Company, the Partnership's carry value of each investment in such Portfolio Company and, upon liquidity of any such Portfolio Company, the Partnership's rate of return related to such investment (the "Portfolio Confidential Information")), (ix) the name and address of the Partnership, the General Partner and the Principals, and (x) a description of the Partnership's investment focus; provided, however, that no Pooled Vehicle Partner may provide Portfolio Confidential Information to an equity owner of such Pooled Vehicle Partner that would be a FOIA Limited Partner of the Partnership if such equity owner of the Pooled Vehicle Partner were a Limited Partner of the Partnership; other than the Fund Level Information that the Pooled Vehicle Partner would be able to disclose if it were a FOIA Limited Partner, if the General Partner reasonably determines that the disclosure of such information may result in the general public gaining access to such information or that such disclosure is not in the best interests of the Partnership or its investments; provided, further, that to the extent that any information is not delivered to such equity owner based on the General Partner's exercise of discretion under this sentence, the Limited Partner may make such information available for review, but not copying, by such equity owner.

(f) Each Limited Partner agrees to notify such Limited Partner's attorneys, accountants and other similar advisers about their obligations in connection with this paragraph 15.15 and will further cause such advisers to abide by the aforesaid provisions of this paragraph 15.15. Notwithstanding the foregoing, no Limited Partner shall be liable to the Partnership for any breach of this paragraph 15.15 by any adviser of such Limited Partner if the adviser is bound by an obligation to keep such Confidential Information confidential and such Limited Partner agrees to enforce such obligation.

15.16 Liability for Third Party Reports. In no event shall the Partnership or the General Partner, or any of their respective Affiliates, have any liability to any Partner with respect to any information disseminated to any such Partner, where such information originated from any third party, including without limitation, any entity in which the Partnership has made an investment.

15.17 Anti-Money Laundering. Notwithstanding any other provision of this Agreement, the General Partner, in its own name and on behalf of the Partnership, shall be authorized without the consent of any Person, including any other Partner, to take such action as it determines in its sole discretion to be necessary or advisable to comply with any anti-money laundering or anti-terrorist laws, rules, regulations, directives or special measures, including the actions contemplated in any Subscription Agreement related to the Partnership.

15.18 Partnership Legal Matters. Each Partner hereby agrees and acknowledges that:

(a) Cooley LLP ("Cooley") has been retained as legal counsel by the General Partner in connection with the formation of the Partnership and the offering of Limited Partner interests and in such capacity has provided legal services to the General Partner and the Partnership. The General Partner expects to retain Cooley to provide legal services to the General Partner and the Partnership in connection with the management and operation of the Partnership.

(b) Cooley is not and will not represent the Limited Partners in connection with the formation of the Partnership, the offering of limited partner interests, the management and operation of the Partnership, or any dispute that may arise between the Limited Partners on the one hand and the General Partner and the Partnership on the other (the "Partnership Legal Matters").

(c) Each Limited Partner will, if it wishes counsel on a Partnership Legal Matter, retain its own independent counsel with respect thereto and, except as otherwise specifically provided by this Agreement, will pay all fees and expenses of such independent counsel.

[THE BALANCE OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Partners have executed this Agreement as of the date first written above.

GENERAL PARTNER: **LIMITED PARTNER**:

OCV I GP, LLC **j2 Global, Inc.** _____

(Print name of investing entity)

By: /s/ Mark Yung_____ By: /s/ Scott Turicchi_____

Principal (signature)

Name: Scott Turicchi_____

(print name)

Title: President and Chief Financial Officer

THE SECURITIES EVIDENCED BY THIS PARTNERSHIP AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT COVERING SUCH SECURITIES OR THE GENERAL PARTNER RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE GENERAL PARTNER, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF THE 1933 ACT.

EXHIBIT 21.1

List of Subsidiaries of
j2 Global, Inc.

j2 Global, Inc.'s principal affiliates as of December 31, 2017, are listed below. All other affiliates, if considered in the aggregate as a single affiliate, would not constitute a significant subsidiary.

Name	State or Other Jurisdiction of Incorporation
j2 Australia Cloud Connect Pty Ltd	Australia
j2 Global Australia Pty Ltd	Australia
j2 Global Canada, Inc.	Canada
Ziff Davis Canada, Inc.	Canada
j2 Global Denmark A/S	Denmark
Electric Mail (Ireland) Limited	Ireland
j2 Global Holdings Limited	Ireland
j2 Global Ireland Limited	Ireland
Ziff Davis Holdings Limited	Ireland
j2 Global (Netherlands) B.V.	Netherlands
NCSG Holding AB	Sweden
Stay Secure Sweden AB	Sweden
FuseMail UK Limited	United Kingdom
j2 Global UK Limited	United Kingdom
Livedrive Internet Limited	United Kingdom
Everyday Health, Inc.	Delaware, United States
Everyday Health Media, LLC	Delaware, United States
Humble Bundle, Inc.	Delaware, United States
IGN Entertainment, Inc.	Delaware, United States
j2 Cloud Services, LLC	Delaware, United States
j2 Web Services, Inc.	Delaware, United States
KeepItSafe, Inc.	Delaware, United States
Mashable, Inc.	Delaware, United States
Offers.com, LLC	Delaware, United States
OnTargetJobs, Inc.	Delaware, United States
SaleBuild, Inc.	Delaware, United States
Ziff Davis, LLC	Delaware, United States
Excel Micro, LLC	Pennsylvania, United States
Ookla, LLC	Washington, United States

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

j2 Global, Inc.
Los Angeles, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-149641, 333-64986, 333-135340, 333-87504, 333-55402, 333-31064 and 333-203913) of j2 Global, Inc. of our reports dated March 1, 2018, relating to the consolidated financial statements and financial statement schedule, and the effectiveness of j2 Global, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP
BDO USA, LLP

Los Angeles, California
March 1, 2018

EXHIBIT 31.1

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 Annual Report on Form 10-K 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
(Principal Executive Officer)

Dated: March 1, 2018

EXHIBIT 31.2

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 Annual Report on Form 10-K of j2 Global, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ R. SCOTT TURICCHI
R. Scott Turicchi
Chief Financial Officer
(Principal Financial Officer)

Dated: March 1, 2018

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of j2 Global, Inc. (the "Company") for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Vivek Shah, as Chief Executive Officer (Principal Executive Officer) of the Company, and R. Scott Turicchi, as Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, respectively, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities 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 the Company.

Dated: March 1, 2018

By: /s/ VIVEK SHAH
Vivek Shah
Chief Executive Officer
(Principal Executive Officer)

Dated: March 1, 2018

By: /s/ R. SCOTT TURICCHI
R. Scott Turicchi
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.