STANFORD GROUP COMPANY

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Institutional Equity Research

Initial Opinion

Applied Internet Technologies

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J2 Global Communications

$34.52/JCOM
Rating: Buy
November 30, 2004

Profile

j2 Global Communications, Inc. provides outsourced, value-added messaging and communications services to more than five million customers around the world. j2 Global's network spans more than 1,100 cities in 20 countries on five continents.

JCOM – Initiating coverage at with BUY opinion, $42 price objective

- **j2 navigated and survived the Internet "bubble"** – more specifically, it is one of the few remaining vendors of the once-ballyhooed "unified messaging" sector. The Company is the marketshare leader in inbound fax-to-email services, a position it attained by:
  - Embracing Internet-based messaging early-on;
  - Deploying advanced network infrastructure;
  - Securing key communications-industry partnerships as a source of new customers; and
  - Offering a flexible suite of service offerings can be tailored to suit multiple market segments.

- **JCOM has a high-visibility revenue model.** The Company's flagship services are sold on a subscription-based, upfront-pay model with a high percentage of customers that pay with a credit card. JCOM is also pursuing a multi-pronged approach to insuring future revenue growth.

- **Impressive cash generation.** j2 operates a highly fixed cost structure, and operating margins expanded by 940 basis points between FY02 and FY03. JCOM has generated greater than $10MM in cash flows from operations in each of the last four quarters, has $55 million in the bank, and virtually zero debt.

- **We believe that there is upside potential to current financial expectations**, owing to several new marketing initiatives that are not yet making a meaningful impact. Our price objective for JCOM is $42, representing approximately 20% upside to current levels.

Market Data

52-Week Range	$35.43 - $18.82
12-Month Target Price	$42.00
Market Cap (mil)	883
Shares Outstanding (000)	25.6
Float	19.2
Institutional Holdings	85%
Average Daily Volume	688

Sales/Earnings/Valuation

FY Dec		2003E	Prior 04E	2004E	Prior 05E	2005E
Sales (mil)		$72	--	$106	--	$144
EPS	Q1	$0.10	--	$0.25A	--	$0.35
	Q2	$0.16	--	$0.29A	--	$0.38
	Q3	$0.19	--	$0.32A	--	$0.42
	Q4	$0.22	--	$0.34	--	$0.46
	Year	$0.71	--	$1.20	--	$1.61
P/E Ratio		48.3	--	28.8	--	21.5

Fundamental Data

Dividend/Yield	$0.00 / 0.0%
LTD % Capitalization	2%
Current Year CF / Share	$1.80
Book Value / Share	3.09
Current Year Est. Secular EPS Growth	35%

All disclosures can be found in the Important Disclosures section of this report.

Investment Thesis

j2 Global Communications provides Web-based faxing and voicemail, document management solutions, Web-initiated conference calling, and unified messaging & communications services to consumers and enterprises worldwide. We believe the following to be the positive aspects of the story:

1) **j2 is *the* leader in inbound fax-to-email.** During the "bubble," unified messaging/unified communications was touted for its explosive growth potential. Like so many other promises that were offered during that time frame, things didn't quite pan out. However, inbound fax-to-email service has proven to be an attractive alternative to traditional fax machines – faxes as e-mail attachments can be accessed anywhere, they can be stored and forwarded without visual degradation, and they offer a higher level of confidentiality. The company has about 45% marketshare in the inbound fax segment, having attained its lead through several decisive early moves:
    - JCOM embraced Internet-based messaging early on, and deployed an advanced network infrastructure and a leading suite of services;
    - The Company secured communications-industry partnerships which provide a compelling source of new customers; and
    - J2's service offerings can be tailored to suit multiple market segments – consumer/SOHO, SME, and large business/enterprise markets as well.

2) **Multi-pronged approach to achieve long-term revenue growth.** j2 has undertaken myriad initiatives to secure future revenue growth. For example, JCOM is pursuing international expansion of the eFax service (having recently introduced its first international product, a Dutch-language version of eFax for consumers in the Netherlands). The Company was recently awarded a contract with the US General Services Administration, the first such deal in Company history – which we believe creates a tremendous opportunity for horizontal penetration into other Federal agencies. And lastly, we believe that j2 will continue to be successful in its historical bread-and-butter practice of winning new customers with its "free" (or advertising-supported) services and converting them into paying customers. JCOM had more than 7 million "free" customers as of September 30 – a base that is groomed with an active life-cycle management program aimed at upgrading them to pay services.

3) **High-visibility revenue model.** JCOM's flagship eFax Plus and jConnect Premier services are sold on a subscription-based, upfront-pay model. Add in a high percentage of customers (nearly 100% of individual, and 70% of corporate) that pay with a credit card, and the result is a stable, recurring revenue stream with high visibility. Monthly service fees make up around 70% of JCOM's monthly subscriber revenue, with the balance coming from usage. In our opinion, j2's services have a high level of perceived customer value – witnessed by churn (or cancellation) rates that have been in the high 2%-low 3% range in recent quarters – in spite of the Company having pushed through an approximately 25% price increase last year.

4) **Impressive margins, earnings growth, and cash generation.** j2 operates a highly fixed cost structure (things such as bandwidth, colocation fees, and investment in new DID inventory are, in actuality, step functions). JCOM's model boasts gross margins of better than 80%, and operating margins expanded by 940 basis points between FY02 and FY03 – from 29% to 38%. We forecast this figure will expand another 500 or so basis points in FY04, to 43%. j2 has generated greater than $10MM in cash flows from operations in each of the last four quarters, has $55 million in the bank, and virtually zero debt.

Investment Risks

The following are potential risks to our outlook:

1) **Competition** – JCOM does business in higly competitive markets, and we expect this competition to remain intense. While the Company has quite an impressive track record of performance, many of its competitors have been around longer, and have greater name recognition as well as more resources. PTEK's Xpedite division, for example, is the leader in the domestic broadcast/production market, has a more diverse product portfolio, and a larger sales footprint. Their entry into the inbound fax marketplace last year has been slow to really develop, but it is one example of a threat within the Corporate (as opposed to Consumer) market. In general, this market revolves around commodity-like services where price compression has largely run its course, but general market pressures will still exist as volumes increase. Scale presents an issure here, owing to the Company's relatively small size – j2 is likely less tolerant of a price war.

2) **Coping with technological obsolescence, real or perceived** – It's no secret that between e-mail, Internet commerce, advances in electronic document management, and advances in digital signature technology point to a long-term decline in the need for faxing. So it is imperative that JCOM successfully develop and market new products, services, and enhancements that respond to technological changes, evolving industry standards or customer demands requires the ability to anticipate and apply changes in industry standards and enhance applications, equipment, systems and networks. While JCOM owns almost half of the inbound fax market, the Company will have to continue to expand its suite of products and work to insure uptake of its non-fax offerings, or it will find its growth prospects limited in both breadth and length of lifecycle. Management has announced the intention to increase spending on sales and marketing to address these issues, and we also expect that JCOM will maintain its historical course of small acquisitions.

3) **Integrating acquisitions** – JCOM has been acquisitive of businesses, products, services and technologies that complement or augment its service offerings and customer base. The Company has been successful to date in this pursuit, but such a strategy involves many risks that may impede the expected synergies that may have been expected. These include issues with operational assimilation that may place a strain on management, potential dilution of earnings through the issuance of equity, assumption of liabilities, as well as the creation and potential impairment of goodwill.

4) **The spectre of increased regulation** – Recent legislative and regulatory changes include the passage of federal legislation to curb spam, as well as additional restrictions on telemarketing and advertising via facsimile. While there are currently few laws or regulations directed specifically at electronic commerce and the Internet, this could change because of the Internet's popularity and increasing use. New laws and regulations covering such issues could impede the growth of JCOM's Web-enabled products and services**.**

Background

Necessity really was the mother of invention in the case of j2, and indeed, fact is stranger than fiction with this Company. j2 was founded by a modestly successful German rap musician by the name of Jay Muller, who found it tiresome and frustrating that he couldn't tour and perform without continually missing phone calls, messages, and faxes. Muller later moved to New York, where he came up with an idea to solve his frustration – and he found himself starting a company, rather than performing.

Muller's idea was as simple as it was elegant: to access voicemail and faxes by way of an email account. In application, the result became JFAX.com, which was founded in 1995. The Company went public during the Internet "bubble" in 1999, and acquired rival eFAX.com in April 2000 to become j2 Global.

What followed was typical of many "bubble" companies. Less than a year later, the Company's outlook was questionable. In spite of growing revenues (a novel concept for many "bubble" companies during that time frame, and a portent of good things to come) mounting losses and *brutal* equity markets had pushed JCOM shares below $1, and the stock was up against a NASDAQ delisting. The Company avoided this fate through a 1-for-4 reverse split.

That action proved to be a boon for investors. Adjusted for a subsequent 2-1 split, JCOM shares are up roughly 1600% since their January 2001 nadir. This is in no small part due to the fact that j2 Global has now strung together 30 consecutive quarters of sequential revenue growth. The Company became profitable in 1Q02, and has booked growing income now for 11 consecutive quarters. And the simple, elegant idea that led to JFAX's founding hasn't changed all that much in almost 10 years – the idea to combine fax, voice, and email messaging into one integrated service. The Company has expanded its portfolio of offerings (either through development or acquisition) to include such services as conferencing, Web-based broadcast fax, and phone-based email retrieval, the inbound fax-to-email product is by far the lion's share of total sales.

As of the 3Q04, the Company had more than 7 million customers for its free eFax and jConnect services, and more than 500,000 paid customers for jConnect Premier and eFax Plus. All told, j2 offers local phone numbers in more than 1,400 cities in 20 countries around the world. The beauty of this is that a small businessperson or sole practitioner, perhaps a Latino businessperson, in Miami can have a local phone number where his customers are – say, in Argentina or Mexico City.

To accomplish this, the company will contract with telephone carriers to acquire blocks of thousands of unused phone numbers (in industry jargon, "Direct Inward Dial," or "DID" numbers). j2 had more than 11 million unique DIDs in inventory as of September 30, 2004. These numbers are leased out to j2's customers for a monthly fee. Calls to these numbers are routed to j2's global network of computer servers (j2 has 54 physical points of presence, or "POPs" around the world), which direct both faxes and voice-mail messages as e-mail attachments directly to the customer.

Market Opportunity

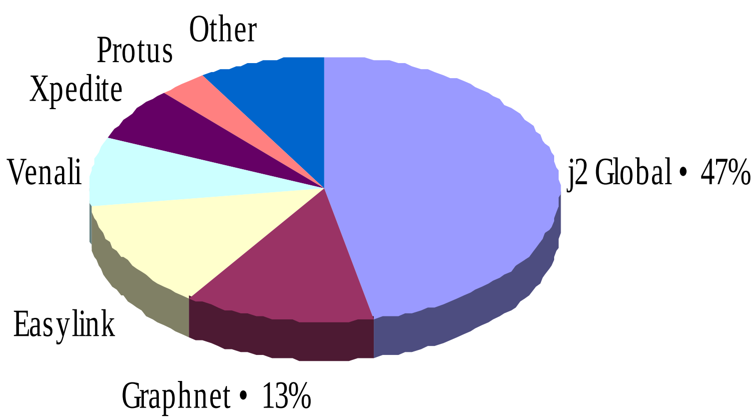
A large percentage of businesses have come to rely on messaging solutions such as e-mail, fax, wireless and voice messaging to manage a wide variety of important business communications. Key demand drivers of these types of services include (but are not limited to):

- The massive number of fax machines already in use (some estimates place the figure at >100 million);
- The need for mass-group real-time and near-real-time communications;
- Widespread needs for customer acquisition and retention;
- Acceptance of alternative delivery mechanisms for transaction records (bill presentment and payment, bank statements, order confirmations, etc.); and
- Technological improvements have led to increased quality of service, ease-of-use, and cost.

According to figures from International Data Corporation (IDC) and Davidson Consulting the worldwide *broadcast and production* fax market has achieved a fairly stable $1.2 billion or so, with at best about a 4-5% growth rate – which would indicate a certain level of commoditization. Given the age of the technology and its relative ubiquity, this is understandable – so revenue per fax, or more specifically per page sent, has come down over the years. The flip side of this coin, however, is that the age and ubiquity of the technology has brought with it familiarity and ease of use. So as revenue per page has declined, page counts have increased to the point that overall revenues from the segment have remained fairly constant to slightly up year-over year.

More specific to j2, the smaller inbound fax business is roughly $200 million in total market. It is, however, a faster growing segment, with a growth rate north of 10%. PTEK Holdings has recently attempted to enter the inbound fax game with their Fax2Mail service, but J2 Global is the dominant player in this segment, with better than 45% share. All figures cited here are based on estimates by IDC and Davidson Consulting. See Exhibit 1.

Exhibit 1: Estimated inbound fax marketshare



Source: Davidson Consulting, Stanford Group

There are several reasons why fax services have been embraced as a good alternative medium to e-mail by the growing number of industries that have also adopted e-business or e-commerce practices. A faxed document avoids the bothersome and time-consuming issue of working with a document that is transmitted as an e-mail attachment, and then opened by a recipient whose computer's default settings destroy the intended formatting. Other key components of the value proposition of outsourced messaging include:

- Digitization (paper reduction)
- Security
- Privacy
- Efficiency
- Cost
- Permanence

This issue of permanence – faxed documents cannot be doctored or altered – makes faxes ideal for sales receipts, legal documents such as contracts, and transactional confirmations such as purchase orders, bank statements, confirmations of brokerage transactions, and confirmations of travel arrangements. Key vertical markets for j2 include:

- Financial institutions
- Real estate
- Law firms & corporate legal departments
- Medical
- Government
- Hospitality
- Remote workers & "road warriors"

j2 Service Offerings

By leveraging the power and ubiquity of the Internet, j2 provides outsourced, value-added messaging and communications services to consumers and enterprises worldwide. Ranging from faxing and voicemail, to document management solutions, to unified messaging & communications services, the Company's most important service offerings are summarized below.

Messaging and Communications Services

j2's suite of services begins with two lower-end limited-use, advertising supported offerings – **jConnect Free** and **eFax Free**. With these offerings, each subscriber is given a phone number from j2's inventory which enables the user to receive a limited number of faxes (and voicemails with jConnect Free) into his or her personal email Inbox. Outbound desktop faxing is not available at this product level. In exchange for this service, the subscriber agrees to receive and open third party email advertising, which is distributed on a consistent basis.

The Company's pay services begin with **eFax Plus**, which comes with either a local telephone number (available in 1,100+ cities worldwide), or toll-free U.S. telephone number. eFax Plus enables subscribers to receive inbound fax messages in their email Inbox and also to send documents to any fax number in the world directly from their computer desktop.

A step up from eFax Plus is **jConnect Premier**, which also offers the subscriber a local telephone number or a toll-free U.S. telephone number. In addition to enabling the receipt of inbound faxes and the sending of desktop faxes, jConnect Premier also allows subscribers to receive voicemail messages in their email inboxes, and to access all messages, including email, from the Web or any touch-tone telephone. Web-initiated, sixteen-party Conference Calling is also available.

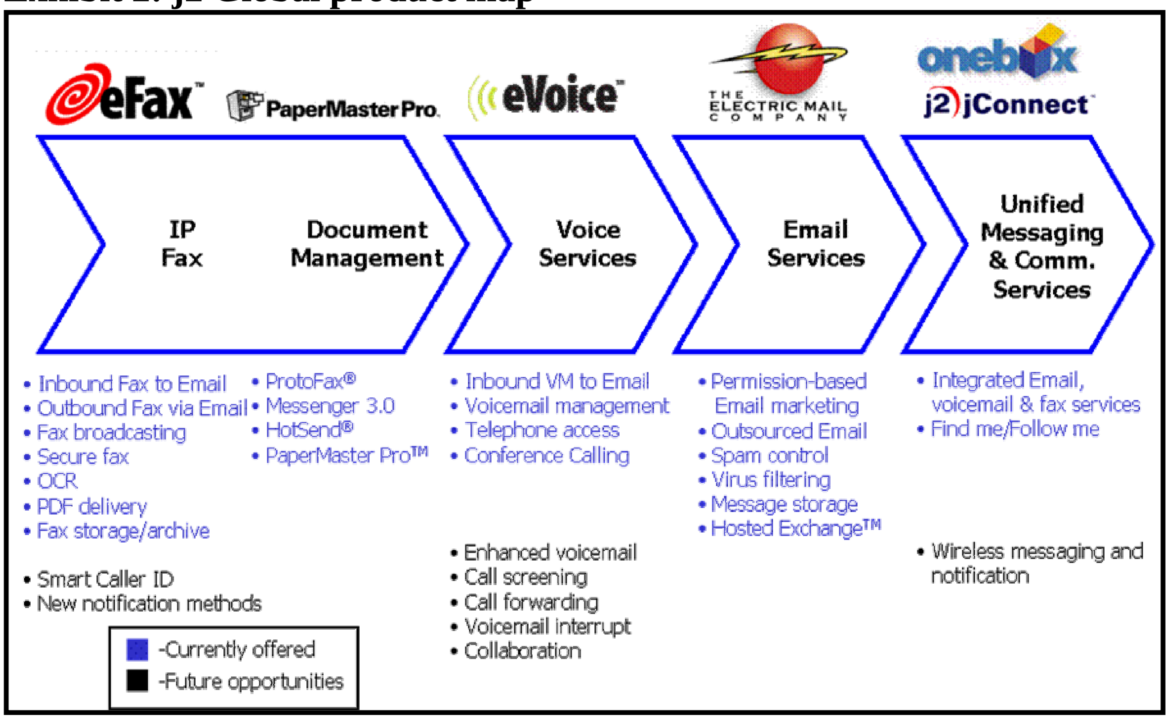
For business customers, **eFax Corporate** expands the capabilities of eFax Plus and jConnect Premier to include features and tools geared towards enterprises. For example, corporate customers can use a browser-based account administration interface which enables them to provision telephone numbers to employees without the need to contact their j2 account representative. eFax Corporate also comes with the option of enhanced security features, which are important to firms in the financial, healthcare and legal industries.

j2 also offers solutions for high-volume outbound faxing in **jBlast** and **eFax Broadcast**. These services enable users to send documents simultaneously to hundreds or thousands of recipients anywhere in the world. With these web-based offerings, customers don't need special equipment or multiple phone lines. Users can also monitor the status of their faxes and update databases of "Do Not Fax" or undeliverable numbers.

Further in the mass distribution vein, **M4 Internet** is a secure, opt-in, web-based marketing solution for creating powerful, targeted email campaigns and analyzing customer response. This service allows the user to create and execute email campaigns from their desktop. Additionally, the service allows the user to track, report, and analyze customer reactions to enhance the effectiveness of their campaigns.

A summary of j2's key products and several development initiatives is summarized in Exhibit 2.

Exhibit 2: j2 Global product map



Source: j2 Global

Competition

Competition in the outsourced, value-added messaging & communications space is intense and is expected to remain so. JCOM faces off against other fax-to-email providers, broadcast fax companies, fax machine manufacturers, unified messaging & communications providers, telephone carriers, voice-mail providers, Internet service providers and email providers. The principal competitive factors in JCOM's target markets include, in the most general sense:

- Innovation in services and ability to introduce new services to the market in a timely manner;
- Service functionality, quality, and performance;
- Ease of use, reliability, scalability, and security of services;
- Customer service and support;
- Establishing a significant base of customers and distribution partners;
- Ability to integrate with third-party offerings and services;
- Name recognition; and
- Pricing.

The majority of j2's revenue comes from its fax services – both inbound fax-to-email and outbound broadcast faxing. These services compete most directly with providers of fax servers and related software, as well as ASPs. PTEK Holdings' Xpedite division is the hands-down leader in the broadcast and production fax businesses, with EasyLink in second place. Key competitors in the inbound fax business are Japan's NTT, Captaris, and privately held Graphnet. Leaders in the e-mail market include DoubleClick – which is about the same size as Xpedite, Critical Path, and again EasyLink, Graphnet, and Captaris.

Management

Scott Jarus, President
Jarus has been with the Company since July 2001. Previously he was President and Chief Operating Officer for OnSite Access, a New York-based building-centric integrated communications provider. Other prior positions include executive management positions at RCN, where he was SVP of Operations, and Metromedia Communications, where he was VP of Operations.

Scott Turicchi, Chief Financial Officer
Turicchi joined j2 Global in March 2000, and has been CFO since May 2003. Before assuming the CFO position, he was the Company's Executive VP of Corporate Development. Prior to j2, he was a managing director in Donaldson, Lufkin & Jenrette's investment banking department. Turicchi led the deal teams that raised almost $100 million for j2 Global.

Hemi Zucker, Chief Marketing Officer
Zucker served as both the CFO and CMO from 1996 until May 2003. Prior to joining the company, he spent 16 years working in finance and operations at various Motorola divisions.

Zohar Loshitzer, Executive VP, Corporate Strategy
Prior to taking his current position at j2 Global in June 2001, Zohar had served as j2 Global's Chief Information Officer since 1997. He is also a managing director of Orchard Telecom, Inc., a telecommunications consulting company. From 1987 to 1995, Zohar was the general manager and part owner of Life Alert, a nationwide emergency response service.

Richard S. Ressler, Chairman of the Board
Ressler has been Chairman of the Board and a director since 1997. He is founder and president of Orchard Capital Corporation, a firm that provides investment capital and advisory services to established and emerging companies. He has served as an investor, director, CEO and/or in other leadership positions at private and public technology, transportation, financial services, consumer products, industrial products and real estate companies.

Marketing and Distribution

j2 derives almost all of its revenues from the eFax Plus and jConnect Premier services, where subscribers pay fixed activation and subscription charges, as well as variable usage fees. A small percentage of overall revenue comes from advertising and international "calling party pays" arrangements to non-paying subscribers. These are all services that are provisioned through a DID.

j2's foremost objective through its various sales and marketing initiatives is to increase the number of paying DIDs through a variety of distribution channels, marketing arrangements, and enhanced brand awareness. The Company also actively attempts to grow revenue from its existing customers through increased use of usage-based services, through the introduction of new services to create upsell opportunities, and by instituting periodic price increases to monthly subscription charges.

In terms of acquiring "paid" subscribers, the Company has five methods:

1. **Direct traffic to the Company's Websites**
    - This is for the most part for individual consumers (surf-by users at www.eFax.com and www.j2.com), who discover the websites through search engine lookup and discovery. Pre-existing brand awareness also plays a part here.

2. **Free-to-Paid subscriber upgrades/migration**
    - "Free" (or advertising-supported) subscribers have historically served as the prime source of new "paid" subscribers. The migration of "free" customers to paid services is accomplished through a life cycle management program, where the Company monitors usage levels of free customers, and sends out promotional up-sell messages. Those subscribers that do not adhere to the customer agreements for on free services (clicking on the advertisements often enough) are culled out of the customer base.

3. **eFax Corporate SME sales**
    - Small-to-medium businesses are sold mostly through www.eFaxCorporate.com with the support of j2's telemarketing group.

4. **Direct enterprise sales**
    - Larger enterprises and government agencies are worked by the Company's direct sales force, which currently numbers about 20 people.

5. **Direct marketing spend for paid subscribers**
    - j2 has agreements with AOL, Yahoo!, Google, Lycos, and others.

Strategy

JCOM has a reputation as a leading provider of outsourced communications solutions – solutions that enable its customers to better communicate amongst their employees, gain and retain customers, and automate business processes. In order to maintain and extend this position, j2 will:

1. **Continue to further penetrate the core North American** market for both fax-to-email and unified messaging services. To date the Company has approximately 500,000 paying customers for these services against a working population in the US alone of 137 million. The Company should also l**everage its existing customer base** and continue to pursue up-sell and cross-sell opportunities with new value-added solutions.

2. **Extend the Company's presence internationally with a near-term emphasis on Europe.** The Company will seek to leverage the calling-party paid system that is prevalent in Europe to bring free customers to the Company's services, make revenue in the near-term through the actual traffic that is transported, and use life cycle management to convert these "free" customers to direct paying customers over time.

3. **Invest in R&D** to develop new feature sets/services and extend the breadth of the network. The Company has a large installed base that is a prime target for new features or new services such as the recently released storage initiative and the eVoice services which are in development. These can both enhance recurring revenue as well as bring additional customers to the Company's services.

4. **Evolve and develop additional means of acquiring customers.** Over the past 8 years, the Company has evolved from having only one method of acquiring paid individual customers (migrate free to paid) to currently 5 ways of acquiring individual, small business, SME and large corporate clients.

5. **Pursue strategic acquisitions.** We expect that j2 will continue to engage in acquisitions of smaller, otherwise similarly-situated companies where opportunities exist relative to businesses, products, services and technologies that complement or augment its service offerings and customer base. The company has done three such acquisitions during the first three quarters of 2004, for a total of $8.6 million in total costs.

Financial Results and Projections

Total revenue in 3Q04 increased 46.9% to $27.8 million compared to $18.9 million in 3Q03, and 7.5% sequentially from $25.8 million in 2Q04. EPS for the period was $0.32, which compares favorably to $0.19 (pro forma, fully taxed) in 3Q03 and $0.29 in 2Q04.

When 3Q04 results were released in October, the Company raised FY04 guidance to EPS of $1.20 on sales of $106 million. The previously stated expectations had called for $1.00-$1.18 in EPS on sales of $100-$106 million. These revisions represented figures above the consensus estimates at that time. Initial guidance for FY05 called for approximately 40% revenue growth and EPS growth of 30-35%, reflecting anticipated increases in sales and marketing and customer acquisition expenses.

For 4Q04, we project JCOM will book $0.34 in EPS on sales of $29.6 million. For FY04, we estimate $1.20 in EPS on sales of $106.1 million. For FY05, we are looking for $1.61 in EPS on sales of $144.3 million.

Valuation and Conclusion

To achieve a valuation target for JCOM shares, we constructed a 5-year discounted cash flow model, and also examined a small group of messaging and Internet Service comparables. For the DCF model, we used CAPM to derive a discount rate of 13.5% and assumed terminal growth of 5%, which yields a terminal value multiple of 11.7x. By this reckoning, JCOM shares are worth about $37 – and this analysis is shown in Exhibit 3.

Exhibit 3: DCF Model

	FY05	FY06	FY07	FY08	FY09	FY10	Terminal Value
EBITDA	69,513	91,443	111,404	134,589	157,728	181,495	
Less: taxes	(22,423)	(29,665)	(36,127)	(43,613)	(50,978)	(58,469)	
Less: CAPEX	(5,980)	(7,698)	(9,230)	(10,975)	(12,639)	(14,286)	
FCF	41,111	54,080	66,047	80,001	94,110	108,741	1,273,313
Discounted FCF	36,208	41,951	45,124	48,139	49,876	50,757	594,349

NPV	866,405
Plus: net cash	100,337
Equity value:	966,743
Divided by diluted shares	26,072
Price target	$37.08
Implied P/E	23.1x

CAPM Assumptions	
rfr =	2.94%
RP =	10.0%
b =	1.06
K =	13.5%
term. grwth	5.0%
TVM	11.7x

Source: Firstcall, Company Press Releases, Stanford Group Estimates

In terms of relative valuation, we determined the metric that achieves the most apples-to-apples comparison is the PEG ratio for FY05. The average value of this metric is 1.0, which we apply to our estimated three-year growth rate for JCOM earnings to arrive at a target of about $45. This analysis is shown in Exhibit 4.

Exhibit 4: Relative value analysis

Multimedia Messaging	TIKR	Research Rating, Disclosures	Recent Price	Sharecount, MRQ (Mils)	Market Cap ($Mils)	FY05 EPS	FY05 P/E	3-yr EPS Growth	P/E/G
Captaris	CAPA	Not rated	$4.71	31.6	$149.0	$0.17	27.7x	25%	1.1
Double Click	DCLK	Not rated	$7.64	125.5	$959.0	$0.23	33.2x	25%	1.3
Earthlink	ELNK	Not rated	$10.57	154.1	$1,629.0	$0.96	11.0x	20%	0.6
EasyLink	EASY	Not rated	$1.42	44.4	$63.0	$0.06	23.7x	20%	1.2
PTEK Holdings	PTEK	BUY	$10.70	72.3	$773.4	$0.76	14.1x	15%	0.9
Average							21.9x		1.0
j2 Global Current	JCOM		$34.51	25.6	$882.5	$1.61	21.5x	28%	0.8
j2 Global Target	JCOM		**$44.98**	**25.6**	**$1,150.2**	**$1.61**	28.0x	28%	1.0

Source: Firstcall, Company Press Releases, Stanford Group Estimates

We are setting our price objective at $42 – slightly above the midpoint between the figures derived by each method outlined above. This equates to a P/E multiple of approximately 26x our FY05 estimate. With a target price that represents approximately 20% upside to current levels, and with several new marketing initiatives in place that offer upside potential to current expectations, we rate JCOM a BUY.

Exhibit 5: JCOM Quarterly Earnings Model

	Historical FY03	Historical 1Q04	Historical 2Q04	Historical 3Q04	*Estimate* 4Q04	*Estimate* FY04	*Estimate* 1Q05	*Estimate* 2Q05	*Estimate* 3Q05	*Estimate* 4Q05	*Estimate* FY05
Revenue											
Subscriber	$68,084	$22,062	$25,063	$26,985	$28,765	$102,875	$30,698	$33,542	$36,553	$39,902	$140,696
Advertising	2,708	761	647	668	680	2,756	707	753	799	850	3,108
Licensed services/other	830	119	121	118	119	477	121	125	130	134	510
Total	71,622	22,942	25,831	27,771	29,565	106,109	31,526	34,420	37,482	40,886	144,315
Cost of sales	13,323	3,640	4,063	4,363	4,642	16,708	5,044	5,507	5,997	6,542	23,090
Gross Profit	58,299	19,302	21,768	23,408	24,923	89,401	26,482	28,913	31,485	34,345	121,224
Gross margin %	*81.4%*	*84.1%*	*84.3%*	*84.3%*	*84.3%*	*84.3%*	*84.0%*	*84.0%*	*84.0%*	*84.0%*	*84.0%*
Operating expensees											
Selling	11,171	3,779	4,767	4,729	5,026	18,301	5,753	6,196	6,653	7,155	25,757
% of sales	*15.6%*	*16.5%*	*18.5%*	*17.0%*	*17.0%*	*17.2%*	*18.3%*	*18.0%*	*17.8%*	*17.5%*	*17.8%*
R&D	4,195	1,050	1,264	1,418	1,449	5,181	1,576	1,687	1,799	1,922	6,984
% of sales	*5.9%*	*4.6%*	*4.9%*	*5.1%*	*4.9%*	*4.9%*	*5.0%*	*4.9%*	*4.8%*	*4.7%*	*4.8%*
G&A	15,683	4,482	4,734	5,321	5,322	19,859	5,596	6,006	6,466	6,951	25,019
% of sales	21.9%	19.5%	18.3%	19.2%	18.0%	18.7%	17.8%	17.5%	17.3%	17.0%	17.3%
Amortization of intangibles	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	31,049	9,311	10,765	11,468	11,796	43,340	12,926	13,889	14,918	16,027	57,760
Operating income	27,250	9,991	11,003	11,940	13,127	46,061	13,556	15,024	16,567	18,317	63,465
Operating margin %	*38.0%*	*43.5%*	*42.6%*	*43.0%*	*44.4%*	*43.4%*	*43.0%*	*43.7%*	*44.2%*	*44.8%*	*44.0%*
EBITDA	27,250	11,019	12,140	13,230	14,483	50,872	14,970	16,500	18,110	19,934	69,513
EBITDA margin %	*38.0%*	*48.0%*	*47.0%*	*47.6%*	*49.0%*	*47.9%*	*47.5%*	*47.9%*	*48.3%*	*48.8%*	*48.2%*
Other income (expense)	419	186	352	505	150	1,193	150	150	150	150	600
EBT	27,669	10,177	11,355	12,445	13,277	47,254	13,706	15,174	16,717	18,467	64,065
Income taxes	(8,137)	3,778	3,866	4,316	4,647	16,607	4,797	5,311	5,851	6,463	22,423
Tax rate	*35.0%*	*37.1%*	*34.0%*	*34.7%*	*35.0%*	*35.1%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Net income	$35,806	$6,399	$7,489	$8,129	$8,630	$30,647	$8,909	$9,863	$10,866	$12,004	$41,642

Earnings per share											
-- Basic	$1.58	$0.28	$0.32	$0.35	$0.37	$1.32	$0.38	$0.42	$0.46	$0.50	$1.76
-- Diluted	$0.71	$0.25	$0.29	$0.32	$0.34	$1.20	$0.35	$0.38	$0.42	$0.46	$1.61
Weighted average shares											
-- Basic	22,732	23,121	23,212	23,348	23,448	23,282	23,548	23,648	23,748	23,848	23,698
-- Diluted	25,183	25,564	25,585	25,572	25,672	25,598	25,772	25,872	25,972	26,072	25,922

Source: SEC Documents, Press Releases, and Stanford Group Estimates

Exhibit 6: JCOM Balance Sheets and Statements of Cash Flows

	Historical FY03	Historical 1Q04	Historical 2Q04	Historical 3Q04	*Estimate* 4Q04	*Estimate* FY04	*Estimate* 1Q05	*Estimate* 2Q05	*Estimate* 3Q05	*Estimate* 4Q05	*Estimate* FY05
Assets											
Current assets											
Cash and equivalents	$46,882	$46,989	$50,925	$42,343	$47,931	$47,931	$57,058	$66,773	$77,408	$87,599	$87,599
Investments	8,539	6,446	5,219	12,738	12,738	12,738	12,738	12,738	12,738	12,738	12,738
A/R	5,877	7,509	8,059	8,843	9,198	9,198	9,808	10,709	11,661	12,720	12,720
Prepaids and other	2,571	2,833	2,618	2,747	2,956	2,956	3,153	3,442	3,748	4,089	4,089
Deferred income taxes	10,004	6,426	9,706	5,063	5,063	5,063	5,063	5,063	5,063	5,063	5,063
Total	73,873	70,203	76,527	71,734	77,886	77,886	87,819	98,724	110,618	122,209	122,209
Investments	8,408	13,944	18,026	28,806	28,806	28,806	28,806	28,806	28,806	28,806	0
PP&E	6,594	6,305	6,921	8,670	8,538	8,538	8,431	8,382	8,392	8,469	8,469
Goodwill and intangibles	17,936	23,082	27,717	30,891	30,891	30,891	30,891	30,891	30,891	30,891	30,891
Other	6,045	6,330	294	2,180	2,180	2,180	2,180	2,180	2,180	2,180	2,180
Total assets	$98,732	$119,864	$129,485	$142,281	$148,301	$106,612	$158,127	$168,983	$180,887	$192,556	$150,867
Liabilities and equity											
Current liabilities											
A/P and accrued	$4,010	$9,384	$5,016	$5,368	$5,027	$5,027	$5,498	$5,951	$6,433	$5,507	$5,507
Deferred revenue	4,698	5,104	5,345	5,606	5,913	5,913	6,305	6,884	7,496	8,177	8,177
Current portion, LTD	1,022	530	553	1,699	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0
Total	9,730	15,018	10,914	12,673	10,940	10,940	11,803	12,835	13,929	13,684	13,684
Long-term debt	221	335	260	1,029	0	0	0	0	0	0	0
Total liabilities	9,951	15,353	11,174	13,702	10,940	10,940	11,803	12,835	13,929	13,684	13,684
Shareholders' equity											
Common stock, APIC, other	108,957	118,288	124,599	126,738	126,890	85,201	126,944	126,905	126,848	126,758	85,069
Retained earnings	(20,176)	(13,777)	(6,288)	1,841	10,471	10,471	19,380	29,244	40,110	52,113	52,113
Total shareholders' equity	88,781	104,511	118,311	128,579	137,361	95,672	146,324	156,148	166,958	178,871	137,182
Total liabilities and equity	$98,732	$119,864	$129,485	$142,281	$148,301	$106,612	$158,127	$168,983	$180,887	$192,556	$150,867

Balance sheet ratios	FY03	1Q04	2Q04	3Q04	4Q04	FY04	1Q05	2Q05	3Q05	4Q05	FY05
DSO		29.5	28.1	28.7	28.0		28.0	28.0	28.0	28.0	
Prepaids/sales		0.1	0.1	0.1	0.1		0.1	0.1	0.1	0.1	
DPO		70.8	33.0	33.2	30.0		30.0	30.0	30.0	30.0	
Deferred revenue/sales		0.2	0.2	0.2	0.2		0.2	0.2	0.2	0.2	
LTD/Total cap		0.8%	0.7%	2.1%	0.0%		0.0%	0.0%	0.0%	0.0%	
Book value/share		$4.09	$4.62	$5.03	$5.35		$5.68	$6.04	$6.43	$6.86	

	Historical FY03	Historical 1Q04	Historical 2Q04	Historical 3Q04	*Estimate* 4Q04	*Estimate* FY04	*Estimate* 1Q05	*Estimate* 2Q05	*Estimate* 3Q05	*Estimate* 4Q05	*Estimate* FY05
Net Income	$35,806	$6,399	$7,489	$8,129	$8,630	$30,647	$8,909	$9,863	$10,866	$12,004	$41,642
Income statement reconciliation											
Depreciation	3,911	1,028	1,137	1,290	1,357	4,812	1,413	1,475	1,543	1,617	6,049
Non-cash tax benefit	(9,385)	0	0	0	0	0	0	0	0	0	0
Other noncash income adj.	898	3,660	3,453	3,724	0	10,837	0	0	0	0	0
Net D, working capital	1,618	(835)	965	97	(696)	(469)	(139)	(448)	(471)	(1,985)	(3,043)
Cash from operations	32,848	10,252	13,044	13,240	9,291	45,827	10,183	10,891	11,938	11,635	44,648
Cash flows from investing											
Purchases of PP&E	(3,567)	(319)	(1,442)	(1,337)	(1,225)	(4,323)	(1,306)	(1,426)	(1,553)	(1,694)	(5,980)
Other investments	(17,509)	(9,537)	(7,702)	(21,047)	0	(38,286)	0	0	0	0	0
Cash from investing	(21,076)	(9,856)	(9,144)	(22,384)	(1,225)	(42,609)	(1,306)	(1,426)	(1,553)	(1,694)	(5,980)
Cash from financing	2,333	(289)	33	536	(2,478)	(2,198)	250	250	250	250	1,000
Beginning cash	32,777	46,882	46,989	50,925	42,343	46,882	47,931	57,058	66,773	77,408	47,931
Effects of exchange rates	0	0	0	26	0	26	0	0	0	0	0
Net D, cash	14,105	107	3,933	(8,582)	5,588	1,046	9,127	9,715	10,635	10,191	39,669
Ending cash	$46,882	$46,989	$50,922	$42,343	$47,931	$47,928	$57,058	$66,773	$77,408	$87,599	$87,599

Source: SEC Documents, Press Releases, and Stanford Group Estimates

IMPORTANT DISCLOSURES

Price Chart

Explanation of Ratings

Buy: Shares expected to increase in price over the coming twelve months.
Hold: Shares expected to be relatively stable in price over the coming twelve months.
Sell: Shares expected to decline in price over the coming twelve months.

Ratings Distribution of Coverage Universe as of September 30th 2004.

Total Universe	Count	Percentage	Investment Banking	Count	Percentage
Buy	77	61.6%	**Buy**	4	80%
Hold	40	32.0%	**Hold**	1	20%
Sell	8	6.4%	**Sell**	0	0%

Stanford Group Company Research Disclosures as of November 30, 2004.

Company	Disclosure
AOL – a division of Time Warner (TWX)	None
Captaris (CAPA)	None
Critical Path (CPTH)	None
Doubleclick (DCLK)	None
EasyLink Services (EASY)	None
Google (GOOG)	None
J2 Global Communications	None
NTT (NTT)	None
PTEK Holdings (PTEK)	1

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