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Specialty Telecommunications

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Share Data

52 Wk. Range	\$36.35-\$18.82
Shares Outstanding:	25.6M
Avg. Daily Volume:	491,132
L/Term Grt. Rate:	40.00%
Dividend/Yield	NA/NM
ROAE (LTM):	33.4%
Insider Ownership:	18.0%
Book Value:	\$3.41
Price/Book:	9.68x
Price/Tang. Book:	NM



Exchange:	NASDAQ	Recommendation:	Buy
Symbol:	JCOM	Previous:	
Current Price:	\$33.00	Target Price:	\$40.00
Market Cap:	\$844.8MM	Previous:	

JCOM: 4Q04 Earnings Preview

Action

We think JCOM shares remain undervalued. We are maintaining our BUY rating and our \$40 price target. We expect JCOM to report EPS of \$0.35 on revenue of \$30 million.

Summary

- JCOM is expected to report 4Q04 earnings on Thursday, February 3rd, with a conference call at 5:00 p.m. EST.
- We are looking for EPS of \$0.35 on revenue of \$30.0 million, versus consensus of \$0.34 and \$29.7 million, respectively.
- JCOM earnings are to be reported on a fully-taxed basis while reported 4Q03 EPS of \$0.69 contained a significant one-time tax benefit, so comparisons may be misleading.
- On a pro forma basis, we believe 4Q03 fully-taxed EPS would have been \$0.20.

Earnings Outlook

	12/03A		12/04E		12/05E	
	Prior	Current	Prior	Current	Prior	Current
Q1	—	0.20	—	0.25	—	—
Q2	—	0.24	—	0.29	—	—
Q3	—	0.28	—	0.32	—	—
Q4	—	0.32	—	0.35E	—	—
FY	—	1.04	—	1.21E	—	1.62E

2003Annual: untaxed

2003Q4 excludes non-recurring tax benefit

2004Annual: fully taxed

Valuation Parameters

	12/03A	12/04E	12/05E
P/E	31.7x	27.3x	20.4x

JCOM is expected to report 4Q04 earnings on Thursday, February 3rd, with a conference call to follow at 5:00 p.m. EST. We are looking for EPS of \$0.35 on revenue of \$30.0 million, versus the consensus of \$0.34 and \$29.7 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 release/call, JCOM management raised 2004 financial guidance for EPS in the range of \$1.20 on revenue of \$106 million and indicated 40% revenue growth for 2005.

With its recent acquisition of Onebox from Call Sciences, JCOM is following its strategy of expanding intellectual property and adding special features to become more attractive for paid subscribers. We look forward to hearing about further potential development towards becoming a leading source of unified communications services as 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.
- ◆ Update on expansion into DID (direct inward dialing telephone number) inventory.
- ◆ Success of marketing, sales campaigns and advertising on such services as Yahoo!, AOL, Monster.com, and most recently Hotmail and how it translates into new free/paid customers.
- ◆ Revenue expansion in domestic and international markets.
- ◆ Management comments on potential business from outsourcing.
- ◆ Progress on the Onebox acquisition integration and insight into its potential revenue contribution.
- ◆ An update and insight into JCOM's acquisition pipeline.
- ◆ Conversion and cancellation rates and margin expansion.
- ◆ Success of new marketing plan targeting paid subscribers with a first month free offer.

We will be focused on the long term year-over-year results rather than quarterly comparisons, which we feel are shortsighted as subscriber growth can be lumpy and marketing spends and promotions are often made opportunistically. Thus, per-customer acquisition expenses in a given quarter can be skewed.

We do not expect Onebox to provide any contribution to earnings in the near future; however, we do expect to see stronger earnings driven by conversions (from free to paid subscribers).

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

Advest makes a market in shares of j2 Global Communications.

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 20.4x our 2005 EPS estimate of \$1.62 and has a PEG of 0.5x based on our 3-5 year EPS growth rate estimate of 40%. Our 12-month price target of \$40 represents a P/E of about 25x our fully-taxed 2005 EPS estimate of \$1.62 and a PEG of 0.6x.

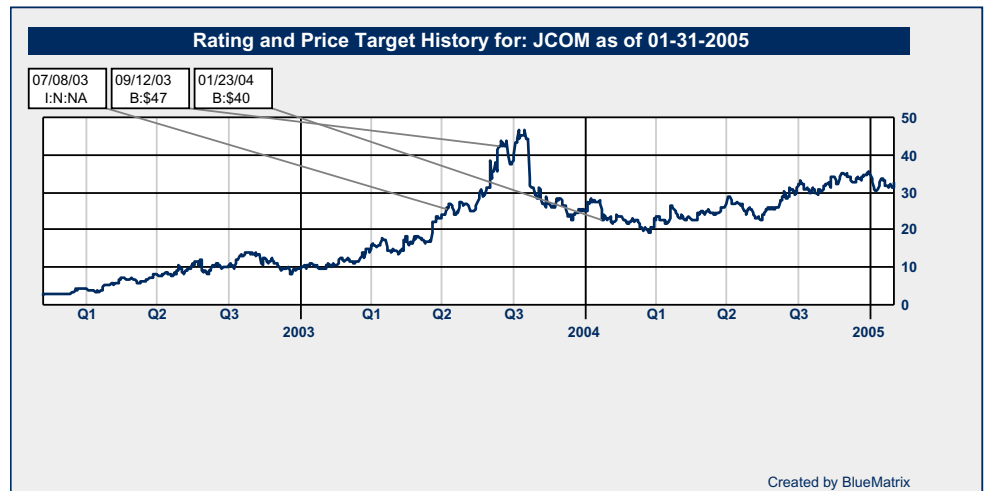
Risks to the achievement of JCOM's financial performance goals and to its share price reaching our target price include but are not limited to the following:

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	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [B/SB]	62	51.67	3	4.84
HOLD [N]	56	46.67	6	10.71
SELL [S]	2	1.67	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					2004E	2005E
	1Q	2Q	3Q	4Q	2003A	1QA	2QA	3QA	4Q			
Total Revenue	\$ 15,208	\$ 17,037	\$ 18,903	\$ 20,474	\$ 71,622	\$ 22,942	\$ 25,831	\$ 27,771	\$ 29,980	\$ 106,524	\$ 146,000	
Cost of Goods Sold	3,010	3,247	3,494	3,572	13,322	3,640	4,063	4,363	4,707	16,773	29,906	
Gross profit	\$12,198	\$13,790	\$15,409	\$16,902	58,300	\$19,302	\$21,768	\$23,408	\$25,273	89,751	122,348	
Operating Expenses												
Sales & Marketing	2,510	2,866	2,898	2,898	11,172	3,779	4,767	4,729	4,797	18,072	22,046	
R&D	1,026	1,023	1,006	1,140	4,195	1,050	1,264	1,418	1,379	5,111	6,862	
G&A	3,468	3,743	4,085	4,387	15,683	4,482	4,734	5,321	5,427	19,964	24,966	
Operating Profit	5,194	6,158	7,421	8,477	27,250	9,991	11,003	11,940	13,670	46,604	68,474	
Other Expenses (Income)												
Interest and Other	(74)	(69)	(126)	(150)	(419)	(186)	(352)	(505)	(500)	(1,543)	(621)	
Goodwill and Other Amortization	-	-	-	-	-	-	-	-	-	-	-	
Restruct./ Writedown/ Acctg. Chang	-	-	-	-	-	-	-	-	-	-	-	
Income Tax	235	280	347	(8,999)	(8,137)	3,778	3,866	4,316	5,058	17,018	26,256	
Net Income (Loss)	\$ 5,033	\$ 5,947	\$ 7,200	\$ 17,626	\$ 35,805	\$ 6,399	\$ 7,489	\$ 8,129	\$ 9,112	\$ 31,129	\$ 42,839	
Diluted EPS (pro forma)*	\$0.20	\$0.24	\$0.28	\$0.32	\$1.04	\$0.25	\$0.29	\$0.32	\$0.35	\$1.21	\$1.62	
Diluted EPS (reported)	\$0.20	\$0.24	\$0.28	\$0.69	\$1.42	\$0.25	\$0.29	\$0.32	\$0.35	\$1.21	\$1.62	
Diluted EPS (fully-taxed)	\$0.13	\$0.15	\$0.18	\$0.20	\$0.66	\$0.25	\$0.29	\$0.32	\$0.35	\$1.21	\$1.62	
Diluted Shares	24,697	25,203	25,493	25,670	25,183	25,564	25,585	25,572	26,320	25,760	26,400	
Margin Analysis (% of total revenue)												
Gross Margin	80%	81%	82%	83%	81%	84%	84%	84%	84%	84%	84%	
Sales & Marketing	17%	17%	15%	14%	16%	16%	18%	17%	16%	17%	15%	
R&D	7%	6%	5%	6%	6%	5%	5%	5%	5%	5%	5%	
G&A	23%	22%	22%	21%	22%	20%	18%	19%	18%	19%	17%	
Operating Margin	34%	36%	39%	41%	38%	44%	43%	43%	46%	44%	47%	
Net Margin	33%	35%	38%	86%	50%	28%	29%	29%	30%	29%	29%	
Year-Year Revenue Growth	47%	51%	51%	46%	49%	51%	52%	47%	46%	49%	37%	
Quarterly Sequential Revenue Growth	8%	12%	11%	8%		12%	13%	8%	8%			

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

Source: Advest estimates and company reports.