

July 16, 2004

## Specialty Telecommunications

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### Share Data

52 Wk. Range	\$47.91-\$18.82
Shares Outstanding:	23.2M
Avg. Daily Volume:	874,007
L/Term Grt. Rate:	40.00%
Dividend/Yield	NA/NM
ROAE (LTM):	33.4%
Insider Ownership:	18.0%
Book Value:	\$3.41
Price/Book:	8.01x
Price/Tang. Book:	NM



Exchange:	<b>NASDAQ</b>	Recommendation:	<b>Buy</b>
Symbol:	<b>JCOM</b>	Previous:	
Current Price:	<b>\$27.32</b>	Target Price:	<b>\$40.00</b>
Market Cap:	<b>\$633.8MM</b>	Previous:	

## JCOM: 2Q04 Earnings Preview

### Action

We think JCOM shares remain undervalued. We are maintaining our BUY rating and our \$40 price target.

### Summary

- JCOM is expected to report 2Q04 earnings on Monday, July 19th, with a conference call at 4:30 PM EST.
- We are looking for EPS of \$0.28 on revenue of \$26.1 million, versus consensus of \$0.28 and \$25.4 million.
- JCOM earnings are to be reported on a fully-taxed basis, so comparisons may be misleading.
- Investors should tax-effect 2003 earnings to make an apples-to-apples comparison.

### Earnings Outlook

	12/03A		12/04E		12/05E	
	Prior	Current	Prior	Current	Prior	Current
<b>Q1</b>	—	<b>0.20</b>	—	<b>0.25A</b>	—	—
<b>Q2</b>	—	<b>0.24</b>	—	<b>0.28E</b>	—	—
<b>Q3</b>	—	<b>0.28</b>	—	<b>0.31E</b>	—	—
<b>Q4</b>	—	<b>0.32</b>	—	<b>0.32E</b>	—	—
<b>FY</b>	—	<b>1.04</b>	—	<b>1.16E</b>	—	<b>1.52E</b>

2003Annual: untaxed

2003Q4 excludes non-recurring tax benefit

2004Annual: fully taxed

### Valuation Parameters

	12/03A	12/04E	12/05E
<b>P/E</b>	26.3x	23.6x	18.0x

JCOM is expected to report 2Q04 earnings on Monday, July 19th, with a conference call to follow at 4:30 PM EST. We are looking for EPS of \$0.28 on revenue of \$26.1 million, versus the consensus of \$0.28 and \$25.4 million, respectively. We note that in 4Q03, JCOM capitalized its remaining NOL and recorded a one-time tax benefit. JCOM is reporting EPS on a fully-taxed basis. This should artificially depress the year-over-year comparisons, so we would caution that such views should be made on an apples-to-apples (fully taxed) basis. We think JCOM will be able to continue to grow EPS at 40% for at least several years beyond 2004.

On the last earnings call, JCOM management reaffirmed 2004 financial guidance for EPS in the range of \$1.00 to \$1.15 on revenue in the range of \$100 million to \$105 million.

With its recent acquisition of a patent portfolio from Net Office Solutions LLC, JCOM is following its strategy to expand its intellectual property. We will be interested to hear of potential further development towards becoming a leading source of unified communications services and that JCOM is progressing towards becoming the leader in presence and availability management services.

Other things we will be focused on include:

- ◆ Details on subscriber growth both free and paid as well as any changes in customer mix.
- ◆ Success of advertising on such services as Yahoo! (NASDAQ/YHOO \$30.25/NR), AOL , Monster.com and how it translates into new free/paid customers.
- ◆ Indication of progress in penetrating the U.S. government market now that GSA approval has been obtained and sales force has expanded.
- ◆ An update on JCOM's real estate usage-based services, as there has been concern over this business given that interest rates appear to be on their way up, which many feel should pressure the mortgage refinancing business.

We are maintaining our BUY rating and our 12-month price target of \$40.

### **Company Description**

j2, based in Hollywood, California, provides messaging services to individual and business customers worldwide on an outsourced basis.

### **Important Disclosures**

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Advest makes a market in shares of j2 Global Communications.  
Advest makes a market in shares of YHOO.

Advest will receive, or intends to seek, compensation for investment banking services from this company(ies) within the next three months.

### **Valuation and Risks**

Currently, JCOM is trading at 23.6x our 2004 EPS estimate of \$1.15 and has a PEG of 0.6x based on our 3-5 year EPS growth rate estimate of 40%. Our 12-month price target of \$40 represents a P/E of 35x our fully-taxed 2004 EPS estimate of \$1.16 and a PEG of 0.9x. Risks to the achievement of JCOM's financial performance goals and to its share price reaching our target price include but are not limited to the following:

1. Churn - inactive and unprofitable users are churned-out by JCOM while

other subscribers may use the service for convenience over a short period. Contracts permit termination by either party on 30-days notice.

2. Competition - direct competition could pose problems for JCOM while large corporations may elect to develop proprietary unified communications systems.

3. Network failure - a network disruption would likely be viewed as unacceptable and result in loss of customers.

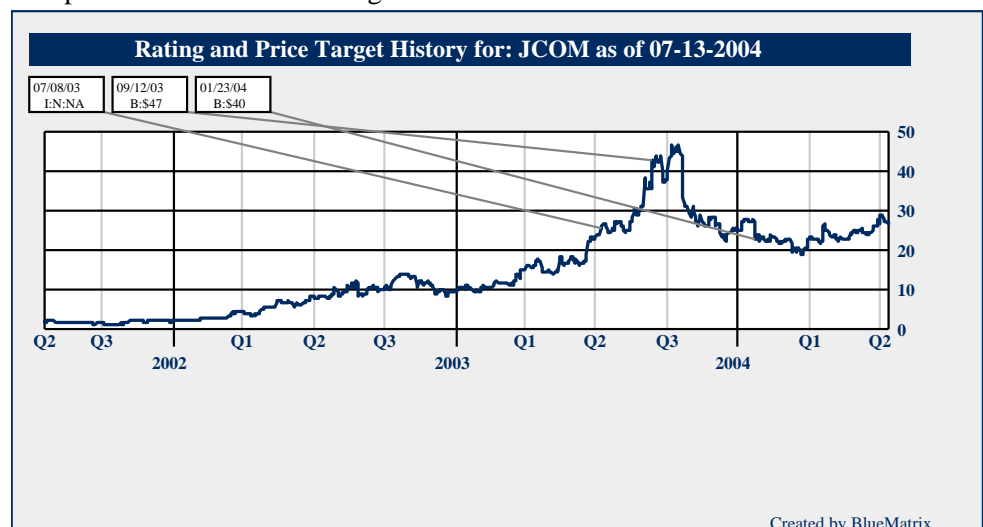
4. Inability to protect patent rights - legal action to defend against infringement can be cumbersome and expensive.

5. Insider overhang - the company's non-executive Chairman holds approximately 2.75 million shares, directly and indirectly, and has recently been a seller.

The analyst certifies that the views expressed herein accurately reflect the analyst's personal views about the security(ies) and company(ies) reported upon, and that the analyst's compensation is not directly or indirectly related to any specific recommendation or view contained in this or any other research publication. The analyst further certifies that the views expressed in each of the analyst's public appearances accurately reflect the analyst's personal views about the security(ies) and company(ies) reported upon, and that the analyst's compensation is not directly or indirectly related to any specific recommendation or view expressed in any public appearance.

Advest's rating system compares expected stock price performance to the S&P 500 and Russell 2000 indices and consists of the following: STRONG BUY (SB): Outperform the indices in both short-term (6-12 months) and long-term (12-18 months) performance; BUY (B): Outperform the indices in long-term performance; NEUTRAL (N): Perform in line with the indices; SELL (S): Underperform the indices in both short-term and long-term performance; NR: Not rated.

Advest fundamental analysts do not own securities issued by companies in the industries they cover. Advest analysts are compensated in part on the basis of overall company revenue generation. Analysts do not receive direct compensation for specific investment banking transactions.



Distribution of Ratings/IB Services by Universe and Firmwide				
Advest				
Rating			IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [B/SB]	52	48.60	7	13.46
HOLD [N]	51	47.66	3	5.88
SELL [S]	4	3.74	0	0.00

### Disclaimer

#### **Additional information on recommended securities is available upon request.**

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## j2 Global Communications Annual & Quarterly Income Statement (2003–2005E)

(Thousands, except per-share data)

	2003A					2004E					2005E
	1Q	2Q	3Q	4Q	2003A	1QA	2Q	3Q	4Q	2004E	
<b>Total Revenue</b>	\$ 15,208	\$ 17,037	\$ 18,903	\$ 20,474	\$ 71,622	\$ 22,942	\$ 26,120	\$ 27,942	\$ 29,684	\$ 106,688	\$ 138,668
Cost of Goods Sold	3,010	3,247	3,494	3,572	13,322	3,640	4,702	5,030	5,373	18,744	33,848
<b>Gross profit</b>	<b>\$12,198</b>	<b>\$13,790</b>	<b>\$15,409</b>	<b>\$16,902</b>	<b>58,300</b>	<b>\$19,302</b>	<b>\$21,418</b>	<b>\$22,912</b>	<b>\$24,311</b>	<b>87,944</b>	<b>115,095</b>
<b>Operating Expenses</b>											
Sales & Marketing	2,510	2,866	2,898	2,898	11,172	3,779	3,853	4,121	4,378	16,132	20,939
R&D	1,026	1,023	1,006	1,140	4,195	1,050	1,306	1,327	1,365	5,049	6,517
G&A	3,468	3,743	4,085	4,387	15,683	4,482	4,504	4,527	4,753	18,267	23,712
<b>Operating Profit</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>11,755</b>	<b>12,937</b>	<b>13,814</b>	<b>48,497</b>	<b>63,926</b>
<b>Other Expenses (Income)</b>											
Interest and Other	(74)	(69)	(126)	(150)	(419)	(186)	(140)	(145)	(150)	(621)	(621)
Goodwill and Other Amortization	-	-	-	-	-	-	-	-	-	-	-
Restruct./ Writedown/ Acctg. Change	-	-	-	-	-	-	-	-	-	-	-
Income Tax	235	280	347	(8,999)	(8,137)	3,778	4,599	5,071	5,417	18,866	24,528
<b>Net Income (Loss)</b>	<b>\$ 5,033</b>	<b>\$ 5,947</b>	<b>\$ 7,200</b>	<b>\$ 17,626</b>	<b>\$ 35,805</b>	<b>\$ 6,399</b>	<b>\$ 7,296</b>	<b>\$ 8,011</b>	<b>\$ 8,547</b>	<b>\$ 30,252</b>	<b>\$ 40,019</b>
<b>Diluted EPS (pro forma)*</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>\$0.28</b>	<b>\$0.31</b>	<b>\$0.32</b>	<b>\$1.16</b>	<b>\$1.52</b>
<b>Diluted EPS (reported)</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>\$0.28</b>	<b>\$0.31</b>	<b>\$0.32</b>	<b>\$1.16</b>	<b>\$1.52</b>
<b>Diluted EPS (fully-taxed)</b>	<b>\$0.13</b>	<b>\$0.15</b>	<b>\$0.18</b>	<b>\$0.20</b>	<b>\$0.66</b>	<b>\$0.25</b>	<b>\$0.28</b>	<b>\$0.31</b>	<b>\$0.32</b>	<b>\$1.16</b>	<b>\$1.52</b>
Diluted Shares	24,697	25,203	25,493	25,670	25,183	25,564	26,000	26,130	26,320	26,004	26,400
<b>Margin Analysis (% of total revenue)</b>											
Gross Margin	80%	81%	82%	83%	81%	84%	82%	82%	82%	82%	83%
Sales & Marketing	17%	17%	15%	14%	16%	16%	15%	15%	15%	15%	15%
R&D	7%	6%	5%	6%	6%	5%	5%	5%	5%	5%	5%
G&A	23%	22%	22%	21%	22%	20%	17%	16%	16%	17%	17%
Operating Margin	34%	36%	39%	41%	38%	44%	45%	46%	47%	45%	46%
Net Margin	33%	35%	38%	86%	50%	28%	28%	29%	29%	28%	29%
Year-Year Revenue Growth	47%	51%	51%	46%	49%	51%	53%	48%	45%	49%	30%
Quarterly Sequential Revenue Growth	8%	12%	11%	8%		12%	14%	7%	6%		

\* pro forma EPS excludes goodwill and extraordinary items. 4Q02 pro forma EPS excludes recovery of marketing payment.

Source: Advest estimates and company reports.