

j2 Global Communications, Inc.

NASDAQ: JCOM - \$33.99

Rating: Buy

Price Target	\$38	<u>FY Dec</u>	<u>2003A</u>	<u>2004A</u>	<u>2005E</u>	<u>2006E</u>
52 Week Range	\$18.82-36.35	1Q	\$0.20	\$0.25	\$0.38	--
Shares Out – FD (MM)	26	2Q	\$0.24	\$0.29	\$0.43	--
Insider Ownership	25%	3Q	\$0.28	\$0.32	\$0.46	--
Float (MM)	17.30	4Q*	\$0.69	\$0.37	\$0.49	--
Average Daily Vol (000)	533.45	EPS	\$1.42	\$1.24	\$1.76	\$2.07
Equity Market Cap (MM)	877.26	P/E	22x	25x	18x	15x
Long Term Debt (MM)	2.06	Revenue (MM)	\$ 71.62	\$ 106.34	\$ 147.18	\$ 190.09
Cash (MM)	93.79	EBITDA (MM)	\$ 31.16	\$ 50.59	\$ 66.62	\$ 87.71
Enterprise Value (MM)	785.53	* 4Q03 EPS includes a one-time tax benefit of \$0.37 per share				

Another Impeccable Quarter; Maintain Buy and \$38 Target

JCOM reported solid 4Q04 results last night after the close, in-line with our expectations for revenue and beating our and consensus estimates and company guidance for EPS on a lower effective tax rate. Management provided guidance for FY05 that is generally in-line with its prior revenue growth outlook, but higher on the bottom line due to a lower tax rate. As a result, we're tweaking our revenue estimates and increasing EPS to reflect the lower assumption. We are introducing our FY06 price target of \$38 and reiterate a Buy rating on JCOM shares.

- Revenues of \$29.8M were inline with our estimates and consensus \$29.5M, up 46% y/y and 7% vs. the prior quarter, while EPS of \$0.37 came in above our \$0.34 estimate on a lower tax rate. Guidance for the quarter was \$29.5M and \$0.34, respectively.
- JCOM added an impressive 1.1M free users in 4Q (which bodes well for paid subscriptions in coming quarters), and 39k paid subscriptions –inline with our estimate. The main sources of acquisition were subscribers coming directly to JCOM's website (through both word of mouth and search) and conversions from the free base to the paid service. JCOM added 1.07M subs to its free base this quarter, for a total of 8.18M.
- ARPU decreased slightly sequentially, due in part to seasonally lower usage. Nevertheless, gross margins improved to 85.1%, better than the 84.3% with 3Q04, and operating margins expanded by 100bp sequentially despite a slight pickup in sales & marketing, reaching 44.0%.
- Management guided for FY05 revenues of \$145-148M and EPS of \$1.70-1.75, implying revenue and EPS growth of 36-39% and 37-41%, respectively. This guidance range is generally in-line with the company's previous preliminary guidance for 40% top line growth, but above the previous 30-35% EPS growth guidance on a lower effective tax rate of 25-28% (vs 35% previously). We are increasing our FY05 and FY06 EPS estimates to reflect the lower tax (we assume 28% in 2005 and 35% in 2006). We now expect FY05 and FY06 EPS of \$1.76 and \$2.07, respectively, up from \$1.64 and \$1.95. For EBITDA, we estimate \$66.6M and \$87.7M in FY05 and FY06, respectively, down from \$69.1M and \$90.1M on higher sales and marketing expense. Our revenue estimates remain largely unchanged.

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- **Valuation.** We are introducing a FY06 price target of \$38 based on our increased EPS estimates. At \$33.99, JCOM currently trades at an EV/Revenue of 4.1x, an EV/EBITDA of 9.0x, EV/FCF of 10.1x, a P/E of 17.8x, and a P/E/G of 1.2x (fully –taxed) on 2006 estimates, versus the group’s 1.8x, 5.5x, 11.2x, 25.1x, and 2.2x, respectively. Our \$38 target is derived using a five-year DCF, which assumes 13% revenue CAGR, a long-term EBITDA margin of 52% (versus 48% currently), and a net margin (fully taxed) of 32%.

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We are reiterating our Buy rating on JCOM following solid 4Q04 results, which were in-line with our estimates for revenue and ahead on EPS due to a lower tax rate.

Revenues of \$29.8M were inline with our and consensus' \$29.5M estimate, and company guidance (also \$29.5M). EPS of \$0.37 beat our estimate and company guidance of \$0.34 primarily due to a lower than expected tax rate (28% vs our 35% expectation), which more than offset higher sales and marketing expense. JCOM added a very strong 1.1M free users (DIDs) during the quarter, and 39k paid subscriptions – down from the record 46k additions in the prior quarter due to a seasonal slowdown and in-line with our estimate. The main sources of acquisition in the quarter were subscribers coming directly to JCOM's website (through word of mouth and search) and continued conversions from the free base to the paid service.

Churn, or the cancellation rate among paid subscribers, increased slightly sequentially to 2.7% from 2.6%, as the company continues to clean up its sales channels. JCOM added 1.07M subs to its free base this quarter, and now has 28 different U.S. partnerships in place for its online marketing efforts, including a new relationship with AT&T through its WorldNet and CallVantage service. On the international front, the company has inked marketing relationships with several large ISPs and portals.

72% of subscriber revenue, or \$20.8M (representing 9% sequential growth), was fixed fees derived from monthly and annual payments made by the company's subscribers (up from 71% in 3Q). The remaining 28%, or \$8.2M, was variable usage-based fees – up 5% from the prior quarter. ARPU for the variable portion of revenues declined slightly sequentially, due in part to seasonally lower usage, while fixed ARPU remained relatively flat with the 3Q, by our estimates. The company continues to see particular strength in the financial services vertical, owing in large part to increased regulation and the importance of auditable digital paper trails.

Gross margins improved 80bp sequentially, totaling 85.1% for the 4Q, and up from 82.6% in the same quarter last year. Operating margins also improved sequentially to 44.0% this quarter, up from 43.0% in 3Q04 and 41.4% last year. Operating margins benefited from a decrease in G&A relative to revenue (vs. the prior quarter which was impacted by increased Sarbanes Oxley expenditures and costs associated with the Electric Mail and Call Science acquisitions), offset somewhat by higher sales & marketing expense as a result of the company's rollout of additional international markets.

On the subject of international expansion, management stated that it opened up operations in several new cities worldwide and two new countries (Singapore and the Philippines) during the quarter, as part of a broader expansion throughout Asia and the Pacific Rim. JCOM's international localization efforts have helped result in a 29% y/y increase in non-U.S. visits to the company's selling website; JCOM currently operates fully localized services in Spanish, French, German, and Dutch.

Outlook

Management provided FY05 guidance for revenues of \$145-148M and EPS of \$1.70-1.75. This detailed guidance implies top line growth of 36-39%, generally consistent with previous preliminary guidance of approximately 40%. The company's bottom line guidance implies growth of 37-41%, above previous preliminary guidance for growth of approximately 30-35%, reflecting an assumption of a lower 25-28% tax rate (the result of internal tax efficiencies and the company's expansion into lower-tax international market).

We are reducing our FY05 EBITDA estimate to \$66.6M, down from \$69.1M, while we are increasing our FY05 EPS estimate to \$1.76 from \$1.64, as a lower 28% tax rate (vs. our prior assumption of 35%) more than offsets lower margins from marketing spending related to the company's international rollout. Similarly, we are increasing our FY06 EPS estimate to \$2.07 from \$1.95, while slightly reducing our EBITDA estimate to \$87.7M from \$90.1M. We note that our revenue estimates remain largely unchanged.

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Valuation: We are introducing our FY06 price target of \$38, predicated on recently increased earnings estimates and assumed 5-year revenue and EPS CAGRs of 13% and 12%, respectively. At \$33.99, JCOM currently trades at an EV/Revenue of 4.1x, an EV/EBITDA of 9.0x, EV/FCF of 10.1x, a P/E of 17.8x, and a P/E/G of 1.2x (fully –taxed) on 2006 estimates, versus the group’s 1.8x, 5.5x, 11.2x, 25.1x, and 2.2x, respectively. Our \$38 target is derived using a five-year DCF, which assumes 13% revenue CAGR, a long-term EBITDA margin of 52% (versus 48% currently), and a net margin (fully taxed) of 32%.

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Exhibit 1: JCOM Quarterly Income Statement

Fiscal Year Ends December 30 (data in thousands, except share data)	FY04A				FY05E			
	1Q04A	2Q04A	3Q04A	4Q04A	1Q05E	2Q05E	3Q05E	4Q05E
Subscriber revenue	\$22,062	\$25,063	\$26,985	\$29,050	\$31,391	\$34,842	\$37,415	\$39,834
Advertising revenue	\$ 761	\$ 647	\$ 668	\$ 669	\$ 734	\$ 771	\$ 878	\$ 995
Licensing and other revenue	119	121	118	80	80	80	80	80
Total revenue	\$ 22,942	\$ 25,831	\$ 27,771	\$ 29,799	\$ 32,205	\$ 35,692	\$ 38,374	\$ 40,910
<i>Y/Y Growth</i>	50.9%	51.6%	46.9%	45.5%	40.4%	38.2%	38.2%	37.3%
Cost of sales	\$ (3,640)	\$ (4,063)	\$ (4,363)	\$ (4,448)	\$ (5,153)	\$ (5,711)	\$ (6,140)	\$ (6,546)
<i>% Total revenues</i>	15.9%	15.7%	15.7%	14.9%	16.0%	16.0%	16.0%	16.0%
Gross profit	\$ 19,302	\$ 21,768	\$ 23,408	\$ 25,351	\$ 27,052	\$ 29,981	\$ 32,234	\$ 34,364
<i>Y/Y Growth</i>	NA	NA	NA	NA	NA	NA	NA	NA
<i>Gross margin</i>	84.1%	84.3%	84.3%	85.1%	84.0%	84.0%	84.0%	84.0%
Sales & marketing expense	(3,779)	(4,767)	(4,729)	(5,226)	(6,119)	(6,782)	(7,291)	(7,773)
<i>% Total revenues</i>	16.5%	18.5%	17.0%	17.5%	19.0%	19.0%	19.0%	19.0%
Research & development	(1,050)	(1,264)	(1,418)	(1,517)	(1,680)	(1,862)	(2,002)	(2,135)
<i>% Total revenues</i>	4.6%	4.9%	5.1%	5.1%	5.2%	5.2%	5.2%	5.2%
General & administrative	(4,482)	(4,734)	(5,321)	(5,506)	(5,951)	(6,529)	(6,949)	(7,334)
<i>% Total revenues</i>	19.5%	18.3%	19.2%	18.5%	18.5%	18.3%	18.1%	17.9%
Charges and other one-time items	-	-	-	-	-	-	-	-
<i>% Total revenues</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total operating costs	\$ (12,951)	\$ (14,828)	\$ (15,831)	\$ (16,697)	\$ (18,903)	\$ (20,884)	\$ (22,382)	\$ (23,787)
<i>Y/Y Growth</i>	29.3%	36.3%	37.9%	39.2%	46.0%	40.8%	41.4%	42.5%
Operating income	\$ 9,991	\$ 11,003	\$ 11,940	\$ 13,102	\$ 13,302	\$ 14,809	\$ 15,991	\$ 17,122
<i>Y/Y Growth</i>	92.3%	78.7%	60.9%	54.6%	33.1%	34.6%	33.9%	30.7%
<i>Operating margin</i>	43.5%	42.6%	43.0%	44.0%	41.3%	41.5%	41.7%	41.9%
Interest income (expense)	186	352	505	140	520	581	654	736
Pre-tax income (loss)	\$ 10,177	\$ 11,355	\$ 12,445	\$ 13,242	\$ 13,822	\$ 15,390	\$ 16,645	\$ 17,858
PTI per share	\$0.40	\$0.44	\$0.49	\$0.51	\$0.53	\$0.59	\$0.64	\$0.68
<i>Y/Y Growth</i>	86.6%	79.6%	64.4%	52.7%	34.0%	33.3%	31.0%	32.8%
Income tax provision	(3,778)	(3,866)	(4,316)	(3,652)	(3,870)	(4,309)	(4,661)	(5,000)
Tax rate	-37.1%	-34.0%	-34.7%	-27.6%	-28.0%	-28.0%	-28.0%	-28.0%
Net income (loss)	\$ 6,399	\$ 7,489	\$ 8,129	\$ 9,590	\$ 9,952	\$ 11,081	\$ 11,984	\$ 12,858
<i>Net margin</i>	27.9%	29.0%	29.3%	32.2%	30.9%	31.0%	31.2%	31.4%
Diluted EPS (GAAP)	\$0.25	\$0.29	\$0.32	\$0.37	\$0.38	\$0.43	\$0.46	\$0.49
Tax-adjusted EPS (40% rate)	0.24	0.27	0.29	0.31	0.32	0.36	0.38	0.41
<i>Y/Y Growth</i>	86.6%	79.6%	64.4%	52.7%	34.0%	33.3%	31.0%	32.8%
Basic weighted shares	23,121	23,212	23,348	23,567	23,667	23,767	23,867	23,967
Diluted shares	25,564	25,585	25,572	25,809	25,909	26,009	26,109	26,209
EBITDA:								
Operating income	9,991	11,003	11,940	13,102	13,302	14,809	15,991	17,122
Add: Depreciation & amortization	1,028	1,137	1,290	1,094	1,316	1,260	1,363	1,458
EBITDA	\$ 11,019	\$ 12,140	\$ 13,230	\$ 14,196	\$ 14,618	\$ 16,069	\$ 17,354	\$ 18,580
<i>Y/Y Growth</i>	80.2%	69.2%	56.1%	51.0%	32.7%	32.4%	31.2%	30.9%
<i>EBITDA margin</i>	48.0%	47.0%	47.6%	47.6%	45.4%	45.0%	45.2%	45.4%
<i>Incremental margin</i>	66%	39%	56%	48%	18%	42%	48%	48%
Free Cash Flow (EBITDA - capex)	\$10,700	\$10,698	\$11,893	\$10,313	\$14,334	\$13,739	\$15,025	\$16,251
FCF per share	\$0.42	\$0.42	\$0.47	\$0.40	\$0.55	\$0.53	\$0.58	\$0.62

Source: Jefferies & Company and company reports

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Exhibit 2: JCOM Quarterly Income Statement Assumptions

Fiscal Year Ends December 30 (data in thousands, except share data)	FY04A				FY05E			
	1Q04A	2Q04A	3Q04A	4Q04A	1Q05E	2Q05E	3Q05E	4Q05E
Total Net Adds	34	35	46	39	41	50	50	45
Total Paid DIDs	435	469	515	554	595	645	695	740
Avg DIDs	417	452	492	535	574	620	670	717
Monthly ARPU	\$ 17.62	\$ 18.48	\$ 18.27	\$ 18.11	\$ 18.22	\$ 18.74	\$ 18.62	\$ 18.51
Subscriber revenue	\$ 22,062	\$ 25,063	\$ 26,985	\$ 29,050	\$ 31,391	\$ 34,842	\$ 37,415	\$ 39,834
<i>% Total revenues</i>	96.2%	97.0%	97.2%	97.5%	97.5%	97.6%	97.5%	97.4%
<i>Sequential Growth</i>	13.0%	13.6%	7.7%	7.7%	8.1%	11.0%	7.4%	6.5%
Avg Paid DIDs	417	452	492	535	574	620	670	717
Fixed ARPU	\$12.79	\$13.09	\$12.95	\$12.98	\$12.98	\$12.98	\$12.98	\$12.98
Fixed subscriber revenue	\$ 16,021	\$ 17,750	\$ 19,122	\$ 20,823	\$ 22,375	\$ 24,141	\$ 26,085	\$ 27,940
<i>% subscriber revenues</i>	72.6%	70.8%	70.9%	71.7%	71.3%	69.3%	69.7%	70.1%
<i>Sequential Growth</i>	14.6%	10.8%	7.7%	8.9%	7.5%	7.9%	8.1%	7.1%
Avg Paid DIDs	417	452	492	535	574	620	670	717
Variable ARPU	\$4.82	\$5.39	\$5.32	\$5.13	\$5.23	\$5.76	\$5.64	\$5.53
Variable subscriber revenue	\$ 6,041	\$ 7,314	\$ 7,863	\$ 8,226	\$ 9,016	\$ 10,700	\$ 11,331	\$ 11,894
<i>% subscriber revenues</i>	27.4%	29.2%	29.1%	28.3%	28.7%	30.7%	30.3%	29.9%
<i>Sequential Growth</i>	9.0%	21.1%	7.5%	4.6%	9.6%	18.7%	5.9%	5.0%
ADVERTISING								
Non-Paid DIDs (active free users)	5,843	6,873	7,106	8,180	8,589	9,019	9,470	9,943
<i>Seq growth</i>	12.4%	17.6%	3.4%	15.1%	5.0%	5.0%	5.0%	5.0%
Avg Free Users	5,522	6,358	6,990	7,643	8,385	8,804	9,244	9,707
Monthly ARPU	\$0.046	\$0.034	\$0.032	\$0.029	\$0.029	\$0.029	\$0.032	\$0.034
Advertising revenue	\$ 761	\$ 647	\$ 668	\$ 669	\$ 734	\$ 771	\$ 878	\$ 995
<i>% Total revenues</i>	3.3%	2.5%	2.4%	2.2%	2.3%	2.2%	2.3%	2.4%
<i>Sequential Growth</i>	-5.5%	-15.0%	3.2%	0.1%	9.7%	5.0%	14.0%	13.3%
METRICS								
Total Net Additions (DIDs)	677	1,065	279	1,113	450	479	501	519
Total DIDs	6,278	7,342	7,621	8,734	9,184	9,664	10,165	10,683
Paid DIDs / Total DIDs	6.9%	6.4%	6.8%	6.3%	6.5%	6.7%	6.8%	6.9%
Non-Paid DIDs / Total DIDs	93.1%	93.6%	93.2%	93.7%	93.5%	93.3%	93.2%	93.1%

Source: Jefferies & Company and company reports

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Exhibit 3: JCOM Annual Income Statement

Fiscal Year Ends December 30 (data in thousands, except share data)	ANNUAL							CAGR FY05-FY10
	FY04A	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E	
Subscriber revenue	\$103,160	\$143,482	\$185,981	\$220,282	\$243,435	\$258,124	\$268,651	13.4%
Advertising revenue	2,745	\$ 3,378	\$ 4,114	4,785	5,566	6,474	7,530	17.4%
Licensing and other revenue	438	320	220	220	220	220	220	-7.2%
Total revenue	\$ 106,343	\$ 147,180	\$ 190,095	\$ 225,067	\$ 249,001	\$ 264,598	\$ 276,181	13.4%
<i>Y/Y Growth</i>	48.5%	38.4%	29.2%	18.4%	10.6%	6.3%	4.4%	
Cost of sales	\$ (16,514)	\$ (23,549)	\$ (30,415)	\$ (36,011)	\$ (39,840)	\$ (42,336)	\$ (44,189)	13.4%
<i>% Total revenues</i>	15.5%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	
Gross profit	\$ 89,829	\$ 123,631	\$ 159,680	\$ 189,056	\$ 209,161	\$ 222,263	\$ 231,992	13.4%
<i>Y/Y Growth</i>	54.1%	37.6%	29.2%	18.4%	10.6%	6.3%	4.4%	
<i>Gross margin</i>	84.5%	84.0%	84.0%	84.0%	84.0%	84.0%	84.0%	
Sales & marketing expense	(18,501)	(27,964)	(35,396)	(41,069)	(44,528)	(46,371)	(47,433)	11.1%
<i>% Total revenues</i>	17.4%	19.0%	18.6%	18.2%	17.9%	17.5%	17.2%	
Research & development	(5,249)	(7,680)	(9,671)	(11,164)	(12,043)	(12,477)	(12,698)	10.6%
<i>% Total revenues</i>	4.9%	5.2%	5.1%	5.0%	4.8%	4.7%	4.6%	
General & administrative	(20,043)	(26,763)	(33,703)	(38,905)	(41,966)	(43,480)	(44,249)	10.6%
<i>% Total revenues</i>	18.8%	18.2%	17.7%	17.3%	16.9%	16.4%	16.0%	
Charges and other one-time items	-	-	-	-	-	-	-	
<i>% Total revenues</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total operating costs	\$ (60,307)	\$ (85,955)	\$ (109,183)	\$ (127,148)	\$ (138,376)	\$ (144,662)	\$ (148,566)	11.6%
<i>Y/Y Growth</i>	35.9%	42.5%	27.0%	16.5%	8.8%	4.5%	2.7%	
Operating income	\$ 46,036	\$ 61,225	\$ 80,912	\$ 97,919	\$ 110,625	\$ 119,936	\$ 127,614	15.8%
<i>Y/Y Growth</i>	68.9%	33.0%	32.2%	21.0%	13.0%	8.4%	6.4%	
<i>Operating margin</i>	43.3%	41.6%	42.6%	43.5%	44.4%	45.3%	46.2%	
Interest income (expense)	1,183	2,491	3,959	6,003	8,424	11,255	14,410	
Pre-tax income (loss)	\$ 47,219	\$ 63,716	\$ 84,870	\$ 103,922	\$ 119,049	\$ 131,191	\$ 142,025	17.4%
PTI per share	\$1.86	\$2.45	\$3.18	\$3.80	\$4.26	\$4.59	\$4.86	14.7%
<i>Y/Y Growth</i>	69.5%	31.7%	30.1%	19.6%	12.0%	7.8%	5.9%	
Income tax provision	(15,612)	(17,840)	(29,705)	(36,373)	(41,667)	(45,917)	(49,709)	
<i>Tax rate</i>	-33.1%	-28.0%	-35.0%	-35.0%	-35.0%	-35.0%	-35.0%	
Net income (loss)	\$ 31,607	\$ 45,876	\$ 55,166	\$ 67,549	\$ 77,382	\$ 85,274	\$ 92,316	15.0%
<i>Net margin</i>	29.7%	31.2%	29.0%	30.0%	31.1%	32.2%	33.4%	
Diluted EPS (GAAP)	\$1.24	\$1.76	\$2.07	\$2.47	\$2.77	\$2.98	\$3.16	12.4%
Tax-adjusted EPS (40% rate)	1.11	1.47	1.91	2.28	2.56	2.75	2.92	14.7%
<i>Y/Y Growth</i>	69.5%	31.7%	30.1%	19.6%	12.0%	7.8%	5.9%	
Basic weighted shares	23,312	23,817	24,445	25,073	25,701	26,329	26,957	2.5%
Diluted shares	25,431	26,059	26,687	27,315	27,944	28,572	29,200	2.3%
EBITDA:								
Operating income	46,036	61,225	80,912	97,919	110,625	119,936	127,614	15.8%
Add: Depreciation & amortization	4,549	5,398	6,796	8,296	9,660	10,963	12,258	17.8%
EBITDA	\$ 50,585	\$ 66,623	\$ 87,708	\$ 106,215	\$ 120,286	\$ 130,899	\$ 139,873	16.0%
<i>Y/Y Growth</i>	62.3%	31.7%	31.6%	21.1%	13.2%	8.8%	6.9%	
<i>EBITDA margin</i>	47.6%	45.3%	46.1%	47.2%	48.3%	49.5%	50.6%	
<i>Incremental margin</i>	56%	39%	49%	53%	59%	68%	77%	
Free Cash Flow (EBITDA - capex)	\$43,604	\$59,349	\$77,457	\$94,938	\$107,882	\$117,255	\$124,864	16.0%
FCF per share	\$1.71	\$2.28	\$2.90	\$3.48	\$3.86	\$4.10	\$4.28	

Source: Jefferies & Company and company reports

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Exhibit 4: JCOM Annual Income Statement Assumptions

Fiscal Year Ends December 30 (data in thousands, except share data)	ANNUAL							CAGR FY05-FY10
	FY04A	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E	
Total Net Adds	154	186	162	109	61	37	28	-31.7%
Total Paid DIDs	554	740	901	1,011	1,072	1,109	1,136	9.0%
Avg DIDs	474	645	821	956	1,041	1,090	1,122	11.7%
Monthly ARPU	\$ 18.13	\$ 18.53	\$ 18.89	\$ 19.20	\$ 19.48	\$ 19.73	\$ 19.95	1.5%
Subscriber revenue	\$ 103,160	\$ 143,482	\$ 185,981	\$ 220,282	\$ 243,435	\$ 258,124	\$ 268,651	13.4%
<i>% Total revenues</i>	<i>51.5%</i>	<i>39.1%</i>	<i>29.6%</i>	<i>18.4%</i>	<i>10.5%</i>	<i>6.0%</i>	<i>4.1%</i>	
<i>Sequential Growth</i>	<i>51.5%</i>	<i>39.1%</i>	<i>29.6%</i>	<i>18.4%</i>	<i>10.5%</i>	<i>6.0%</i>	<i>4.1%</i>	
Avg Paid DIDs	474	645	821	956	1,041	1,090	1,122	11.7%
Fixed ARPU	\$12.96	\$12.98	\$13.00	\$13.02	\$13.02	\$13.03	\$13.04	0.1%
Fixed subscriber revenue	\$ 73,716	\$ 100,541	\$ 128,052	\$ 149,317	\$ 162,749	\$ 170,491	\$ 175,576	11.8%
<i>% subscriber revenues</i>	<i>56.2%</i>	<i>36.4%</i>	<i>27.4%</i>	<i>16.6%</i>	<i>9.0%</i>	<i>4.8%</i>	<i>3.0%</i>	
<i>Sequential Growth</i>	<i>56.2%</i>	<i>36.4%</i>	<i>27.4%</i>	<i>16.6%</i>	<i>9.0%</i>	<i>4.8%</i>	<i>3.0%</i>	
Avg Paid DIDs	474	645	821	956	1,041	1,090	1,122	11.7%
Variable ARPU	\$5.18	\$5.55	\$5.88	\$6.19	\$6.46	\$6.70	\$6.91	4.5%
Variable subscriber revenue	\$ 29,444	\$ 42,941	\$ 57,929	\$ 70,965	\$ 80,686	\$ 87,633	\$ 93,075	16.7%
<i>% subscriber revenues</i>	<i>40.9%</i>	<i>45.8%</i>	<i>34.9%</i>	<i>22.5%</i>	<i>13.7%</i>	<i>8.6%</i>	<i>6.2%</i>	
<i>Sequential Growth</i>	<i>40.9%</i>	<i>45.8%</i>	<i>34.9%</i>	<i>22.5%</i>	<i>13.7%</i>	<i>8.6%</i>	<i>6.2%</i>	
ADVERTISING								
Non-Paid DIDs (active free users)	8,180	9,943	11,015	12,202	13,516	14,973	16,586	10.8%
<i>Seq growth</i>	<i>57.3%</i>	<i>21.6%</i>	<i>10.8%</i>	<i>10.8%</i>	<i>10.8%</i>	<i>10.8%</i>	<i>10.8%</i>	
Avg Free Users	6,628	9,035	10,479	11,608	12,859	14,245	15,780	
Monthly ARPU	\$0.035	\$0.031	\$0.033	\$0.034	\$0.036	\$0.038	\$0.040	
Advertising revenue	\$ 2,745	\$ 3,378	\$ 4,114	\$ 4,785	\$ 5,566	\$ 6,474	\$ 7,530	17.4%
<i>% Total revenues</i>	<i>2.6%</i>	<i>2.3%</i>	<i>2.2%</i>	<i>2.1%</i>	<i>2.2%</i>	<i>2.4%</i>	<i>2.7%</i>	
<i>Sequential Growth</i>	<i>1.4%</i>	<i>23.1%</i>	<i>21.8%</i>	<i>16.3%</i>	<i>16.3%</i>	<i>16.3%</i>	<i>16.3%</i>	
METRICS								
Total Net Additions (DIDs)	3,134	1,949	1,233	1,296	1,376	1,493	1,641	
Total DIDs	8,734	10,683	11,916	13,212	14,588	16,082	17,723	
Paid DIDs / Total DIDs	6.3%	6.9%	7.6%	7.6%	7.3%	6.9%	6.4%	
Non-Paid DIDs / Total DIDs	93.7%	93.1%	92.4%	92.4%	92.7%	93.1%	93.6%	

Source: Jefferies & Company and company reports

Please see Important Disclosure Information on the last pages of this Report.

Exhibit 5: JCOM Discounted Cash Flow

Fiscal Year Ends December 30 (in thousands, except share data)	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E	CAGR FY05-FY10
Unlevered Free Cash Flow (UFCF)							
EBITDA	\$ 66,623	\$ 87,708	\$ 106,215	\$ 120,286	\$ 130,899	\$ 139,873	16.0%
Less: Depreciation	(4,230)	(5,628)	(7,128)	(8,492)	(9,795)	(11,090)	21.3%
EBITA	\$ 62,393	\$ 82,080	\$ 99,087	\$ 111,793	\$ 121,104	\$ 128,782	15.6%
Less: Taxes @ 35.0%	(21,838)	(28,728)	(34,680)	(39,128)	(42,386)	(45,074)	15.6%
Add: Depreciation	4,230	5,628	7,128	8,492	9,795	11,090	21.3%
Less: Capital expenditures	(7,274)	(10,251)	(11,276)	(12,404)	(13,644)	(15,009)	15.6%
Unlevered Free Cash Flow	\$ 37,511	\$ 48,729	\$ 60,258	\$ 68,754	\$ 74,868	\$ 79,790	16.3%
Present Value of UFCF							
20110 Terminal Value	\$ 455,603	\$ 523,943	\$ 602,535	\$ 692,915	\$ 796,852	\$ 916,380	
2011 Cash Flow	36,363	41,817	48,090	55,303	63,599	73,138	
2010 Cash Flow	39,670	45,620	52,463	60,333	69,383	\$ 79,790	
2009 Cash Flow	42,806	49,227	56,611	65,103	\$ 74,868		
2008 Cash Flow	45,207	51,988	59,786	\$ 68,754			
2007 Cash Flow	45,564	52,398	\$ 60,258				
2006 Cash Flow	42,373	48,729					
2005 Cash Flow	37,511						
Enterprise Value	\$ 745,096	\$ 813,723					
Add: Cash	103,736	156,240					
Less: Debt	(2,062)	(2,062)					
Add: PV of NOLs	31,985	36,782					
Equity Value	\$ 878,755	\$ 1,004,683					
Divide by: Diluted shares	26,059	26,687					
Price Target	\$ 34	\$ 38					
Implied P/E Multiple	23.0x	19.7x					
Assumptions							
Perpetuity Growth Rate (S&P Avg @ 6.5%)	6.5%						
Beta (Bloomberg)	1.32						
Risk free rate (avg of 30-yr Treasuries)	5.5%						
S&P 500 (cagr since 1975)	11.5%						
Assumed tax rate	35.0%						
Theoretical WACC (CAPM)	13.4%						
Assumed WACC	15.0%						
2010 GAAP Earnings	\$ 99,039						
Implied P/E terminal multiple	10.6x						

Source: Jefferies & Company and company reports

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Exhibit 6: JCOM Balance Sheet

Fiscal Year Ends December 30 (data in thousands, except share data)	FY04A	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E
ASSETS							
Current Assets:							
Cash and cash equivalents	39,890	77,587	130,091	192,261	264,983	346,016	434,200
Short term investments	26,149	26,149	26,149	26,149	26,149	26,149	26,149
Accounts receivable, net	8,227	11,179	12,532	14,838	16,416	17,444	18,208
Prepaid expenses and other	5,021	11,906	10,931	12,942	14,319	15,216	15,882
Total current assets	79,287	126,821	179,703	246,190	321,866	404,824	494,438
Long Term Assets:							
Furniture, fixtures and equipment, net	12,386	15,430	20,053	24,202	28,113	31,963	35,881
Long term investments	27,753	27,753	27,753	27,753	27,753	27,753	27,753
Goodwill and other intangibles, net	31,429	31,429	31,429	31,429	31,429	31,429	31,429
Other assets	2,465	1,894	2,815	3,333	3,687	3,918	4,090
Total long term assets	74,033	76,506	82,050	86,717	90,983	95,063	99,153
Total assets	153,320	203,327	261,754	332,907	412,849	499,887	593,591
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current Liabilities:							
Accounts payable and accrued expenses	5,919	8,046	9,154	11,004	12,363	13,344	14,151
Current portion of long-term debt	1,196	1,196	1,196	1,196	1,196	1,196	1,196
Current portion of capital lease payable	-	-	-	-	-	-	-
Deferred revenue	5,378	7,383	9,536	11,290	12,491	13,273	13,854
Other liabilities	-	-	-	-	-	-	-
Total current liabilities	12,493	16,625	19,886	23,490	26,050	27,814	29,202
Long Term Liabilities:							
Capital lease obligations, net	-	-	-	-	-	-	-
Long Term Debt, Net	866	866	866	866	866	866	866
Total long term liabilities	866	866	866	866	866	866	866
Stockholders' equity	139,961	185,836	241,002	308,551	385,933	471,207	563,523
Total liabilities and stockholders' equity	153,320	203,327	261,754	332,907	412,849	499,887	593,591

Source: Jefferies & Company and company reports

Please see Important Disclosure Information on the last pages of this Report.

Exhibit 7: JCOM Cash Flow Statement

Fiscal Year Ends December 30 (data in thousands, except share data)	FY04A	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E
Cash Flows From Operating Activities:							
Net income	\$ 31,607	\$ 45,875	\$ 55,166	\$ 67,549	\$ 77,382	\$ 85,274	\$ 92,316
Add: depreciation and amortization	4,549	5,398	6,796	8,296	9,660	10,963	12,258
Add: Other non-cash items	14,800	-	-	-	-	-	-
Decrease (increase) in a/r	(1,705)	(2,952)	(1,353)	(2,306)	(1,578)	(1,028)	(764)
Decrease (increase) in prepaid and other assets	104	(6,885)	975	(2,011)	(1,376)	(897)	(666)
Increase (decrease) in a/p and accrued liabilities	1,466	2,127	1,108	1,850	1,359	981	807
Increase (decrease) in deferred revenue	500	2,005	2,153	1,754	1,201	782	581
Increase (decrease) in other liabilities	-	-	-	-	-	-	-
Net cash produced (used) by operating activities	\$ 51,321	\$ 45,568	\$ 64,844	\$ 75,132	\$ 86,648	\$ 96,076	\$ 104,533
Cash Flows From Investing Activities:							
Capital expenditures, net of salvage proceeds	\$ (6,981)	\$ (7,274)	\$ (10,251)	\$ (11,276)	\$ (12,404)	\$ (13,644)	\$ (15,009)
Decrease (increase) in investments & other assets	(51,354)	(597)	(2,089)	(1,686)	(1,522)	(1,399)	(1,340)
Net cash used for investing activities	\$ (58,335)	\$ (7,871)	\$ (12,340)	\$ (12,962)	\$ (13,926)	\$ (15,043)	\$ (16,348)
Cash Flows From Financing Activities:							
Issuance (purchase) of debt	\$ (1,972)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance (purchase) of equity	1,900	-	-	-	-	-	-
Net cash provided by financing activities	\$ (72)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Effect of exchange rate on cash and equivalents	\$ 94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net increase (decrease) in cash and equivalents	\$ (6,992)	\$ 37,697	\$ 52,504	\$ 62,170	\$ 72,721	\$ 81,033	\$ 88,185
Cash and equivalents at beginning of period	46,882	39,890	77,587	130,091	192,261	264,983	346,016
Cash and cash equivalents at end of period	\$ 39,890	\$ 77,587	\$ 130,091	\$ 192,261	\$ 264,983	\$ 346,016	\$ 434,200

Source: Jefferies & Company and company reports

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I, Youssef Squali, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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The table below lists the distribution of investment ratings for our coverage universe, and the percentage of those companies in each rating category that are banking clients:

	% Companies Covered	% Banking Clients
Buy	49	20
Hold/Neutral	45	11
Underperform/Sell	6	8

Price Chart(s)

Price charts for the equity securities referenced in this research report are available at <http://www.jefco.com>.

j2 Global Communications, Inc. Stock Price Chart



(Source: Bloomberg)

- ▲ Mar. 24, 2003 Initiating Price target to \$30.00
- Mar. 24, 2003 Initiating Coverage - Buy
- ▲ Apr. 21, 2003 Price target changed to \$37.00
- ▲ Jun. 20, 2003 Price target changed to \$48.00
- Oct. 30, 2003 Price target suspended
- Oct. 31, 2003 Dropped Coverage
- ▲ Jun. 23, 2004 Initiating Price target to \$32.00
- Jun. 23, 2004 Initiating Coverage - Buy
- ▲ Oct. 18, 2004 Price target changed to \$34.00

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