



REQUIRED DISCLOSURES
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REQUIRED CERTIFICATIONS AND
DISCLOSURES

equity research

September 13, 2004

j2 Global Communications, Inc.

Does AT&T Need JCOM for Fax-over-VoIP?

We Believe AT&T will Partner with Fax Company for VoIP

Joe Noel
 (415) 274-6846
 jnoel@pacgrow.com

Carrie A. Snyder
 (415) 274-6818
 csnyder@pacgrow.com

JCOM: Nasdaq
Over Weight

Price	\$28.82
Price Range (52 weeks)	\$18.82 - \$47.91
Shares Outstanding (millions)	25.6
Market Capitalization (millions)	\$738
Average Daily Volume (000's)	657

Year	Revenue (millions)	Operating Margin	Operating EPS*	P/E Ratio
12/03A	\$71.6	38.0%	\$1.04	28x
12/04E	\$108.1	45.0%	\$1.23	23x
12/05E	\$146.7	45.7%	\$1.61	18x

Year	Quarterly Earnings*			
	Q1	Q2	Q3	Q4
12/03A	\$0.20	\$0.24	\$0.28	\$0.32
12/04E	\$0.25A	\$0.29A	\$0.32	\$0.36
12/05E	\$0.37	\$0.39	\$0.41	\$0.43

* 2003 EPS is taxed at 5.0%. 2004 and 2005 EPS fully taxed at 37%.



Chart Source: Nasdaq.com

Summary

- AT&T (T:NYSE; *Not Rated*) plans to partner with an electronic fax provider to support fax applications via its new voice-over-IP (VoIP) service called CallVantage, according to AT&T executives.
- Based on JCOM's strong patent portfolio, we believe JCOM is a logical choice and perhaps the only choice, in our opinion.
- JCOM's management team reiterated September and year-end guidance last week.
- Considering the Company's 84% gross margins and the 45.6% operating margin level we are expecting in Q3:04, we believe shares of JCOM are undervalued at just 18X our 2005 \$1.61 EPS estimate and the related P/E to EPS growth ratio of just 0.54.
- We reiterate our **Over Weight** rating on shares of JCOM.

Over the past ten years, AT&T has missed some important industry developments, in our view, which we believe has resulted in a rather significant loss of market share for the company. We see Internet access as a prime example. During the early 1990s, we believe AT&T could have easily dominated the market for dial-up Internet access given its expert knowledge of data communications, its extensive network and its large number of network points of presence. However, rather than aggressively pursuing the Internet access market, AT&T instead watched as Earthlink Inc. (ELNK:Nasdaq; *Not Rated*), America Online (TWX:NYSE; *Not Rated*) and others captured market share at AT&T's expense. In other developing markets, we have seen AT&T's passive response yield similar results.

Nonetheless, we see AT&T's attitude toward new potential markets changing radically, especially regarding the fast developing market for VoIP. AT&T has stated publicly that the VoIP market is strategically relevant to the Company. All indications appear to us that AT&T is making a significant push into this technology space, spending million of dollars on capital expenditures and on marketing programs to inform both AT&T sales personnel and end users about the potential cost savings benefits of VoIP technology. While the company's initial marketing push, made via AT&T's new VoIP service offering called CallVantage, has been directed at residential customers, we are also beginning to see the target market for this new service expand to include small business.

We recently had the opportunity to meet with high-level AT&T marketing executives who are involved in the launch of this service. These executive outlined to us the importance of having a full set of features available to small business customers. Based on our conversations, it became obvious to us that AT&T is working hard to implement features demanded by small business customers. One of these important features is facsimile. We were surprised to learn that AT&T's CallVantage service, in its current form, has only limited support for fax.

While the technical details behind this service are extensive, we believe its important to note that AT&T's CallVantage service does not support fax-to-email service for two main reasons, the first of which is cost related. Support for fax-to-email service would likely require the carrier to provision for two separate phone numbers and the related expense of engaging network resources needed to support both connections. Furthermore, the amount of network storage space that would likely be required to support fax-to-email could also be cost prohibitive for AT&T, in our view. While the potentially significant costs outlined above are, in our opinion, a major factor in AT&T's decision not to offer this service, we believe j2 Global's patent portfolio also represents a potentially material obstacle that could hinder AT&T's ability to independently offer what we believe is a popular business feature for voice-over-IP services.

According to the AT&T marketing executives with whom we spoke, rather than expending capital resources to build such a fax-to-email service capability as part of an in-house solution, a situation that could potentially violate existing industry patents, AT&T instead plans to partner with a provider of electronic fax-to-email services. While it appears to us AT&T is still in the preliminary stages of its vendor selection process, the executives we spoke with did seem to indicate JCOM would be among the possible partners it would consider. Based on JCOM's fax-to-email patent portfolio, we would find it difficult to believe the Company would not be the logical partner of choice for AT&T. We expect AT&T will likely decide on a product platform during the first quarter of 2005.

Our Current Opinion on Shares of JCOM

We continue to believe JCOM's business fundamentals are strengthening in Q3:04 and we expect the Company will report another strong quarter of growth and profitability. Formerly, we had been estimating sequential top line revenue growth in the September quarter of 8.5% on \$28.0 million in revenues with EPS of \$0.31. We recently raised our expectations to include a 9.7% sequential growth rate in Q3:04, on \$28.3 million in revenue and \$0.32 in EPS. We believe the following points are important to note about top line growth at JCOM:

- **JCOM's Business has Seen Accelerating Growth** – Sequential growth during the June quarter was 12.6%, up from 12.1% during the March quarter and 8.3% in the December 2003 quarter. The sequential growth rate achieved during the most recently completed June quarter 2004 exceeded all sequential quarterly growth rates at the Company during 2002 and 2003.
- **We Believe New Products Should Accelerate Growth Rate** – Over the past two quarters, JCOM has launched several new products, including Evoice and OneBox, and we believe the Company is likely to soon announce product expansions into additional language capabilities, most likely Spanish.
- **We Expect Free-to-Paid Conversations to Accelerate** - With approximately 1.7 million free customers added during the March and June quarters, we are expecting an acceleration in paid net line additions during the current September quarter and upcoming December 2004 and March 2005 quarters. Typically, JCOM begins to realize free-to-paid customer conversations after approximately 90 days of free usage by a potential customer. We believe the Company is now beginning to see these conversions take place. We recently raised our forecast for paid additions to 42,000, from 36,000 for the September quarter, compared to approximately 34,000 seen during both the June and March quarters. The

upward revision in this metric was the primary reason for our decision to raise our top line revenue estimate for the September and December quarters.

- **Pending Oasis Semiconductor IPO Likely Adds to Cash/Marketable Securities Balance** – We believe Oasis Semiconductor has completed most or all of the preliminary process for launching its pending IPO, with the deal waiting for a more solid small cap market environment. Given j2 Global owns approximately 17.5% of Oasis Semiconductor, we believe JCOM will likely get between \$25 million and \$35 million from the expected Oasis IPO proceeds. We estimate these potential funds, when added to the Company's current cash balance and the additional free cash flow expected during the second half of 2004, could yield a total cash balance of over \$100 million. We estimate the Company will likely generate approximately \$33 million of free cash flow during 2004.

- **Churn Rate Continues to Fall** – JCOM's management team has released churn statistics for the past eight quarters, with churn percentage results declining during seven of these periods. During the December quarter 2003, JCOM implemented the most important phase of its approximate 33% price increase, which caused churn to increase to 3.3%, from 2.8% during the previous quarter. Since that time, churn has fallen to well below historic levels. For the September quarter, we are expecting churn to remain near these very low levels, although it is unclear to us at this time whether the Company will be able to make further significant improvements to what we believe is an already very low churn number.

- **We Expect Operating Leverage to Return** - Over the past few quarters, j2 Global has significantly increased its operating expenses in order to grow the number of free customer additions, including an incremental operating expense increase of approximately \$886,000 during the March quarter and just under \$1.5 million during the June quarter. Based on the Company's results over the past few quarters, it is apparent to us this incremental spending has paid off for JCOM. We are expecting flat to only slightly up spending on sales and marketing for the September quarter. Specifically, spending levels in this area during the June quarter were approximately 18.5% of total revenue. We are expecting this spending level to fall to 16.8% during the September quarter and to fall further during the December quarter to 15.6%. We expect blended sales and marketing spending for the full year 2005 to be in the area of 15.3%. We are expecting a similar, but less dramatic trend in both R&D and G&A expense spending going forward.

- **Significant Short Position** – The most recent data we have seen indicates there is currently a short position in shares of JCOM of approximately 4.7 million shares, which we estimate under current average trading volumes would require nearly eight days to cover. Based on our conversations with various short sellers, we believe many investors holding a short position in this stock are essentially counting on JCOM to miss estimates for the September quarter. Our view on this topic is that not only do we believe JCOM will meet current Q3:04 estimates, but we also think the Company is highly likely to exceed expectations. We also believe it is important to note that by our measure, during the March and June quarters, JCOM could have easily topped estimates by several cents. Due to the Company's aggressive marketing programs that were underway at that time, however, management spent what otherwise would have been upside to the Company reported results on sales and marketing expenses and, to a lesser extent, on G&A costs. Management indicated on its last conference call that these marketing programs were very successful and as a result, sales and marketing spending would likely be flat during the September quarter. We believe the flattening of spending in this area should allow the Company to expand EPS a little bit more during the September quarter.

- **Valuation** – With top line growth during 2003 of 49% and expected top line growth for 2004 and 2005 of 51% and 36%, respectively, we believe these shares continue to be undervalued trading at 23X our fully-taxed 2004 EPS of \$1.23 and at only 18X our fully-taxed 2005 EPS of \$1.61. Our EPS forecasts for 2004 and 2005 represent expected EPS growth rates of approximately 75% and 33%, respectively, resulting in what we believe to be very attractive PE to EPS growth ratios (PEG) of 0.3x and 0.5x, respectively.

Founded in 1995, j2 Global Communications, Inc. provides outsourced, value-added messaging and communications services to individuals and businesses around the world. The Company's network spans more than 1,350 cities in 20 countries on five continents. j2 Global offers faxing and voicemail solutions, document management solutions, Web-initiated conference calling, and unified-messaging and communications services. j2 Global markets its services principally under the brand names eFax(R), j2(R), jConnect(R), JFAX(R), eFax Corporate(R), Electric Mail(R), jBlast(R), eFax Broadcast(TM), PaperMaster(R), Consensus(TM), M4 Internet(R), Onebox(R) and Protofax(R).

J2 Global Communications, Inc.

Pacific Growth Equities, LLC

FY: Dec.

Quarterly Financial Results and Projections

Joe Noel

Ticker: JCOM:Nasdaq

(\$ in thousands, except ratio and per share data)

415-274-6846

August 23, 2004

	Q1:03A	Q2:03A	Q3:03A	Q4:03A	FY:03A	Q1:04A	Q2:04A	Q3:04E	Q4:04E	FY:04E	Q1:05E	Q2:05E	Q3:05E	Q4:05E	FY:05E
Subscriber	\$14,455	\$16,307	\$17,872	\$19,707	68,341	\$22,062	\$25,063	\$27,609	\$30,275	\$105,009	\$32,752	\$34,938	\$36,993	\$39,299	\$143,983
Advertising	612	609	615	615	2,451	761	647	600	600	2,608	550	550	550	550	2,200
Licensing and other	142	121	416	151	830	119	121	120	120	480	120	120	120	120	480
Revenue	\$15,208	\$17,037	\$18,903	\$20,474	\$71,622	\$22,942	\$25,831	\$28,329	\$30,995	\$108,097	\$33,422	\$35,608	\$37,663	\$39,969	\$146,663
Cost of sales	3,010	3,247	3,494	3,572	13,323	3,640	4,063	4,476	4,959	17,138	5,682	6,231	6,742	7,194	25,849
Gross Profit	12,198	13,790	15,409	16,902	58,299	19,302	21,768	23,853	26,036	90,959	27,740	29,377	30,922	32,775	120,813
S&M expenses	2,510	2,866	2,897	2,898	11,171	3,779	4,767	4,765	4,850	18,161	5,197	5,412	5,725	6,091	22,426
R&D expenses	1,026	1,023	1,006	1,140	4,195	1,050	1,264	1,300	1,350	4,964	1,471	1,567	1,657	1,759	6,453
G&A expenses	3,468	3,743	4,085	4,387	15,683	4,482	4,734	4,880	5,140	19,236	5,682	6,053	6,403	6,795	24,933
Total operating expenses	7,004	7,632	7,988	8,425	31,049	9,311	10,765	10,945	11,340	42,361	12,350	13,033	13,785	14,645	53,812
Operating Income	\$5,194	\$6,158	\$7,421	\$8,477	\$27,250	\$9,991	\$11,003	\$12,908	\$14,696	\$48,598	\$15,391	\$16,344	\$17,137	\$18,130	\$67,002
Other income	74	69	126	150	419	186	352	150	150	838	150	150	150	150	600
Pretax income	5,268	6,227	7,547	8,627	27,669	10,177	11,355	13,058	14,846	49,436	15,541	16,494	17,287	18,280	67,602
Income tax expense	235	280	347	(8,999)	(8,137)	3,778	3,866	4,831	5,493	17,968	5,750	6,103	6,396	6,764	25,013
Preferred dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income - GAAP	\$5,033	\$5,947	\$7,200	\$17,626	\$35,806	\$6,399	\$7,489	\$8,227	\$9,353	\$31,467	\$9,791	\$10,391	\$10,891	\$11,516	\$42,589
Net Income - Operations	5,033	5,947	7,200	8,126	26,306	6,399	7,489	8,227	9,353	31,467	9,791	10,391	10,891	11,516	42,589
EPS GAAP	\$0.20	\$0.24	\$0.28	\$0.69	\$1.42	\$0.25	\$0.29	\$0.32	\$0.36	\$1.23	\$0.37	\$0.39	\$0.41	\$0.43	\$1.61
EPS (Operations)	\$0.20	\$0.24	\$0.28	\$0.32	\$1.04	\$0.25	\$0.29	\$0.32	\$0.36	\$1.23	\$0.37	\$0.39	\$0.41	\$0.43	\$1.61
Fully Diluted Shares	24,697	25,204	25,493	25,670	25,183	25,564	25,585	25,710	25,725	25,646	26,200	26,375	26,450	26,700	26,431

Source: Company reports and Pacific Growth Equities, LLC.

Margin and Ratio Analysis

Gross Margin	80.2%	80.9%	81.5%	82.6%	81.4%	84.1%	84.3%	84.2%	84.0%	84.1%	83.0%	82.5%	82.1%	82.0%	82.4%
S&M % of Revenues	16.5%	16.8%	15.3%	14.2%	15.6%	16.5%	18.5%	16.8%	15.6%	16.8%	15.6%	15.2%	15.2%	15.2%	15.3%
R&D % of Revenue	6.7%	6.0%	5.3%	5.6%	5.9%	4.6%	4.9%	4.6%	4.4%	4.6%	4.4%	4.4%	4.4%	4.4%	4.4%
G&A % of Revenues	22.8%	22.0%	21.6%	21.4%	21.9%	19.5%	18.3%	17.2%	16.6%	17.8%	17.0%	17.0%	17.0%	17.0%	17.0%
Operating Margin	34.2%	36.1%	39.3%	41.4%	38.0%	43.5%	42.6%	45.6%	47.4%	45.0%	46.1%	45.9%	45.5%	45.4%	45.7%
Pretax Income Margin	34.6%	36.5%	39.9%	42.1%	38.6%	44.4%	44.0%	46.1%	47.9%	45.7%	46.5%	46.3%	45.9%	45.7%	46.1%
Income Tax Rate	4.5%	4.5%	4.6%	-104.3%	-29.4%	37.1%	34.0%	37.0%	37.0%	36.3%	37.0%	37.0%	37.0%	37.0%	37.0%
Net Income Margin - Operations	33.1%	34.9%	38.1%	39.7%	36.7%	27.9%	29.0%	29.0%	30.2%	29.1%	29.3%	29.2%	28.9%	28.8%	29.0%

Year-Over-Year Growth

Subscriber rev	-	-	-	-	-	-	-	-	-	53.7%	48.5%	39.4%	34.0%	29.8%	37.1%
Revenue	46.5%	50.7%	51.2%	46.0%	48.6%	50.9%	51.6%	49.9%	51.4%	50.9%	45.7%	37.9%	32.9%	29.0%	35.7%
Costs of Sales	-12.5%	20.2%	37.0%	42.3%	18.9%	20.9%	25.1%	28.1%	38.8%	28.6%	56.1%	53.4%	50.6%	45.1%	50.8%
Gross Profit	75.8%	60.3%	54.8%	46.8%	57.5%	58.2%	57.9%	54.8%	54.0%	56.0%	43.7%	35.0%	29.6%	25.9%	32.8%
Operating Income	238.4%	99.5%	92.7%	55.7%	95.8%	92.4%	78.7%	73.9%	73.4%	78.3%	54.0%	48.5%	32.8%	23.4%	37.9%
Pretax Income	202.6%	87.6%	92.8%	57.0%	91.2%	93.2%	82.4%	73.0%	72.1%	78.7%	52.7%	45.3%	32.4%	23.1%	36.7%
Net Income Operations	209.2%	79.2%	84.0%	74.8%	94.7%	27.1%	25.9%	14.3%	15.1%	19.6%	53.0%	38.8%	32.4%	23.1%	35.3%

Sequential Growth

Subscriber rev	-	12.8%	9.6%	10.3%	-	12.0%	13.6%	10.2%	9.7%	-	8.2%	6.7%	5.9%	6.2%	-
Revenue	8.4%	12.0%	11.0%	8.3%	-	12.1%	12.6%	9.7%	9.4%	-	7.8%	6.5%	5.8%	6.1%	-
Costs of Sales	19.9%	7.9%	7.6%	2.2%	-	1.9%	11.6%	10.2%	10.8%	-	14.6%	9.7%	8.2%	6.7%	-
Gross Profit	5.9%	13.1%	11.7%	9.7%	-	14.2%	12.8%	9.6%	9.2%	-	6.5%	5.9%	5.3%	6.0%	-
Operating Income	-4.6%	18.6%	20.5%	14.2%	-	17.9%	10.1%	17.3%	13.9%	-	4.7%	6.2%	4.8%	5.8%	-
Pretax Income	-4.1%	18.2%	21.2%	14.3%	-	18.0%	11.6%	15.0%	13.7%	-	4.7%	6.1%	4.8%	5.7%	-
Net Income - Operations	8.2%	18.2%	21.1%	12.9%	-	-21.3%	17.0%	9.8%	13.7%	-	4.7%	6.1%	4.8%	5.7%	-

Appendix A Required Disclosures

13-Sep-2004 09:08:16 AM

Disclosures for J2 Global Communications (JCOM)

Pacific Growth Equities, LLC was making a market in the securities of J2 Global Communications (JCOM) at the time of this report.

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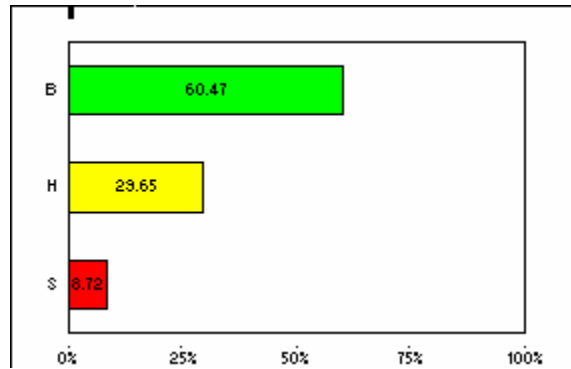
JCOM - J2 Global Communications - 10-Sep-2004

Date	Price	Rating
9/11/2002	21.34	O

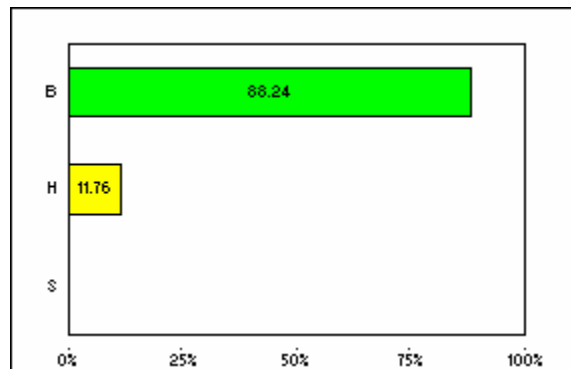


Research Ratings Distribution

Ratings - All - 10-Sep-2004		
Rating	Qty	Pct
-	2	1.16
B	104	60.47
H	51	29.65
S	15	8.72



Ratings - Transactions in the Last 12 Months - 10-Sep-2004		
Rating	Qty	Pct
B	15	88.24
H	2	11.76
S	0	0.00



Ratings Definitions - Current (Effective 09-Jul-2002)		
O	Over Weight	The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
E	Equal Weight	The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
U	Under Weight	The stock's total return is expected to be below the average total return of the analyst's industry (or the industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Ratings Definitions - Legacy		
SB	Strong Buy	>25% growth in next 12 mos. Or significantly outperform market (aggressively buy stock)
B	Buy	10-25% growth in next 12 mos. or outperform market (establish new investment positions)
LT	Long-term Buy	Growth expected, may take longer; earlier stage tech/science (establish new investment positions)
MP	Market Perform	Performance expected to be in line with market at best.
N	Neutral	No growth expected or perform in line with market at best (do not establish new positions)
A	Avoid	Decline in next 12 months or significantly underperform market (sell stock in portfolios)

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