J2 GLOBAL COMMUNICATIONS INC
Form 10-Q
November 07, 2008

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, 2008

OR

o 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer x Accelerated filer o Non-Accelerated filer o Smaller reporting company o

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

As of October 31, 2008, the registrant had 43,885,323 shares of common stock outstanding.

j2 GLOBAL COMMUNICATIONS, INC.
FOR THE QUARTER ENDED SEPTEMBER 30, 2008

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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, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 140,721	$ 154,220
Short-term investments	29	54,297
Accounts receivable, net of allowances of $3,535 and $1,378 at September 30, 2008 and December 31, 2007, respectively	14,999	15,365
Prepaid expenses and other current assets	6,818	5,061
Deferred income taxes	1,724	1,724
Total current assets	164,291	230,667
Long-term investments	11,074	21,241
Property and equipment, net	20,303	23,511
Goodwill	66,143	39,452
Other purchased intangibles, net	32,686	29,220
Deferred income taxes	7,749	6,113
Other assets	177	205
Total assets	$ 302,423	$ 350,409
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 18,346	$ 17,516
Income taxes payable	1,332	4,649
Deferred revenue	13,850	14,708
Total current liabilities	33,528	36,873
Accrued income tax liability	36,439	30,863
Other	16	59
Total liabilities	69,983	67,795
Commitments and contingencies	—	—
Preferred stock, $0.01 par value. Authorized 1,000,000 and none issued	—	—
Common stock, $0.01 par value. Authorized 95,000,000 at September 30, 2008 and December 31, 2007; total issued 52,557,482 and 54,325,936 shares at September 30, 2008 and December 31, 2007, respectively, and total oustanding 43,876,914 and 48,665,612 shares at September 30, 2008 and December 31, 2007, respectively	526	543
Additional paid-in capital	129,276	121,503
Treasury stock, at cost (8,680,568 and 5,660,324 at September 30, 2008		

and December 31, 2007, respectively)		(112,671)		(4,662)
Retained earnings		214,567		162,281
Accumulated other comprehensive income		742		2,949
Total stockholders' equity		232,440		282,614
Total liabilities and stockholders' equity	$	302,423	$	350,409

See 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,	
	2008	2007	2008	2007
Revenues:				
Subscriber	$ 60,466	$ 54,029	$ 177,218	$ 156,935
Other	1,086	1,717	3,659	6,932
	61,552	55,746	180,877	163,867
Cost of revenues (including share-based compensation of $259 and $646 for the three and nine months of 2008, respectively, and $169 and $491 for the three and nine months of 2007, respectively)	11,670	11,168	35,026	32,390
Gross profit	49,882	44,578	145,851	131,477
Operating expenses:				
Sales and marketing (including share-based compensation of $289 and $955 for the three and nine months of 2008, respectively, and $304 and $846 for the three and nine months of 2007, respectively)	10,788	10,218	31,587	28,670
Research, development and engineering (including share-based compensation of $215 and $620 for three and nine months of 2008, respectively, and $186 and $543 for the three and nine months of 2007, respectively)	3,022	3,045	9,180	8,734
General and administrative (including share-based compensation of $1,228 and $3,771 for the three and nine months of 2008, respectively, and $1,209 and $3,420 for the three and nine months of 2007, respectively)	10,911	10,042	33,360	28,817
Total operating expenses	24,721	23,305	74,127	66,221
Operating earnings	25,161	21,273	71,724	65,256
Interest and other income, net	1,655	2,598	3,546	6,721
Earnings before income taxes	26,816	23,871	75,270	71,977
Income tax expense	8,054	5,783	22,984	20,372
Net earnings	$ 18,762	$ 18,088	$ 52,286	$ 51,605
Net earnings per common share:				
Basic	$ 0.43	$ 0.37	$ 1.16	$ 1.05

Diluted	$ 0.42	$ 0.35	$ 1.13	$ 1.01
Weighted average shares outstanding:				
Basic	43,479,943	49,215,250	44,955,199	49,050,697
Diluted	45,077,671	51,075,957	46,431,507	50,923,136

See Notes to Condensed Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net earnings	$ 52,286	$ 51,605
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	9,678	7,188
Share-based compensation	5,992	5,417
Tax benefit of vested restricted stock	678	363
Tax benefit of stock option exercises	686	4,843
Excess tax benefits from share-based compensation	(655)	(3,460)
Provision for doubtful accounts	2,967	1,205
Deferred income taxes	(1,729)	(426)
Loss on disposal of fixed assets	20	194
Decrease (increase) in:		
Accounts receivable	(2,983)	(4,999)
Prepaid expenses and other current assets	1,452	(740)
Other assets	26	160
(Decrease) increase in:		
Accounts payable and accrued expenses	1,324	(1,541)
Income taxes payable	(6,663)	(4,350)
Deferred revenue	(1,305)	3,036
Accrued income tax liability	5,196	9,971
Other	(43)	(38)
Net cash provided by operating activities	66,927	68,428
Cash flows from investing activities:		
Net purchases of available-for-sale investments	—	(23,740)
Sales of available-for-sale investments	36,170	—
Redemptions/Sales of held-to-maturity investments	27,883	12,040
Purchases of property and equipment	(2,202)	(5,975)
Acquisition of businesses, net of cash received	(32,435)	(6,814)
Purchases of intangible assets	(2,320)	(3,802)
Net cash provided by (used in) investing activities	27,096	(28,291)
Cash flows from financing activities:		
Repurchases of common stock	(108,028)	(14,950)
Repurchase of restricted stock	(417)	(295)
Issuance of common stock under employee stock purchase plan	153	193
Exercise of stock options	1,468	6,791
Excess tax benefits from share-based compensation	655	3,460
Repayment of long-term debt	—	(151)
Net cash used in financing activities	(106,169)	(4,952)
Effect of exchange rate changes on cash and cash equivalents	(1,353)	1,306

Net increase (decrease) in cash and cash equivalents		(13,499)		36,491
Cash and cash equivalents at beginning of period		154,220		95,605
Cash and cash equivalents at end of period	$	140,721	$	132,096
NONCASH INVESTING ACTIVITIES:				
Purchases of property and equipment	$	—	$	648
Intangible assets	$	—	$	3,600
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for income taxes	$	24,345	$	10,100
Cash paid for interest	$	2	$	7

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008
(UNAUDITED)

1. Basis of Presentation

j2 Global Communications, Inc. (“j2 Global”, “our”, “us” or “we”) is a Delaware corporation founded in 1995. By leveraging the power of the internet, we provide outsourced, value-added messaging and communications services to individuals and businesses throughout the world. We offer fax, voicemail, email and call handling services and bundled suites of certain of these services. We market our services principally under the brand names eFax®, eFax Corporate®, eFax DeveloperTM, eFax BroadcastTM, Fax.comTM, RapidFAXTM, Send2Fax®, jBlast®, jConnect®, Onebox®, eVoice®, eVoice ReceptionistTM, Onebox ReceptionistTM, Phone Peopl e®, YAC® 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 the rules and regulations of the Securities and Exchange Commission (“SEC”). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures normally included in our annual consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). These financial statements, in the opinion of management, include all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for all periods presented. The financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007 included in our Annual Report on Form 10-K filed with the SEC on February 25, 2008.

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

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including judgments about investment classifications, and the reported amounts of net revenue and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts and the valuation of deferred income taxes, income tax contingencies, non-income tax contingencies, share-based compensation expense, long-lived and intangible assets and goodwill. These estimates are based on historical experience and on various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

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. On an ongoing basis, management evaluates the adequacy of these reserves. These reserves are based on historical experience as well as an evaluation of current market conditions, and we believe these reserves to be reasonable under the circumstances. We have procedures in place to collect on these credit card declines and past due invoices before the closure of the customer’s account. As of September 30, 2008 and December 31, 2007, our accounts receivable reserves were $3.5 million and $1.4 million respectively.

Investments

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements.

SFAS 157 applies to all accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. For fiscal years beginning after November 15, 2007, companies are required to implement SFAS 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. The FASB provided a one-year deferral for the implementation of SFAS 157 for other nonfinancial assets and liabilities. We adopted SFAS 157 on January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities - Including an Amendment of FASB Statement No. 115 (“SFAS 159”). SFAS 159 permits entities to choose to measure certain financial assets and liabilities at fair value. SFAS 159 requires an entity to report unrealized gains and losses on eligible items for which the entity has elected to use the fair value option in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. As permitted by SFAS 159, we have elected not to use the fair value option to measure our available-for-sale and held-to-maturity securities under SFAS 159 and will continue to report under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (“SFAS 115”). We have made this election because the nature of our financial assets and liabilities are not of such complexity that they would benefit from a change in valuation to fair value.

We account for our short and long-term investments in debt securities in accordance with SFAS 115 and Emerging Issues Task Force Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. These investments typically are comprised primarily of readily marketable corporate securities, debt instruments of the U.S. government and its agencies and auction rate debt and preferred securities. 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. We record our trading securities at their fair market values and include changes in the fair market values in Interest and other income, net on our condensed consolidated statements of operations.

Concentration of Credit Risk

All of our cash, cash equivalents and marketable securities are invested at major financial institutions. These institutions are required to invest our cash in accordance with our investment policy with the principal objectives being preservation of capital, fulfillment of liquidity needs and above market returns commensurate with preservation of capital. Our 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 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 as existed during late 2007 and 2008. At September 30, 2008 and December 31, 2007, we had deposits in excess of the Federal Deposit Insurance Corporation limit at these financial institutions.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes (“SFAS 109”), 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. SFAS 109 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 had approximately $9.5 million and $7.8 million in net deferred tax assets at September 30, 2008 and December 31, 2007, respectively. Based on our review, we concluded that these net deferred tax assets do not require valuation allowances at September

30, 2008 and December 31, 2007. The net deferred tax assets should be realized through future operating results and the reversal of temporary differences.

Effective January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes— an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 provides guidance on the minimum threshold that an uncertain tax benefit is required to meet before it can be recognized in the financial statements and applies to all tax positions taken by a company. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS 109. 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 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 recognized accrued interest and penalties related to unrecognized tax benefits in income tax expense on our consolidated statement of operations (see Note 6 – "Income Taxes").

Revenue Recognition

Our subscriber revenues substantially consist of monthly recurring subscription and usage-based fees, which are primarily paid in advance by credit card. In accordance with GAAP and with SEC issued Staff Accounting Bulletin No. 104, Revenue Recognition, which clarifies certain existing accounting principles for the timing of revenue recognition and classification of revenues in the financial statements, we defer the portions of monthly recurring subscription and usage-based fees collected in advance and recognize them in the period earned. Additionally, we defer and recognize subscriber activation fees and related direct incremental costs over a subscriber's estimated useful life.

Our advertising revenues (included in "other revenues") primarily consist of revenues derived by delivering email messages on behalf of advertisers to our customers who elect to receive such messages. Revenues are recognized in the period in which the advertising services are performed, provided that no significant j2 Global obligations remain and the collection of the resulting receivable is reasonably assured.

Our patent revenues (included in "other revenues") consist of revenues generated under license agreements that provide for the payment of contractually determined fully paid-up or royalty-bearing license fees to us in exchange for the grant of a non-exclusive, retroactive and future license to our patented technology. Patent revenues are recognized when earned over the term of the license agreement. With regard to fully-paid up license arrangements, we generally recognize as revenue in the quarter the agreement is executed the portion of the payment attributable to past use of the patented technology and amortize the remaining portion of such payments on a straight line basis over the life of the licensed patent(s). With regard to royalty-bearing license arrangements, we recognize revenue of license fees earned during the applicable period.

Comprehensive Income

Comprehensive income is calculated in accordance with SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 requires the disclosure of all components of comprehensive income, including net income and changes in equity during a period from transactions and other events and circumstances generated from non-owner sources. Our accumulated other comprehensive income September 30, 2008 and December 31, 2007 consisted primarily of foreign currency translation adjustments.

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2. Investments

The following table summarizes our short and long-term investments designated as trading, available-for-sale and held-to-maturity classified by the contractual maturity date of the security (in thousands):

	As of September 30, 2008	As of December 31, 2007
Due within 1 year	$ 29	$ 54,297
Due within more than 1 year but less than 5 years	—	9,949
Due within more than 5 years but less than 10 years	4,668	6,200
Due 10 years or after	6,406	5,092
Total available-for-sale and held-to-maturity investments	$ 11,103	$ 75,538

At September 30, 2008, auction rate debt and preferred securities totaled $11.1 million with the auction rate debt securities having stated maturities through 2037 and the auction rate preferred securities having no stated maturity dates. These securities have interest rates that reset periodically at established intervals of 90 days or less. Each of these auction rate securities have encountered multiple failed auctions over the past several months, which means that these securities are illiquid unless and until a future auction is successful. If the issuer's credit rating deteriorates before a successful auction occurs, we may be required to adjust the carrying value of the investment through an impairment charge. During the fourth quarter of 2007, as a result of such failed auctions we reclassified short-term available-for-sale investments of $11.4 million to long-term held-to-maturity investments and recognized an unrealized loss of $0.3 million in accumulated other comprehensive income/loss. This unrealized loss is amortized over the remaining lives of the held-to-maturity investments. As we have the ability and intent to hold these auction rate debt securities until maturity, we do not anticipate the lack of liquidity on these investments to affect our ability to operate our business as usual. There have been no significant changes in the maturity dates and average interest rates for our investment portfolio and debt obligations subsequent to September 30, 2008. At September 30, 2008, our long-term held-to-maturity securities are carried at amortized cost, with the unrealized gains and losses reported as a component of stockholders' equity.

On a quarterly basis in accordance with SFAS 115 and FASB Staff Position No. 115-1 and 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, we assess whether an other-than-temporary impairment loss on an investment has occurred due to declines in fair value or other market conditions. There were no other-than-temporary impairment losses in the quarter ended September 30, 2008. There were no restrictions on cash and cash equivalents or investments as of September 30, 2008. To our knowledge, there has been no adverse effect to our investments due to economic conditions subsequent to quarter end.

3. Recent Accounting Pronouncements

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP applies to credit derivatives within the scope of Statement 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP is effective for reporting periods (annual or interim) ending after November 15, 2008. We do not expect this FSP to have a material impact on our consolidated financial position and results of operations.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine

the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. We are currently assessing the potential impact of FSP 142-3 on our consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (“SFAS 161”). SFAS 161 requires enhanced disclosures about a company’s derivative and hedging activities. These enhanced disclosures must discuss (a) how and why a company uses derivative instruments (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations; and (c) how derivative instruments and related hedged items affect a company’s financial position, results of operations and cash flows. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. We are currently evaluating the impact of adopting SFAS 161.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how the acquiror of a business (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree; (b) recognizes and measures in its financial statements the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008. We do not expect SFAS 141(R) to have a material impact on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (“SFAS 160”). SFAS 160 requires that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled and presented in the consolidated balance sheets within equity, but separate from the parent’s equity. In addition, the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of operations. SFAS 160 also requires that changes in the parent’s ownership interest be accounted for as equity transactions if a subsidiary is deconsolidated and any retained noncontrolling equity investment be measured at fair value. It also requires that disclosures clearly identify and distinguish between the interests of the parent and noncontrolling owners. The provisions of SFAS 160 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently assessing the potential impact of SFAS 160 on our consolidated financial position and results of operations.

4. 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. Identifiable intangible assets are amortized using the straight-line method over estimated useful lives ranging from two to twenty years.

The changes in carrying amounts of goodwill and other intangible assets for the nine months ended September 30, 2008 are as follows (in thousands):

	Balance as of January 1, 2008	Net Additions	Amortization	Foreign Exchange Translation	Balance as of September 30, 2008
Goodwill	$ 39,452	$ 27,389	$ —	$ (698)	$ 66,143
Intangible assets with indefinite lives	2,384	204	—	—	2,588
Intangible assets subject to amortization	26,836	7,757	(4,348)	(147)	30,098
	$ 68,672	$ 35,350	$ (4,348)	$ (845)	$ 98,829

Intangible assets with indefinite lives relate primarily to a trade name. As of September 30, 2008, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Patents	8.5 years	$ 22,932	$ (7,939)	$ 14,993
Technology	2.2 years	5,679	(3,478)	2,201
Customer relationships	4.8 years	8,180	(3,471)	4,709
Trade name	13.7 years	9,644	(1,449)	8,195
Total		$ 46,435	$ (16,337)	$ 30,098

Amortization expense, included in general and administrative expense, during the three months ended September 30, 2008 and 2007 approximated $1.5 million and $1.1 million, respectively. Amortization expense, included in general and administrative expense, during the nine months ended September 30, 2008 and 2007 approximated $4.3 million and $2.7 million, respectively. Amortization expense for each year is estimated to approximate $5.8 million, $5.6 million, $4.2 million, $2.7 million and $2.3 million for the years ended December 31, 2008 through 2012, respectively, and $13.7 million thereafter through the duration of the amortization period.

5. Commitments and contingencies

Litigation

At September 30, 2008 and December 31, 2007, we are involved with various legal matters arising from the ordinary course of business. Although the ultimate resolution of these various matters cannot be determined at this time, we do not believe that such matters, individually or in the aggregate, will have a material adverse effect on our future consolidated results of operations, cash flows or financial condition. For additional information on litigation matters, see Part II, Item 1. Legal Proceedings.

6. Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate. Each quarter we update our annual estimate and make a cumulative adjustment to reflect any changes. Our annual effective tax rate is normally lower than the 35% U.S. federal statutory rate and applicable apportioned state tax rates primarily due to anticipated earnings of our subsidiaries located in non-U.S. jurisdictions with lower effective tax rates than in the U.S. We do not provide for U.S. income taxes on the undistributed operating earnings of our foreign operations because we intend to reinvest them in our foreign jurisdictions.

Cash paid for income taxes was $24.3 million and $10.1 million for the nine months ended September 30, 2008 and 2007, respectively. Accrued income tax liabilities were $36.4 million at September 30, 2008 and $30.9 million at December 31, 2007.

We are currently under audit by the Internal Revenue Service (“IRS”) for the 2004 through 2006 tax years. It is possible that this audit 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 these periods. However, it is not possible to estimate the amount, if any, of such change. Pursuant to an IRS request, we have extended the statute of limitations for our 2004 tax year income tax return to December 31, 2009 and the statute of limitations for our 2005 tax year employment tax returns to April 15, 2010.

We have been notified by the Illinois Department of Revenue that we are being audited for Income Tax for the 2005 and 2006 tax years. It is possible that this audit may conclude in the next 12 months and that any unrecognized tax benefits we have recorded in relation to these tax years may change compared to any liabilities recorded for these periods. However, it is not possible to estimate the amount, if any, of such change. Pursuant to the State's request, we have extended the statue of limitations for the 2005 tax year to March 31, 2009.

7. Stockholders' Equity

Common Stock Repurchase Program

In February 2008, j2 Global's Board of Directors approved a common stock repurchase program (the "Repurchase Program") authorizing the repurchase of up to five million shares of our common stock through the end of December 2010. On July 9, 2008, the Repurchase Program was completed. Five million shares at an aggregated cost of approximately $108.0 million (including commission fees of approximately $100,000) were repurchased. We have accounted for these repurchases using the cost method. At September 30, 2008 and December 31, 2007, 8,680,568 common shares at a cost of $112.7 million and 5,660,324 common shares at a cost of $4.7 million, respectively, were held as treasury stock.

8. Stock Options and Employee Stock Purchase Plan

Our equity-based compensation plans include our Second Amended and Restated 1997 Stock Option Plan, 2007 Stock Plan and 2001 Employee Stock Purchase Plan. Each plan is described below.

The Second Amended and Restated 1997 Stock Option Plan (the "1997 Plan") terminated in 2007. As of September 30, 2008, 4,369,260 common shares underlying options and 325,244 common shares of restricted stock were outstanding and continued to be governed under the 1997 Plan.

The 2007 Stock 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. Four million five hundred thousand shares of common stock are authorized to be used under the 2007 Plan. Options under the 2007 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices are not less than the fair market value of our common stock on the date of grant for incentive stock options and not less than 85% of the fair market value of our common stock on the date of grant for non-statutory stock options.

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

Stock Options

The following table represents stock option activity for the nine months ended September 30, 2008:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	4,383,174	$ 11.19		
Granted	324,453	22.95		
Exercised	(183,252)	8.00		
Expirations	—	—		
Forefitures	(155,115)	24.29		
Outstanding at September 30, 2008	4,369,260	11.73	5.3	$ 55,409,407
Exercisable at September 30, 2008	3,143,062	6.82	5.3	$ 51,963,355
Vested and expected to vest at September 30, 2008	4,165,098	11.73	4.1	$ 54,984,863

For the nine months ended September 30, 2008, j2 Global granted options to purchase 324,453 shares of our common stock pursuant to the 2007 Plan to newly hired and existing members of management and to members of our Board of Directors. 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 nine months ended September 30, 2008 and 2007 were $14.27 and $21.49, respectively.

The aggregate intrinsic values of options exercised during the nine months ended September 30, 2008 and 2007 were $3.0 million and $13.5 million, respectively.

As of September 30, 2008 and December 31, 2007, unrecognized stock compensation related to non-vested share-based compensation awards granted under the 1997 Plan and the 2007 Plan approximated $20.5 million and $10.1 million, respectively. Unrecognized stock compensation expense related to non-vested share-based compensation awards granted under these plans is expected to be recognized ratably over a weighted-average period of 3.21 years (i.e., the remaining requisite service period).

Fair Value Disclosure

We use the Black-Scholes option pricing model to calculate the fair-value of each option grant. The expected volatility for the nine months ended September 30, 2008 is based on historical volatility of our common stock. We elected to use the simplified method for estimating the expected term as allowed by Staff Accounting Bulletin No. 110. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option. 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. Forfeitures are estimated at the date of grant based on historical experience. The weighted-average fair values of stock options granted have been estimated utilizing the following assumptions:

	Nine Months Ended September 30,	
	2008	2007
Risk-free interest rate	3.6%	4.7%
Expected term (in years)	6.5	6.5
Dividend yield	0%	0%
Expected volatility	56%	72%
Weighted-average volatility	62%	72%

Share-based Compensation

The following table represents share-based compensation expense included in cost of revenues and operating expenses in the accompanying condensed consolidated statements of operations for the three months and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of revenues	$ 259	$ 169	$ 646	$ 491
Operating expenses:				
Sales and marketing	289	304	955	846
Research, development and engineering	215	186	620	543
General and administrative	1,228	1,209	3,771	3,420