



**REQUIRED DISCLOSURES**  
**PLEASE SEE APPENDIX A FOR**  
**REQUIRED CERTIFICATIONS**  
**AND DISCLOSURES**

equity research

January 6, 2005

## j2 Global Communications, Inc.

### Q4:04 Earnings Preview

*Recent Weakness Represents a Buying Opportunity, in our view*

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

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

**JCOM: Nasdaq**  
**Over Weight**

Price	\$31.50
Price Range (52 weeks)	\$18.82 - \$36.35
Shares Outstanding (millions)	25.6
Market Capitalization (millions)	\$806
Average Daily Volume (000's)	527

Year	Revenue (millions)	Operating Margin	Operating EPS	P/E Ratio
12/03A	\$71.6	38.0%	\$1.04	30x
12/04E	\$106.6	43.8%	\$1.22	26x
12/05E	\$148.6	45.0%	\$1.65	19x

Year	Quarterly Earnings			
	Q1	Q2	Q3	Q4
12/03A	\$0.20	\$0.24	\$0.28	\$0.32
12/04E	\$0.25	\$0.29	\$0.32A	\$0.35
12/05E	\$0.37	\$0.39	\$0.43	\$0.46



Chart Source: Nasdaq.com

Below, we have outlined our earnings preview of JCOM's recently completed December 2004 quarter results, based on our recent conversations with members of the management team. We continue to believe JCOM's business fundamentals are strengthening and we expect the Company to report another strong quarter of growth and profitability in Q4:04. We believe business at JCOM continues to be robust with the quality of the Company's revenue stream remaining strong.

- **We are expecting December quarter results to meet or exceed Company guidance and we are also expecting robust guidance for Q1:05 and full year 2005.** On its third quarter earnings call, the Company guided to fourth quarter revenues of \$29.5 million and \$0.34 in EPS, with full year 2004 guidance of \$106 million in revenues and \$1.20 in EPS. We are currently looking for December quarter revenues of \$30 million and \$0.35 in EPS. Our full year 2004 revenue number is \$106.6 million and \$1.22 in EPS.
- **We are expecting continued strong ARPU.** During the September quarter, the Company experienced a slight weakness in its variable usage service category. We believe the Company's operations strengthened in the fourth quarter.
- **We believe gross margins remain strong.** We are once again expecting strong gross margins. Throughout 2004, gross margins at JCOM have remained steady at over 84%. We expect this figure continued to remain strong in Q4:04, and have currently modeled for 84.2%. Although our model currently shows a slight decline in this metric for 2005, we believe its possible we have been overly conservative in our modeling of 2005 gross margins.
- **The fax market continues to be robust and has seen little or no degradation, in our opinion.** While many investors have expressed concern about the general industry transition away from facsimile and toward increasing

email use, we believe the fax market has experienced little degradation over the past few years. In our view, discussions of a declining fax market represent a theoretical argument only and, in the case of JCOM, we would note that to date, we believe the Company has captured significantly less than 5% of its total addressable constituency. With this in mind, we conclude that the Company possesses ample opportunity to significantly grow its revenue base well into the future given the overall \$40 billion size of the global fax market.

- **We believe new products and product expansion should accelerate revenue growth.** JCOM recently launched several new products over the past few quarters, including Evoice and OneBox, acquired several small companies, and announced the expansion of its eFax® service in three additional languages; Spanish, German and French. In addition, the Company continues to expand its geographic footprint. We believe these efforts should support continued revenue growth at the Company.
- **We expect the churn rate to remain low.** JCOM's management team has released churn statistics for the past nine quarters, with churn percentage results declining in all but two of these periods. For the past two quarters, the Company has brought the churn rate down, to 2.4% in Q2:04 and 2.6% in Q3:04, and we expect this figure to remain near these very low levels. It is, however, 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 increase.** We are expecting management to once again contain operating expenses in Q4:04. 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, with this increase slowing down in the third quarter to about \$703,000. 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 operating expenses for the December quarter. Specifically, spending levels in this area during the September quarter were approximately 41.3% of total revenue, and we are expecting this spending level to fall to approximately 38.6% during the fourth and to decline further throughout 2005.
- **Operating Margins** - Based on our above assumed gross margins and operating expense levels, we are once again expecting JCOM to report sequentially higher operating margins of 45.6% during the fourth quarter, compared to 43.0% in the September quarter, 42.6% in the June quarter and 43.5% reported for the March quarter. Over the past year, operating margins have grown by several percentage points.
- **Valuation.** With top line growth during 2003 of 49% and expected top line growth for 2004 continuing in the 50% range, and about 40% top line growth in 2005 per our estimates, we believe these shares are currently undervalued trading at 26X our fully-taxed 2004 EPS number of \$1.22 and at only 19X our fully-taxed 2005 EPS estimate of \$1.65. Our EPS forecasts for 2004 and 2005 represent expected EPS growth rates of approximately 75% and 36%, respectively, resulting in what we believe to be very attractive PE to EPS growth ratios (PEG) of 0.37x and 0.58x, 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.**  
**Quarterly Financial Results and Projections**  
(\$ in thousands, except ratio and per share data)

Pacific Growth Equities, LLC  
Joe Noel  
415-274-6846

FY: Dec.  
Ticker: JCOM:Nasdaq  
October 18, 2004

	Q1:03A	Q2:03A	Q3:03A	Q4:03A	FY:03A	Q1:04A	Q2:04A	Q3:04A	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	\$26,985	\$29,230	\$103,340	\$31,650	\$34,550	\$37,955	\$41,515	\$145,670
Advertising	612	609	615	615	2,451	761	647	668	700	2,776	600	600	600	600	2,400
Licensing and other	142	121	416	151	830	119	121	118	110	468	126	125	125	130	506
<b>Revenue</b>	<b>\$15,208</b>	<b>\$17,037</b>	<b>\$18,903</b>	<b>\$20,474</b>	<b>\$71,622</b>	<b>\$22,942</b>	<b>\$25,831</b>	<b>\$27,771</b>	<b>\$30,040</b>	<b>\$106,584</b>	<b>\$32,376</b>	<b>\$35,275</b>	<b>\$38,680</b>	<b>\$42,245</b>	<b>\$148,576</b>
Cost of sales	3,010	3,247	3,494	3,572	13,323	3,640	4,063	4,363	4,746	16,812	5,472	6,173	6,924	7,604	26,172
<b>Gross Profit</b>	<b>12,198</b>	<b>13,790</b>	<b>15,409</b>	<b>16,902</b>	<b>58,299</b>	<b>19,302</b>	<b>21,768</b>	<b>23,408</b>	<b>25,294</b>	<b>89,772</b>	<b>26,904</b>	<b>29,102</b>	<b>31,756</b>	<b>34,641</b>	<b>122,404</b>
S&M expenses	2,510	2,866	2,897	2,898	11,171	3,779	4,767	4,729	4,790	18,065	5,041	5,503	5,918	6,459	22,921
R&D expenses	1,026	1,023	1,006	1,140	4,195	1,050	1,264	1,418	1,495	5,227	1,619	1,764	1,895	2,028	7,306
G&A expenses	3,468	3,743	4,085	4,387	15,683	4,482	4,734	5,321	5,305	19,842	5,569	5,997	6,576	7,182	25,323
Total operating expenses	7,004	7,632	7,988	8,425	31,049	9,311	10,765	11,468	11,590	43,134	12,228	13,263	14,389	15,669	55,549
<b>Operating Income</b>	<b>\$5,194</b>	<b>\$6,158</b>	<b>\$7,421</b>	<b>\$8,477</b>	<b>\$27,250</b>	<b>\$9,991</b>	<b>\$11,003</b>	<b>\$11,940</b>	<b>\$13,704</b>	<b>\$46,638</b>	<b>\$14,676</b>	<b>\$15,838</b>	<b>\$17,367</b>	<b>\$18,972</b>	<b>\$66,854</b>
Other income	74	69	126	150	419	186	352	505	350	1,393	125	125	125	125	500
<b>Pretax income</b>	<b>5,268</b>	<b>6,227</b>	<b>7,547</b>	<b>8,627</b>	<b>27,669</b>	<b>10,177</b>	<b>11,355</b>	<b>12,445</b>	<b>14,054</b>	<b>48,031</b>	<b>14,801</b>	<b>15,963</b>	<b>17,492</b>	<b>19,097</b>	<b>67,354</b>
Income tax expense	235	280	347	(8,999)	(8,137)	3,778	3,866	4,316	4,919	16,879	5,180	5,587	6,122	6,684	23,574
Preferred dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Income - GAAP</b>	<b>\$5,033</b>	<b>\$5,947</b>	<b>\$7,200</b>	<b>\$17,626</b>	<b>\$35,806</b>	<b>\$6,399</b>	<b>\$7,489</b>	<b>\$8,129</b>	<b>\$9,135</b>	<b>\$31,152</b>	<b>\$9,621</b>	<b>\$10,376</b>	<b>\$11,370</b>	<b>\$12,413</b>	<b>\$43,780</b>
<b>Net Income - Operations</b>	<b>5,033</b>	<b>5,947</b>	<b>7,200</b>	<b>8,126</b>	<b>26,306</b>	<b>6,399</b>	<b>7,489</b>	<b>8,129</b>	<b>9,135</b>	<b>31,152</b>	<b>9,621</b>	<b>10,376</b>	<b>11,370</b>	<b>12,413</b>	<b>43,780</b>
<b>EPS GAAP</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.28</b>	<b>\$0.69</b>	<b>\$1.42</b>	<b>\$0.25</b>	<b>\$0.29</b>	<b>\$0.32</b>	<b>\$0.35</b>	<b>\$1.22</b>	<b>\$0.37</b>	<b>\$0.39</b>	<b>\$0.43</b>	<b>\$0.46</b>	<b>\$1.65</b>
<b>EPS (Operations)</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.28</b>	<b>\$0.32</b>	<b>\$1.04</b>	<b>\$0.25</b>	<b>\$0.29</b>	<b>\$0.32</b>	<b>\$0.35</b>	<b>\$1.22</b>	<b>\$0.37</b>	<b>\$0.39</b>	<b>\$0.43</b>	<b>\$0.46</b>	<b>\$1.65</b>
Fully Diluted Shares	24,697	25,204	25,493	25,670	25,183	25,564	25,585	25,572	25,800	25,630	26,000	26,375	26,650	27,000	26,506

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%	84.3%	84.2%	84.2%	83.1%	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%	17.0%	15.9%	16.9%	15.6%	15.6%	15.3%	15.3%	15.4%
R&D % of Revenue	6.7%	6.0%	5.3%	5.6%	5.9%	4.6%	4.9%	5.1%	5.0%	4.9%	5.0%	5.0%	4.9%	4.8%	4.9%
G&A % of Revenues	22.8%	22.0%	21.6%	21.4%	21.9%	19.5%	18.3%	19.2%	17.7%	18.6%	17.2%	17.0%	17.0%	17.0%	17.0%
Operating Margin	34.2%	36.1%	39.3%	41.4%	38.0%	43.5%	42.6%	43.0%	45.6%	43.8%	45.3%	44.9%	44.9%	44.9%	45.0%
Operating Expenses % of Rev	46.1%	44.8%	42.3%	41.1%	43.4%	40.6%	41.7%	41.3%	38.6%	40.5%	37.8%	37.6%	37.2%	37.1%	37.4%
Pretax Income Margin	34.6%	36.5%	39.9%	42.1%	38.6%	44.4%	44.0%	44.8%	46.8%	45.1%	45.7%	45.3%	45.2%	45.2%	45.3%
Income Tax Rate	4.5%	4.5%	4.6%	-104.3%	-29.4%	37.1%	34.0%	34.7%	35.0%	35.1%	35.0%	35.0%	35.0%	35.0%	35.0%
Net Income Margin - Operations	33.1%	34.9%	38.1%	39.7%	36.7%	27.9%	29.0%	29.3%	30.4%	29.2%	29.7%	29.4%	29.4%	29.4%	29.5%

**Year-Over-Year Growth**

Subscriber rev	-	-	-	-	-	-	-	-	-	51.2%	43.5%	37.9%	40.7%	42.0%	41.0%
Revenue	46.5%	50.7%	51.2%	46.0%	48.6%	50.9%	51.6%	46.9%	46.7%	48.8%	41.1%	36.6%	39.3%	40.6%	39.4%
Costs of Sales	-12.5%	20.2%	37.0%	42.3%	18.9%	20.9%	25.1%	24.9%	32.9%	26.2%	50.3%	51.9%	58.7%	60.2%	55.7%
Gross Profit	75.8%	60.3%	54.8%	46.8%	57.5%	58.2%	57.9%	51.9%	49.6%	54.0%	39.4%	33.7%	35.7%	37.0%	36.3%
Operating Income	238.4%	99.5%	92.7%	55.7%	95.8%	92.4%	78.7%	60.9%	61.7%	71.1%	46.9%	43.9%	45.5%	38.4%	43.3%
Pretax Income	202.6%	87.6%	92.8%	57.0%	91.2%	93.2%	82.4%	64.9%	62.9%	73.6%	45.4%	40.6%	40.6%	35.9%	40.2%
Net Income Operations	209.2%	79.2%	84.0%	74.8%	94.7%	27.1%	25.9%	12.9%	12.4%	18.4%	50.3%	38.6%	39.9%	35.9%	40.5%

**Sequential Growth**

Subscriber rev	-	12.8%	9.6%	10.3%	-	12.0%	13.6%	7.7%	8.3%	-	8.3%	9.2%	9.9%	9.4%	-
Revenue	8.4%	12.0%	11.0%	8.3%	-	12.1%	12.6%	7.5%	8.2%	-	7.8%	9.0%	9.7%	9.2%	-
Costs of Sales	19.9%	7.9%	7.6%	2.2%	-	1.9%	11.6%	7.4%	8.8%	-	15.3%	12.8%	12.2%	9.8%	-
Gross Profit	5.9%	13.1%	11.7%	9.7%	-	14.2%	12.8%	7.5%	8.1%	-	6.4%	8.2%	9.1%	9.1%	-
Operating Income	-4.6%	18.6%	20.5%	14.2%	-	17.9%	10.1%	8.5%	14.8%	-	7.1%	7.9%	9.7%	9.2%	-
Pretax Income	-4.1%	18.2%	21.2%	14.3%	-	18.0%	11.6%	9.6%	12.9%	-	5.3%	7.9%	9.6%	9.2%	-
Net Income - Operations	8.2%	18.2%	21.1%	12.9%	-	-21.3%	17.0%	8.5%	12.4%	-	5.3%	7.9%	9.6%	9.2%	-

## **Appendix A** **Required Disclosures**

06-Jan-2005 09:17:23 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.

#### **Certification Pursuant to SEC Regulation AC**

I, Joe Noel attest that the views expressed in this research report accurately reflect my personal views on the subject security and that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein.

This certification is furnished solely with respect to my obligation under SEC Regulation AC and may not be relied upon or referred to by any other person or entity or for any other purpose. This certification is based upon my knowledge as of the date hereof. I assume no obligation to update this certification to reflect any facts, circumstances or events that may hereafter come to my attention.

---

A portion of the compensation Pacific Growth Equities, LLC pays the research analyst(s) who prepared the above report(s) is based on (among other factors) the firm's investment banking revenues.

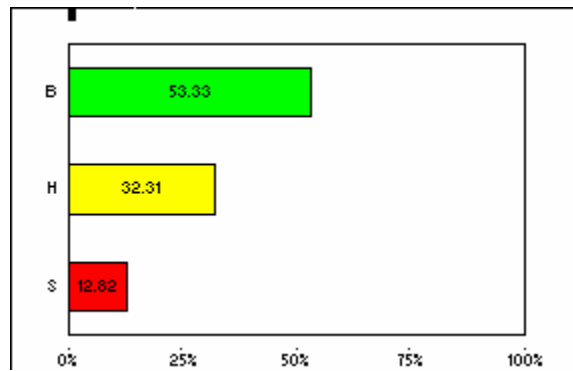
**JCOM - J2 Global Communications - 05-Jan-2005**

Date	Price	Rating
9/11/2002	21.34	O

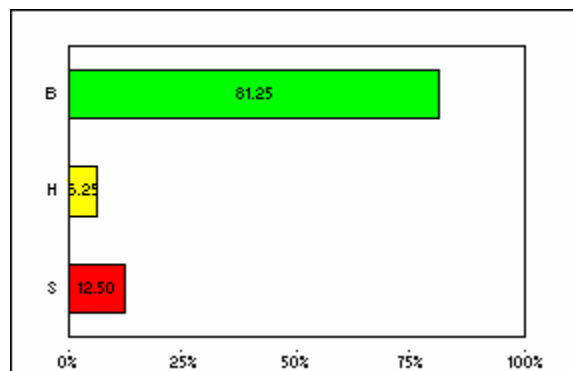


**Research Ratings Distribution**

<b>Ratings - All - 05-Jan-2005</b>		
<b>Rating</b>	<b>Qty</b>	<b>Pct</b>
-	3	1.54
B	104	53.33
H	63	32.31
S	25	12.82



<b>Ratings - Transactions in the Last 12 Months - 05-Jan-2005</b>		
<b>Rating</b>	<b>Qty</b>	<b>Pct</b>
B	13	81.25
H	1	6.25
S	2	12.50



<b>Ratings Definitions - Current</b> (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.
<b>Ratings Definitions - Legacy</b>		
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)

---

## Disclaimer

Information contained in this report, including but not limited to, market valuations, calculations, estimates and other material is believed to be reliable, however Pacific Growth Equities, LLC ("Pacific Growth") does not warrant its accuracy or completeness. Opinions and estimates constitute the judgment of Pacific Growth and are subject to change without notice. Past performance is not indicative of future results.

Pacific Growth is not soliciting any action based on these materials. These materials are provided for informational purposes only and should not be used or construed as an offer to sell or a solicitation of an offer to buy any security. These materials and any access to them is intended for the "Institutional Customers" of Pacific Growth as that term is defined by NASD Rules and is not intended to be distributed to or passed on indirectly, to individual investors.

Pacific Growth Equities, LLC is a NASD member and a member of SIPC.

© Pacific Growth Equities, LLC, 2004. All rights reserved. Any unauthorized use, duplication or disclosure is prohibited by law and will result in prosecution.