

J2 GLOBAL COMMUNICATIONS INC

Form 10-Q

March 12, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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

Delaware
(State or other jurisdiction
of incorporation or organization)

51-0371142
(I.R.S. Employer
Identification No.)

6922 Hollywood Boulevard, Suite 500
Los Angeles, California 90028
(Address of principal executive offices)

(323) 860-9200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated

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filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

As of February 28, 2007, the registrant had 48,969,601 shares of Common Stock outstanding.

j2 GLOBAL COMMUNICATIONS, INC.

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	September 30, 2006	December 31, 2005 (As restated, see Note 2)
ASSETS		
Cash and cash equivalents	\$ 73,443	\$ 36,301
Short-term investments	83,003	76,525
Accounts receivable, net of allowances of \$831 and \$627, respectively	11,217	10,211
Prepaid expenses and other current assets	5,445	3,350
Deferred income taxes	1,091	1,091
Total current assets	174,199	127,478
Long-term investments	14,514	31,673
Property and equipment, net	18,614	17,248
Goodwill	30,510	19,942
Other purchased intangibles, net	20,806	20,299
Deferred income taxes	6,212	4,997
Other assets	501	307
Total assets	\$ 265,356	\$ 221,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 13,741	\$ 8,782
Income taxes payable	—	2,964
Deferred revenue	10,578	7,201
Current portion of long-term debt	287	593
Total current liabilities	24,606	19,540
Long-term debt	—	149
Other	92	—
Total liabilities	24,698	19,689
Commitments and contingencies		
Total stockholders' equity	240,658	202,255
Total liabilities and stockholders' equity	\$ 265,356	\$ 221,944

See accompanying notes to condensed consolidated financial statements

j2 Global Communications, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
		(As restated, see Note 2)		(As restated, see Note 2)
Revenues:				
Subscriber	\$ 44,491	\$ 36,487	\$ 127,724	\$ 101,842
Other	1,400	1,202	4,451	2,956
	45,891	37,689	132,175	104,798
Cost of revenues (including stock-based compensation of \$97 and \$303 for the three and nine months of 2006, respectively, and \$10 and \$17 for the three and nine months of 2005, respectively)	9,648	8,120	27,947	21,592
Gross profit	36,243	29,569	104,228	83,206
Operating expenses:				
Sales and marketing (including stock-based compensation of \$266 and \$807 for the three and nine months of 2006, respectively, and \$15 and \$24 for the three and nine months of 2005, respectively)	8,141	5,783	22,498	16,801
Research, development and engineering (including stock-based compensation of \$149 and \$413 for the three and nine months of 2006, respectively, and \$2 and \$10 for the three and nine months of 2005, respectively)	2,129	1,797	5,965	5,263
General and administrative (including stock-based compensation of \$995 and \$3,073 for the three and nine months of 2006, respectively, and \$158 and \$321 for the three and nine months of 2005, respectively)	10,204	5,919	26,454	16,813
Total operating expenses	20,474	13,499	54,917	38,877
Operating earnings	15,769	16,070	49,311	44,329
Gain on sale of investment	—	9,347	—	9,347
Interest and other income, net	1,586	861	3,922	2,192
Earnings before income taxes	17,355	26,278	53,233	55,868
Income tax expense	4,565	8,245	14,933	16,216
Net earnings	\$ 12,790	\$ 18,033	\$ 38,300	\$ 39,652
Net earnings per common share:				
Basic	\$ 0.26	\$ 0.37	\$ 0.78	\$ 0.83

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Diluted	\$	0.25	\$	0.35	\$	0.75	\$	0.78
Weighted average shares outstanding:								
Basic		49,218,918		48,739,730		49,272,631		47,912,344
Diluted		51,107,362		51,154,474		51,072,988		51,023,422

See accompanying notes to condensed consolidated financial statements

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j2 Global Communications, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine Months Ended September 30, 2006	2005 (As restated, see Note 2)
Cash flows from operating activities:		
Net earnings	\$ 38,300	\$ 39,652
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	5,996	5,187
Stock-based compensation	4,596	372
Tax benefit of vested restricted stock	24	—
Tax benefit of stock option exercises	1,381	8,695
Excess tax benefits on stock option exercises	(1,290)	—
Deferred income taxes	(1,214)	(54)
Gain on sale of investment	—	(9,347)
Changes in assets and liabilities, net of effects of business acquisitions:		
Decrease (increase) in:		
Accounts receivable	(1,725)	(299)
Prepaid expenses and other current assets	(2,064)	(292)
Other assets	(177)	(177)
Increase (decrease) in:		
Accounts payable and accrued expenses	3,018	(763)
Income taxes payable	(2,970)	545
Deferred revenue	3,135	1,421
Other	92	—
Net cash provided by operating activities	47,102	44,940
Cash flows from investing activities:		
Net purchases of available-for-sale investments	(18,655)	(25,695)
Net redemptions (purchases) of held-to-maturity investments	29,354	(14,386)
Purchases of property and equipment	(5,226)	(6,326)
Acquisition of businesses, net of cash received	(7,194)	(7,728)
Purchases of intangible assets	(2,950)	(3,787)
Payment of accrued exit costs	—	(43)
Proceeds from sale of investment	822	8,708
Proceeds from sale of property and equipment	10	—
Net cash used in investing activities	(3,839)	(49,257)
Cash flows from financing activities:		
Repurchases of common stock	(9,727)	—
Issuance of common stock under employee stock purchase plan	381	389
Exercise of stock options and warrants	800	3,258
Excess tax benefits on stock option exercises	1,290	—
Repayment of long-term debt	(460)	(1,126)
Net cash (used in) provided by financing activities	(7,716)	2,521
Effect of exchange rate changes on cash and cash equivalents	1,595	(462)

Net increase (decrease) in cash and cash equivalents	37,142	(2,258)
Cash and cash equivalents at beginning of period	36,301	18,814
Cash and cash equivalents at end of period	\$ 73,443	\$ 16,556

See accompanying notes to condensed consolidated financial statements

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j2 GLOBAL COMMUNICATIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

j2 Global Communications, Inc. ("j2 Global" or the "Company") is a Delaware corporation founded in 1995. By leveraging the power of the Internet, the Company provides outsourced, value-added messaging and communications services to individuals and businesses throughout the world. j2 Global offers fax, voicemail, email and call handling services and bundled suites of certain of these services. j2 Global markets its services principally under the brand names eFax[®], eFax Corporate[®], UniFax[™], Send2Fax[®], eFax Broadcast[™], jBlast[®], jConnect[®], Onebox[®], Onebox Receptionist[™], eVoice[®], eVoiceReceptionist[™] and Electric Mail[®].

The accompanying interim condensed consolidated financial statements include the accounts of j2 Global and its direct and indirect wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") including those for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and note disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2005 included in the Company's Annual Report on Form 10-K filed with the SEC on March 27, 2006.

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

On May 25, 2006, the Company effected a two-for-one stock split of its common stock in the form of a stock dividend to each shareholder of record at the close of business on May 15, 2006. All share and per share data included in this Form 10-Q have been restated to reflect the stock split.

Stock-based compensation

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires all stock-based payments to employees, including grants of employee stock options and purchases under certain employee stock purchase plans, to be recognized as compensation expense in the results of operations. Stock-based compensation expense as required by SFAS 123(R) is recognized over the requisite employee service period based on the grant date fair value of those awards.

The Company adopted SFAS 123(R) using the modified prospective method. Accordingly, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized during the first nine months of 2006 with respect to: (a) unvested stock options granted prior to December 31, 2005 is based on the grant date fair value of such options estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"); and (b) stock-based awards granted subsequent to December 31, 2005 is based on the grant date fair value estimated in accordance with SFAS 123(R). Stock-based compensation expense recognized during the nine months of 2006 has

been reduced by estimated pre-vesting forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The prospective application of SFAS 123(R) had a material impact on the Company's consolidated financial position, results of operations and cash flows. See Note 6 regarding the Company's stock-

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based compensation assumptions and expenses, including pro forma disclosures for prior periods as if the Company had recorded stock-based compensation expense under SFAS 123(R). The cumulative effect upon adoption of SFAS 123(R) was not material.

In November 2005, the FASB issued FASB Staff Position No. 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards"