

August 23, 2004

## j2 Global Communications, Inc.

### Raising Estimates

### September Quarter Appears to us to be Progressing Strongly

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**JCOM: Nasdaq  
Over Weight**

Price	\$25.27
Price Range (52 weeks)	\$18.82 - \$47.91
Shares Outstanding (millions)	25.6
Market Capitalization (millions)	\$647
Average Daily Volume (000's)	637

Year	Revenue (millions)	Operating Margin	Operating EPS*	P/E Ratio
12/03A	\$71.6	38.0%	\$1.04	24x
12/04E	\$108.1	45.0%	\$1.21	21x
12/05E	\$146.7	45.7%	\$1.61	16x

Year	Quarterly Earnings*			
	Q1	Q2	Q3	Q4
12/03A	\$0.20	\$0.24	\$0.28	\$0.32
12/04E	\$0.25	\$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

We are raising our estimates for JCOM given the continued strength we see in the Company's business operations. We have also provided a mid-September quarter update below on the Company's operations and our expected Q3:04 results for JCOM, based on our recent conversations with members of the management team.

### Summary

- We are raising our estimates for JCOM due to our expectations that paid additions are likely to grow substantially in the September quarter and a flattening of operating expenses will likely yield higher than initially expected EPS results. Our September quarter revenue figure moves to \$28.3 million and EPS is now \$0.32, up from our previous estimates for \$28 million in revenue and \$0.31 in EPS. Year end 2005 moves to \$147 million in revenue and \$1.61 fully taxed EPS, an increase from our prior estimate for \$144 million in revenue and \$1.54 fully taxed EPS.
- We are raising our expected new customer additions to 42,000 from 36,000. Our information indicates conversions of customers from a free to a paid basis are accelerating.
- We believe the pending Oasis IPO (JCOM owns 17.5% of Oasis) is ready to come to market. We estimate the resulting value to JCOM will be between approximately \$25 million and to \$35 million, which could likely enable the Company's cash and marketable securities account to top \$100 million by year end 2004, given the pending IPO is completed.
- Business at JCOM has strongly accelerated over the past few quarters and we believe the quality of the Company's revenue stream remains very strong. We expect churn to remain at very low levels.

- We believe operating leverage benefits are again being seen in the JCOM model, with major operating spending increases now complete.
- With a short position of approximately 4.7 million shares, we believe it is highly probable that significant pressure will be brought upon short positions if the Company achieves our above estimated September quarter results.

We continue to believe JCOM's business fundamentals are strengthening and we expect the Company will report another strong quarter of growth and profitability in Q3:04. Formerly, we were 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 have now raised our expectations to a 9.7% sequential growth rate in Q3:04 based 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 expansion into additional language capabilities, most likely Spanish.
- **Free-to-Paid Conversations Expected 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 are currently raising 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 is 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 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.
- **Operating Leverage Expected 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.

- **Large Short Position** – The most recent data we have seen indicates a short position in shares of JCOM of approximately 4.7 million shares, which under current average trading volumes would require nearly eight days to cover. Based on our conversations with various short sellers, we believe many investors within this group are counting on JCOM to miss estimates for the September quarter. We not only believe JCOM will meet current Q3:04 estimates, but rather we expect 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 will allow the Company expand EPS a 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 21X our fully-taxed 2004 EPS of \$1.21 and at only 16X 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.

### Our Estimates

We are adjusting our 2004 and 2005 quarterly and full year estimates as listed below.

<i>Dec FY</i>	<b>Revenue</b> <i>(Dollars in Millions)</i>		<b>Operating EPS</b>	
	Old	<b>New</b>	Old	<b>New</b>
Q3:04	\$28.0	<b>\$28.3</b>	\$0.31	<b>\$0.32</b>
Q4:04	\$30.4	<b>\$31.0</b>	\$0.35	<b>\$0.36</b>
<b>FY:04</b>	\$107.2	<b>\$108.1</b>	\$1.19	<b>\$1.21</b>
Q1:05	\$32.4	<b>\$33.4</b>	\$0.35	<b>\$0.37</b>
Q2:05	\$34.7	<b>\$35.6</b>	\$0.37	<b>\$0.39</b>
Q3:05	\$37.2	<b>\$37.7</b>	\$0.39	<b>\$0.41</b>
Q4:05	\$40.0	<b>\$40.0</b>	\$0.42	<b>\$0.43</b>
<b>FY:05</b>	\$144.3	<b>\$146.7</b>	\$1.54	<b>\$1.61</b>

*j2 Global Communications, Inc. provides value-added messaging and communications services to over 4 million customers worldwide. j2 Global’s network spans 800 cities in 18 countries on 5 continents. The Company markets its patented services and software under the eFax, jConnect, HotSend, PaperMaster, Protofax and Documagix brands.*

**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  
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
<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>\$28,329</b>	<b>\$30,995</b>	<b>\$108,097</b>	<b>\$33,422</b>	<b>\$35,608</b>	<b>\$37,663</b>	<b>\$39,969</b>	<b>\$146,663</b>
Incremental Revenue	1,184	1,829	1,866	1,571	23,410	2,468	2,889	2,498	2,666	36,475	2,427	2,186	2,055	2,306	38,566
Net 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
<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>23,853</b>	<b>26,036</b>	<b>90,959</b>	<b>27,740</b>	<b>29,377</b>	<b>30,922</b>	<b>32,775</b>	<b>120,813</b>
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
<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>\$12,908</b>	<b>\$14,696</b>	<b>\$48,598</b>	<b>\$15,391</b>	<b>\$16,344</b>	<b>\$17,137</b>	<b>\$18,130</b>	<b>\$67,002</b>
Other Income	74	69	126	150	419	186	352	150	150	838	150	150	150	150	600
<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>13,058</b>	<b>14,846</b>	<b>49,436</b>	<b>15,541</b>	<b>16,494</b>	<b>17,287</b>	<b>18,280</b>	<b>67,602</b>
Income Tax Expense	235	280	347	(8,999)	(8,137)	3,778	3,866	653	742	9,039	777	825	864	914	3,380
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>\$12,405</b>	<b>\$14,104</b>	<b>\$40,397</b>	<b>\$14,764</b>	<b>\$15,670</b>	<b>\$16,422</b>	<b>\$17,366</b>	<b>\$64,222</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>12,405</b>	<b>14,104</b>	<b>40,397</b>	<b>14,764</b>	<b>15,670</b>	<b>16,422</b>	<b>17,366</b>	<b>64,222</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>\$0.48</b>	<b>\$0.55</b>	<b>\$1.58</b>	<b>\$0.56</b>	<b>\$0.59</b>	<b>\$0.62</b>	<b>\$0.65</b>	<b>\$2.43</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>\$0.48</b>	<b>\$0.55</b>	<b>\$1.58</b>	<b>\$0.56</b>	<b>\$0.59</b>	<b>\$0.62</b>	<b>\$0.65</b>	<b>\$2.43</b>
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
<b>EPS taxed @ 0.37 (Pro-forma)</b>	<b>\$0.14</b>	<b>\$0.16</b>	<b>\$0.19</b>	<b>\$0.21</b>	<b>\$0.69</b>	<b>\$0.25</b>	<b>\$0.28</b>	<b>\$0.32</b>	<b>\$0.36</b>	<b>\$1.21</b>	<b>\$0.37</b>	<b>\$0.39</b>	<b>\$0.41</b>	<b>\$0.43</b>	<b>\$1.61</b>

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 Revenues	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%	5.0%	5.0%	18.3%	5.0%	5.0%	5.0%	5.0%	5.0%
Net Income Margin - Operations	33.1%	34.9%	38.1%	39.7%	36.7%	27.9%	29.0%	43.8%	45.5%	37.4%	44.2%	44.0%	43.6%	43.4%	43.8%

**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%	73.8%	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%	72.3%	73.6%	53.6%	130.7%	109.2%	32.4%	23.1%	59.0%

**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%	65.6%	13.7%	-	4.7%	6.1%	4.8%	5.7%	-

## **Appendix A**

### **Required Disclosures**

23-Aug-2004 01:41:28 PM

#### **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.

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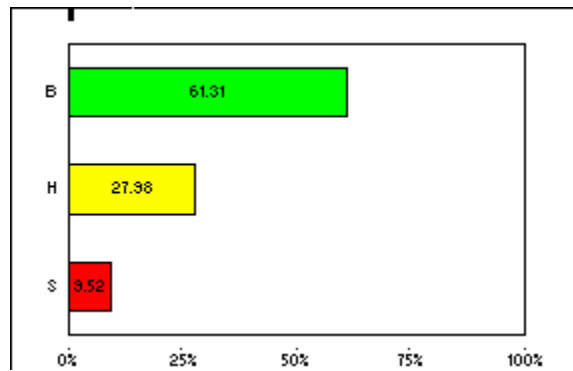
**JCOM - J2 Global Communications - 20-Aug-2004**

Date	Price	Rating
9/11/2002	21.34	O

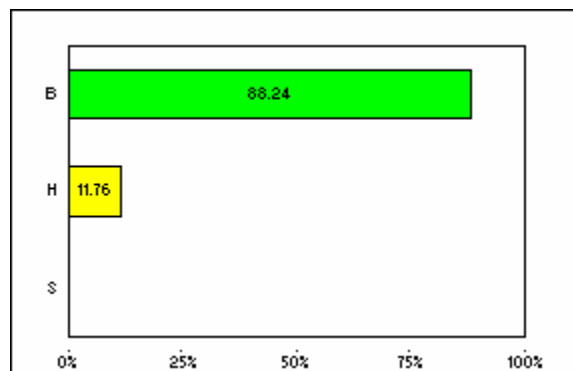


**Research Ratings Distribution**

<b>Ratings - All - 20-Aug-2004</b>		
<b>Rating</b>	<b>Qty</b>	<b>Pct</b>
-	2	1.19
B	103	61.31
H	47	27.98
S	16	9.52



<b>Ratings - Transactions in the Last 12 Months - 20-Aug-2004</b>		
<b>Rating</b>	<b>Qty</b>	<b>Pct</b>
B	15	88.24
H	2	11.76
S	0	0.00



<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)

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