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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

JEFFREY GARCIA, Individually and
on Behalf of All Others Similarly
Situated,

Plaintiff,

v.

J2 GLOBAL, INC., VIVEK SHAH,
NEHEMIA (“HEMI”) ZUCKER, and
R. SCOTT TURICCHI,

Defendants.

Case No.: 2:20-cv-06096-FLA-MAA

**SECOND CONSOLIDATED CLASS
ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

CLASS ACTION

JURY TRIAL DEMANDED

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

I. NATURE OF THE ACTION 1

II. JURISDICTION AND VENUE 8

III. PARTIES 8

IV. SUBSTANTIVE ALLEGATIONS 11

 A. Company Background 11

 B. Relevant Accounting Policies and Principles 12

 1. GAAP requirements generally 12

 2. Materiality 13

 3. Related party transactions 13

 C. Statements by Former Employees 14

 D. Acquisitions Enriching J2 Insiders 22

 1. The Pre-Class Period Jump Acquisition 22

 2. The VDW Acquisition 23

 3. The \$200 Million Investment in Orchard Capital 25

 E. Hiding Underperforming Acquisitions 32

 1. The material underperformance of J2 Ireland 33

 2. The material underperformance of Everyday Health 34

V. DEFENDANTS’ FALSE AND MISLEADING STATEMENTS 36

VI. THE TRUTH WAS REVEALED 77

VII. ADDITIONAL SCIENTER ALLEGATIONS 80

VIII. LOSS CAUSATION 92

IX. PLAINTIFF’S CLASS ACTION ALLEGATIONS 93

 COUNT I 96

 COUNT II 98

X. PRAYER FOR RELIEF 99

XI. DEMAND FOR TRIAL BY JURY 100

1 2. J2 purports to be a leading Internet information and services company
2 consisting of a portfolio of brands in its two divisions: Digital Media and Cloud
3 Services. It also purports to be an active acquirer of businesses in media, technology,
4 and Internet services, having deployed approximately \$3 billion of acquisition capital
5 to acquire 186 businesses since its founding in 1995. J2 relies primarily on
6 acquisitions for growth, and its success requires paying fair market value or less to
7 acquire companies and for those companies to continue to be at least as profitable as
8 when J2 values and acquires them. In other words, J2 is in the business of buying
9 companies that are already generating revenue and combining them with companies
10 in similar or the same industry to effectuate synergies and/or cost savings; J2 is not in
11 the business of buying undervalued companies and adding value to, or otherwise
12 organically operating and growing, those individual companies.

13 3. However, Defendants have misled investors about the strength of J2’s core
14 business of acquiring and integrating companies. Many of J2’s acquisitions actually
15 just enriched insiders, including “independent” board members and senior executives,
16 by tens of millions of dollars, all to the detriment of J2’s shareholders.

17 4. Furthermore, Defendants obfuscated the terms of those acquisitions as well
18 as any of the individual acquired companies’ ongoing value and growth – or lack
19 thereof. Normally, a company publicly reports goodwill as an asset in relation to an
20 acquisition or other business segment. If that acquisition or segment subsequently
21 suffers and loses value, the company would report an impairment to the goodwill. J2,
22 however, does not break out the goodwill for each of its hundreds of acquisitions
23 individually and instead reports a single consolidated goodwill for each of its two
24 divisions, without any impairments. In fact, J2 has *never* taken a goodwill
25 impairment.

26 5. Meanwhile, Defendants portrayed J2’s aggressive acquisition strategy as
27 consistently successful. Through this scheme—*i.e.*, concealing losses associated with
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1 individual acquisitions, while publicly touting the success of its zealous acquisition
2 strategy, all while failing to disclose the insider nature of some of these transactions—
3 Defendants misrepresented J2’s true health as a business and, in turn, artificially
4 inflated its stock price. In reality, most of its acquisitions involved overpaying for
5 stagnant, hollow, or otherwise unprofitable companies. Simply put, J2 has touted a
6 strategy of acquiring solid companies capable of independent organic growth and
7 successfully integrating them with companies in the same or similar industry, whereas
8 the truth is that J2 frequently acquired junk, to enrich Defendants, corporate insiders
9 and other of their associates tied to that junk.

10 6. The Class Period starts on October 5, 2015, when J2 announced in a press
11 release that it had completed nine acquisitions in the third quarter of 2015 (“3Q15”),
12 including the intellectual property of “VDW (Netherlands)” (the “VDW
13 Acquisition”). What J2 failed to disclose was that the VDW Acquisition was of an
14 11-month-old consulting business registered to the personal residence of a long-time
15 corporate insider, former Vice President (“VP”) of Corporate Development Jeroen
16 van der Weijden, and had no other employees, but cost J2 approximately \$900,000.
17 In May 2014, van der Weijden had become a director of J2 Global UK Ltd. (“J2 UK”),
18 an arm of J2 Global Ireland Limited (“J2 Ireland”), which was ultimately owned by
19 J2. He started VDW just six months later and proceeded to orchestrate the VDW
20 Acquisition ten months later, while working for J2. No conflict was disclosed. As
21 subsequently revealed, van der Weijden sourced and handled dozens of acquisitions
22 by J2 – to the tune of over 135 of J2’s 186 Mergers and Acquisitions (“M&A”)
23 transactions. But his incentive package was based on the number of deals he closed,
24 rather than on the substance. Consequently, he was incentivized to close deals.
25 Regardless of whether J2 overpaid, the acquisition enriched van der Weijden at J2’s
26 expense, or was otherwise bad for J2’s business. While Defendants touted a strategy
27 of successful acquisitions of profitable companies posing organic growth, van der
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1 Weijden focused solely on the number of deals, as well as insider transactions for
2 personal profit.

3 7. But van der Weijden was just one component of J2’s rampant, improper
4 insider dealings. In 2017, J2’s Board of Directors (the “Board”) authorized the use of
5 shareholder funds to invest \$200 million in a fund associated with Orchard Capital
6 Corp. (“Orchard Capital”).¹ Orchard Capital is an investment venture founded by
7 Richard S. Ressler, J2’s Board Chairman. It has also paid Brian Kretzmer, a J2 Board
8 member and chair of its Audit Committee (“AC”), to do M&A work. As part of the
9 deal, J2 provided nearly 77% of the fund’s equity. Yet Ressler remains Orchard
10 Capital’s majority equity owner and has “continue[d] to oversee companies in which
11 Orchard” Capital or its affiliates invest. Furthermore, J2 paid an Orchard Capital
12 affiliate – the principals of whom are Defendant Zucker, Ressler and Zohar Loshitzer
13 (J2’s Executive Vice President (“EVP”) of Corporate Strategy) – over \$65 million in
14 management fees across 2018 and 2019. Multiple J2 insiders enriched themselves in
15 connection with Orchard Capital and that transaction with J2.

16 8. Yet, there was no business justification for J2’s investment. The Orchard
17 Capital affiliate that received \$65 million was in the same business as J2—investing
18 in and acquiring companies—but it had a thin investing record comprised of primarily
19 failed companies. And those companies also had Defendant Zucker, Ressler,
20 Loshitzer and/or their associates in executive or Board positions. J2’s transaction,
21 therefore, had no observable benefit to J2’s shareholders but enriched J2 insiders.

22 9. In addition to obfuscating the web of related parties who stood to benefit
23 from its acquisitions, J2 has concealed the underperformance of acquired assets –
24 particularly international ones. J2’s goodwill should rise and fall with the value of
25 those acquired businesses, yet J2 steadfastly refuses to take impairments or otherwise

26
27 ¹ J2 Global, Inc., Annual Report (Form 10-K), at 88 (Mar. 2, 2020); J2 Global, Inc.,
28 Quarterly Report (Form 10-Q), at 21 (May 11, 2020).

1 disclose the underperformance of those acquired businesses in its financial statements
2 – notwithstanding how they perform. The lack of impairments misleadingly signals
3 to investors that the acquisitions were properly valued and are performing well.

4 10. For example, J2 Ireland took a €22.1 million charge in 2015 and
5 subsequently saw its revenue decline 27% over the following three years, with
6 operating income plummeting from €5.2 million to *negative* €11.5 million.² Yet J2,
7 as the parent company, has taken no related goodwill charge and has made no related
8 disclosures in its financial statements. Instead, Defendants maintain that
9 J2’s “organizational approach to M&A is very solid” and its “track record has been
10 remarkable,” and have not conveyed to investors that the acquisitions integrated into
11 J2 Ireland were bad deals that are hurting J2’s bottom line.

12 11. Similarly, the revenue of J2’s largest acquisition ever – Everyday Health
13 Group (“Everyday Health”) – tanked over 32% in the first year after being acquired,
14 from \$254 million to \$171 million. It has yet to reach pre-acquisition levels despite
15 five subsequent acquisitions – and their revenues – being folded into the division. But
16 J2 still has not written off any of the \$27 million in now worthless goodwill that it
17 recorded at the time of the Everyday Health acquisition.

18 12. Instead of providing the truth owed to investors, J2 has obscured the real
19 performance of acquired companies and, in turn, the holes in J2’s acquisition system.
20 Using writeoffs, divestures, and acquisitions at the subsidiary or division level, J2 has
21 concealed information about the specific performance of any individual acquisition,
22 leaving the market in the dark about the true strength of J2’s acquisition system –
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24

25 _____
26 ² Hindenburg Research, J2 Global: Troubling Related Party Transactions, Looming
27 Impairments And A Suspicious History Of Insider Enrichment Spanning Decades
28 (June 30, 2020), <https://hindenburgresearch.com/j2-global/> (last visited Nov. 18,
2020).

1 touted by Defendant Shah as the Company’s “single great competitive advantage.”³
2 Indeed, what Defendants portrayed as a strong system of vetting, acquiring and
3 integrating organically growing businesses was actually a scattershot approach of
4 purchasing anything for any price while enriching insiders and banking on the success
5 of enough of the acquired companies to conceal the enormous failure of the others.
6 This actual strategy was never disclosed to investors.

7 13. The truth began to be revealed when, before the market opened on March
8 10, 2016, Citron Research published a report entitled “Citron Exposes the Dirty
9 Secrets of j2 Global (JCOM)!” (the “Citron Report”).⁴ The Citron Report revealed
10 that J2, among other issues, (i) “no longer wants acquisitions, it needs acquisitions”
11 (emphasis in original) (ii) “j2 Global has spent the past four years using the money
12 generated by its legacy eFax business to prop the financials of a collection of
13 unremarkable and/or useless assets that have all been acquired with terms
14 undisclosed;” and (iii) “[w]hile Wall Street analysis are tripping over themselves in
15 excitement about the future of M&A at j2 Global, no one seems to be paying any
16 attention to the bottom line or the quality of businesses j2 Global is aggregating.”

17 14. On this news, shares of J2 plummeted \$14.09 per share, or nearly 20%,
18 to close at \$56.90 per share on March 10, 2016 on unusually heavy trading, damaging
19 investors.

20 15. Then, before the market opened on June 30, 2020, Hindenburg Research
21 published a report entitled “J2 Global: Troubling Related Party Transactions,
22

23 ³ YouTube, Vivek Shah talks about what he looks for when searching for a
24 successful acquisition (Feb. 13, 2020),
25 <https://www.youtube.com/watch?v=g5hakF4CABQ&feature=youtu.be&t=232> (last
visited Nov. 18, 2020).

26 ⁴ Citron Research, *Citron Exposes Dirty Secrets of j2 Global (JCOM)!* (Mar. 10,
27 2016), [https://citronresearch.com/wp-content/uploads/2016/03/JCOM-final-
b20.pdf?source=content_type%3Areact%7Cfirst_level_url%3Anews%7Csection%3A
Amain_content%7Cbutton%3Abody_link](https://citronresearch.com/wp-content/uploads/2016/03/JCOM-final-b20.pdf?source=content_type%3Areact%7Cfirst_level_url%3Anews%7Csection%3Amain_content%7Cbutton%3Abody_link) (last visited Nov. 18, 2020).

1 Looming Impairments and A Suspicious History of Insider Enrichment Spanning
2 Decades” (the “Hindenburg Report”).⁵ The Hindenburg Report revealed that J2 had,
3 among other issues: (i) misrepresented and/or failed to disclose that its “opaque
4 acquisition approach has opened the door to egregious insider self-enrichment,”
5 including Defendant Zucker, and “found obvious red flags” which called into
6 question “every one of the 135 deals” that van der Weijden oversaw; (ii) “masked”
7 the underperformance of acquisitions by utilizing “tricky accounting” such as
8 “multiple material goodwill impairments [in subsidiary filings] that don’t appear to
9 coincide with parent financials” and “[o]bfusact[ing]” the financials of J2’s largest
10 acquisition, Everyday Health “Through A Series of Acquisitions and Divestures;” and
11 (iii) failed to disclose “decades of intertwined financial interests between board
12 members and executives,” which called their “independence into question.”

13 16. On this news, shares of J2 fell \$6.29 per share, or over 9%, to close at
14 \$63.21 per share on June 30, 2020 on unusually heavy trading, damaging investors.

15 17. Throughout the Class Period, Defendants made materially false and
16 misleading statements regarding J2’s business, operations and internal controls.
17 Specifically, Defendants made false and/or misleading statements and/or failed to
18 disclose that: (i) J2 has been engaging in a secret pattern of enriching corporate
19 insiders, including Defendant Zucker, through its acquisitions, of which
20 approximately 73% were sourced and handled by a corporate insider whose only
21 incentive was the number of deals – not their quality or suitability; (ii) J2 has been
22 hiding unsuccessful acquisitions by not breaking out the financials of acquired
23 companies within its consolidated financial statements, thereby allowing Defendants
24 to mislead investors about the strength of its acquisition system; and (iii) as a result
25 of the foregoing, J2’s public statements were materially false and misleading at all
26 relevant times.

27 _____
28 5 Supra note 2.

1 18. As a result of Defendants' false and/or misleading statements, J2 common
2 stock traded at inflated prices during the Class Period. After disclosure of Defendants'
3 false and misleading statements and/or materialization of Defendants' concealed
4 risks, J2 stock suffered a precipitous decline in market value, thereby causing
5 significant losses and damages to Lead Plaintiff and the Class.

6 **II. JURISDICTION AND VENUE**

7 19. The claims asserted herein arise under §§ 10(b) and 20(a) of the Exchange
8 Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the
9 SEC (17 C.F.R. § 240.10b-5).

10 20. This Court has jurisdiction over the subject matter of this Action pursuant
11 to 28 U.S.C. § 1331 and § 27 of the Exchange Act (15 U.S.C. § 78aa).

12 21. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b)
13 and § 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance
14 of the alleged fraud or the effects of the fraud have occurred in this Judicial District.
15 Many of the acts charged herein, including the dissemination of materially false
16 and/or misleading information, occurred in substantial part in this Judicial District. In
17 addition, J2 is headquartered in this Judicial District.

18 22. In connection with the acts, transactions, and conduct alleged herein,
19 Defendants directly and indirectly used the means and instrumentalities of interstate
20 commerce, including the U.S. Mail, interstate telephone communications, and the
21 facilities of a national securities exchange.

22 **III. PARTIES**

23 23. Lead Plaintiff Espy acquired J2 common stock at artificially inflated
24 prices during the Class Period and was damaged upon the revelation of the alleged
25 disclosures and/or materialization of Defendants' concealed risk.

1 24. Defendant J2 is incorporated in Delaware and headquartered in Los
2 Angeles, CA. J2's common stock trades on the NASDAQ under the ticker symbol
3 "JCOM."

4 25. Defendant Shah has served as the Company's Chief Executive Officer
5 ("CEO") since January 2018. Prior to being promoted, he had been the CEO of Ziff
6 Davis LLC, J2's digital media business. Prior to J2's acquisition of Ziff Davis, LLC
7 ("Ziff Davis") in 2012, Shah had partnered with a private equity firm to purchase it
8 himself. He holds a Bachelor of Arts degree in political science from Tufts University.

9 26. Defendant Zucker co-founded the company in 1996. He served as the
10 Company's CEO from May 2008 until December 2017. Prior to that he had served in
11 various management roles including as J2's President, Chief Operating Officer
12 ("COO"), CMO and Chief Financial Officer ("CFO"). During his tenure, Zucker
13 purportedly executed over 160 acquisitions, making J2 one of the U.S.'s most
14 acquisitive tech companies and growing J2's revenue to over \$1.1 billion. He holds a
15 Bachelor of Arts degree in Economics from Tel Aviv University.

16 27. Defendant Turicchi joined J2 in March 2000 as EVP of Corporate
17 Development. Since August 2014, he has served as the Company's President and
18 CFO. Prior to that, he held various management roles at J2, including CFO, co-
19 president and president. Turicchi holds a bachelor's degree in Mathematics and
20 Economics from Claremont McKenna College. During the Class Period, he oversaw
21 all of J2's finance, M&A activity, and public matters.

22 28. Defendants Shah, Zucker, and Turicchi are collectively referred to
23 hereinafter as the "Individual Defendants."

24 29. Because of the Individual Defendants' executive positions, they each had
25 access to the undisclosed adverse information about J2's business, operations,
26 operational trends, controls, markets, and present and future business prospects *via*
27 internal corporate documents, conversations and connections with other corporate
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1 officers and employees, attendance at management and Board meetings and
2 committees thereof, including the Executive Committee.

3 30. It is appropriate to treat Defendants as a group for pleading purposes and
4 to presume that the false, misleading and incomplete information conveyed in the
5 Company's public filings, press releases and other publications, as alleged herein, are
6 the collective actions of the narrowly defined group of Defendants identified above.
7 Each of the Individual Defendants was directly involved in the management and day-
8 to-day operations of the Company at the highest levels and was privy to confidential
9 proprietary information concerning the Company and its business, operations,
10 controls, growth, products and present and future business prospects as alleged herein.
11 In addition, the Individual Defendants were involved in drafting, producing,
12 reviewing and/or disseminating the false and/or misleading statements and
13 information alleged herein, were aware of, or recklessly disregarded, the false and
14 misleading statements being issued regarding the Company, and approved or ratified
15 these statements in violation of the federal securities laws.

16 31. As officers and controlling persons of a publicly-held company whose
17 shares are registered with the SEC pursuant to the Exchange Act and trade on the
18 NASDAQ which is governed by the provisions of the federal securities laws, the
19 Individual Defendants each had a duty to promptly disseminate accurate and truthful
20 information with respect to the Company's operations, business, products, markets,
21 management, and present and future business prospects. In addition, the Individual
22 Defendants each had a duty to correct any previously-issued statements that had
23 become materially misleading or untrue, so that the market price of the Company's
24 publicly-traded shares would be based upon truthful and accurate information.
25 Defendants' false and/or misleading misrepresentations and omissions during the
26 Class Period violated these specific requirements and obligations.

27 32. The Individual Defendants, because of their positions of control and
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1 authority as Officers and Directors of the Company, were able to, and did, control the
2 content of the various SEC filings, press releases and other public statements
3 pertaining to the Company during the Class Period. Each Individual Defendant was
4 provided with copies of the documents alleged herein to be misleading before or
5 shortly after their issuance or had the ability or opportunity to prevent their issuance
6 or cause them to be corrected. Accordingly, each Individual Defendant is responsible
7 for the accuracy of the public statements detailed herein and is, therefore, primarily
8 liable for the representations contained therein.

9 33. Each Defendant is liable as a participant in a fraudulent scheme and
10 course of business that operated as a fraud or deceit on purchasers of J2 shares by
11 disseminating materially false and/or misleading statements and/or concealing
12 material adverse facts.

13 **IV. SUBSTANTIVE ALLEGATIONS**

14 **A. Company Background**

15 34. J2 purports to be a leading Internet information and services company
16 consisting of a portfolio of brands across its two divisions: Digital Media and Cloud
17 Services.⁶

18 35. The Cloud Services business entails business that offer services like
19 online fax, online backup, e-mail, encryption and other subscription-based cloud
20 services. The Digital Medial business focuses on advertising and sponsorships,
21 subscription and usage fees, performance marketing and licensing fees.

22 36. J2 also purports to be an active acquirer of businesses in media,
23 technology and Internet services, having deployed approximately \$3 billion of
24 acquisition capital to acquire 186 businesses since its founding in 1995.⁷

25 37. Because J2's business model relies heavily on acquisitions for growth, its
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27 ⁶ J2 Global, Inc., Quarterly Report (Form 10-Q), at 16 (May 11, 2020).

28 ⁷ J2 Global, Inc., <https://www.j2global.com/about/> (last visited Nov. 18, 2020).

1 success requires paying fair market value to acquire companies and for those
2 companies to continue to be at least as profitable as when J2 values and acquires them.
3 As Defendant Shah stated on February 6, 2018, “[b]eing able to acquire established
4 brands at attractive prices is a main component of our M&A program.” In other words,
5 J2 is not the business of buying undervalued companies and adding value, or
6 otherwise organically growing, those companies.

7 38. Despite conducting unrelenting acquisitions since 1995, J2 has *never*
8 taken a goodwill impairment related to any of its acquisitions, thereby indicating to
9 investors that it has either never overvalued goodwill at the time of purchase and/or
10 the acquired assets have never underperformed their expectations.

11 **B. Relevant Accounting Policies and Principles**

12 **1. GAAP requirements generally**

13 39. Generally Accepted Accounting Principles (“GAAP”) are the principles
14 recognized by the accounting profession as the conventions, rules, and procedures
15 necessary to define accepted accounting practices at a particular time, against which
16 financial presentations should be measured. GAAP are the official accounting
17 standards and have been codified and are primarily promulgated by the Financial
18 Accounting Standards Board (“FASB”).

19 40. The SEC requires public companies present financial statements in
20 accordance with GAAP. SEC Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) states that
21 financial statements filed with the SEC that are not prepared in compliance with
22 GAAP are presumed to be misleading and inaccurate, despite footnotes and other
23 disclosures.

24 41. Regulation S-X also requires that interim financial statements comply
25 with GAAP, with the exception that interim financial statements need not include
26 disclosures that would be duplicative of disclosures accompanying annual
27 disclosures, pursuant to 17 C.F.R. § 210.10-01(a).

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2. Materiality

42. As a publicly traded company, how J2 should apply materiality to its financial statements is guided by SEC Staff Accounting Bulletin: No. 99 – Materiality (“SAB 99”). Materiality is based on whether a reasonable person relying upon J2’s public statements would have been changed or influenced by the inclusion or correction of the information at issue. According to SAB 99, qualitative and quantitative factors should be considered in determining materiality.

43. The Financial Accounting Standards Board (“FASB”) Amendments to Statements of Financial Accounting Concepts No. 9 (“Concept No. 9”) issued in August 2018 clarified the concept of materiality. Concept No. 9 states that “[t]he omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.”

3. Related party transactions

44. J2 was required, under GAAP and SEC Regulation S-X, to make specific disclosures pertaining to related party transactions.

45. SEC Regulation S-X requires:

- (1) *Related party transactions...should be [identified and the amounts] stated on the face of the balance sheet, statement of comprehensive income, or statement of cash flows.*⁸
- (2) In cases where separate financial statements are presented for the registrant, certain investees, or subsidiaries[, separate disclosure shall be made in such statements of the amounts in the related consolidated financial statements which are (i) eliminated and (ii) not eliminated. Also,] any intercompany profits or losses resulting from transactions with related parties and not eliminated and the effects thereof shall be disclosed.

⁸ Unless otherwise noted, internal citations are omitted and emphasis is added throughout.

1 17 C.F.R. § 210.4-08(k).

2 46. In addition, FASB Accounting Standards Codification (“ASC”) 850
3 applies. Related parties are said not to be acting at arm’s length because of the special
4 inherent relationship between them. Because this special relationship can create a
5 conflict of interest that can benefit related parties, withholding information about
6 material related party transactions makes financial statements unreliable and prevents
7 the true picture of an entity from being represented. Thus, disclosure is required so
8 users of financial statements can evaluate the significance of these transactions and
9 make an informed decision

10 47. FASB ASC 850, requires companies to disclose the following for material
11 related party transactions:

- 12 • The nature of the relationships involved;
- 13 • A description of the transactions, including transactions where no amounts
14 or nominal amounts are involved, for each of the reporting periods where
15 income statements are presented; additionally, other information deemed
16 necessary to gain an understanding of the effects of the transactions on the
17 financial statements should be disclosed;
- 18 • The dollar amounts of the transactions for each of the reporting periods
19 where income statements are presented along with the effects of any change
20 in the method of establishing the terms of the transactions when compared to
21 the method used in the preceding reporting period;
- 22 • Amounts due to or from related parties as of each financial statement date
23 and, if not otherwise apparent, the terms and manner of settlement related to
24 those amounts.

25 **C. Statements by Former Employees**

26 48. Former Employee (“FE”) 1, joined J2 as a General Manager in January
27 2015 and was made Managing Director, Australia & New Zealand at the end of 2015,
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1 which FE1 remained until FE1 left in April 2017. FE1 had total responsibility for all
2 aspects of the cloud business for Australia and New Zealand, including the operations,
3 budgets, and sales for eFax, eVoice, Zintel, Fonebox, Keep it Safe, and Web24. FE1
4 had 12 direct reports in marketing, sales, and operations as well as an indirect report
5 in finance, Tony Pizzardi, who reported to FE1 everyday. After the Fonebox
6 acquisition, FE1 oversaw around 120 employees. FE1 was based in Melbourne,
7 Australia but traveled to local offices around Australia and New Zealand and attended
8 video conferences with J2's Hollywood, California office. FE1 initially reported to
9 VP of International Marketing & GM, Tim McLean, until McLean was forced out.
10 FE1 then reported to Zucker for a short time before reporting to Harmeet Singh who
11 was made President of Cloud Services. FE1 confirmed that Singh reported to Zucker,
12 and that based on conversations with McLean, McLean also reported to Zucker.

13 49. FE1 had weekly Zoom calls with Singh and attended calls with Zucker if
14 an acquisition in Australia was being discussed. According to FE1, before the two
15 deals FE1 was involved in were done, a call with senior executives including Zucker,
16 Singh, and Ressler would be held to discuss whether the deal was a "go or no-go."
17 FE1 had no reason to believe J2's process for acquisitions was different in Australia
18 versus elsewhere.

19 50. FE1 provided Zucker and Singh weekly reports that contained standard
20 form performance results including revenues, expenditures, e-sales and other metrics
21 such as churn rates (customers who signed up/who left), revenue impact, and
22 marketing (measuring the times ads were presented, clicked through, *etc.*). Each
23 business in Australia and New Zealand ran on a different system; there was no central
24 platform. Thus, in order to generate the reports for Zucker and Singh, FE1 had to
25 consolidate into a spreadsheet raw data received from FE1's direct reports.

26 51. FE1 met and worked with van der Weijden when van der Weijden came
27 to Australia for meetings. FE1 understood that van der Weijden "was responsible for
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1 globally identifying potential acquisitions to add on the core business” and “head[ed]
2 the M&A function.” In or around March/April 2015, McLean specifically informed
3 FE1 that van der Weijden had an incentive package that was based on the number of
4 deals he brought in that closed; the deals did not have to be good or make sense, but
5 they had to be approved by the Board. FE1 had held a similar role at another company
6 and explained that out of 20 deals you look at, one might be of value, so if you chase
7 after the other 19, the company will end up buying “stupid things.” FE1 stated that
8 van der Weijden’s incentives did not always line up with J2’s goals as a company,
9 but it was well known around the Company that this was his role and he was doing
10 exactly what Zucker wanted him to do.

11 52. FE1 stated that this incentive structure was concerning because at J2,
12 information flow from acquisition to integration was limited and the practice was to
13 just hand the acquired company to the person responsible for that area. In FE1’s
14 opinion, J2 was “atrocious” about buying businesses and not integrating them at the
15 global level. FE1 confirmed that J2 followed some of the methods and approaches of
16 private equity firms when acquiring companies, but not when it came to the
17 integration. So, people in similar roles as van der Weijden at private equity firms are
18 typically required to take more of an operating role in the newly acquired company
19 so that they are involved in the integration, ensuring the knowledge obtained while
20 conducting due diligence on the business and competition is retained by the new
21 business. But at J2, van der Weijden did not have to be around to clean up the mess
22 if an acquisition did not work out.

23 53. Until FE1 joined J2, no one else at the Company had any experience in
24 the web-hosting industry. Furthermore, FE1 came to J2 with 15 years of experience
25 buying businesses in Asia and Australia. Specifically when FE1 was with Caledonian
26 Investments (part of PA Spencer Group in New Zealand) from 2004 through 2013,
27 FE1 was responsible for the identification of web-hosting businesses to buy in
28

1 Australia, New Zealand, and Asia. This responsibility required FE1 to identify
2 potential target companies, actively go and meet with companies, review their
3 financial statements, and determine how much to pay for their business – day in and
4 day out for nearly ten years. During that time, FE1 worked hands-on conducting the
5 preliminary due diligence and lead valuation on over 100 companies and full
6 diligence on around 15 potential acquisitions, of which five or six were ultimately
7 acquired.

8 54. J2 acquired at least three businesses in the Australia/New Zealand market,
9 the first of which was Web24 Group Pty Ltd. (“Web24”).⁹ Based on FE1’s knowledge
10 of the hosting industry and experience actively acquiring hosting firms for six years
11 prior to joining J2, it was FE1’s opinion that J2 paid too much for Web24. The second
12 acquisition was of a small Sydney-based hosting company, AUSweb, for under a
13 million dollars.¹⁰ FE1 believed van der Weijden overvalued AUSweb because the
14 income van der Weiden reviewed at the time he was vetting the deal was several
15 months out of date as the company had been moving its customer base, and the income
16 was not re-reviewed at the time of the acquisition. FE1 was just told the deal was done
17 and to integrate it, which FE1 did and only learned that revenues were not what van
18 der Weijden said they were when they hit FE1’s P&L (profit and loss statement) at a
19 much lower starting point than had been expected. FE1 made the decision to shut
20 down the AUSweb brand after tracking customer revenues and subscription revenues
21 for 12 months using a billing platform through a vendor called Parallel and integrating
22

23 ⁹ Press Release, Business Wire, *J2 Global Acquires Web24 Group Pty Ltd.* (Sept.
24 22, 2014), <https://www.businesswire.com/news/home/20140922005050/en/j2-Global-Acquires-Web24-Group-Pty-Ltd>. (last visited Nov. 18, 2020).

25 ¹⁰ Press Release, Business Wire, *J2 Global® Completes Four Acquisitions in Q4 of*
26 *2015 – 24 Acquisitions in FY 2015* (Jan. 14, 2015),
27 <https://www.businesswire.com/news/home/20160114005016/en/j2-Global%C2%AE-Completes-Four-Acquisitions-in-Q4-of-2015-> (last visited Nov.
28 18, 2020).

1 everything into Web24. The shutdown of the AUSweb business was always part of
2 the plan at the time of the acquisition; the 12 months was to enable the transfer of
3 AUSweb customers to Web24. Based on FE1's understanding, the financial
4 integration was done at the J2 Australia subsidiary level and even though J2 Australia
5 was reported into the United States, there was no visibility or transparency outside of
6 J2 as to specific transactions.

7 55. FE1 was told not to talk publicly about new acquisitions, how much was
8 paid for them, or how they were performing. Singh told FE1 that not publicly talking
9 about new acquisitions was intentional and deliberate by the Board because, then,
10 analysts could not track individual entities and would have to track the consolidated
11 entity. FE1 recalls this information in the context of an article that came out in which
12 Fonebox's founder, Jordan Grives, stated his company had been acquired for more
13 than J2 had actually paid.¹¹ FE1 received a video call from Singh within days, if not
14 24 hours, of that article coming out during which Singh informed FE1 of J2's position.

15 56. FE2, J2's former Global Head of Human Resources from July 2006 to
16 December 2016, was based in Los Angeles, California and worked directly with van
17 der Weijden to conduct approximately 100 mergers and acquisitions during that time.
18 FE2 led teams within multiple divisions and business lines, managing human
19 resources, benefits and leave administration for over 2,000 employees, including van
20 der Weijden.

21 57. FE2 recalled that van der Weijden was compensated based on the number
22 of firms he acquired, not the quality of the firms or the success of the subsequent
23 mergers. As a result, he was incentivized to purchase as many firms as possible
24 without conducting the proper due diligence necessary to ensure the new firm added

25 ¹¹ James Harkness, *Fonebox founder Jordan Grives sells telco service provider for a*
26 *reported \$30 million*, Dynamic Business (Oct. 21, 2016),
27 [https://dynamicbusiness.com.au/leadership-2/entrepreneur-profile/fonebox-founder-](https://dynamicbusiness.com.au/leadership-2/entrepreneur-profile/fonebox-founder-jordan-grives-sells-telco-service-provider-for-a-reported-30-million.html)
28 [jordan-grives-sells-telco-service-provider-for-a-reported-30-million.html](https://dynamicbusiness.com.au/leadership-2/entrepreneur-profile/fonebox-founder-jordan-grives-sells-telco-service-provider-for-a-reported-30-million.html).

1 value to J2. FE2 further stated that FE2 constantly pressured van der Weijden to
2 conduct more research into potential acquisitions, but he refused to heed that advice.
3 FE2 clarified that, while FE2 ensured that J2 conducted rigorous human resources
4 due diligence, J2 did not conduct strong accounting due diligence. FE2 added that van
5 der Weijden was unconcerned with uncovering if the target company was profitable
6 or if the merger was ultimately successful.

7 58. FE2 went on to say that van der Weijden reported directly to Zucker,
8 Turicchi, and Ressler and that they signed off on “every” acquisition. FE2 further
9 stated that Zucker and Turicchi were aware of van der Weijden’s lack of due diligence
10 and that FE2 was present at meetings where acquisitions through van der Weijden
11 were discussed amongst the executives referenced above.

12 59. According to FE2, van der Weijden initially worked for J2 as a consultant
13 and his compensation was a percentage of each sale, but joined J2 as a full-time
14 employee in 2015 and was given a salary, stocks, and an annual performance bonus.
15 FE2 explained that at the time van der Weijden joined J2 as an employee, he wanted
16 to bring his longtime girlfriend with him from The Netherlands to the United States
17 but was unable to obtain a work visa for her and “refused to marry her.” According
18 to FE2, instead van der Weijden made his girlfriend an employee of his personal
19 consulting firm, VDW, and insisted that J2 acquire VDW so that his girlfriend could
20 come to the United States as an employee of J2. FE2 stated that J2 acquiesced to van
21 der Weijden’s demands and acquired VDW for \$900,000, which J2 considered to be
22 a bonus to van der Weijden. FE2 added that FE2 was present at meetings with van
23 der Weijden, Turicchi, and Zucker where van der Weijden’s compensation structure
24 and his girlfriend’s visa status were discussed. FE2 relayed that van der Weijden
25 threatened to leave J2 unless Turicchi and Zucker accommodated his demand to bring
26 his girlfriend to the United States, at which point the discussions became private and
27 FE2 no longer participated.

1 60. FE2 stated that J2’s Board dictated that van der Weijden hit a target of six
2 acquisitions per quarter from 2012 through December 2016 when FE2 left. FE2 stated
3 that van der Weijden therefore had a great deal of sway at J2. FE2 further stated that
4 van der Weijden’s demands were always met because otherwise he threatened to “turn
5 off the spigot.” FE2 confirmed that van der Weijden directly threatened FE2 that he
6 would “turn off the spigot.”

7 61. In addition, FE2 stated that Zucker was “obsessed with numbers” and that
8 “budgets ruled J2.” FE2 added that the accounting team sent “a ton of reports” to
9 Zucker and Turicchi and that department heads had weekly meetings with Zucker
10 after receiving weekly reports from each of their team leaders. FE2 recounted that
11 Zucker preferred a “red light, yellow light, green light” structure to meetings while
12 Turicchi’s style was more informal. FE2 went on to say that the accounting systems
13 used to generate reports varied by business segment, but that the final reports were
14 always sent either as an Excel file or Word document.

15 62. According to FE2, J2 overpaid for Web24 mainly due to lack of pre-
16 acquisition research and understanding of the internet domain industry. FE2 stated
17 that after the acquisition, J2 discovered that most of Web24’s labor was already
18 cheaply outsourced. FE2 explained that Web24 was thus already run too cheaply to
19 make it profitable without significant innovation – which J2 did not do based on its
20 strict “no innovation” policy, *i.e.* its strategy of cutting operating costs of newly-
21 acquired companies rather than significantly overhauling operations. FE2 further
22 explained that “there is no money” in the internet domain industry and internet
23 domain companies like GoDaddy turn a profit by selling other services.

24 63. FE3, a former Senior Financial Analyst for J2 from July 2017 until
25 February 2018, was a member of the Financial Planning, Reporting & Analysis group
26 at J2 and was responsible for consolidating user data, analyzing revenue streams and
27 reconciling financial data.

1 64. FE3 stated that J2 operated on “paper-thin” margins and that it was
2 difficult to ascertain J2’s precise financial condition since each new company that J2
3 acquired had its own unique accounting system. According to FE3, since there were
4 “hundreds of companies” and several different accounting systems, it was difficult to
5 “line up the numbers” and verify the financial data.

6 65. FE3 further stated that J2 operated newly acquired businesses “as leanly
7 as possible” and, as a rule, did not reinvest in those companies. As a result, according
8 to FE3, there were many missed opportunities for J2 to reinvest in and grow certain
9 of its acquired businesses – including a cloud software services company from
10 Australia which was purchased at a time when J2 could have been a major player in
11 the cloud services sector.

12 66. FE4 worked as part of J2’s Financial Planning and Analysis (“FP&A”) organization until mid-2015. As part of the Company’s FP&A organization, FE4 was
13 in the reporting line of Vice President Milton Rodriguez, who reported to Defendant
14 Turicchi. According to FE4, J2 experienced “zero organic growth” from their core
15 digital fax business and survived by acquiring as many competitors and smaller
16 companies as possible. FE4 recalled that van der Weijden would source companies
17 and purchase as many as six companies per quarter. FE4 stated that J2 performed
18 “very little due diligence” on the companies they purchased. FE4 elaborated that due
19 diligence at J2 consisted of running a simple compound annual growth rate (CAGR)
20 model to forecast revenue on an annual basis, a process that took “a week or two.”

21 67. FE4 stated that Turicchi and Zucker received regular financial reports
22 about J2’s financial condition, including a daily report detailing customers added and
23 lost. FE4 stated that the daily report was “highly used” at J2 and that Turicchi and
24 Zucker occasionally responded to the circulated report to ask about declines in
25 revenue. Specifically, FE4 recounted that if a specific business unit was “plus or
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28

1 minus” 5%, executives, including Zucker and Turicchi, would ask questions as to
2 “what happened.”

3 68. FE4 recalled that J2 experienced zero organic growth from their core
4 digital fax business because FE4, as part of the Company’s FP&A organization, had
5 access to all revenue information, including a monthly product revenue report that
6 was sent to Defendant Turicchi.

7 69. On October 12, 2017, J2 announced the sale of its Australian hosting
8 business, which had integrated AUSweb and other small hosting companies into
9 Web24.¹² Because the terms of these acquisitions have never been disclosed to the
10 market, investors have no idea whether and how successful J2’s integration efforts
11 were and what savings and synergies, if any, were created by J2.

12 70. Without providing more information about how J2 Australia has been
13 performing in J2’s financial statements, the market has been unable to accurately
14 gauge the strength of J2’s acquisition system or strategy.

15 **D. Acquisitions Enriching J2 Insiders**

16 **1. The Pre-Class Period Jump Acquisition**

17 71. Based on his LinkedIn page, van der Weijden was the VP of Corporate
18 Development of J2 from September 2009 to August 2018. During his tenure, he
19 purportedly “[m]anag[ed] client relationships at the *C-level*, including the
20 identification and pursuit of new business opportunities via existing networks, as well
21 as through developing new relationships and providing technical valuation advice.”¹³
22
23

24 ¹² Press Release, Business Wire, *J2 Global Completes Two Acquisitions in Q3 2017;*
25 *Announces Two Additional Divestitures; Updates 2017 Guidance* (Oct. 12, 2017),
26 [https://www.businesswire.com/news/home/20171012005480/en/j2-Global-
Completes-Acquisitions-Q3-2017-Announces](https://www.businesswire.com/news/home/20171012005480/en/j2-Global-Completes-Acquisitions-Q3-2017-Announces) (last visited Nov. 18, 2020).

27 ¹³ Jeroen van der Weijden, LINKEDIN, [https://www.linkedin.com/in/jeroen-van-der-
weijden-2331a7/](https://www.linkedin.com/in/jeroen-van-der-weijden-2331a7/) (last visited Nov. 18, 2020.)
28

1 72. Van der Weijden also purportedly “[s]ourc[ed] and handl[ed] over 135
2 M&A transactions, while managing all aspects of the acquisition process from
3 scoping, planning, execution, follow-up and reporting.”¹⁴ Based on J2 having
4 purportedly acquired 186 businesses since 1995, van der Weijden has sourced and
5 handled nearly 73% of the Company’s acquisitions.

6 73. In March 2004, J2 paid \$1 to \$2 million to acquire Jump B.V., a
7 Netherlands-based provider of fax-to-email and unified messaging services founded
8 by van der Weijden.¹⁵

9 74. In March 2014, Jump was reorganized as J2 Global (Netherlands) B.V.
10 and registered to van der Weijden’s personal residence (Pieter Pauwstraat 2 A-I
11 1017ZJ Amsterdam). Dutch real estate records confirm that the 400 square feet
12 residence belonged to van der Weijden.

13 2. The VDW Acquisition

14 75. During 3Q15, J2 then acquired the intellectual property of “VDW
15 (Netherlands),” at which time van der Weijden was its sole employee¹⁶ and was barely
16 in the process of commencing its licensing program. J2’s only disclosure regarding
17 the VDW Acquisition was a press release on October 5, 2015 announcing the
18 acquisition of nine business which “will grow the Company’s global customer base,
19 provide access to new markets and expand j2’s product lineup.” The press release
20 simply listed “VDW (Netherlands)” under “Intellectual Property.”¹⁷ There was no

21 ¹⁴ *Id.*

22 ¹⁵ J2 Global Communications, Inc. Quarterly Report (Form 10-Q), at 8 (Aug. 9,
23 2004); The Globe and Mail, *J2 Global to acquire Electric Mail* (Jan. 22, 2004),
24 <https://www.theglobeandmail.com/technology/j2-global-to-acquire-electric-mail/article20427196/#:~:text=22%20%2D%20The%20Electric%20Mail%20Company,Global%20will%20pay%20to%20Electric> (last visited Nov. 18, 2020).

25 ¹⁶ *Supra* note 4.

26 ¹⁷ Press Release, BusinessWire, *J2 Global Raises Guidance* (Oct. 5, 2015),
27 <https://www.businesswire.com/news/home/20151005005526/en/j2-Global%C2%AE-Raises-Guidance> (last visited Nov. 18, 2020).

1 mention of the conflict.

2 76. J2's Form 10-K for fiscal year ("FY") 2015 did not identify, provide the
3 purchase price, or otherwise give any additional color on the VDW Acquisition. In its
4 June 30, 2020 response to the Hindenburg Report ("J2 Response")—*i.e.*, five years
5 after the acquisition—J2 for the first time confirmed that it had paid van der Weijden
6 approximately \$900,000 for his "Intellectual Property."¹⁸

7 77. Based on Dutch corporate records, the full name of the company was Van
8 der Weijden M&A Consultancy BV and it had been set up just eleven months earlier
9 (December 2014) under van der Weijden's name and registered to his personal
10 residence (Pieter Pauwstraat 2 AH 1017ZJ Amsterdam). Those same records confirm
11 the company had zero "Working people," *i.e.*, employees, that its activities included
12 the "[m]anagement and operational management consultancy," and that it was
13 dissolved in October 2019, shortly after van der Weijden left J2.¹⁹

14 78. Approximately one month after the VDW Acquisition, van der Weijden
15 purchased a "Studio City Hills Estate" in California for \$2.5 million which came with
16 a solar heated saltwater pool, tennis court, gym and steam room.²⁰

17 79. Despite van der Weijden's LinkedIn profile and the Dutch corporate
18 records demonstrating otherwise, J2's Response on June 30, 2020 claimed that van
19 der Weijden was a consultant for J2 from 2004 until his consulting business was
20

21 _____
22 ¹⁸ Press Release, Business Wire, *J2 Global Responds to False Claims and*
23 *Distortions in Short-Seller "Research" Report* (June 30, 2020),
[https://www.businesswire.com/news/home/20200630006133/en/J2-Global-](https://www.businesswire.com/news/home/20200630006133/en/J2-Global-Responds-False-Claims-Distortions-Short-Seller)
24 [Responds-False-Claims-Distortions-Short-Seller](https://www.businesswire.com/news/home/20200630006133/en/J2-Global-Responds-False-Claims-Distortions-Short-Seller) (last visited Nov. 18, 2020).

25 ¹⁹ Van der Weijden M&A Consultancy BV,
[https://www.oozo.nl/bedrijven/amsterdam/de-](https://www.oozo.nl/bedrijven/amsterdam/de-weteringschans/frederikspleinbuurt/1066039/van-der-weijden-m-a-consultancy-b-v)
26 [weteringschans/frederikspleinbuurt/1066039/van-der-weijden-m-a-consultancy-b-v](https://www.oozo.nl/bedrijven/amsterdam/de-weteringschans/frederikspleinbuurt/1066039/van-der-weijden-m-a-consultancy-b-v)
(last visited Nov. 18, 2020).

27 ²⁰ Zillow, [https://www.zillow.com/homedetails/11920-Laurel-Hills-Rd-Studio-City-](https://www.zillow.com/homedetails/11920-Laurel-Hills-Rd-Studio-City-CA-91604/20030283_zpid/)
28 [CA-91604/20030283_zpid/](https://www.zillow.com/homedetails/11920-Laurel-Hills-Rd-Studio-City-CA-91604/20030283_zpid/) (last visited Nov. 18, 2020).

1 acquired by J2 in 2015, after which time he became a full-time employee of J2.
2 Coincidentally, 2004 was when J2 acquired Jump.²¹

3 80. Furthermore, publicly available documents in the UK show that from
4 May 2014 to January 2016, van der Weijden was a director of J2 UK, an arm of J2
5 Ireland, which was ultimately controlled by J2.²² Indeed, van der Weijden signed the
6 company’s statement of director responsibilities on March 6, 2015 “on behalf of the
7 board” of J2 UK.²³

8 81. Thus, indisputable public records show that van der Weijden set up his
9 consulting company just six months after becoming a director of a J2 subsidiary, and
10 that—just 11 months later— and while still a director of that J2 subsidiary, sold that
11 new business, with no employees, and no office, to J2 for \$900,000.

12 82. Because, *inter alia*, Defendants chose to disclose the VDW Acquisition,
13 they had a duty to fully disclose that a related party was involved in the transaction.
14 But they failed to do so.

15 3. The \$200 Million Investment in Orchard Capital²⁴

16 83. Ressler has been the Board Chairman and a director of J2 since 1997. He
17 also served as J2’s CEO from 1997 to 2000.

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19 ²¹ *Supra* note 17.

20 ²² Steve Goldstein, Under attack from short seller, J2 Global says it bought company
21 from a consultant – documents indicate there’s more to the story, MARKET WATCH
22 (July 7, 2020), ([https://www.marketwatch.com/story/under-attack-from-short-seller-
23 j2-global-says-it-bought-company-from-a-consultant-documents-indicate-theres-
24 more-to-the-story-2020-07-06?mod=newsviewer_click](https://www.marketwatch.com/story/under-attack-from-short-seller-j2-global-says-it-bought-company-from-a-consultant-documents-indicate-theres-more-to-the-story-2020-07-06?mod=newsviewer_click) (last visited Nov. 18, 2020).

25 ²³ J2 Global UK Limited, *Abbreviated Financial Statements, Accounts for a small
26 company* made up to 31 December 2013 (Mar. 25, 2015), [https://find-and-
27 update.company-information.service.gov.uk/company/03721601/filing-
28 history?page=1](https://find-and-update.company-information.service.gov.uk/company/03721601/filing-history?page=1) (last visited Nov. 18, 2020).

²⁴ For the Court’s convenience Plaintiff has appended a summary of the long and
complex relationships between these allegedly “independent directors” and
incorporates it herein. *See Appendix A.*

1 84. Ressler is the majority equity holder of the investment fund OCV Fund I,
2 LP's ("the Fund") General Partner, OCV I GP, LLC ("OCV I"). He is also the
3 majority equity holder of the Fund's manager, OCV Management, LLC ("OCV")
4 located at 4700 Wilshire Blvd., Los Angeles, CA 90010.²⁵

5 85. Ressler is also the founder and President of Orchard Capital, an
6 investment fund, and uses OCV as an affiliate through which he oversees companies
7 in which Orchard Capital or its affiliates invest.

8 86. On September 25, 2017, the Board and AC authorized J2 to invest \$200
9 million in the Fund ("Orchard Investment"). At that time, Defendant Zucker was J2's
10 CEO, Ressler was J2's Board Chairman, and Loshitzer was an EVP at J2.²⁶ J2 made
11 paltry limited disclosures that Ressler and Zucker held significant equity and
12 management powers in OCV and OCV 1 GP. As detailed below, however, these
13 disclosures were nowhere near sufficient, failed to disclose the true extent of the
14 relationships, the board's lack of independence, and the true extent of the plan to
15 eventually take this money for themselves.

16 87. Loshitzer has served as J2's EVP of Corporate Strategy since 2001 and
17 had served as J2's Chief Information Officer from 1997 to 2001. Loshitzer has also
18 been a principal of OCV since 2005.²⁷

19 88. Just three days after J2 made the Orchard Investment, on September 28,
20 2017, J2 named Defendant Shah CEO of J2 and announced that Defendant Zucker
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24 ²⁵ Bloomberg, OCV Management LLC,
25 <https://www.bloomberg.com/profile/company/1491771D:US> (last visited Nov. 18,
26 2020); OCV Team, <http://ocvpartners.com/team/> (last visited Nov. 18, 2020).

26 ²⁶ J2 Global, Inc., Quarterly Report (Form 10-Q), at 21 (May 11, 2020).

27 ²⁷ Presbia.com, *Zohar Loshitzer, Executive Chairman and Executive Officer*,
28 <https://presbia.com/presbia-team/#direct> (last visited Nov. 18, 2020).

1 would be joining OCV as a co-managing principal – both effective January 1, 2018.²⁸
2 Shah’s incredible compensation, granted nearly simultaneously with the \$200 million
3 being diverted from J2 to insiders, is a major red flag. Specifically, in addition to
4 Defendant Shah’s \$1 million annual salary, the Company’s Compensation Committee
5 established the “Shah Equity Award”, awarding Mr. Shah an upfront long-term equity
6 award, consisting of 400,000 stock options, 400,000 performance-based restricted
7 shares, and 200,000 time-based restricted shares “to incentivize Mr. Shah during his
8 tenure as [CEO].” Through this promotion, Defendant Shah realized a **total**
9 **compensation of more than \$45 Million** for 2018. For perspective, Defendant Zucker
10 only saw a total compensation of just over \$5 Million for 2017.

11 89. Pursuant to an agreement between J2 and the Fund (the “Investment
12 Agreement”), the Fund has purportedly invested in or acquired other companies on
13 behalf of J2 – using the funds provided by J2.²⁹ As detailed below, many of these
14 subsequent investments and acquisitions have involved insiders, but contained none
15 of the required disclosures. In essence then, J2’s commitment of \$200 million to OCV
16 (where there was some limited, but deficient disclosure) appears to have been a patent
17 attempt to hide how that \$200 million account would later be used to enrich insiders.
18 Defendants rationale being, apparently, that once the money left J2 in the OCV
19 transaction, subsequent use of the money wouldn’t be scrutinized.

20 90. In addition to this \$200 million “investment,” J2 has been required to pay
21 OCV millions of dollars in management fees each year pursuant to an agreement
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23
24 ²⁸ Press Release, Business Wire, *J2 Global Announces Vivek Shah to Become Chief*
25 *Executive Officer in January 2018* (Sept. 28, 2017),
26 <https://www.businesswire.com/news/home/20170928005358/en/j2-Global-Announces-Vivek-Shah-Chief-Executive> (last visited Nov. 18, 2020); J2 Global,
27 *Vivek Shah, Chief Executive Officer*,
28 <https://www.j2global.com/about/leadership/vivek-shah/> (last visited Nov. 18, 2020).

²⁹ J2 Global, Inc., Quarterly Report (Form 10-Q), at 21 (May 11, 2020).

1 between J2 and OCV. Specifically, J2 paid OCV over \$36 million in 2018 and \$29
2 million in 2019.³⁰

3 91. The AC, comprised of Chairman Kretzmer and committee members
4 Stephen Ross, Jon Miller, and Scott C. Taylor, approved the Investment Agreement.
5 Kretzmer and Ross, published by J2 to be “independent” directors, both had multiple
6 overlapping business relationships with Ressler and each other.³¹

7 92. Kretzmer was elected to the Board in July 2007 and held out as an
8 “independent” director. *Id.* Despite this alleged “independence,” his firm, Kretzmer
9 Consulting, did M&A consulting for Orchard Capital between 2016 and 2017. That
10 work consisted of identifying acquisition opportunities and assisting with acquisition
11 due diligence/agreements. Further, in February 2018, mere months after approving
12 the Orchard Investment, Kretzmer became an independent director for CIM Real
13 Estate Finance Trust Inc., a company founded by Ressler.³² None of this was ever
14 disclosed by J2.

15 93. Kretzmer also shared a long business history with Ressler, Loshitzer, and
16 Ross. Specifically, Kretzmer was the CEO of MAI Systems Corporation (“MAI”)
17 from 1999-2006 while Ressler was Chairman and Loshitzer and Ross were directors.
18 This wasn’t disclosed by J2.

19 94. Ross, also held out to be “independent,” wasn’t either. Beyond being a
20 director at MAI, Ross also chaired a special committee that approved a reverse stock

21 ³⁰ J2 Global, Inc., Annual Report (Form 10-K), at 88 (Mar. 2, 2020); OCV Fund I,
22 L.P., *Second Amended and Restated Limited Partnership Agreement, Exhibit 10.9*,
23 [https://www.sec.gov/Archives/edgar/data/1084048/000108404818000001/jcom2017](https://www.sec.gov/Archives/edgar/data/1084048/000108404818000001/jcom20171231ex-109.htm)
24 [1231ex-109.htm](https://www.sec.gov/Archives/edgar/data/1084048/000108404818000001/jcom20171231ex-109.htm) (last visited Nov. 18, 2020).

25 ³¹ Press Release, Business Wire, *J2 Global Names Two Additional Independent*
26 *Directors* (July 30, 2007),
27 [https://www.businesswire.com/news/home/20070730005210/en/j2-Global-Names-](https://www.businesswire.com/news/home/20070730005210/en/j2-Global-Names-Additional-Independent-Directors)
28 [Additional-Independent-Directors](https://www.businesswire.com/news/home/20070730005210/en/j2-Global-Names-Additional-Independent-Directors) (last visited Nov. 18, 2020); Mai Systems Corp.,
Schedule 14C, at 9 (Mar. 24, 2004).

³² Mai Systems Corp., Annual Report (Form 10-K), at 19 (Apr. 15, 2002).

1 split deal which explicitly benefited Ressler. The deal increased Orchard Capital’s
2 ownership in MAI at the expense of public investors by decreasing liquidity. Further,
3 when the reverse stock split deal was approved, Ross’s son, Avidan Ross, was
4 employed at CIM Group, Inc. (“CIM Group”), another company co-founded by
5 Ressler. After the approval, Ross’s son became CIM Group’s Chief Technology
6 Officer. CIM Group manages CIM Commercial Trust Corp. (“CMCT”), where
7 Ressler is the Chairman, two J2 Directors (Douglas Bech and Robert Cresci) are also
8 directors, and its headquarters are registered to the same address as Ressler’s other
9 company, OCV (4700 Wilshire Blvd., Los Angeles, CA, 90010).³³ Unsuprisingly, J2
10 has never disclosed these relationships either.

11 95. As principals of OCV, Defendant Zucker, Ressler, and Loshitzer have,
12 and continue to, profit handsomely from the management fees J2 pays OCV each
13 year.³⁴

14 96. There was no business justification for the Orchard Investment because
15 J2 was already in the business of investing in and acquiring other companies, so
16 investing in another private equity company doesn’t seem to serve much purpose.

17 97. That’s expecially the case since OCV had a sparse, indeed poor, track
18 record of investing in companies – many of which, unsuprisingly continued the
19 incestuous pattern of self-enrichment described above. Indeed, OCV had just been
20 formed a year prior to J2’s \$200 million funding commitment.

21 98. For example, one of the companies Orchard Capital had invested in was
22 Universal Telecom Services, Inc. (“Universal Telecom”). Universal Telecom,
23 however, had already been dissolved by December 2016. Further, Defendant Zucker
24

25 ³³ Mai Systems Corp., Schedule 14C, at 9 (Mar. 24, 2004); OCV Management,
26 LLC, Contact, <http://ocvpartners.com/contact/>, (last visited Nov.18, 2020).

27 ³⁴ J2 Global, Inc., Annual Report (Form 10-K), at 88 (Mar. 2, 2020); OCV FUND I,
28 L.P., Second Amended and Restated Limited Partnership Agreement (Exhibit 10.9),
at 2 (Jan. 19, 2018).

1 was the failed company’s President and CEO, Loshitzer was an officer, and
2 Kretzmer’s consulting firm had consulted for it.³⁵ Another example is Orchard
3 Capital’s investment in Presbia PLC (“Presbia”), which went public in 2015,³⁶ but
4 filed for delisting and registration termination in 2019. Unsurprisingly, Presbia’s board
5 included Ressler and Loshitzer as well as Cresci (a J2 board member) and Mark Yung
6 (OCV’s managing principal). It didn’t end there. Defendant Zucker was a board
7 member and the CEO of Presbia’s parent company (Presbia Holdings). And Loshitzer
8 was the CEO of two entities related to Presbia: (i) PresibiBio, LLC, (which had the
9 same address as J2); and (ii) Presbia Coopertief, U.A., (which used van der Weijen’s
10 personal residence at its address).³⁷

11 99. As a final example, Orchard Capital invested approximately \$12M into
12 Red Carpet Home Cinema (“Red Carpet”). Unsurprisingly, Red Carpet was a new
13 startup formed by Ressler’s nephew (Benjamin Black) where both Defendant Zucker
14 and Ressler served as board members. Even more strikingly, however, is that Orchard
15 Capital’s substantial investment was made on the same day Red Carpet was founded
16 and before it had any revenue at all.³⁸ This violated OCV Fund’s own guidelines,
17 which states that it invests \$5 million to \$20 million in companies that “[d]emonstrate
18 *revenue traction of \$5+ million* with unique intellectual property for information
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20 ³⁵ *Supra* note 2.

21 ³⁶ *Presbia prices IPO at \$10, below the range*, NASDAQ (Jan. 20, 2015),
22 <https://www.nasdaq.com/articles/presbia-prices-ipo-10-below-range-2015-01-29>
(last visited Nov. 18, 2020).

23 ³⁷ Presbia Brochure, [https://presbia.com/media/LBL-50-009-F-MICROLENS-](https://presbia.com/media/LBL-50-009-F-MICROLENS-PATIENT-BROCHUREOUS-ENGLISH-compressed.pdf)
24 [PATIENT-BROCHUREOUS-ENGLISH-compressed.pdf](https://presbia.com/media/LBL-50-009-F-MICROLENS-PATIENT-BROCHUREOUS-ENGLISH-compressed.pdf) (last visited Nov. 18,
2020).

25 ³⁸ Secretary of State, *Application to Register LLC*,
26 [https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201827510259-](https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201827510259-24932229)
27 [24932229](https://businesssearch.sos.ca.gov/Document/RetrievePDF?Id=201827510259-24932229) (last visted Nov. 18, 2020); Red Carpet Home Cinema,
28 <https://www.redcarpethomecinema.com/how-it-works> (last visited Nov. 18, 2020);
J2 Global, Inc., Quarterly Report (Form 10-Q), at 45 (May 10, 2018).

1 technology, e-commerce, media and telecommunications, and clean technology.”³⁹
2 Red Carpet’s business strategy targets a very narrow market, is quite questionable,
3 and two prior companies offering similar services (Screening Room and Prima
4 Cinema) have failed.⁴⁰ Predictably, it likely needed more capital. Which would
5 explain why the first capital call from OCV fund to J2 coincided with Black working
6 for OCV as a Principal and then leaving to be Red Carpet’s CFO.⁴¹

7 100. One look at OCV’s current “portfolio”⁴² demonstrates this insider dealing
8 and enrichment hasn’t slowed. For example, OCV’s “portfolio” of companies
9 include: Techstyle Fashion Group which has Don Ressler as one its Co-CEOs; By
10 Heart, SafeBreach, and Social Native which all include Defendant Zucker on their
11 board of directors. Red Carpet Home Cinema has both Zucker and Ressler on its
12 board.

13 101. Accordingly, unbeknownst to investors, the Orchard Investment heavily
14 benefitted Defendant Zucker and corporate insiders Ressler and Loshitzer through the
15 millions of dollars in management fees J2 has been required to pay as well as the
16 continued funding of Defendant Zucker, Ressler, and Loshitzer’s ventures.

17 102. Because Defendants chose to disclose the Orchard Investment and were
18 paying OCV millions of dollars in management fees, they had a duty to fully disclose
19 that related parties were involved not only in the Orchard Investment, but that related
20 parties were involved in the companies OCV was investing in. Their failure to do so
21 appears to have been a clear attempt to siphon off a fund of \$200 million into a
22 personal slush fund that would not be subject to the transparency required of J2’s
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24 ³⁹ OCV Strategy, <http://ocvpartners.com/strategy/> (last visited Nov. 18, 2020).

25 ⁴⁰ Brandon Katz, *Will Hollywood Ever Allow Us to Stream New Theatrical Releases*
26 *at Home?*, OBSERVER (Apr. 18, 2019), [https://observer.com/2019/04/streaming-vs-](https://observer.com/2019/04/streaming-vs-movies-box-office-screening-room/)
[movies-box-office-screening-room/](https://observer.com/2019/04/streaming-vs-movies-box-office-screening-room/) (last visited Nov. 18, 2020).

27 ⁴¹ J2 Global, Inc., Quarterly Report (Form 10-Q), at 45 (May 10, 2018).

28 ⁴² OCV Portfolio, <http://ocvpartners.com/portfolio/> (last visited Nov. 18, 2020).

1 funds. Plaintiff has attached a chart reflecting the web of related parties to this
2 complaint as **Appendix B** and incorporates it herein.

3 **E. Hiding Underperforming Acquisitions**

4 103. J2 has been able to hide underperforming acquisitions – particularly
5 international ones – by building in liabilities at the time of the acquisition and by not
6 taking impairment charges even after the acquired companies failed to generate the
7 financial results expected of them at the time of purchase.

8 104. J2 has been able to get away with this scheme for years because as
9 Defendants well know, the market can only analyze what they have disclosed, which
10 is the Company’s consolidated, rolled up financials. Defendants have purposefully
11 provided very few disclosures regarding the Company’s acquisitions on an individual
12 level and have never broken out any acquired companies’ financials. Any potentially
13 impaired assets or losses on any individual acquisition may not technically be material
14 on its own and thus would not be disclosed.

15 105. As an investor relations representative of J2 informed Hindenberg
16 Research, “[a]ll these tuck in acquisitions, they kinda just get shoved in to the broader
17 J2 umbrella, within the business unit, within the division – and they don’t really get
18 tracked anymore. It’s impossible to track the revenue that derives from ‘Acquisition
19 Y’ versus what was there before. And the costs of course get blended together. It’s
20 really hard to track some of these tuck-in M&A.”

1 **1. The material underperformance of J2 Ireland**

2 106. On May 15, 2014, while van der Weijden resided in the Netherlands, he
3 was appointed to be a director of J2 UK, an arm of J2 Ireland, which was ultimately
4 controlled by J2.⁴³ He remained a director until January 13, 2016.⁴⁴

5 107. Based on international filings, J2 Ireland was a wholly owned subsidiary
6 of J2 Holdings, which was an Irish company ultimately controlled by J2.

7 108. In 2015, J2 Ireland took a €22.1 million charge, but J2 Holdings took zero
8 impairments that year. Nor did J2 disclose anything regarding this goodwill
9 impairment charge in its financial statements for 2015.

10 109. Subsequently, J2 Ireland showed significant declines in both revenue and
11 operating income from 2016 to 2018:

J2 Ireland	2016	2017	2018
Total Revenue (\$USD) ⁴⁵	\$101,693,900	\$103,806,820	\$82,379,151
<i>y/y growth</i>		2.1%	(20.6%)
Operating Income	\$5,556,217	(\$11,879,064)	(\$13,298,722)

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17 110. This decline in revenue and operating income reflects the deterioration in
18 value of European assets in subsidiaries of J2 Ireland:

Revenue - \$USD	2016	2017	2018
Livedrive	\$25,388,640	\$25,588,840	\$23,838,984

19
20
21
22 ⁴³ J2 Global UK Ltd., **Appointment** of Jeroen Clemens Maria Van Der Weijden as
23 a director (June 13, 2014), [https://find-and-update.company-
24 information.service.gov.uk/company/03721601/filing-history?page=2](https://find-and-update.company-information.service.gov.uk/company/03721601/filing-history?page=2) (last visited
25 Nov. 18, 2020).

26 ⁴⁴ J2 Global UK Ltd., **Termination** of Jeroen Clemens Maria Van Der Weijden as a
27 director (Jan. 13, 2016), [https://find-and-update.company-
28 information.service.gov.uk/company/03721601/filing-history?page=1](https://find-and-update.company-information.service.gov.uk/company/03721601/filing-history?page=1), (last visited
Nov. 18, 2020).

⁴⁵ Converted to US dollars from Euros.

Comendo	\$8,474,978	\$6,303,502	\$4,799,112
Callstream	\$7,348,775	\$10,065,193	\$8,354,168
WeCloud	\$4,915,197	\$5,878,372	\$3,614,333
Stay Secure	\$4,589,518	\$4,019,575	\$4,699,162
City Numbers	\$4,054,081	\$4,279,035	\$4,641,225
Keepitsafe	\$1,589,128	\$1,012,470	\$740,162

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111. Yet as of December 31, 2018, J2 Holdings still had a goodwill balance of \$4.3 million (calculated based on the cost of goodwill being \$24.6 million with a provision for diminution in value of \$20.3 million). J2 Holdings has not disclosed what, if any, of that goodwill is associated with assets of J2 Ireland’s subsidiaries. Nor has J2 made any disclosures about the material underperformance of J2 Ireland from 2016 to 2018.

112. Without providing more information about how J2 Ireland had been performing in J2’s financial statements, the market has been unable to accurately gauge how successful J2’s acquisitions have been in Europe.

2. The material underperformance of Everyday Health

113. In December 2016, J2 made its largest acquisition ever – Everyday Health for \$493 million. Everyday Health was a publicly traded digital media company with the ticker EVRY which owned various websites and produced content relating to health and wellness.

114. As of September 30, 2016, Everyday Health’s revenue over the prior twelve months (“LTM”) had been \$254 million. But in the first year after J2 acquired Everyday Health, that division’s revenue declined precipitously by approximately 25% to \$171 million. Everyday Health’s revenue slightly improved to \$175 million in 2018 and then to \$211.3 million in 2019, but has still not reached pre-acquisition

1 levels despite J2 folding five subsequent acquisitions – and their revenues –into the
2 division.

3 115. Despite Everyday Health’s material underperformance, J2 has still not
4 taken a goodwill impairment. Instead, J2 has made two divestitures and five
5 acquisitions in its Everyday Health division, effectively obfuscating the true value of
6 the Everyday Health acquisition as profits and losses of six acquisitions have been
7 commingled in the division and two parts of the original Everyday Health company
8 have been sold off. Currently, approximately one-third of Digital Media’s goodwill
9 balance relates to the Everyday Health purchase.

10 116. While J2 explained the 2017 drop in revenue by characterizing it as a
11 period of “shrink to grow” where it was divesting assets from the Everyday Health
12 division, even after factoring the two divestitures from 2017, year-over-year (“YOY”)
13 revenue in the division declined by an estimated \$65 million, or 25%.

14 117. In addition, based on the “material level of unexplained liabilities
15 assumed relative to the size of Everyday Health’s operations” at the time of the
16 acquisition, J2 appears to “have built in, or springloaded, outsized reserves for future
17 use” so it does not need to take a goodwill charge later.⁴⁶ As of September 30, 2016
18 (the last quarter Everyday Health was public), its balance sheet listed accounts
19 payables and accrued expenses at \$45.1 million. But just two months later, this
20 account was listed at \$59.1 million in J2’s 2016 10-K – “31% (\$14.0 million) higher
21 when there doesn’t appear to be any seasonality or corresponding revenue growth to
22 go with it.” This “unexplained amount of acquired liabilities (\$14.0 million) was
23 equivalent to 89.1% of [Everyday Health’s trailing twelve month] TTM operating
24 profit (\$15.7 million) generated through 09/30/16.”

25 _____
26 ⁴⁶ GlassHouse Research, *Accounting Concerns Finally Catch up with the Roll-Up j2*
27 *Global* (Dec. 12, 2018)
28 http://www.glasshousersearch.com/uploads/8/9/6/9/89690703/jcom_final_-_copy.pdf (last visited Mar. 19, 2021).

1 118. Rather than disclosing that J2 overpaid for Everyday Health by taking a
2 goodwill charge, Defendants have done nothing but defend the success of the
3 Everyday Health acquisition.

4 **V. DEFENDANTS’ FALSE AND MISLEADING STATEMENTS⁴⁷**

5 119. Defendants should have made additional disclosures about the VDW
6 Acquisition and the Orchard Investment as related party transactions and the
7 underperformance of J2 Ireland and Everyday Health because such information
8 would have had an impact on the decision making of J2 investors. In addition,
9 Defendants should have made additional disclosures about how van der Weijden was
10 compensated based on the number of deals versus their quality when touting any
11 acquisition that he had sourced and managed. The only basis for Defendants not to
12 have made additional disclosures is if they had concluded that information about the
13 related parties and the underperformance would have had *no* impact on investors’
14 decision-making with respect to their ownership interests.

15 120. The Class Period begins on October 5, 2015 when J2 announced in a press
16 release that it had completed nine acquisitions in the third quarter of 2015 (“3Q15”) that “will grow the Company’s global customer base, provide access to new markets and expand j2’s product lineup,” including the “*Intellectual Property*” of “*VDW (Netherlands)*.”

20 121. The statement referenced in ¶120 was materially false and/or misleading
21 because Defendants misrepresented and/or failed to disclose the following adverse
22 fact pertaining to J2’s business, which was known to Defendants or recklessly
23 disregarded by them, that the \$900,000 VDW Acquisition was of an 11-month-old
24 consulting business which had no employees, was just now in the process of

25 _____
26 ⁴⁷ For ease of reference, Plaintiffs have attached hereto a chart of the statements
27 alleged to be false and/or misleading as **Appendix C**. The particular portions of the
28 statements alleged to be false and misleading are bold and italicized in this Section as well as in **Appendix C**.

1 commencing its licensing program, and was registered to the personal residence of
2 long-time corporate insider van der Weijden who, at the time of the VDW
3 Acquisition, was a director of J2 UK, an arm of J2 Ireland which was ultimately
4 owned by J2.

5 122. On November 3, 2015, during J2’s third quarter 2015 (“3Q15”) earnings
6 call, Turicchi stated that “[w]e’re extremely proud of the accomplishments of our
7 teams during this outstanding quarter where *a number of records were set...this*
8 *continues to validate our overall strategy*” and that “*part of the art of the teams that*
9 *we have built is that whether the markets are strong or weak or the economy is*
10 *strong or weak, [we know] where to look to find the right kind of deals that will fit*
11 *our model.*”

12 123. The statements referenced in ¶122 were materially false and/or
13 misleading because Defendants misrepresented and/or failed to disclose the following
14 adverse facts pertaining to J2’s business, operational and financial results, which was
15 known to Defendants or recklessly disregarded by them, that: (i) a material number
16 of deals were sourced and managed by van der Weijden and they all potentially had
17 questionable value and/or fit because he was being paid for the number of deals he
18 closed, not their quality or suitability and he caused J2 to acquire at least one company
19 belonging to insiders without adequate disclosures; (ii) the \$900,000 VDW
20 Acquisition was of an 11-month-old consulting business which had no employees,
21 was just now in the process of commencing its licensing program, and was registered
22 to the personal residence of long-time corporate insider van der Weijden who, at the
23 time of the VDW Acquisition, was a director of J2 UK, an arm of J2 Ireland which
24 was ultimately owned by J2; (iii) because J2 did not disclose the terms of its small
25 acquisitions, it was able to tout the successful results of the acquired business as based
26 on its value-add even though it actually did not add anything to the acquired business;

1 and (iv) that J2’s deals were not performing well and only appeared to be doing well
2 through Defendants’ misleading accounting.

3 124. In addition during the 3Q15 call, Turicchi stated “[o]ur IP Licensing
4 revenue was roughly flat at \$1.1 million. Our contribution of 57% in terms of
5 EBITDA margin I would note that as we’ve talked about it in the past *we continue to*
6 *make investments in some additional portfolios of intellectual property, which are*
7 *now actually in the process of commencing their licensing program.*”

8 125. The statement referenced in ¶124 was materially false and/or misleading
9 because Defendants misrepresented and/or failed to disclose the following adverse
10 fact pertaining to J2’s business, which was known to Defendants or recklessly
11 disregarded by them, that the intellectual property purchased as part of the VDW
12 Acquisition for \$900,000 was of an 11-month-old consulting business which had no
13 employees and was registered to the personal residence of long-time corporate insider
14 van der Weijden who, at the time of the VDW Acquisition, was a director of J2 UK,
15 an arm of J2 Ireland which was ultimately owned by J2.

16 126. On February 10, 2016, during J2’s fourth quarter 2015 (“4Q15”) earnings
17 call, Turicchi stated that “fiscal year 2015 provided stellar operating results,
18 *validating our business strategy of...utilizing M&A to more rapidly build these*
19 *businesses to scale*” and that “[o]ur *M&A strategy continued to drive both revenue*
20 *and margin expansion.*”

21 127. The statements referenced in ¶126 were materially false and/or
22 misleading because Defendants misrepresented and/or failed to disclose the following
23 adverse facts pertaining to J2’s business, operational and financial results, which was
24 known to Defendants or recklessly disregarded by them, that: (i) a material number
25 of deals were sourced and managed by van der Weijden and they all potentially had
26 questionable value and/or fit because he was being paid for the number of deals he
27 closed, not their quality or suitability and he caused J2 to acquire at least one company
28

1 belonging to insiders without adequate disclosures; (ii) the \$900,000 VDW
2 Acquisition was of an 11-month-old consulting business which had no employees,
3 was just now in the process of commencing its licensing program, and was registered
4 to the personal residence of long-time corporate insider van der Weijden who, at the
5 time of the VDW Acquisition, was a director of J2 UK, an arm of J2 Ireland which
6 was ultimately owned by J2; (iii) because J2 did not disclose the terms of its small
7 acquisitions, it was able to tout the successful results of the acquired business as based
8 on its value-add even though it actually did not add anything to the acquired business;
9 and (iv) that J2's deals were not performing well and only appeared to be doing well
10 through Defendants' misleading accounting.

11 128. Defendant Turicchi further stated on the 4Q15 call that:
12 [Y]ou heard us talk about for several quarters after we bought Web24
13 that we've been attempting to do a small follow-on acquisition
14 consistent with what we did, we bought KeepItSafe and with that matter
15 when we got Campaigner out of protest. And it took a little longer than
16 we would have liked, but *the idea is to do a small transaction that is
17 financially inconsequential. So it's very tiny in terms of its revenue,
18 recall that Web24 itself is only about \$5 million of revenue, so it's not
19 very big.*

20 *But that transaction closed and it's important in that it allows
21 us the opportunity to go through as we do in each new business
22 segment or business unit.* What are the real stress points or issues in
23 integration? Because for our model – the way our model works, there
24 is a lot of key variables, but one of them is what is a fair expectation for
25 the time of integration.

26 If it's 30 days versus a year that may very well influence, what
27 you are willing to pay for the business and your ultimate return on
28 invested capital. *So having the Web24 business under our ownership
for about a year or over a year, we're able to finally acquire an asset.
It is in the process of being integrated* as we speak in fact likely by the
end of this fiscal quarter if not early Q2, it should be integrated.

129. The statements referenced in ¶128 were materially false and/or
misleading because Defendants misrepresented and/or failed to disclose the following

1 adverse fact pertaining to J2’s business, operational and financial results, which was
2 known to Defendants or recklessly disregarded by them, that: (i) J2 had overpaid for
3 Web24 due to lack of pre-acquisition research and understanding of the internet
4 domain industry as no one at the Company had any experience in the web-hosting
5 industry until FE1 joined J2 with 15 years of experience buying businesses in Asia
6 and Australia; and (ii) J2 had also overpaid for the asset that J2 was integrating into
7 Web24, AUSweb, as it was a deal sourced and managed by van der Weijden who was
8 being paid for the number of deals he closed, not their quality or suitability.

9 130. In addition, during the 4Q15 call, Defendant Zucker stated that “[w]e
10 have a *healthy acquisition pipeline*,” and that “J2 *from an M&A standpoint* and from
11 media acquisition versus the market *will do very good in stress environment or*
12 *economy*.”

13 131. The statements referenced in ¶130 about J2’s “healthy acquisition
14 pipeline” and “M&A” doing “very well in stress environment or economy” were
15 materially false and/or misleading because Defendants misrepresented and/or failed
16 to disclose the following adverse fact pertaining to J2’s business, operational and
17 financial results, which was known to Defendants or recklessly disregarded by them,
18 that a material number of deals were sourced and managed by van der Weijden and
19 they all potentially had questionable value and/or fit because he was being paid for
20 the number of deals he closed, not their quality or suitability, and he caused J2 to
21 acquire at least one company belonging to insiders without adequate disclosures.

22 132. On February 29, 2016, J2 filed with the SEC its annual report for the
23 period ended December 31, 2015 (the “2015 10-K”), signed by Defendants Zucker
24 and Turicchi. Attached to the 2015 10-K were certifications pursuant to the Sarbanes-
25 Oxley Act of 2002 (“SOX”) signed by Defendants Zucker and Turicchi attesting to
26 the *accuracy of financial reporting*, the disclosure of any material changes to the
27 Company’s internal control over financial reporting and the disclosure of all fraud.

1 133. The statement referenced in ¶132 was materially false and/or misleading
2 because Defendants misrepresented and/or failed to disclose the following adverse
3 facts pertaining to J2’s business, operational and financial results, which were known
4 to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
5 Acquisition was of an 11-month-old consulting business which had no employees,
6 was barely in the process of commencing its licensing program when it was acquired,
7 and was registered to the personal residence of long-time corporate insider van der
8 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
9 of J2 Ireland which was ultimately owned by J2; (ii) J2 Ireland took a €22.1 million
10 charge in 2015 and was significantly underperforming; (iii) J2 had overpaid for
11 Web24 mainly due to lack of pre-acquisition research and understanding of the
12 internet domain industry as no one at the Company had any experience in the web-
13 hosting industry until FE1 joined J2 with 15 years of experience buying businesses in
14 Asia and Australia; and (iv) a material number of deals were sourced and managed
15 by van der Weijden and they all potentially had questionable value and/or fit because
16 he was being paid for the number of deals he closed, not their quality or suitability,
17 and he caused J2 to acquire at least one company belonging to insiders without
18 adequate disclosures.

19 134. As to transactions with related parties, the 2015 10-K stated that the
20 “information required by this item is incorporated by reference to the information to
21 be set forth in our 2015 Proxy Statement.”

22 135. J2 subsequently filed its 2015 Proxy Statement with the SEC on March
23 23, 2016, which stated that “[d]uring 2015, j2 Global was not a party to any
24 ***transaction that would require disclosure pursuant to Item 404(a) of Regulation S-***
25 ***K.***”

26 136. The statement referenced in ¶134-35 was materially false and/or
27 misleading because Defendants misrepresented and failed to disclose the following
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1 adverse facts pertaining to J2’s business, which were known to Defendants or
2 recklessly disregarded by them, that: (i) the \$900,000 VDW Acquisition was of an
3 11-month-old consulting business which had no employees, was barely in the process
4 of commencing its licensing program when it was acquired, and was registered to the
5 personal residence of long-time corporate insider van der Weijden who, at the time of
6 the VDW Acquisition, was a director of J2 UK, an arm of J2 Ireland which was
7 ultimately owned by J2; and (ii) a material number of deals were sourced and
8 managed by van der Weijden and they all potentially had questionable value and/or
9 fit because he was being paid for the number of deals he closed, not their quality or
10 suitability, and he caused J2 to acquire at least one company belonging to insiders
11 without adequate disclosures.

12 137. On May 5, 2016, during the first quarter 2016 (“1Q16”) earnings call,
13 Defendant Turicchi stated that “Q1 2016 continued to provide *outstanding operating*
14 *results, which continue to validate our overall business strategy of...utilizing M&A*
15 *to more rapidly build these businesses to scale.*”

16 138. The statement referenced in ¶137 about J2’s “outstanding operating
17 results” validating its use of “M&A to more rapidly build these businesses to scale”
18 was materially false and/or misleading because Defendants misrepresented and/or
19 failed to disclose the following adverse fact pertaining to J2’s business, operational
20 and financial results, which was known to Defendants or recklessly disregarded by
21 them, that: (i) a material number of deals were sourced and managed by van der
22 Weijden and they all potentially had questionable value and/or fit because he was
23 being paid for the number of deals he closed, not their quality or suitability, and he
24 caused J2 to acquire at least one company belonging to insiders without adequate
25 disclosures; (ii) because J2 did not disclose the terms of its small acquisitions, it was
26 able to tout the successful results of the acquired business as based on its value-add
27 even though it actually did not add anything to the acquired business; and (iii) that

1 J2's deals were not performing well and only appeared to be doing well through
2 Defendants' misleading accounting.

3 139. Later during the 1Q16 call, Defendant Turicchi specifically noted in
4 response to a question from Shyam Vasant Patil of Susquehanna Financial Group
5 LLLP ("Susquehanna") about the "typical timeframe to clearly synergize acquisitions
6 in terms of getting them to the optimized margins" that:

7 It will vary[.] So *take Web24, web hosting in Australia that we bought*
8 *18 months ago or so. If it is a follow-on transaction, depending upon*
9 *the number of integrations that a business unit has and its own*
10 *priorities, you're talking usually six months to nine months. And most*
11 *of that integration, as Hemi mentioned, on some of the deals done in*
12 *Q1, deal with things like office consolidation, changing the sales and*
13 *marketing strategy, maybe changing things in R&D because we've*
14 *already got R&D teams. So that can generally be done in six to nine*
15 *months.*

16 140. The statements referenced in ¶139 about optimizing margins for Web24
17 were materially false and/or misleading because Defendants misrepresented and/or
18 failed to disclose the following adverse fact pertaining to J2's business, operational
19 and financial results, which was known to Defendants or recklessly disregarded by
20 them: Web24 was already running cheaply because most of its labor was outsourced
21 to India, so J2 could not and did not make Web24 more profitable by simply cutting
22 operating costs. Instead, J2 had to acquire more companies in the web-hosting
23 industry, like AUSweb, and integrate it into Web24 to make it more profitable, which
24 took longer than 6-9 months.

25 141. In addition, during the 1Q16 call, Defendant Zucker stated: "The *M&A*
26 *pipeline for this business and for the Backup business continues to be healthy.*"

27 142. The statement referenced in ¶141 about the "M&A pipeline" being
28 "healthy" was materially false and/or misleading because Defendants misrepresented
and/or failed to disclose the following adverse fact pertaining to J2's business,
operational and financial results, which was known to Defendants or recklessly

1 disregarded by them, that a material number of deals were sourced and managed by
2 van der Weijden and they all potentially had questionable value and/or fit because he
3 was being paid for the number of deals he closed, not their quality or suitability, and
4 he caused J2 to acquire at least one company belonging to insiders without adequate
5 disclosures.

6 143. During the second quarter 2016 (“2Q16”) earnings call on August 3,
7 2016, Defendant Zucker stated that, “[s]o *basically our Rolodex of M&A helps us.*
8 *And sometimes the prices that we see are very attractive because we do know the*
9 *business, we don’t know the people, we can promise them a fast transaction and*
10 *reliable transaction without whole base.”*

11 144. The statement referenced in ¶143 about the “Rolodex of M&A” helping
12 them obtain “attractive pricing” was materially false and/or misleading because
13 Defendants misrepresented and/or failed to disclose the following adverse fact
14 pertaining to J2’s business, operational and financial results, which was known to
15 Defendants or recklessly disregarded by them, that a material number of deals were
16 sourced and managed by van der Weijden and they all potentially had questionable
17 value and/or fit because he was being paid for the number of deals he closed, not their
18 quality or suitability and he caused J2 to acquire at least one company belonging to
19 insiders without adequate disclosures.

20 145. In addition, Defendant Zucker stated during the 2Q16 call that “*we have*
21 *bought a company called Web24 in Australia*, which is web hosting. *We have not*
22 *done other deals so far.”*

23 146. The statements referenced in ¶145 about Web24 and J2 not having other
24 deals in Australia were materially false and/or misleading because Defendants
25 misrepresented and/or failed to disclose the following adverse fact pertaining to J2’s
26 business, operational and financial results, which was known to Defendants or
27 recklessly disregarded by them, that: (i) J2 had overpaid for Web24 mainly due to
28

1 lack of pre-acquisition research and understanding of the internet domain industry as
2 no one at the Company had any experience in the web-hosting industry until FE1
3 joined J2 with 15 years of experience buying businesses in Asia and Australia; and
4 (ii) J2 had also overpaid for the asset that J2 was integrating into Web24, AUSweb,
5 as it was a deal sourced and managed by van der Weijden who was being paid for the
6 number of deals he closed, not their quality or suitability.

7 147. During the fourth quarter 2017 earnings call on February 9, 2017,
8 Defendant Turicchi stated that “[o]ur *M&A strategy was critical to the overall*
9 *success of this year*. As you know, we completed *22 acquisitions in 2016*, spent
10 nearly \$600 million, although the crown jewel of the M&A program this year was the
11 acquisition of Everyday Health in December.”

12 148. The statement referenced in ¶147 about J2’s “M&A strategy” being
13 “critical to the overall success” in 2016 was materially false and/or misleading
14 because Defendants misrepresented and/or failed to disclose the following adverse
15 fact pertaining to J2’s business, operational and financial results, which was known
16 to Defendants or recklessly disregarded by them, that: (i) a material number of deals
17 were sourced and managed by van der Weijden and they all potentially had
18 questionable value and/or fit because he was being paid for the number of deals he
19 closed, not their quality or suitability and he caused J2 to acquire at least one company
20 belonging to insiders without adequate disclosures; (ii) because J2 did not disclose
21 the terms of its small acquisitions, it was able to tout the successful results of the
22 acquired business as based on its value-add even though it actually did not add
23 anything to the acquired business; and (iii) J2’s deals were not performing well and
24 thus keeping the M&A strategy was only “critical to the overall success” because it
25 allowed J2, in combination with misleading accounting, to keep up a false appearance
26 of good performance.

27 149. In addition, Defendant Zucker stated during the 4Q16 earnings call that
28

1 “2011 to 2016, our last five years, *we achieved approximately 20% compounded*
2 *revenue growth*, and in the Digital Media division and combined, *achieved 70%*
3 *compounded EBITDA growth*. We believe that *this validates our strategy of*
4 focusing on EBITDA, EBITDA generation, *utilizing our organic and M&A to build*
5 *our business.*”

6 150. The statements referenced in ¶149 about J2’s growth “validatin[ing] our
7 strategy” which included “utilizing our organic and M&A to build our busiess” were
8 materially false and/or misleading because Defendants misrepresented and/or failed
9 to disclose the following adverse fact pertaining to J2’s business, operational and
10 financial results, which was known to Defendants or recklessly disregarded by them,
11 that: (i) a material number of deals were sourced and managed by van der Weijden
12 and they all potentially had questionable value and/or fit because he was being paid
13 for the number of deals he closed, not their quality or suitability, and he caused J2 to
14 acquire at least one company belonging to insiders without adequate disclosures; (ii)
15 because J2 did not disclose the terms of its small acquisitions, it was able to tout the
16 successful results of the acquired business as based on its value-add even though it
17 actually did not add anything to the acquired business; and (iii) that J2’s deals were
18 not performing well and only appeared to be doing well through Defendants’
19 misleading accounting.

20 151. Defendant Zucker specifically stated during the 4Q16 call that “all the
21 acquisitions were of a relatively smaller companies, *when we eliminated a number*
22 *one cost*, which is the platform and the engineers. Therefore, *we are generating high*
23 *margins*. Also we have – our service is very fully featured. So most of the time when
24 we acquire a company, they are exposed to the new features. And once we take them,
25 the marginal cost to us is not very high.”

26 152. The statements referenced in ¶151 about J2 “eliminated” costs and “are
27 generating high margins” were materially false and/or misleading because
28

1 Defendants misrepresented and/or failed to disclose the following adverse fact
2 pertaining to J2’s business, operational and financial results, which was known to
3 Defendants or recklessly disregarded by them, that: (i) a material number of deals
4 were sourced and managed by van der Weijden and they all potentially had
5 questionable value and/or fit because he was being paid for the number of deals he
6 closed, not their quality or suitability, and he caused J2 to acquire at least one
7 company belonging to insiders without adequate disclosures; (ii) because J2 did not
8 disclose the terms of its small acquisitions, it was able to utilize positive financial
9 results as reflective of its successful integration of the acquired business even if it
10 actually did not add anything to the acquired business.

11 153. Defendant Zucker also stated during the 4Q16 call that “we are
12 eliminating negative margin revenues as we did in the past. ***If we don’t believe a***
13 ***certain revenue has good margin potential, we will just walk away from it and focus***
14 ***on the profitable parts of the business.*** We’ve already reduced the combined
15 workforce of Ziff Davis and Everyday Health by 7%. We have been steadily
16 terminating or restructuring vendor agreement, which will add several points to the
17 margin already now in 2017. ***We are undertaking many positive and profit-***
18 ***enhancing changes that we will continue to talk about in the next quarters.***”

19 154. The statements referenced in ¶153 were materially false and/or
20 misleading because Defendants misrepresented and/or failed to disclose the following
21 adverse fact pertaining to J2’s business, operational and financial results, which was
22 known to Defendants or recklessly disregarded by them, that J2 regularly overvalued
23 acquisitions and Everyday Health was no different, but because it was a larger
24 transaction, its underperformance would have a more material impact on the
25 Company’s financials – to the tune of over \$83 million, or 25%, less revenue than it
26 had generated the prior year.

27 155. Defendant Turicchi further stated during the 4Q16 call that:
28

1 [W]e're not going to be breaking out Everyday Health just as we don't
2 break out IGN or the tech vertical or Ookla. But what I will say is – and
3 remember, this is very important on the Shrink to Grow concept, it has
4 nothing to do with Cambridge and Tea Leaves. *So if you looked at*
5 *Everyday Health in its totality, it had a revenue guidance/expectation*
6 *last year around \$250 million. We will be shrinking that revenue base*
7 *by up to about \$20 million based on some of the comments Hemi made*
8 *earlier, where we're not finding that there is either any margin in*
9 *some of those revenue streams or margins consistent with our*
10 *approach.... [W]e would expect that off of that reset lower base to*
11 *experience close to double digit growth with that set of assets.*

12 156. The statements referenced in ¶155 were materially false and/or
13 misleading because Defendants misrepresented and/or failed to disclose the following
14 adverse fact pertaining to J2's business, operational and financial results, which was
15 known to Defendants or recklessly disregarded by them, that J2 regularly overvalued
16 acquisitions and Everyday Health was no different, but because it was a larger
17 transaction, its underperformance would have a more material impact on the
18 Company's financials – to the tune of over \$83 million, or 25%, less revenue than it
19 had generated the prior year.

20 157. On March 1, 2017, J2 filed with the SEC its annual report for the period
21 ended December 31, 2016 (the "2016 10-K"), signed by Defendants Zucker and
22 Turicchi. Attached to the 2016 10-K were SOX certifications signed by Defendants
23 Zucker and Turicchi attesting to the *accuracy of financial reporting*, the disclosure
24 of any material changes to the Company's internal control over financial reporting
25 and the disclosure of all fraud.

26 158. The statement referenced in ¶157 was materially false and/or misleading
27 because Defendants misrepresented and/or failed to disclose the following adverse
28 facts pertaining to J2's business, operational and financial results, which were known
to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
Acquisition was of an 11-month-old consulting business which had no employees,

1 was barely in the process of commencing its licensing program when it was acquired,
2 and was registered to the personal residence of long-time corporate insider van der
3 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
4 of J2 Ireland which was ultimately owned by J2; (ii) J2 Ireland took a €22.1 million
5 charge in 2015 and was significantly underperforming; (iii) J2 had overpaid for
6 Web24 mainly due to lack of pre-acquisition research and understanding of the
7 internet domain industry as no one at the Company had any experience in the web-
8 hosting industry until FE1 joined J2 with 15 years of experience buying businesses in
9 Asia and Australia; (iv) a material number of deals were sourced and managed by van
10 der Weijden and they all potentially had questionable value and/or fit because he was
11 being paid for the number of deals he closed, not their quality or suitability and he
12 caused J2 to acquire at least one company belonging to insiders without adequate
13 disclosures; and (v) Everyday Health was significantly underperforming after being
14 acquired in December 2016 such that its 2017 revenue would be over 25% less than
15 it had been the prior year.

16 159. As to transactions with related parties, the 2016 10-K stated that the
17 “information required by this item is incorporated by reference to the information to
18 be set forth in our 2016 Proxy Statement.”

19 160. J2 subsequently filed its 2016 Proxy Statement with the SEC on March
20 23, 2017, which stated that the “RPT Policy prohibits all Related-Party Transactions
21 unless they are approved or ratified by the Corporate Governance and Nominating
22 Committee. If a transaction or relationship constitutes a Related-Party Transaction,
23 the Committee will then review the transaction or relationship to determine whether
24 to approve or ratify the transaction.” The 2016 Proxy Statement further stated that
25 “[s]ince January 1, 2016, *j2 Global has not been a party to any transaction that*
26 *would require disclosure pursuant to Item 404(a) of Regulation S-K.*”
27
28

1 161. The statements referenced in ¶¶159-60 were materially false and/or
2 misleading because Defendants misrepresented and failed to disclose the following
3 adverse facts pertaining to J2’s business, which were known to Defendants or
4 recklessly disregarded by them, that: (i) the \$900,000 VDW Acquisition was of an
5 11-month-old consulting business which had no employees, was barely in the process
6 of commencing its licensing program when it was acquired, and was registered to the
7 personal residence of long-time corporate insider van der Weijden who, at the time of
8 the VDW Acquisition, was a director of J2 UK, an arm of J2 Ireland which was
9 ultimately owned by J2; and (ii) any deals sourced and managed by van der Weijden
10 potentially had questionable value and/or fit because he was being paid for the number
11 of deals he closed, not their quality or suitability and he caused J2 to acquire at least
12 one company belonging to insiders without adequate disclosures.

13 162. During J2’s first quarter 2017 (“1Q17”) earnings call, Defendant Zucker
14 stated that “[w]e also successfully launched disaster recovery service and ***we have a***
15 ***strong M&A pipeline.***”

16 163. The statement referenced in ¶162 about the “strong M&A pipeline” was
17 materially false and/or misleading because Defendants misrepresented and/or failed
18 to disclose the following adverse fact pertaining to J2’s business, operational and
19 financial results, which was known to Defendants or recklessly disregarded by them,
20 that a material number of deals were sourced and managed by van der Weijden and
21 they all potentially had questionable value and/or fit because he was being paid for
22 the number of deals he closed, not their quality or suitability and he caused J2 to
23 acquire at least one company belonging to insiders without adequate disclosures.

24 164. In addition, Defendant Zucker stated during the 1Q17 call that “[a]t our
25 newest properties, ***Everyday Health***, Media Page Today and What to Expect, we had
26 very productive quarter with new product launches and features. Focus on
27 productivity and profitability, ***we continued execution of our shrink to grow strategy.***
28

1 This is done by *eliminating negative margin activities and eliminating low potential*
2 *activities. This will result in higher EBITDA against reduced revenue.*”

3 165. The statement referenced in ¶164 was materially false and/or misleading
4 because Defendants misrepresented and/or failed to disclose the following adverse
5 fact pertaining to J2’s business, operational and financial results, which was known
6 to Defendants or recklessly disregarded by them, that J2 regularly overvalued
7 acquisitions and Everyday Health was no different, but because it was a larger
8 transaction, its underperformance would have a more material impact on the
9 Company’s financials – to the tune of over \$83 million, or 25%, less revenue than it
10 had generated the prior year.

11 166. Likewise, Defendant Turicchi stated during the 1Q17 call that:
12 *[W]e would be in line to slightly ahead of our plans in terms of cost*
13 *reduction.* ... Then there’s a second piece, which is a little bit less
14 tangible or less quantifiable, and that is evolving the understanding of
15 how the business is going to operate on a going-forward basis. And I’d
16 say that’s a process that takes time. ... I’d say in the second – or the
17 second piece of it, *we’re probably tracking, but it’s something that*
18 *takes – it takes months.*

19 167. The statements referenced in ¶166 were materially false and/or
20 misleading because Defendants misrepresented and/or failed to disclose the following
21 adverse fact pertaining to J2’s business, operational and financial results, which was
22 known to Defendants or recklessly disregarded by them, that J2 regularly overvalued
23 acquisitions and Everyday Health was no different, but because it was a larger
24 transaction, its underperformance would have a more material impact on the
25 Company’s financials – to the tune of over \$83 million, or 25%, less revenue than it
26 had generated the prior year – and would still not reach pre-acquisition levels over
27 three years later despite five subsequent acquisitions – and their revenues – being
28 folded into the divisions.

168. Further, Defendant Turicchi stated during the 1Q17 call that:

1 [I]n terms of our mix of M&A, it is correct. The last few quarters, with
2 the exception of Everyday Health, most of the businesses we have
3 bought have been very small. Part of that, I'd say, in the last five or six
4 months has been a function that ***larger transactions, which we've***
5 ***looked at outside of Everyday Health, have been too expensive. And***
6 ***a lot of that has to do with the correlation to the stock markets either***
7 ***approaching or at all-time highs. So we've tended to focus on smaller***
8 ***deals.***"

9 169. The statement referenced in ¶168 was materially false and/or misleading
10 because Defendants misrepresented and/or failed to disclose the following adverse
11 fact pertaining to J2's business, operational and financial results, which was known
12 to Defendants or recklessly disregarded by them, that the "focus on smaller deals"
13 was to avoid disclosures about the specific transaction and hide underperforming
14 assets as: (i) a material number of deals were sourced and managed by van der
15 Weijden and they all potentially had questionable value and/or fit because he was
16 being paid for the number of deals he closed, not their quality or suitability and he
17 caused J2 to acquire at least one company belonging to insiders without adequate
18 disclosures; and (ii) J2 regularly overvalued acquisitions so with larger transactions,
19 any underperformance would have a more material impact on its financials.

20 170. Defendant Turicchi also stated during the 1Q17 call that:

21 Generally ***in the cloud, it is the goal not to grow the revenues***. In fact,
22 as Hemi will talk about or has talked about, ***there'll be cases where***
23 ***we'll actually shrink the revenues or we know there'll be revenue***
24 ***decline because of either expected customer attrition or customer***
25 ***attrition upon migration***.

26 ***In the Digital Media business, it usually is the concept of taking the***
27 ***asset, initially shrinking it down to its core, and then from that point***
28 ***growing its revenues***.

171. The statements referenced in ¶170 were materially false and/or
misleading because Defendants misrepresented and/or failed to disclose the following
adverse fact pertaining to J2's business, operational and financial results, which was

1 known to Defendants or recklessly disregarded by them, that the shrink to grow
2 concept conveniently explained away underperforming assets that J2 inevitably
3 purchased due to the deals sourced and managed by van der Weijden potentially had
4 questionable value and/or fit because he was being paid for the number of deals he
5 closed, not their quality or suitability and he caused J2 to acquire at least one company
6 belonging to insiders without adequate disclosures.

7 172. During the second quarter 2017 (“2Q17”) earnings call, Defendant
8 Zucker stated that “Email security and email marketing.... We are seeing in this
9 business the *renewed organic growth, increasing margins and M&A.*”

10 173. The statements referenced in ¶172 were materially false and/or
11 misleading because Defendants misrepresented and/or failed to disclose the following
12 adverse fact pertaining to J2’s business, operational and financial results, which was
13 known to Defendants or recklessly disregarded by them, that a material number of
14 deals were sourced and managed by van der Weijden and they all potentially had
15 questionable value and/or fit because he was being paid for the number of deals he
16 closed, not their quality or suitability and he caused J2 to acquire at least one company
17 belonging to insiders without adequate disclosures.

18 174. Defendant Zucker also stated during the 2Q17 earnings call, “[t]he
19 *integration of Everyday Health and the execution of our strategy remains on target.*
20 We are continuing to develop products and building capabilities across the 3 core
21 businesses.”

22 175. The statement referenced in ¶174 was materially false and/or misleading
23 because Defendants misrepresented and/or failed to disclose the following adverse
24 fact pertaining to J2’s business, operational and financial results, which was known
25 to Defendants or recklessly disregarded by them, that J2 regularly overvalued
26 acquisitions and Everyday Health was no different, but because it was a larger
27 transaction, its underperformance would have a more material impact on the
28

1 Company's financials – to the tune of over \$83 million, or 25%, less revenue than it
2 had generated the prior year – and would still not reach pre-acquisition levels over
3 three years later despite five subsequent acquisitions – and their revenues – being
4 folded into the divisions.

5 176. In addition, analyst Walter Pritchard of Citi and Defendant Zucker had
6 the following exchange during the 2Q17 call:

7 Pritchard: [Y]ou entered Australia in the Backup market. That
8 market is, organically, not really growing. As we think
9 about sort of your confidence and it feels like you are
10 buying more, maybe not at the rate you were a year ago
11 there, but is that market a market you think can organically
12 grow for the company?

13 Zucker: *So on the M&A side, we had ... 2 to 3 companies, each of
14 them were \$10 million revenue and they were bought by
15 prices that we would never think are in our range.*

16 177. The statements referenced in ¶176 about J2 acquiring companies in
17 Australia at “prices that we would never think are in our range” were materially false
18 and/or misleading because Defendants misrepresented and/or failed to disclose the
19 following adverse fact pertaining to J2's business, operational and financial results,
20 which was known to Defendants or recklessly disregarded by them, that: (i) J2 had
21 overpaid for Web24 mainly due to lack of pre-acquisition research and understanding
22 of the internet domain industry as no one at the Company had any experience in the
23 web-hosting industry until FE1 joined J2 with 15 years of experience buying
24 businesses in Asia and Australia; and (ii) J2 had also overpaid for the asset that J2
25 was integrating into Web24, AUSweb, as it was a deal sourced and managed by van
26 der Weijden who was being paid for the number of deals he closed, not their quality
27 or suitability and who had caused J2 to acquire at least one company belonging to
28 insiders without adequate disclosures.

178. Defendant Turiccihi added during the 2Q17 call that:

1 **[I]n the Cloud Backup business**, we’re – it’s an art, not a science. But
2 \$50 million to \$60 million away and the view and ***the premise has been***
3 ***that, that will come from M&A. So there’s been less an emphasis on***
4 ***the organic growth potential of that business or of that space and a***
5 ***much heavier focus on M&A.*** If you go back just a few quarters, I think
6 ***from September of 2015 through probably Q3 of 2016, the Backup***
7 ***business had at least a dozen transactions around the world that***
8 ***acquired and then was in the process of integrating.***

7 179. The statements referenced in ¶178 were materially false and/or
8 misleading because Defendants misrepresented and/or failed to disclose the following
9 adverse facts pertaining to J2’s business, operational and financial results, which were
10 known to Defendants or recklessly disregarded by them, that (i) a material number of
11 deals were sourced and managed by van der Weijden and they all potentially had
12 questionable value and/or fit because he was being paid for the number of deals he
13 closed, not their quality or suitability and he caused J2 to acquire at least one company
14 belonging to insiders without adequate disclosures; and (ii) J2 had overpaid for
15 Web24 as well AUSweb, which was a deal sourced and managed by van der Weijden.
16 J2 overpaid for Web24 mainly due to lack of pre-acquisition research and
17 understanding of the internet domain industry as no one at the Company had any
18 experience in the web-hosting industry until FE1 joined J2 with 15 years of
19 experience buying businesses in Asia and Australia.

20 180. Defendant Turicchi also stated during the 2Q17 call that “[t]he ***Everyday***
21 ***Health business, as you know, is in sort of in a shrink to grow mode*** so the numbers
22 are really not comparable because you’d have to go back and pro forma into Q2 of
23 2016 revenue streams that we’ve now eliminated. So I’d say ***it’s down a little bit on***
24 ***an actual year-over-year basis, but on a pro forma basis, would be up. And I think***
25 ***that once we finished the shrink to grow there and we get it down to the core, then***
26 ***we view it as being a consistent grower*** with the rest of Ziff Davis.

27 181. The statements referenced in ¶180 were materially false and/or
28

1 misleading because Defendants misrepresented and/or failed to disclose the following
2 adverse fact pertaining to J2’s business, operational and financial results, which was
3 known to Defendants or recklessly disregarded by them, that J2 regularly overvalued
4 acquisitions and Everyday Health was no different, but because it was a larger
5 transaction, its underperformance would have a more material impact on the
6 Company’s financials – to the tune of over \$83 million, or 25%, less revenue than it
7 had generated the prior year – and would still not reach pre-acquisition levels over
8 three years later despite five subsequent acquisitions – and their revenues – being
9 folded into the divisions.

10 182. During the third quarter 2017 earnings call on November 2, 2017
11 (“3Q17”), Defendant Turicchi stated that “the M&A in Q3 was rather light. A lot of
12 our focus not that we weren’t focused on M&A, but *the divestitures of Web24 and*
13 *Tea Leaves were very important* even though Tea Leaves actually closed in the fourth
14 fiscal quarter, a lot of the work was done in Q3. So, the *M&A transactions on the*
15 *Cloud side that were done in Q3 will offset to a very modest way some of that \$35*
16 *million.*”

17 183. The statements referenced in ¶182 were materially false and/or
18 misleading because Defendants misrepresented and/or failed to disclose the following
19 adverse facts pertaining to J2’s business, operational and financial results, which were
20 known to Defendants or recklessly disregarded by them, that: (i) a material number
21 of deals were sourced and managed by van der Weijden and they all potentially had
22 questionable value and/or fit because he was being paid for the number of deals he
23 closed, not their quality or suitability and he caused J2 to acquire at least one company
24 belonging to insiders without adequate disclosures; and (ii) J2 had overpaid for
25 Web24 as well AUSweb, which was a deal sourced and managed by van der Weijden.
26 J2 overpaid for Web24 mainly due to lack of pre-acquisition research and
27 understanding of the internet domain industry as no one at the Company had any
28

1 experience in the web-hosting industry until FE1 joined J2 with 15 years of
2 experience buying businesses in Asia and Australia.

3 184. In response to analyst Jon E. Tanwanteng of CJS Securities, Inc. asking
4 during the 3Q17 call, “[c]ould you just talk about the investment rationale in OCV.
5 Do you think you can get a better return there that you can otherwise get in your core
6 M&A strategy, just a little bit more about the decision to go that route?” Defendant
7 Zucker responded:

8 *[T]here was an opportunity through this related entity called OCV for*
9 *us to make an investment and with Hemi moving over into that*
10 *capacity to also give us confidence of two things, that one, there would*
11 *be a focus as I’m sure that would have been anyway on delivering*
12 *high returns and returns consistent with the returns that we are used*
13 *to experiencing at j2, but giving us greater diversity in terms of the*
14 *types of transactions that we invest in.*

15 * * *

16 We think that there’s going to be – it will occur of course over time
17 because their investments will have different maturity timeframes, but
18 I think, yes *we’re going to get those kinds of similar returns and we’re*
19 *going get exposure to other types of transactions that j2 would not*
20 *find appropriate to do within the j2 structure.*

21 185. The statements referenced in ¶184 were materially false and/or
22 misleading because Defendants misrepresented and/or failed to disclose the following
23 adverse facts pertaining to J2’s business, operational and financial results, which were
24 known to Defendants or recklessly disregarded by them, that: while Defendant
25 Zucker, Ressler, and Loshitzer would all profit handsomely from the management
26 fees J2 had to pay, there was no business justification for the Orchard Investment
27 because J2 was already in the business of investing in and acquiring other companies
28 and OCV had a sparse, indeed poor, track record of investing in companies involving
related parties, including Defendant Zucker, Board members and corporate insiders,
that would be continuing.

1 186. Defendant Turicchi added during the 3Q17 call that the Orchard
2 Investment is:

3 [G]oing to be funded as OCV finds transactions and makes capital calls.
4 So although it's an eight-year fund, *we have assumed the more front-*
5 *end loaded amount of funding you know in the tune of \$50 million to*
6 *\$60 million dollars a year on average over the next call it four years*
7 *to five years. That would exhaust the \$200 million commitment. So we*
8 *look at our estimated free cash flows, obviously looking out a couple*
9 *of years, the dividend, and feel comfortable that that given the cash*
10 *balances we already have, will be sufficient to make those capital calls*
11 *and still do our M&A program.*

12 187. The statements referenced in ¶186 were materially false and/or
13 misleading because Defendants misrepresented and/or failed to disclose the following
14 adverse facts pertaining to J2's business, operational and financial results, which were
15 known to Defendants or recklessly disregarded by them, that: while Defendant
16 Zucker, Ressler, and Loshitzer would all profit handsomely from the management
17 fees J2 had to pay, there was no business justification for the Orchard Investment
18 because J2 was already in the business of investing in and acquiring other companies
19 and OCV had a sparse, indeed poor, track record of investing in companies involving
20 related parties, including Defendant Zucker, Board members and corporate insiders,
21 that would be continuing.

22 188. In addition, Defendant Zucker stated during the 3Q17 call that “[w]e
23 *made cash-on-cash more than 20% a year on the Web24. So all in, it was a*
24 *profitable test.*”

25 189. The statements referenced in ¶188 were materially false and/or
26 misleading because Defendants misrepresented and/or failed to disclose the following
27 adverse fact pertaining to J2's business, operational and financial results, which was
28 known to Defendants or recklessly disregarded by them, that J2 could have been more
profitable when it divested of the Web24 Division if it had not overpaid for Web24

1 as well AUSweb, which was a deal sourced and managed by van der Weijden. J2
2 overpaid for Web24 mainly due to lack of pre-acquisition research and understanding
3 of the internet domain industry as no one at the Company had any experience in the
4 web-hosting industry until FE1 joined J2 with 15 years of experience buying
5 businesses in Asia and Australia.

6 190. Defendant Turicchi also stated during the 3Q17 call that “*all of the*
7 *smaller businesses in the Cloud*, but led by the Backup have been premised on and
8 *they’ve been tasked with almost a purely M&A driven growth*,” but “there’s been a
9 very little M&A done for the Cloud Backup.”

10 191. The statements referenced in ¶190 were materially false and/or
11 misleading because Defendants misrepresented and/or failed to disclose the following
12 adverse fact pertaining to J2’s business, operational and financial results, which were
13 known to Defendants or recklessly disregarded by them: that a material number of
14 deals were sourced and managed by van der Weijden and they all potentially had
15 questionable value and/or fit because he was being paid for the number of deals he
16 closed, not their quality or suitability and he caused J2 to acquire at least one company
17 belonging to insiders without adequate disclosures.

18 192. During the fourth quarter 2017 (“4Q17”) earnings call on February 6,
19 2018, Defendant Shah stated that: “[o]ur *track record has been remarkable*, given
20 the number of deals we’ve done” and “[o]ur *organizational approach to M&A is very*
21 *solid*” as “[t]his design allows for a *very robust pipeline across the enterprise*, while
22 *ensuring we maintain our discipline*.”

23 193. The statements referenced in ¶192 regarding J2’s “remarkable” track
24 record of deals and “solid” approach to M&A that allowed J2 to keep a “very robust
25 pipeline” while “ensuring we maintain our discipline,” were materially false and/or
26 misleading because Defendants misrepresented and/or failed to disclose the following
27 adverse fact pertaining to J2’s business, operational and financial results, which were
28

1 known to Defendants or recklessly disregarded by them, that a material number of
2 deals were sourced and managed by van der Weijden and they all potentially had
3 questionable value and/or fit because he was being paid for the number of deals he
4 closed, not their quality or suitability and he caused J2 to acquire at least one company
5 belonging to insiders without adequate disclosures.

6 194. In addition, Defendant Shah stated during the 4Q17 call that:

7 [W]e will be getting quarterly updates from OCV as to their activity,
8 and that will be available – or at least some of that will be available
9 directly on their website, which you can access. I think *in the scheme*
10 *of j2, it's actually a relatively small investment*. So, if you've heard us
11 talk about these 12 business units, the revenue they're driving and the
12 EBITDA, that's where our focus and attention is going to be as it relates
to updates. But there will be information available from time-to-time
on the various investments that they are making.

13 195. The statements referenced in ¶194 were materially false and/or
14 misleading because Defendants misrepresented and/or failed to disclose the following
15 adverse facts pertaining to J2's business, operational and financial results, which were
16 known to Defendants or recklessly disregarded by them, that: while Defendant
17 Zucker, Ressler, and Loshitzer would all profit handsomely from the management
18 fees J2 had to pay, there was no business justification for the Orchard Investment
19 because J2 was already in the business of investing in and acquiring other companies
20 and OCV had a sparse, indeed poor, track record of investing in companies involving
21 related parties, including Defendant Zucker, Board members and corporate insiders,
22 that would be continuing.

23 196. On March 1, 2018, J2 filed with the SEC its annual report for the period
24 ended December 31, 2017 (the "2017 10-K"), signed by Defendants Shah and
25 Turicchi. Attached to the 2017 10-K were SOX certifications signed by Defendants
26 Shah and Turicchi attesting to the *accuracy of financial reporting*, the disclosure of
27
28

1 any material changes to the Company’s internal control over financial reporting and
2 the disclosure of all fraud.

3 197. The statement referenced in ¶196 was materially false and/or misleading
4 because Defendants misrepresented and/or failed to disclose the following adverse
5 facts pertaining to J2’s business, operational and financial results, which were known
6 to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
7 Acquisition was of an 11-month-old consulting business which had no employees,
8 was barely in the process of commencing its licensing program when it was acquired,
9 and was registered to the personal residence of long-time corporate insider van der
10 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
11 of J2 Ireland which was ultimately owned by J2; (ii) J2 Ireland took a €22.1 million
12 charge in 2015 and was significantly underperforming; (iii) J2 had overpaid for
13 Web24 mainly due to lack of pre-acquisition research and understanding of the
14 internet domain industry as no one at the Company had any experience in the web-
15 hosting industry until FE1 joined J2 with 15 years of experience buying businesses in
16 Asia and Australia; (iv) a material number of deals were sourced and managed by van
17 der Weijden and they all potentially had questionable value and/or fit because he was
18 being paid for the number of deals he closed, not their quality or suitability and he
19 caused J2 to acquire at least one company belonging to insiders without adequate
20 disclosures; and (v) Everyday Health was significantly underperforming after being
21 acquired in December 2016 such that its 2017 revenue would be over 25% less than
22 it had been the prior year.

23 198. As to transactions with related parties, the 2017 10-K stated that the
24 “information required by this item is incorporated by reference to the information to
25 be set forth in our 2017 [sic] Proxy Statement.”

26 199. J2 subsequently filed its 2017 Proxy Statement with the SEC on March
27 23, 2018, which stated that the “RPT Policy prohibits all Related-Party Transactions
28

1 unless they are approved or ratified by the Corporate Governance and Nominating
2 Committee. If a transaction or relationship constitutes a Related-Party Transaction,
3 the Committee will then review the transaction or relationship to determine whether
4 to approve or ratify the transaction.” The 2017 Proxy Statement stated that J2 had
5 entered into the following related party transaction:

6 On September 25, 2017, *the Board of Directors authorized the*
7 *Company to enter into a commitment to invest \$200 million in an*
8 *investment fund (the “Fund”). The manager, OCV Management,*
9 *LLC (“OCV”), and general partner of the Fund are entities with*
10 *respect to which Mr. Ressler, Chairman of the Board of Directors, is*
11 *indirectly the majority equity holder. In addition, Mr. Zucker, who*
12 *resigned from the position of Chief Executive Officer of the Company*
13 *effective December 31, 2017 and who serves as an advisor to the*
14 *Company through December 31, 2018 pursuant to the Letter*
15 *Agreement described above, has become a co-managing principal of*
16 *OCV and a significant equity holder. As a limited partner in the Fund,*
17 *the Company will pay an annual management fee to the manager equal*
18 *to 2.0% (reduced by 10% each year beginning with the sixth year) of*
19 *capital commitments. In addition, subject to the terms and conditions*
20 *of the Fund’s limited partnership agreement, once the Company has*
21 *received distributions equal to its invested capital, the Fund’s general*
22 *partner would be entitled to a carried interest equal to 20%. The Fund*
23 *has a six year investment period, subject to certain exceptions. The*
24 *commitment was approved by the Audit Committee of the Board in*
25 *accordance with the RPT Policy. In February 2018, the Company*
26 *received a capital call notice from the management of OCV for*
27 *approximately \$12.2 million, inclusive of certain management fees.*

21 200. The statements referenced in ¶¶198-99 were materially false and/or
22 misleading because Defendants misrepresented and failed to disclose the following
23 adverse facts pertaining to J2’s business, operational and financial results, which were
24 known to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
25 Acquisition was of an 11-month-old consulting business which had no employees,
26 was barely in the process of commencing its licensing program when it was acquired,
27 and was registered to the personal residence of long-time corporate insider van der
28

1 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
2 of J2 Ireland which was ultimately owned by J2; (ii) any deals sourced and managed
3 by van der Weijden potentially had questionable value and/or fit because he was being
4 paid for the number of deals he closed, not their quality or suitability and he caused
5 J2 to acquire at least one company belonging to insiders without adequate disclosures;
6 and (iii) while Defendant Zucker, Ressler, and Loshitzer would all profit handsomely
7 from the management fees J2 had to pay, there was no business justification for the
8 Orchard Investment because J2 was already in the business of investing in and
9 acquiring other companies and OCV had a sparse, indeed poor, track record of
10 investing in companies involving related parties, including Defendant Zucker, Board
11 members and corporate insiders, that would be continuing.

12 201. During the second quarter 2018 (“2Q18”) earnings call on August 9,
13 2018, Defendant Turicchi stated that:

14 *[F]or the most part we do the tuck-in deals.* I wouldn’t say, they are
15 completely immune, but I would say *they are more or less immune*
16 *from the market dynamics, because often there are other drivers that*
17 *are influencing the sale of the assets, and there is intangible benefits*
18 *that the sellers want beyond just the economic dollars, it may be an*
19 *asset in a portfolio that isn’t performing to the PE or VC’s liking.* And
20 so, for them to be able to get it out of their portfolio of stock allocating
21 time and money to it, is a real benefit, beyond just what’s the highest
bid, and we’ve won deals like that, where we’re not necessarily the
highest bidder, we’re still in obtain market multiples, but we are
bringing in intangible value to the equity owners.

22 202. The statements referenced in ¶201 regarding J2’s “tuck-in deals” were
23 materially false and/or misleading because Defendants misrepresented and/or failed
24 to disclose the following adverse fact pertaining to J2’s business, operational and
25 financial results, which was known to Defendants or recklessly disregarded by them,
26 that: (i) a material number of deals were sourced and managed by van der Weijden
27 and they all potentially had questionable value and/or fit because he was being paid
28

1 for the number of deals he closed, not their quality or suitability and he caused J2 to
2 acquire at least one company belonging to insiders without adequate disclosures; and
3 (ii) because J2 did not disclose the terms of its small acquisitions, it was able to, and
4 did, utilize positive financial results as reflective of its successful integration of the
5 acquired business even if it actually did not add anything to the acquired business.

6 203. In addition, Mr. Turicchi stated during the 2Q18 call:

7 *[W]e're looking at the M&A a little bit differently maybe that we did*
8 *in the past*, where we are looking into portfolios where we can bring
9 unique and differentiated value to the table, either as it relates to the
10 seller and or is it relates to how we integrated within our existing
11 business units. And so, we can extract value that is unique to us. so,
12 we're not paying a bad multiple from the seller's perspective, it's just
we're synergizing it down to that five times EBITDA multiple when
the work is done.

13 204. The statement referenced in ¶203 regarding J2's "looking at the M&A a
14 little bit differently maybe that we did in the past" was materially false and/or
15 misleading because Defendants misrepresented and/or failed to disclose the following
16 adverse fact pertaining to J2's business, operational and financial results, which was
17 known to Defendants or recklessly disregarded by them, that: (i) a material number
18 of deals were sourced and managed by van der Weijden and they all potentially had
19 questionable value and/or fit because he was being paid for the number of deals he
20 closed, not their quality or suitability and he caused J2 to acquire at least one company
21 belonging to insiders without adequate disclosures; and (ii) because J2 did not
22 disclose the terms of its small acquisitions, it was able to, and did, utilize positive
23 financial results as reflective of its successful integration of the acquired business even
24 if it actually did not add anything to the acquired business.

25 205. Defendant Turicchi also stated during the 2Q18 call that "On the Cloud
26 side, *we divested Web24 which was our smaller web hosting business in Australia.*
27 That had about \$1.3 million in revenues in Q2 of 2017. So, combined for the company
28

1 as a whole, about \$11.8 million of revenues from the divested assets were present in
2 Q2, 2017 and not in 2018.”

3 206. The statements referenced in ¶205 were materially false and/or
4 misleading because Defendants misrepresented and/or failed to disclose the following
5 adverse fact pertaining to J2’s business, operational and financial results, which was
6 known to Defendants or recklessly disregarded by them, that J2 could have been more
7 profitable when it divested of the Web24 Division if it had not overpaid for Web24
8 as well AUSweb, which was a deal sourced and managed by van der Weijden. J2
9 overpaid for Web24 mainly due to lack of pre-acquisition research and understanding
10 of the internet domain industry as no one at the Company had any experience in the
11 web-hosting industry until FE1 joined J2 with 15 years of experience buying
12 businesses in Asia and Australia.

13 207. Before the market opened on November 6, 2018, J2 held its third quarter
14 2018 (“3Q18”) earnings conference call. During the call, as part of his prepared
15 remarks, Defendant Shah stated that:

16 *j2’s approach has proven and will continue to prove to be our most*
17 *important and sustainable competitive advantage.*

18 * * *

19 When we consider transactions, we look for fair businesses at great
20 prices and great businesses at fair prices...*we typically look to improve*
21 *the company’s margins through our strength through our shrink to*
22 *grow program, where we identify products, initiatives and activities*
23 *that are either money losing or have little to no future profit potential.*
24 *We generally either sunset or sell-off those money losing components.*
25 Once we get a business to its most profitable core, we look to develop
26 new monetization streams consistent with what we’ve accomplished in
27 our other businesses. With great businesses at fair prices, we’re focused
28 on helping those businesses accelerate sales and product development.
Provide access to our capital for development and tuck in acquisitions
and we help them leverage our marketing assets and customer basis.

1 208. The statements referenced in ¶207 regarding its “proven” approach to
2 acquisitions were materially false and/or misleading because Defendants
3 misrepresented and/or failed to disclose the following adverse fact pertaining to J2’s
4 business, operational and financial results, which was known to Defendants or
5 recklessly disregarded by them, that (i) the shrink to grow concept conveniently
6 explained away underperforming assets that J2 inevitably purchased due to the deals
7 sourced and managed by van der Weijden potentially had questionable value and/or
8 fit because he was being paid for the number of deals he closed, not their quality or
9 suitability and he caused J2 to acquire at least one company belonging to insiders
10 without adequate disclosures and (ii) because J2 did not disclose the terms of its small
11 “tuck-in” acquisitions, it was able to, and did, tout the successful results of the
12 acquired business as based on its value-add even though it actually did not add
13 anything to the acquired business.

14 209. Likewise, Defendant Turicchi stated during the 3Q18 call that:
15 *[O]nce we get through this period where we have got the shrink to*
16 *grow on some of the assets of mid-single digit. And then I think*
17 *probably in equal or maybe somewhat greater amount, but on the*
18 *margin of M&A for the digital media business. But as you know, a lot*
19 *of those growth rates as it relates to M&A is really a function of the*
20 *timing of deals and in which side of the two businesses they fall.*

21 210. The statements referenced in ¶209 were materially false and/or
22 misleading because Defendants misrepresented and/or failed to disclose the following
23 adverse fact pertaining to J2’s business, operational and financial results, which was
24 known to Defendants or recklessly disregarded by them, that the shrink to grow
25 concept conveniently explained away underperforming assets that J2 inevitably
26 purchased due to the deals sourced and managed by van der Weijden potentially had
27 questionable value and/or fit because he was being paid for the number of deals he
28 closed, not their quality or suitability and he caused J2 to acquire at least one company
belonging to insiders without adequate disclosures.

1 211. In addition, during the 3Q18 call, Defendant Shah stated that “[a] great
2 illustration of *how we create value is the Everyday Health acquisition we made*
3 *almost two years ago to the date. We purchased the business for \$465 million, then*
4 *we sold off two non-core and marginally profitable assets for \$120 million.*”

5 212. The statements referenced in ¶211 were materially false and/or
6 misleading because Defendants misrepresented and failed to disclose the following
7 adverse facts pertaining to J2’s business, operational and financial results, which were
8 known to Defendants or recklessly disregarded by them, that Everyday Health
9 significantly underperformed after being acquired in December 2016 such that its
10 2017 and 2018 revenues were over 25% less than its 2016 revenues, but that
11 underperformance was effectively obfuscated as profits and losses of six acquisitions
12 were commingled in the division and two parts of the original Everyday Health
13 company were sold off.

14 213. In response to a question from analyst, Rishi Jaluria at DA Davidson,
15 Shah further explained during the 3Q18 call that “I walk[ed] through in the prepared
16 remarks, our experience with Everyday Health, because I thought it was important
17 because I was beginning to get a sense from some shareholders and prospective
18 shareholders that it was a feeling that Everyday Health wasn’t working out well, and
19 I couldn’t disagree more. We are at 6.6 times EBITDA for a great asset in a great
20 vertical, and we’ve done it with some real cyclical pressures. So from my point of
21 view, *the business has performed very, very well.*”

22 214. The statements referenced in ¶213 were materially false and/or
23 misleading because Defendants misrepresented and failed to disclose the following
24 adverse facts pertaining to J2’s business, operational and financial results, which were
25 known to Defendants or recklessly disregarded by them, that Everyday Health
26 significantly underperformed after being acquired in December 2016 such that its
27 2017 and 2018 revenues were over 25% less than its 2016 revenues, but that
28

1 underperformance was effectively obfuscated as profits and losses of six acquisitions
2 were commingled in the division and two parts of the original Everyday Health
3 company were sold off.

4 215. Before the market opened on February 13, 2019, J2 held its fourth quarter
5 (“4Q18”) earnings conference call. In response to a question from analyst James
6 Breen at William Blair & Co., Defendant Turicchi noted that “if you look at 2017
7 versus 2016 [cash flow], *there was a big jump up in large part, because of Everyday*
8 *Health.*”

9 216. The statement referenced in ¶215 was materially false and/or misleading
10 because Defendants misrepresented and failed to disclose the following adverse fact
11 pertaining to J2’s business, operational and financial results, which was known to
12 Defendants or recklessly disregarded by them: that Everyday Health significantly
13 underperformed after being acquired in December 2016 such that its 2017 and 2018
14 revenues were over 25% less than its 2016 revenues, but that underperformance was
15 effectively obfuscated as profits and losses of six acquisitions were commingled in
16 the division and two parts of the original Everyday Health company were sold off.

17 217. On March 1, 2019, J2 filed with the SEC its annual report for the period
18 ended December 31, 2018 (the “2018 10-K”), signed by Defendants Shah and
19 Turicchi. Attached to the 2018 10-K were SOX certifications signed by Defendants
20 Shah and Turicchi attesting to the *accuracy of financial reporting*, the disclosure of
21 any material changes to the Company’s internal control over financial reporting and
22 the disclosure of all fraud.

23 218. The statement referenced in ¶217 was materially false and/or misleading
24 because Defendants misrepresented and/or failed to disclose the following adverse
25 facts pertaining to J2’s business, operational and financial results, which were known
26 to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
27 Acquisition was of an 11-month-old consulting business which had no employees,
28

1 was barely in the process of commencing its licensing program when it was acquired,
2 and was registered to the personal residence of long-time corporate insider van der
3 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
4 of J2 Ireland which was ultimately owned by J2; (ii) J2 Ireland took a €22.1 million
5 charge in 2015 and was significantly underperforming; (iii) J2 had overpaid for
6 Web24 mainly due to lack of pre-acquisition research and understanding of the
7 internet domain industry as no one at the Company had any experience in the web-
8 hosting industry until FE1 joined J2 with 15 years of experience buying businesses in
9 Asia and Australia; (iv) a material number of deals were sourced and managed by van
10 der Weijden and they all potentially had questionable value and/or fit because he was
11 being paid for the number of deals he closed, not their quality or suitability and he
12 caused J2 to acquire at least one company belonging to insiders without adequate
13 disclosures; (v) Everyday Health significantly underperformed after being acquired
14 in December 2016 such that its 2017 and 2018 revenues were over 25% less than its
15 2016 revenues; and (vi) while Defendant Zucker, Ressler, and Loshitzer would all
16 profit handsomely from the management fees J2 had to pay, there was no business
17 justification for the Orchard Investment because J2 was already in the business of
18 investing in and acquiring other companies and OCV had a sparse, indeed poor, track
19 record of investing in companies involving related parties, including Defendant
20 Zucker, Board members and corporate insiders, that would be continuing.

21 219. As to transactions with related parties, the 2018 10-K stated that the
22 “information required by this item is incorporated by reference to the information to
23 be set forth in our 2018 Proxy Statement.”

24 220. J2 subsequently filed its 2018 Proxy Statement with the SEC on March
25 22, 2019, which stated that the “RPT Policy prohibits all Related-Party Transactions
26 unless they are approved or ratified by the Corporate Governance and Nominating
27 Committee. If a transaction or relationship constitutes a Related-Party Transaction,
28

1 the Committee will then review the transaction or relationship to determine whether
2 to approve or ratify the transaction.” The 2018 Proxy Statement stated that J2 had
3 entered into the following related party transaction:

4 *On September 25, 2017, the Board of Directors authorized the*
5 *Company to enter into a commitment to invest \$200 million in an*
6 *investment fund (the “Fund”). The manager, OCV Management,*
7 *LLC (“OCV”), and general partner of the Fund are entities with*
8 *respect to which Ressler, Chairman of the Board of Directors, is*
9 *indirectly the majority equity holder. In addition, Zucker, who*
10 *resigned from the position of Chief Executive Officer of the Company*
11 *effective December 31, 2017 and who serves as an advisor to the*
12 *Company through December 31, 2018 pursuant to the Letter*
13 *Agreement described above, has become a co-managing principal of*
14 *OCV and a significant equity holder. As a limited partner in the Fund,*
15 *the Company will pay an annual management fee to the manager equal*
16 *to 2.0% (reduced by 10% each year beginning with the sixth year) of*
17 *capital commitments. In addition, subject to the terms and conditions*
18 *of the Fund’s limited partnership agreement, once the Company has*
19 *received distributions equal to its invested capital, the Fund’s general*
20 *partner would be entitled to a carried interest equal to 20%. The Fund*
21 *has a six year investment period, subject to certain exceptions. **The***
22 *commitment was approved by the Audit Committee of the Board in*
23 *accordance with the RPT Policy. In 2018, the Company received six*
24 *capital call notices from the management of OCV for approximately*
25 *\$36.8 million, inclusive of certain management fees.*

26 221. The statements referenced in ¶¶219-20 were materially false and/or
27 misleading because Defendants misrepresented and failed to disclose the following
28 adverse facts pertaining to J2’s business, operational and financial results, which were
known to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
Acquisition was of an 11-month-old consulting business which had no employees,
was barely in the process of commencing its licensing program when it was acquired,
and was registered to the personal residence of long-time corporate insider van der
Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
of J2 Ireland which was ultimately owned by J2; (ii) any deals sourced and managed

1 by van der Weijden potentially had questionable value and/or fit because he was being
2 paid for the number of deals he closed, not their quality or suitability and he caused
3 J2 to acquire at least one company belonging to insiders without adequate disclosures;
4 and (iii) while Defendant Zucker, Ressler, and Loshitzer would all profit handsomely
5 from the management fees J2 had to pay, there was no business justification for the
6 Orchard Investment because J2 was already in the business of investing in and
7 acquiring other companies and OCV had a sparse, indeed poor, track record of
8 investing in companies involving related parties, including Defendant Zucker, Board
9 members and corporate insiders, that would be continuing.

10 222. Before the market opened on May 8, 2019, J2 held its 1Q19 earnings
11 conference call. In response to a question from analyst, Daniel Ives at Wedbush
12 Securities (“Wedbush”), Defendant Turicchi stated that “we’ve seen *continuing*
13 *strength and firmness out of everyday health*, which has a large chunk of display
14 advertising in terms of its total monetization.”

15 223. The statement referenced in ¶¶222 was materially false and/or misleading
16 because Defendants misrepresented and failed to disclose the following adverse facts
17 pertaining to J2’s business, operational and financial results, which were known to
18 Defendants or recklessly disregarded by them: that Everyday Health significantly
19 underperformed after being acquired in December 2016 such that its 2017 and 2018
20 revenues were over 25% less than its 2016 revenues, but that underperformance was
21 effectively obfuscated as profits and losses of six acquisitions were commingled in
22 the division and two parts of the original Everyday Health company were sold off.

23 224. Before the market opened on August 7, 2019, J2 held its second quarter
24 2019 (“2Q19”) earnings conference call. During the call, Shah touted:

25 I’m not sure of how many companies can make that claim to have
26 grown revenues for 23 consecutive years. Yet, in the seven years that
27 I’ve been here, and in the 20 years Scott’s been here, we still get
28 questioned about the viability of our model, questioned about our

1 ability to sustain the j2 acquisition system, and therefore, our overall
2 growth. I believe ***the past 20 years should resolve for any rational***
3 ***observer these questions.*** My favorite indicator of our success is the
4 five times ratio of our accumulative acquisition spend divided by our
5 annual adjusted EBITDA.

6 ***It demonstrates our ability to stand capital intently and wisely as well***
7 ***as the means to properly integrate these assets once they are in j2's***
8 ***portfolio.***

9 225. The statements referenced in ¶224 were materially false and/or
10 misleading because Defendants misrepresented and/or failed to disclose the following
11 adverse fact pertaining to J2's business, operational and financial results, which were
12 known to Defendants or recklessly disregarded by them, that a material number of
13 deals were sourced and managed by van der Weijden and they all potentially had
14 questionable value and/or fit because he was being paid for the number of deals he
15 closed, not their quality or suitability and he caused J2 to acquire at least one company
16 belonging to insiders without adequate disclosures.

17 226. Defendant Shah also stated during the 2Q19 call that, "***we're certainly***
18 ***willing to entertain offers that value these businesses in excess of what the market***
19 ***may be valuing and where we may not feel it's strategic or where we way may not***
20 ***feel we have future growth opportunities or where we may not feel we can execute***
21 ***the M&A program*** as well. So we're open to it. We get calls from time to time. So
22 we're certainly -- and ***I do think that's a little bit of a shift.***"

23 227. The statement referenced in ¶226 was materially false and/or misleading
24 because Defendants misrepresented and/or failed to disclose the following adverse
25 fact pertaining to J2's business, operational and financial results, which was known
26 to Defendants or recklessly disregarded by them, that: (i) a material number of deals
27 were sourced and managed by van der Weijden and they all potentially had
28 questionable value and/or fit because he was being paid for the number of deals he
closed, not their quality or suitability, and he caused J2 to acquire at least one

1 company belonging to insiders without adequate disclosures; (ii) because J2 did not
2 disclose the terms of its small acquisitions, it was able to tout the successful results of
3 the acquired business as based on its value-add even though it actually did not add
4 anything to the acquired business; and (iii) that J2's deals were not performing well
5 and only appeared to be doing well through Defendants' misleading accounting.

6 228. Before the market opened on November 1, 2019, J2 held its third quarter
7 2019 ("3Q19") earnings conference call. In response to a question from analyst,
8 James Breen at William Blair and Company, Defendant Shah states "we have a
9 number of high-quality, organically growing businesses where we see runway.... It's
10 *our Everyday Health group, which continues to grow organically, high single*
11 *digits, possibly low double digits* on the corporate fax side, on VPN."

12 229. The statement referenced in ¶228 was materially false and/or misleading
13 because Defendants misrepresented and failed to disclose the following adverse facts
14 pertaining to J2's business, operational and financial results, which was known to
15 Defendants or recklessly disregarded by them: that Everyday Health significantly
16 underperformed after being acquired in December 2016 such that its 2017 and 2018
17 revenues were over 25% less than its 2016 revenues, but that underperformance was
18 effectively obfuscated as profits and losses of six acquisitions were commingled in
19 the division and two parts of the original Everyday Health company were sold off.

20 230. In addition, Defendant Shah stated during the 3Q19 call, "*Our ability to*
21 *transact efficiently, transparently and reliably and to see and create value where*
22 *others cannot has allowed us to succeed in an M&A environment that can at times*
23 *seem frothy.*"

24 231. The statement referenced in ¶230 was materially false and/or misleading
25 because Defendants misrepresented and/or failed to disclose the following adverse
26 fact pertaining to J2's business, operational and financial results, which was known
27 to Defendants or recklessly disregarded by them, that: (i) a material number of deals
28

1 were sourced and managed by van der Weijden and they all potentially had
2 questionable value and/or fit because he was being paid for the number of deals he
3 closed, not their quality or suitability, and he caused J2 to acquire at least one
4 company belonging to insiders without adequate disclosures; (ii) because J2 did not
5 disclose the terms of its small acquisitions, it was able to tout the successful results of
6 the acquired business as based on its value-add even though it actually did not add
7 anything to the acquired business; and (iii) that J2's deals were not performing well
8 and only appeared to be doing well through Defendants' misleading accounting.

9 232. On March 2, 2020, J2 filed with the SEC its annual report for the period
10 ended December 31, 2019 (the "2019 10-K"), signed by Defendants Shah and
11 Turicchi. Attached to the 2019 10-K were SOX certifications signed by Defendants
12 Shah and Turicchi attesting to the *accuracy of financial reporting*, the disclosure of
13 any material changes to the Company's internal control over financial reporting and
14 the disclosure of all fraud.

15 233. The statement referenced in ¶232 was materially false and/or misleading
16 because Defendants misrepresented and/or failed to disclose the following adverse
17 facts pertaining to J2's business, operational and financial results, which were known
18 to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
19 Acquisition was of an 11-month-old consulting business which had no employees,
20 was barely in the process of commencing its licensing program when it was acquired,
21 and was registered to the personal residence of long-time corporate insider van der
22 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
23 of J2 Ireland which was ultimately owned by J2; (ii) J2 Ireland took a €22.1 million
24 charge in 2015 and was significantly underperforming; (iii) J2 had overpaid for
25 Web24 mainly due to lack of pre-acquisition research and understanding of the
26 internet domain industry as no one at the Company had any experience in the web-
27 hosting industry until FE1 joined J2 with 15 years of experience buying businesses in
28

1 Asia and Australia; (iv) a material number of deals were sourced and managed by van
2 der Weijden and they all potentially had questionable value and/or fit because he was
3 being paid for the number of deals he closed, not their quality or suitability and he
4 caused J2 to acquire at least one company belonging to insiders without adequate
5 disclosures; (v) Everyday Health significantly underperformed after being acquired
6 in December 2016 such that its 2017 and 2018 revenues were over 25% less than its
7 2016 revenues; and (vi) while Defendant Zucker, Ressler, and Loshitzer would all
8 profit handsomely from the management fees J2 had to pay, there was no business
9 justification for the Orchard Investment because J2 was already in the business of
10 investing in and acquiring other companies and OCV had a sparse, indeed poor, track
11 record of investing in companies involving related parties, including Defendant
12 Zucker, Board members and corporate insiders, that would be continuing.

13 234. As to transactions with related parties, the 2019 10-K stated that the
14 “information required by this item is incorporated by reference to the information to
15 be set forth in our 2019 Proxy Statement.”

16 235. J2 subsequently filed its 2019 Proxy Statement with the SEC on March
17 26, 2020, which further stated that the “RPT Policy prohibits all Related-Party
18 Transactions unless they are approved or ratified by the Corporate Governance and
19 Nominating Committee. If a transaction or relationship constitutes a Related-Party
20 Transaction, the Committee will then review the transaction or relationship to
21 determine whether to approve or ratify the transaction.” The 2019 Proxy Statement
22 stated that J2 had entered into the following related party transaction:

23 *On September 25, 2017, the Board of Directors authorized the*
24 *Company to enter into a commitment to invest \$200 million in an*
25 *investment fund (the “Fund”). The manager, OCV Management,*
26 *LLC (“OCV”), and general partner of the Fund are entities with*
27 *respect to which Ressler, Chairman of the Board of Directors, is*
28 *indirectly the majority equity holder. In addition, Zucker, who*
resigned from the position of Chief Executive Officer of the Company

1 *effective December 31, 2017 and who serves as an advisor to the*
2 *Company through December 31, 2018 has become a co-managing*
3 *principal of OCV and a significant equity holder.* As a limited partner
4 in the Fund, the Company will pay an annual management fee to the
5 manager equal to 2.0% (reduced by 10% each year beginning with the
6 sixth year) of capital commitments. In addition, subject to the terms and
7 conditions of the Fund's limited partnership agreement, once the
8 Company has received distributions equal to its invested capital, the
9 Fund's general partner would be entitled to a carried interest equal to
10 20%. The Fund has a six year investment period, subject to certain
11 exceptions. *The commitment was approved by the Audit Committee of*
the Board in accordance with the RPT Policy. In 2019, the Company
received nine capital call notices from the management of OCV for
approximately \$29.6 million, inclusive of certain management fees.
The also Company received approximately \$10.3 million in
distributions from OCV in 2019.

12 236. The statements referenced in ¶¶234-35 were materially false and/or
13 misleading because Defendants misrepresented and failed to disclose the following
14 adverse facts pertaining to J2's business, operational and financial results, which were
15 known to Defendants or recklessly disregarded by them, that: (i) the \$900,000 VDW
16 Acquisition was of an 11-month-old consulting business which had no employees,
17 was barely in the process of commencing its licensing program when it was acquired,
18 and was registered to the personal residence of long-time corporate insider van der
19 Weijden who, at the time of the VDW Acquisition, was a director of J2 UK, an arm
20 of J2 Ireland which was ultimately owned by J2; (ii) any deals sourced and managed
21 by van der Weijden potentially had questionable value and/or fit because he was being
22 paid for the number of deals he closed, not their quality or suitability and he caused
23 J2 to acquire at least one company belonging to insiders without adequate disclosures;
24 and (iii) while Defendant Zucker, Ressler, and Loshitzer would all profit handsomely
25 from the management fees J2 had to pay, there was no business justification for the
26 Orchard Investment because J2 was already in the business of investing in and
27 acquiring other companies and OCV had a sparse, indeed poor, track record of
28

1 investing in companies involving related parties, including Defendant Zucker, Board
2 members and corporate insiders, that would be continuing.

3 **VI. THE TRUTH WAS REVEALED**

4 237. The false and misleading misrepresentations and material omissions, as
5 alleged herein, directly and proximately caused the economic loss suffered by
6 Plaintiff and the Class members he represents.

7 238. The truth began to be revealed when, before the market opened on March
8 10, 2016, Citron Research published a report entitled “Citron Exposes the Dirty
9 Secrets of j2 Global (JCOM)!” (the “Citron Report”). The Citron Report revealed that
10 J2, among other issues, (i) “no longer wants acquisitions, it needs acquisitions”
11 (emphasis in original) (ii) “j2 Global has spent the past four years using the money
12 generated by its legacy eFax business to prop the financials of a collection of
13 unremarkable and/or useless assets that have all been acquired with terms
14 undisclosed;” and (iii) “[w]hile Wall Street analysis are tripping over themselves in
15 excitement about the future of M&A at j2 Global, no one seems to be paying any
16 attention to the bottom line or the quality of businesses j2 Global is aggregating.”

17 239. On this news, shares of J2 plummeted \$14.09 per share, or nearly 20%,
18 to close at \$56.90 per share on March 10, 2016 on unusually heavy trading, damaging
19 investors.

20 240. The market attributed the March 10 stock drop to the Citron Report as
21 seen in an article published on Nasdaq by the leading investment research firm, Zacks,
22 on March 11, 2016.⁴⁸ Notably, the article noted that the Company’s recently acquired
23 business is “making losses,” and raised concern about how J2 does not reveal the
24

25
26 _____
27 ⁴⁸ Zacks, *j2 Global: Citron Report Attacks Business Model, Stock Down*, NASDAQ
28 (*Mar. 11, 2016*), <https://www.nasdaq.com/articles/j2-global%3A-citron-report-attacks-business-model-stock-down-2016-03-11> (last visited on Nov. 19, 2020).

1 terms and conditions of its acquisitions, “which has created quite a lot of uncertainty
2 among investors.”

3 241. Then, before the market opened on June 30, 2020, Hindenburg Research
4 published a report entitled “J2 Global: Troubling Related Party Transactions,
5 Looming Impairments and A Suspicious History of Insider Enrichment Spanning
6 Decades” (the “Report”) revealing, *inter alia*, that “[t]he opaque nature of J2’s M&A
7 program has...left investors in the dark on the magnitude of insider enrichment and
8 fundamental deterioration of underlying businesses.” Specifically, the Report states
9 that “J2’s opaque acquisition approach has opened the door to egregious insider self-
10 enrichment” to the tune of “\$98 million to \$128 million.” One such acquisition was
11 of “a newly formed entity based out of [J2’s] own VP of Corporate Development’s
12 personal residence for \$900 thousand” which had “undefined ‘intellectual property’
13 and no employees or apparent assets,” yet “[n]o conflict was disclosed.” (Emphasis
14 in original). That VP “handled 135 of J2’s acquisitions, representing ~73% of the
15 company’s acquisitions to date.” In addition, the Report revealed that J2’s recent
16 commitment of “\$200 million of shareholder cash” was “to a newly-formed
17 investment vehicle run by its Chairman, who has a track record of venture investment
18 failures,” as well as “other J2 execs and insiders.” “That investment vehicle, in turn,
19 made its first investment of an estimated \$12 million into a newly formed home video
20 business established by the Chairman’s nephew,” but “**again, no conflict was**
21 **disclosed.**” (Emphasis in original). Further, the Report found it “uncanny that
22 [Defendant] Shah was awarded a ludicrous pay package” (\$45 million in total
23 compensation in 2018) “precisely when related party transactions diverted assets to
24 other key insiders.”

25 242. Next, the Report noted that J2’s “underperformance has been masked by
26 tricky accounting,” including “never tak[ing] a goodwill impairment, yet subsidiary
27 filings report multiple material goodwill impairments that don’t appear to coincide
28

1 with parent financials.” For example, “J2’s European business (13% of revenue in
2 2016), which was overseen by the aforementioned VP of Corporate Development,
3 has seen its revenue decline 27% in the subsequent 3 years with operating income
4 swinging from \$5.5 million to negative \$13 million.” And while “a key J2 subsidiary
5 [in Europe] recorded an €22 million impairment,” “zero goodwill impairment [was]
6 recognized at the parent corporation.” In addition, “Everyday Health, J2’s largest
7 acquisition, saw an immediate post-acquisition revenue drop of ~25%, yet no
8 impairment was recorded. Instead, J2 went on a spree of asset disposals/acquisitions
9 that obfuscated the entity’s financial position.” The Report estimated that in total,
10 “[a]pproximately \$700m of acquisitions for which we have visibility are seeing
11 revenue declines, appear to be underperforming, or have been outright dissolved...yet
12 we have seen no impairment of goodwill to date.”

13 243. Lastly, the Report revealed that “[d]espite J2’s proxy describing all but
14 one of its board members as ‘independent,’ we found decades of intertwined financial
15 interests between board members and executives, calling that independence into
16 question.” Specifically, J2’s “audit committee simply cannot be relied upon, as a
17 majority of the committee has worked together for years prior to serving on the board
18 of J2 in roles that reveal conflicts of interest,” including the AC chair, “long time
19 Ressler associate Brian Kretzmer” who “has a work history with J2 Chairman Richard
20 Ressler dating back nearly three decades.” Kretzmer even “consulted for the OCV
21 affiliate Orchard Capital,” which “is a flagrant conflict of interest, given that as chair
22 of the audit committee Kretzmer then approved the \$200 million commitment of J2
23 Capital to OCV.” Likewise, “**[i]ndependent director and audit committee**
24 **member, Stephen Ross**, has a 20-year history with J2 Chairman Ressler and
25 director/audit committee chair Kretzmer.” Yet they, along with the rest of the Board
26 – the “majority of [whom] had multiple overlapping business ties with Ressler, were
27
28

1 responsible for providing the approval of \$200 million in J2 cash being directed into
2 Ressler’s newly-formed investment entity.”

3 244. The Report then proceeded to provide substantial, detailed “evidence”
4 supporting its claims regarding J2’s: (1) “Related Party Transactions and Insider Self-
5 dealing;” (2) “Tricky Accounting: J2’s Public Entity Has Never Recognized Any
6 Goodwill Impairments;” (3) “Corporate Governance Vacuum;” and (4) “Legacy
7 Businesses In Decline.”

8 245. On this news, shares of J2 fell \$6.29 per share, or over 9%, to close at
9 \$63.21 per share on June 30, 2020 on unusually heavy trading, damaging investors.

10 246. The market recognized the Report’s impact on J2’s stock price as seen in
11 the *Marketwatch* article titled, “*Under attack from short seller, J2 Global says it*
12 *bought company from a consultant—documents indicate there’s more to the story.*”⁴⁹
13 The article noted that while the Company said Mr. van der Weijden was not a related
14 party, “publicly available documents in the U.K., however, show that van der Weijden
15 was a director of J2 Global UK Ltd...an arm of J2 Global Ireland, which ultimately
16 is owned by J2 Global Inc.”

17 **VII. ADDITIONAL SCIENTER ALLEGATIONS**

18 247. As alleged herein, Defendants acted with scienter in that they either knew
19 or recklessly disregarded that the public documents and statements issued or
20 disseminated in the name of the Company were materially false and misleading and
21 that such statements or documents would be issued or disseminated to the investing
22 public. Defendants substantially participated or acquiesced in the issuance or
23 dissemination of such statements or documents as primary violations of the federal
24

25 ⁴⁹ Steve Goldstein, *Under attack from short seller, J2 Global says it bought*
26 *company from a consultant—documents indicate there’s more to the story*,
27 MARKETWATCH (July 7, 2020), [https://www.marketwatch.com/story/under-attack-](https://www.marketwatch.com/story/under-attack-from-short-seller-j2-global-says-it-bought-company-from-a-consultant-documents-indicate-theres-more-to-the-story-2020-07-06)
28 [from-short-seller-j2-global-says-it-bought-company-from-a-consultant-documents-](https://www.marketwatch.com/story/under-attack-from-short-seller-j2-global-says-it-bought-company-from-a-consultant-documents-indicate-theres-more-to-the-story-2020-07-06)
[indicate-theres-more-to-the-story-2020-07-06](https://www.marketwatch.com/story/under-attack-from-short-seller-j2-global-says-it-bought-company-from-a-consultant-documents-indicate-theres-more-to-the-story-2020-07-06) (last visited Nov. 19, 2020).

1 securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their
2 receipt of information reflecting the true facts regarding J2, their control over, and/or
3 receipt and/or modification of J2’s allegedly materially misleading misstatements
4 and/or their associations with the Company, which made them privy to confidential
5 proprietary information concerning J2, participated in the fraudulent scheme alleged
6 herein.

7 248. The Individual Defendants had actual knowledge of J2’s acquisition
8 strategy and the quality of the companies it was acquiring as “small but crafty
9 acquisitions [have been] the *key to the success*” of the Company from the start of the
10 Class Period.⁵⁰ J2’s own Form 10-Ks during the Class Period stated with regard to its
11 growth strategy:

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

15 We *must* acquire additional or invest in new or current
16 businesses, products, services and technologies that complement or
17 augment our service offerings and customer base in order to sustain our
18 rate of growth.

19 (Emphasis in original).⁵¹

20 249. As such, the Individual Defendants were highly focused on the number
21 and quality of acquisitions as well as the process and timing of maximizing the
22 acquired company’s margins to contribute to J2’s bottom line. Indeed, while
23 Defendant Zucker was at the helm of J2, “M&A was more centralized with the M&A
24 team and *the parent [which included the Individual Defendants] driving the*

25 ⁵⁰ Bram de Haas, *J2 Global: Sound Capital Allocation Leads To Excellent Results*,
26 SEEKING ALPHA (Nov. 4, 2015 08:37 AM ET),
27 [https://seekingalpha.com/article/3643376-j2-global-sound-capital-allocation-leads-
28 to-excellent-results](https://seekingalpha.com/article/3643376-j2-global-sound-capital-allocation-leads-to-excellent-results).

⁵¹ J2 Global Communications, Inc. Annual Report (Form 10-K) (Mar. 1, 2017); J2
Global Communications, Inc. Annual Report (Form 10-K) (Mar. 1, 2018); J2 Global
Communications, Inc. Annual Report (Form 10-K) (Mar. 1, 2019).

1 **pipeline.**⁵² Accordingly, according to FE1, before any acquisition involving FE1 was
2 done, Zucker participated in the discussion that was held regarding whether the
3 acquisition was “go or no-go.” Corroborating FE1, FE2 stated that van der Weijden
4 reported directly to Defendants Zucker and Turicchi, and Chairman of the Board
5 Richard Ressler and that they signed off on “every” acquisition.

6 250. Defendants’ Class Period statements further corroborate that the
7 Individual Defendants were aware and approved of the Company’s acquisition
8 strategy and acquisition targets. For example, in J2’s October 5, 2015 press release
9 announcing the VDW Acquisition, Defendant Zucker specifically touted that “[o]ver
10 the years, j2 has developed a **core competency of identifying, negotiating and**
11 **integrating acquisitions** to enhance our global growth.” Likewise, Defendant
12 Turicchi not only noted that “[s]ince the beginning of the year, we have completed
13 twenty acquisitions, deploying approximately \$265 million of capital,” but also that
14 “our M&A pipeline remains full as we continue to pursue our **long-term acquisition**
15 **strategy.**”⁵³ Based on this press release, analysts at Susquehanna noted that
16 management (including Zucker and Turicchi) had attributed J2’s ability to raise its
17 2015 revenue and EPS guidance in part “to **strong M&A activity** in 3Q (**closed nine**
18 **deals** [which included the VDW Acquisition]).”⁵⁴

19 251. During the subsequent 3Q15 earnings call on November 3, 2015,
20 Defendants Zucker and Turicchi made it clear that they personally looked at and were
21 involved in the Company’s acquisitions:

- 22 • Zucker: “So we are basically, with our discipline and our reputation, are

23 _____
24 ⁵² JMP Securities LLC (“JMP”), *j2 Global, Inc. (JCOM) Investor meetings in*
Canada Provide Additional Color on M&A strategy (July 15, 2019).

25 ⁵³ *j2 Global® Raises Guidance*, BUSINESS WIRE (Oct. 05, 2015 07:00 AM ET),
26 [https://www.businesswire.com/news/home/20151005005526/en/j2-
Global%C2%AE-Raises-Guidance](https://www.businesswire.com/news/home/20151005005526/en/j2-Global%C2%AE-Raises-Guidance).

27 ⁵⁴ Susquehanna Financial Group, LLLP, *j2 Global, Inc.: M&A Led Growth Can*
28 *Work If Done Right* (Nov. 4, 2015).

1 getting deals that – *I can tell you so many times when I get involved in the*
2 *deals and I usually get involved with the deals, either larger size or are new*
3 *to us and I want to make sure that we are comfortable with geography, with*
4 *the people, with the business.”*

- 5 • Turicchi: “*We have to look at scores of deals to find the five deals to 10*
6 *deals that we do a quarter.* So we’re throwing a lot back because in many
7 instances it’s not that we don’t like the asset, but we don’t like the price
8 associated with the asset. It doesn’t work for our model, at least at this
9 moment in time. *So educating the deal teams of where to look and how to*
10 *find and create value in these deals is very important* because we can’t have
11 our M&A program be subject to market conditions.”

12 252. As Seeking Alpha analysts who “listen[ed] to the earnings call[s] and read
13 the filings” by the Company noted on November 4, 2015, J2’s “management team is
14 real skilled at capital allocation” and is “working like a well oiled machine; the
15 company executed 9 acquisitions last quarter.”⁵⁵ In particular, Defendants “*Zucker*
16 *and Turic[c]hi, President and CFO, look at scores of deals every quarter* but only
17 manage to execute on 10 or so because they often don’t like the price associated with
18 the asset. They are however quite flexible in what they will buy although they are
19 eager to capture synergies and scale-up potential.” Then on November 16, 2015,
20 Seeking Alpha analysts further believed that J2’s “management has been disciplined
21 about not overpaying for acquisitions” and “has done a good job monetizing these
22 acquired assets” based on “[m]anagement commentary [which wa]s typically focused
23 on growing ARPU” or average revenue per user.⁵⁶

24 253. Because Defendants Zucker and Turicchi had actual knowledge of the
25 VDW Acquisition, they knew or recklessly disregarded and failed to disclose what

26 ⁵⁵ Bram de Haas, *J2 Global: Sound Capital Allocation Leads To Excellent Results*,
27 SEEKING ALPHA (Nov. 4, 2015 08:37 AM ET),
28 <https://seekingalpha.com/article/3643376-j2-global-sound-capital-allocation-leads-to-excellent-results>.

⁵⁶ *j2 Global: Growth At A (Semi)-Reasonable Price*, SEEKING ALPHA (Nov. 16, 2015
10:03 AM ET), <https://seekingalpha.com/article/3687586-j2-global-growth-semi-reasonable-price>.

1 van der Weijden and J2 each got out of the deal. According to FE2, in addition to the
2 \$900,000 van der Weijden received as part of the VDW Acquisition, van der Weijden
3 made his longtime girlfriend an employee of VDW and therefore after the acquisition,
4 she became an employee of J2. Through that arrangement, she could come to the
5 United States without him needing to marry her.. In addition to acquiring van der
6 Weijden’s “Intellectual Property” and his girlfriend’s employment, the Company also
7 maintained its acquisition machine running. Van der Weijden kept “the spigot” on, as
8 long as his demands were met.

9 254. In the Company’s January 14, 2016 press release announcing its
10 acquisition of “Ausweb (Hosting, Australia),” Defendant Zucker again focused on
11 “j2’s M&A program” which “ended 2015 on a very high note” and the Company’s
12 “*commit[ment] to driv[ing] growth globally, in part through acquisition,* and
13 complet[ion of] twenty-four acquisitions in 2015 with that objective in mind.”⁵⁷

14 255. Defendant Turicchi also expressed knowledge and approval of the J2’s
15 approach to acquisitions throughout 2016:

- 16 • 1Q16 earnings call (5/5/16): J2’s “goal [for a transaction] has been and
17 continues to remain that we target 20% cash-on-cash returns” and the
18 continuing trend is “deals that are somewhat larger in size than the
19 *traditional small tuck-in deals that were the sort of historical bread and*
20 *butter of primarily the Cloud business* ... things that have \$10 million, \$20
21 million, \$30 million, \$40 million, \$50 million, sometimes \$100 million or
22 more in revenue,” but “[g]enerally not much larger than that.”
- 23 • 2Q16 earnings call (8/3/16): “[A]s we become more visible and *our appetite*
24 *for acquisitions* is better known ... we’re also becoming active in, what I’ll
25 call, mid-size deals ... more and more we’re seeing deals that have \$15
26 million to \$50 million, in some cases, up to \$100 million of revenue. Now,
27 that’s almost a new pipeline that has been building for – we’ve been building

28 ⁵⁷ *j2 Global® Completes Four Acquisitions in Q4 of 2015 – 24 Acquisitions in FY 2015*, BUSINESS WIRE (Jan. 14, 2016 07:00 AM ET), <https://www.businesswire.com/news/home/20160114005016/en/j2-Global%C2%AE-Completes-Acquisitions-Q4-2015-%E2%80%93>

1 over the last few quarters.... But I actually believe and *I polled our own M&A*
2 *teams*, I think that’s really the next wave for us at j2.... And so, there’s a big
focus in that area...”

- 3
- 4 • After hosting investor meetings in November 2016 with Turicchi, JMP
analysts noted that “[g]iven the *importance of M&A to j2 Global’s business*
5 *model* (we estimate that j2 Global has acquired 141 companies in its history,
not including EVDY), the other major topic of conversation was j2 Global’s
6 M&A strategy and understanding the competitive landscape. The average
acquisition price for those acquisitions has been between 2-3x EV/revenue
7 and j2 Global targets a 20% cash-on-cash return, which *Mr. Turicchi*
8 *believes is ‘an easy rule of thumb’* to protect the company against mistakes
in the diligence process, higher-than-expected integration costs, and small
9 variations in the interest rate environment.” Turicchi had further stated that
10 “[t]he cloud business...is expected to have continued tuck-in acquisitions,
but no major acquisitions, as *‘all hands are on deck’ from a corporate level*
11 *with the Everyday Health acquisition.*”⁵⁸

12 256. Defendants Zucker and Turicchi continued to be intimately involved in
13 acquisitions throughout 2017:

- 14 • Zucker: “Yeah, so *we definitely see acquisitions*, and *we are talking with*
15 *some of them already.*” (4Q16 earnings call; Feb. 9, 2017).
- 16 • Turicchi: “*We looked at the deal.* We thought that certainly the total
17 purchase price was fair and good. And we like the fact that we have a fairly
18 meaningful back-end upside in what we think is a very powerful, exciting
company in the health IT space. So we’ll keep those securities, those are j2
19 to be clear.” (3Q17 earnings call; Nov. 2, 2017).
- 20 • After hosting investor meetings in October 2017 with Turicchi, JMP analysts
21 noted that “[t]he other big topic of conversation was M&A, which is fully
22 expected given the *importance of acquisitions to j2 Global’s business*
model.”⁵⁹

23 257. In addition, Defendant Turicchi frequently held investor meetings and
24 post-earnings callbacks with analysts during the Class Period in which he

25 _____
26 ⁵⁸ JMP, *On the Road with j2 Global: Greater Clarity on Everyday Health and*
Understanding j2 Global’s M&A strategy (Nov. 21, 2016).

27 ⁵⁹ JMP, *On the Road with j2 Global: Fax, M&A, and Everyday Health* (Oct. 5,
28 2017).

1 demonstrated his detailed knowledge and active involvement in the Company’s M&A
2 strategy, acquisitions, and performance of the underlying business. For example, in
3 order to specifically assuage concerns raised about the opacity of the Company's
4 consolidated financials raised by *Citron*, Defendant Turicchi disclosed the
5 Company’s “organic” growth rate following 1Q16 earnings and highlighted details of
6 current acquisitions and the Company’s acquisition strategy generally.⁶⁰ These
7 investor meetings and callbacks with analysts corroborate Defendant Turicchi’s deep
8 knowledge of the Company’s M&A strategy, acquisitions, and performance of the
9 underlying business.⁶¹ Indeed, JMP maintained the Company’s Market Outperform
10 rating and price target following a meeting with Defendant Turicchi in which JPM
11 noted they continued to like the Company because of its “M&A strategy and
12 disciplined approach to identifying investment opportunities.”⁶²

13 258. Neither J2’s focus on growth through acquisitions nor its executive
14 management’s active involvement in acquisitions changed when Defendant Shah
15 became CEO in January 2018. He repeatedly spoke about those precise issues:

- 16 • 4Q17 earnings call (2/6/18): “I think *we have far more capacity today,*
17 *management capacity than we’ve ever had I think in j2’s history in terms*
18 *of our ability to source, evaluate, integrate, and make acquisition*
19 *successful.*”
- 20 • 3Q18 earnings call (11/6/18): “This is all to say that *acquisition is part of*
21 *our DNA and runs deep inside of the company, it’s not just me and Scott*
22 *[Turicchi] waving a magic M&A wand. It’s fundamental to what we do*
23 *and who we are* and we recruit talent that can succeed in our environment.

23 ⁶⁰ Citi Research, *Takeaways from Q1 Callback with CFO Turicchi* (May 6, 2016).

24 ⁶¹ *See, e.g.,* Citi Research, *Takeaways from Callback with CFO Turicchi* (Aug. 3,
25 2016) (discussing interesting takeaway from callbacks relating to webservices
26 market in Australia / New Zealand); Citi Research, *Takeaways from Callback with*
27 *CFO / President Turicchi* (Nov. 2, 2016) (providing additional detail on Everyday
28 Health acquisition).

⁶² JMP, *On the Road with J2 Global: Fax, M&A and Everyday Health* (Oct. 5,
2017).

1 While we believe, what we built as an acquisition system is valuable. We're
2 not alone. The marketplace refers to companies like ours with different
3 labels, that the term often used is a 'serial acquirer,' it's a group of public
4 companies who are frequent buyers of companies and generally have a
5 goodwill to asset ratio of over 50%."

- 6 • 3Q18 earnings call (11/6/18): J2's M&A "***approach has proven and will
7 continue to prove to be our most important and sustainable competitive
8 advantage.***"
- 9 • 4Q18 earnings call (2/13/19): "When you think about all the Divisional
10 Presidents, all of the General Managers; ***Scott [Turicchi], myself*** and a few
11 folks in corporate, you now have a number of people ***engaged in sourcing,
12 evaluating, diligencing, ultimately transacting and integrating
13 acquisitions.*** So I think ***it's vital to what we're doing.***"
- 14 • 3Q19 earnings call (11/1/19): "***Our ability to transact efficiently,
15 transparently and reliably and to see and create value where others cannot
16 has allowed us to succeed.***"
- 17 • Takeaways from a "fireside chat at Citi's Global Technology Conference"
18 with Defendant Shah in September 2019 included that "***M&A continues to
19 be the core of the growth story*** and is fairly widespread inside of the
20 organization."⁶³
- 21 • Wedbush (11/26/18): "the next few years is about finding the right assets that
22 fit into the ***strategy for Vivek [Shah] & Co.*** to expand its product footprint....
23 ***Management continues to see*** a robust pipeline of potential acquisition
24 targets with a target post-synergy EBITDA multiple in the range of 5 to 6
25 times with the company very focused on its strict deal criteria of 20% cash-
26 on-cash returns."⁶⁴

27 259. Defendant Turicchi continued to be actively involved in J2's acquisition
28 machine after Shah became CEO. As Wedbush analysts noted after hosting an
investor dinner with Shah and Turicchi in November 2018, they expected J2's "***M&A
strategy under the helm of longtime President and CFO Scott Turicchi*** will enable
the company to focus on ROIC and growing its product arsenal which ***will ultimately***

⁶³ Citigroup Global Markets Inc., *J2 Global (JCOM) Alert: 2019 Global Tech Conference Takeaways* (Sep. 5, 2019).

⁶⁴ Wedbush, *Takeaways from the Road; M&A Trends Humming into 2019* (Nov. 26, 2018).

1 *be the biggest swing factor in the name looking ahead.*”⁶⁵ In additional Wedbush
2 meetings with Turicchi later that month, “*M&A* discusson was a hot topic...as this
3 *remains at the epicenter of the company’s core strategic vision* over the coming
4 years” so “*[i]t’s all about the right M&A for JCOM....*”⁶⁶ During investor meetings
5 hosted by JMP in October 2019, Turicchi further confirmed that acquisitions of new
6 divisions like Everyday Health were “*[s]ponsored by J2 corporate leadership,*”
7 which included the Individual Defendants.⁶⁷

8 260. Even after J2’s “management flipped the M&A model” with Defendant
9 Shah at the helm so that “business unit management and division presidents are more
10 influential in the M&A process and tasked with driving the pipeline in order to add
11 value to their business units,” Turicchi explained during investor meetings hosted by
12 JMP in July 2019 that he and Shah were still actively involved in acquisitions as J2’s
13 “M&A strategy is [still] a collaboration between the M&A team, the parent, and the
14 Bus (business units). The BUs deal with the operational elements of the deal, while
15 *the parent deals with legal, HR, and tax implications of the transaction.* The M&A
16 team focuses specifically on deal mechanics, negotiation, and acts as a deal filter. The
17 capital allocation decision happens centrally as *the parent decides which acquisitions*
18 *to pursue, after receiving approval from the board.*”⁶⁸

19 261. Based on these and other statements by Defendants Shah and Turicchi,
20 analysts continued to express confidence in the acquisition strategy put forth by the
21 Company’s management:

22 _____
23 ⁶⁵ Wedbush, *j2 Global (JCOM) M&A and Subscriptions = 1-2 Punch for Success in*
24 *2019 and Beyond* (Nov. 7, 2018).

25 ⁶⁶ Wedbush, *j2 Global (JCOM) Takeaways from the Road; M&A Trends Humming*
26 *into 2019* (Nov. 26, 2018).

27 ⁶⁷ JMP, *j2 Global, Inc. (JCOM) “How Lots of Small M&A Deals Add Up to Big*
28 *Value”* at 3 (Oct. 3, 2019).

⁶⁸ JMP, *j2 Global, Inc. (JCOM) Investor meetings in Canada Provide Additional*
Color on M&A strategy (Jul. 15, 2019).

- 1 • Wedbush (8/8/19): “*The company’s underlying acquisitive growth strategy*
2 *of diversifying its core services beyond fax into cloud and media is the key*
3 *ingredient in its formula for success and will continue to be the linchpin*
4 *going forward* as evidenced again this quarter.”⁶⁹
- 5 • Seeking Alpha (11/29/19): “In Q3, we believe that the company has made
6 four strong acquisitions in BabyCenter, Spiceworks, SaferVPN, and
7 OffsiteDataSync. Overall, we feel positive about the *management’s strong*
8 *approach and thought process in all these deals.*”⁷⁰
- 9 • Seeking Alpha (1/22/20): “I will state for the record that company
10 *management is aware of the Rule of 40 and acquires companies that meet*
11 *or are capable of meeting this metric.*”⁷¹
- 12 • Piper Sandler (5/12/20): “M&A opportunities remain abundant, and *most of*
13 *the reported growth historically comes from M&A.*”⁷²

14 262. After acquisitions were completed, the Individual Defendants kept track
15 of how much acquired companies contributed to J2’s bottom line as part of their
16 acquisition-driven growth strategy. As Susequehanna analysts explained at the
17 beginning of the Class Period, “*Accretive M&A is a key part of j2’s value creation*
18 *strategy* where the company acquires under-optimized assets (either under-monetized
19 or with subscale margins or both) at attractive valuations (usually around 2x revenue)
20 and *synergizes them accordingly.*”⁷³

21 263. Defendant Turicchi detailed how J2’s strategy worked with regard to the
22 Everyday Health Acquisition during J2’s 3Q16 earnings call on November 1, 2016:

23 ⁶⁹ Wedbush, *j2 Global (JCOM) Healthy Execution and M&A Strategy Laying the*
24 *Groundwork for a Strong 2H* (Aug. 8, 2019).

25 ⁷⁰ Tech and Growth, *j2 Global: No Slowdown Anytime Soon*, SEEKING ALPHA (Nov.
26 29, 2019 01:44 PM ET), <https://seekingalpha.com/article/4309781-j2-global-no-slowdown-anytime-soon>.

27 ⁷¹ Steve Auger, *J2 global Keeps on Growing*, SEEKING ALPHA (Jan. 22, 2020 09:01
28 AM ET), <https://seekingalpha.com/article/4318287-j2-global-keeps-on-growing>.

⁷² Piper Sandler, *J2 Global, Inc. (JCOM) The M&A Machine Hits a Bump in the*
Road, but Long-Term Thesis Remains (May 12, 2020).

⁷³ Susquehanna, *j2 Global, Inc.: M&A Led Growth Can Work If Done Right* (Nov.
4, 2015).

1 [T]he process by which we came to the health care vertical did
2 encompass and does encompass other verticals. *We've talked about*
3 *some of these in the past that meet this similar profile of the content*
being very influential in aiding and decision making.

4 And I think to follow-up on Hemi [Zucker] said, what's interesting
5 about this asset is, *when we bought it*, which is now coming up on two
6 years, *the core thesis was to continue to grow the advertising revenue*,
7 which was the primary source of revenue at the time of acquisition, and
8 then to add on to it this whole data-as-a-service business, the data that
9 would be important in this case to broadband providers. And we had –
we actually had a multi-year plan for that. And we've been tracking
very nicely in the first two years against that plan.

10 264. Despite providing only consolidated financials to investors, the Individual
11 Defendants were well aware of when acquired companies did not perform as
12 expected. Specifically, according to FE1, Defendant Zucker received weekly
13 performance reports from FE1, including revenues, expenditures, e-sales, and other
14 metrics such as churn rates, revenue impact, and marketing metrics. Further,
15 according to FE3, the Individual Defendants regularly received financial data which
16 showed that the Company was consistently operating on “paper-thin” margins and
17 thus had to operate newly acquired companies “as leanly as possible” rather than
18 reinvest in those companies. As further corroborated by FE4, Turicchi and Zucker
19 received regular financial reports about J2's financial condition, including a daily
20 report detailing customers added and lost. The daily report was “highly used” at J2,
21 and if a specific business unit was “plus or minus” 5%, executives, including Zucker
22 and Turicchi, would ask questions as to “what happened.” FE2 also stated that the
23 accounting team sent “a ton of reports” to Zucker and Turicchi and that J2's
24 department heads had weekly meetings with Zucker after receiving weekly reports
25 from their team leaders. Indeed, according to FE2, Zucker was “obsessed with
26 numbers” so “budgets ruled J2.”

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1 265. Defendants have made a deliberate decision to provide investors with
2 only consolidated financials, rather than breaking out the financials of acquired
3 companies or otherwise disclosing additional details of how J2’s acquisitions perform
4 at an individual level. As FE1 explained, the Board intentionally and deliberately
5 chose that Defendants refrain from publicly talking about new acquisitions. That
6 choice prevented analysts from tracking individual entities, and instead, they would
7 have to track the consolidated entity. The Individual Defendants themselves
8 acknowledged that they had transaction-specific information during the Class Period
9 even though they did not disclose it to investors:

- 10 • Turicchi (2Q16 earnings call): “We think that there are opportunities to both
11 improve the top-line performance as well as the bottom line, but *I’m not
12 going to give any more specific than that at this time.*”
- 13 • Turicchi (2Q18 earnings call): “I will tell you as Humble Bundle did grow
14 sequentially from Q1 to Q2. So, those numbers we gave you last quarter are
15 higher on both an actual and a run rate basis. But *we don’t intend to break
16 those out.*”
- 17 • Shah (1Q19 earnings call): “So *we’re not going to break out each [acquired
18 asset] in terms of contributions and price* but I can say that the VPN assets,
19 IPVanish, et cetera, the ones that we carved out from a company called
20 StackPath are the largest.”

21 266. Even though analysts were not able to track the individual entities that J2
22 acquired, they trusted that Defendant Turicchi, as the CFO, was monitoring those
23 entities:

- 24 • Wedbush (4/21/20): “the current operating structure of the JCOM business
25 model with unit CEOs and *a disciplined/veteran CFO overseeing the overall
26 business* should enable the company to *maintain Cloud EBITDA margins*
27 in the mid to high 40% range during this dark economic storm.”⁷⁴

28 ⁷⁴ Wedbush, *j2 Global (JCOM) Walking Through JCOM in a COVID-19
Environment; M&A Could Heat Up* (Apr. 21, 2020).

1 **VIII. LOSS CAUSATION**

2 267. The false and misleading misrepresentations and material omissions, as
3 alleged herein, directly and proximately caused the economic loss suffered by
4 Plaintiff and the Class members he represents.

5 268. During the Class Period, Plaintiff and Class members purchased J2
6 common stock at artificially inflated prices and were damaged thereby. The price of
7 the Company's securities declined significantly when the misrepresentations made to
8 the market, and/or the information alleged herein to have been concealed from the
9 market, and/or the effects thereof, were disseminated and publicly revealed.

10 269. During the Class Period, Defendants materially misled the investing
11 public, thereby inflating the price of J2 common stock, by publicly issuing false
12 and/or misleading statements and/or omitting to disclose material facts necessary to
13 make Defendants' statements, as set forth herein, not false and/or misleading. The
14 statements and omissions were materially false and/or misleading because they failed
15 to disclose material adverse information and/or misrepresented the truth about J2's
16 business, operations, and financial performance, as alleged herein.

17 270. At all relevant times, the material misrepresentations and omissions
18 particularized in this Complaint directly or proximately caused or were a substantial
19 contributing cause of the damages sustained by Plaintiff and other members of the
20 Class. Defendants made or caused to be made materially false and/or misleading
21 statements about J2's financial results, internal controls and related financial metrics
22 and the reliability of their reported results. These material misstatements and/or
23 omissions had the cause and effect of creating in the market a false positive
24 assessment of the Company and its financial performance, internal controls and
25 related well-being, thus causing the Company's securities to be overvalued and the
26 price of its common stock to be artificially inflated at all relevant times. Defendants'
27 materially false and/or misleading statements, as alleged herein, resulted in Plaintiff
28

1 and other members of the Class in purchasing the Company's securities at artificially
2 inflated prices, thus causing the damages complained of herein when the truth was
3 revealed in part on March 10, 2016 and in full on June 30, 2020, causing the trading
4 price of J2 common stock to materially decline and removing the previously
5 embedded artificial inflation.

6 **IX. PLAINTIFF'S CLASS ACTION ALLEGATIONS**

7 271. Plaintiff brings this Action as a class action pursuant to Federal Rule of
8 Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all persons or
9 entities that purchased or otherwise acquired J2 common stock during the Class
10 Period and were damaged thereby. Excluded from the Class are Defendants herein,
11 the officers and directors of the Company, at all relevant times, members of their
12 immediate families and their legal representatives, heirs, successors or assigns and
13 any entity in which Defendants have or had a controlling interest.

14 272. The members of the Class are so numerous that joinder of all members is
15 impracticable. Throughout the Class Period, J2 common stock was actively traded on
16 the NASDAQ. As of November 4, 2020, there were over 45 million shares of J2
17 common stock outstanding. While the exact number of Class members is unknown to
18 Plaintiff at this time and can be ascertained only through appropriate discovery,
19 Plaintiff believes that there are hundreds or thousands of members in the proposed
20 Class. Record owners and other members of the Class may be identified from records
21 maintained by J2 or its transfer agent and may be notified of the pendency of this
22 action by mail, using the form of notice similar to that customarily used in securities
23 class actions.

24 273. Plaintiff's claims are typical of the claims of the members of the Class as
25 all members of the Class are similarly affected by Defendants' wrongful conduct in
26 violation of federal law that is complained of herein.

1 277. Plaintiff will rely, in part, upon the presumption of reliance established
2 by the fraud-on-the-market doctrine in that:

- 3 a. Defendants made public misrepresentations or failed to disclose material
4 facts during the Class Period;
- 5 b. the omissions and misrepresentations were material;
- 6 c. J2 common stock is traded in an efficient market;
- 7 d. the Company's shares were liquid and traded with moderate to heavy
8 volume during the Class Period;
- 9 e. the Company traded on the NASDAQ and was covered by multiple
10 analysts;
- 11 f. the misrepresentations and omissions alleged would tend to induce a
12 reasonable investor to misjudge the value of the Company's securities;
13 and
- 14 g. Plaintiff and members of the Class purchased, acquired and/or sold J2
15 common stock between the time the Defendants failed to disclose or
16 misrepresented material facts and the time the true facts were disclosed,
17 without knowledge of the omitted or misrepresented facts.

18 278. Based upon the foregoing, Plaintiff and the members of the Class are
19 entitled to a presumption of reliance upon the integrity of the market.

20 279. Alternatively, Plaintiff and the members of the Class are entitled to the
21 presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens*
22 *of the State of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 2430 (1972), as
23 Defendants omitted material information in their Class Period statements in violation
24 of a duty to disclose such information, as detailed above.

COUNT I

**Violations of § 10(b) of the Exchange Act and Rule 10b-5
Against All Defendants**

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3
4 280. Plaintiff repeats and realleges each and every allegation contained in ¶¶1-
5 279 as if fully set forth herein.

6 281. This Count is asserted against Defendants is based upon § 10(b) of the
7 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the
8 SEC.

9 282. During the Class Period, Defendants, individually and in concert, directly
10 or indirectly, disseminated or approved the false statements specified above, which
11 they knew or deliberately disregarded were misleading in that they contained
12 misrepresentations and failed to disclose material facts necessary in order to make the
13 statements made, in light of the circumstances under which they were made, not
14 misleading.

15 283. Defendants violated § 10(b) of the Exchange Act and Rule 10b-5 in that
16 they:

- 17 a. employed devices, schemes and artifices to defraud;
18 b. made untrue statements of material facts or omitted to state material facts
19 necessary in order to make the statements made, in light of the circumstances
20 under which they were made, not misleading; or
21 c. engaged in acts, practices and a course of business that operated as a fraud
22 or deceit upon Plaintiff and others similarly situated in connection with their
purchases of J2 common stock during the Class Period.

23 284. Defendants acted with scienter in that they knew that the public
24 documents and statements issued or disseminated in the name of J2 were materially
25 false and misleading; knew that such statements or documents would be issued or
26 disseminated to the investing public; and knowingly and substantially participated, or
27 acquiesced in the issuance or dissemination of such statements or documents as
28

1 primary violations of the securities laws. These defendants by virtue of their receipt
2 of information reflecting the true facts of J2, their control over, and/or receipt and/or
3 modification of J2's allegedly materially misleading statements, and/or their
4 associations with the Company which made them privy to confidential proprietary
5 information concerning J2, participated in the fraudulent scheme alleged herein.

6 285. Individual Defendants, who are the senior officers and/or directors of the
7 Company, had actual knowledge of the material omissions and/or the falsity of the
8 material statements set forth above, and intended to deceive Plaintiff and the other
9 members of the Class, or, in the alternative, acted with reckless disregard for the truth
10 when they failed to ascertain and disclose the true facts in the statements made by
11 them or other J2 personnel to members of the investing public, including Plaintiff and
12 the Class.

13 286. As a result of the foregoing, the market price of J2 common stock was
14 artificially inflated during the Class Period. In ignorance of the falsity of Defendants'
15 statements, Plaintiff and the other members of the Class relied on the statements
16 described above and/or the integrity of the market price of J2 common stock during
17 the Class Period in purchasing J2 common stock at prices that were artificially inflated
18 as a result of Defendants' false and misleading statements.

19 287. Had Plaintiff and the other members of the Class been aware that the
20 market price of J2 common stock had been artificially and falsely inflated by
21 Defendants' misleading statements and by the material adverse information which
22 Defendants did not disclose, they would not have purchased J2 common stock at the
23 artificially inflated prices that they did, or at all.

24 288. As a result of the wrongful conduct alleged herein, Plaintiff and other
25 members of the Class have suffered damages in an amount to be established at trial.

26 289. By reason of the foregoing, Defendants have violated § 10(b) of the
27 Exchange Act and Rule 10b-5 promulgated thereunder and are liable to Plaintiff and
28

1 the other members of the Class for substantial damages which they suffered in
2 connection with their purchase of J2 common stock during the Class Period.

3
4 **COUNT II**
5 **Violations of § 20(a) of the Exchange Act**
6 ***Against the Individual Defendants***

7 290. Plaintiff repeats and realleges each and every allegation contained in ¶¶1-
8 279 as if fully set forth herein.

9 291. During the Class Period, the Individual Defendants participated in the
10 operation and management of J2, and conducted and participated, directly and
11 indirectly, in the conduct of J2's business affairs. Because of their senior positions,
12 they knew the adverse non-public information about J2's current financial position
13 and future business prospects.

14 292. As officers and/or directors of a publicly owned company, the Individual
15 Defendants had a duty to disseminate accurate and truthful information with respect
16 to J2's business practices, and to correct promptly any public statements issued by J2
17 which had become materially false or misleading.

18 293. Because of their positions of control and authority as senior officers, the
19 Individual Defendants were able to, and did, control the contents of the various
20 reports, press releases and public filings which J2 disseminated in the marketplace
21 during the Class Period concerning the Company's business, operational and
22 accounting policies. Throughout the Class Period, the Individual Defendants
23 exercised their power and authority to cause J2 to engage in the wrongful acts
24 complained of herein. The Individual Defendants therefore, were "controlling
25 persons" of J2 within the meaning of § 20(a) of the Exchange Act. In this capacity,
26 they participated in the unlawful conduct alleged which artificially inflated the market
27 price of J2 common stock.

1 294. Each of the Individual Defendants, therefore, acted as a controlling
2 person of J2. By reason of their senior management positions and/or being directors
3 of J2, each of the Individual Defendants had the power to direct the actions of, and
4 exercised the same to cause, J2 to engage in the unlawful acts and conduct complained
5 of herein. Each of the Individual Defendants exercised control over the general
6 operations of J2 and possessed the power to control the specific activities which
7 comprise the primary violations about which Plaintiff and the other members of the
8 Class complain.

9 295. By reason of the above conduct, the Individual Defendants are liable
10 pursuant to § 20(a) of the Exchange Act for the violations committed by J2.

11 **X. PRAYER FOR RELIEF**

12 WHEREFORE, Plaintiff demands judgment against Defendants as follows:

13 A. Determining that the instant action may be maintained as a class action
14 under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the
15 Class representative;

16 B. Requiring Defendants to pay damages sustained by Plaintiff and the Class
17 by reason of the acts and transactions alleged herein;

18 C. Awarding Plaintiff and the other members of the Class prejudgment and
19 post-judgment interest, as well as his reasonable attorneys' fees, expert fees and other
20 costs; and

21 D. Awarding such other and further relief as this Court may deem just and
22 proper.

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1 **XI. DEMAND FOR TRIAL BY JURY**

2 Plaintiff hereby demands a trial by jury.

3
4 DATED: April 19, 2021

Respectfully Submitted,

5 **ROCHE FREEDMAN LLP**

6 /s/ Ivy T. Ngo

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*Additional Counsel for Lead Plaintiff
Jonathan Espy*

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CERTIFICATE OF SERVICE

I hereby certify under penalty of perjury that on April 19, 2021, I authorized the electronic filing of the foregoing with the Clerk of the Court using the CM/ECF system which sent notification of such filing to counsel of record.

By: /s/ Ivy T. Ngo
Ivy T. Ngo