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INTERNET INITIATIVE JAPAN INC

Form 6-K

February 12, 2004

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under
the Securities Exchange Act of 1934

For February 12, 2004
Commission File Number: 0-30204

Internet Initiative Japan Inc.

(Translation of registrant's name into English)

Jinbocho Mitsui Bldg. 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
per-mitted by Regulation S-T Rule 101(b)(1): _____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a
Form 6-K if submitted solely to provide an attached annual report to security
holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as
per-mitted by Regulation S-T Rule 101(b)(7): _____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a
Form 6-K if submitted to furnish a report or other document that the registrant
foreign private issuer must furnish and make public under the laws of the
jurisdiction in which the reg-istrant is incorporated, domiciled or legally
organized (the registrant's "home country"), or under the rules of the home
country exchange on which the registrant's securities are traded, as long as the
report or other document is not a press release, is not required to be and has
not been distributed to the registrant's security holders, and, if discussing a
mate-rial event, has already been the subject of a Form 6-K submission or other
Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in
connection with Rule 12g3-2(b): 82-

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN
THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO.
333-12696) OF INTERNET INITIATIVE JAPAN INC. AND TO BE A PART THEREOF FROM THE
DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY

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DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

EXHIBIT INDEX

<u>Exhibit</u>	<u>Date</u>	<u>Description of Exhibit</u>
1	2/12/2004	IIJ Announces Positive Quarterly Operating and Net Income for Third Quarter Results for the Year Ending March 31, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Internet Initiative Japan Inc.

Date: February 12, 2004

/s/ Koichi Suzuki

Koichi Suzuki
President, Chief Executive Officer and
Representative Director

Exhibit 1

IIJ Announces Positive Quarterly Operating and Net Income for
Third Quarter Results for the Year Ending March 31, 2004

NEW YORK--(BUSINESS WIRE)--Feb. 11, 2004--TOKYO, Feb. 12, 2004--

Internet Initiative Japan Inc. (Nasdaq: IIJIE) ("IIJ"), one of Japan's leading Internet access and comprehensive network solutions providers, today announced its financial results for the 3rd quarter of the fiscal year ending March 31, 2004 ("fiscal 2003").

Third Quarter 2003 Highlights(1)

3rd Quarter 2003:

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- IIJ recorded positive quarterly operating income for the first time since 4Q01; and net income for the first time since its Initial Public Offering ("IPO") in August 1999.
- Revenues totaled JPY 9,633 million (\$ 89.9 million), an increase of 4.9% from JPY 9,185 million in 2Q03, though a decrease of 8.8% compared to 3Q02. The increase from 2Q03 is mainly due to increased revenues from SI and value-added services.
- Operating income was JPY 236 million (\$ 2.2 million), a significant improvement from the operating losses of 830 million in 2Q03 and JPY 567 million in 3Q02. This was mainly due to increased SI profitability and reduced backbone costs.
- Adjusted EBITDA(2) was JPY 1,218 million (\$ 11.4 million), an increase from an adjusted EBITDA of JPY 126 million in 2Q03 and JPY 349 million in 3Q02.
- Income before income tax was JPY 1,806 million (\$ 16.9 million), a substantial improvement from the loss before tax of JPY 987 million in 2Q03. The improvement was primarily a result of positive operating income of JPY 236 million, an extraordinary gain of JPY 1,572 million that was generated by the sale in the Company's stake in DLJdirect SFG Securities Inc. ("DLJdirect SFG Securities") and a gain of JPY 89 million that came from repurchasing and canceling a portion of IIJ's convertible notes that are due in 2005.
- Net income was JPY 1,979 million (\$ 18.5 million), a marked improvement from the net losses of JPY 278 million in 2Q03 and JPY 2,266 million in 3Q02.
- IIJ expects quarterly operating income in 4Q03 to remain positive as a result of its efforts to increase the revenues of high margin services and further reduce costs.

Overview of 3rd Quarter FY2003 Financial Results and Business Outlook(3)

Financial Results and Business Outlook

"3Q03 was quite remarkable for us," said Koichi Suzuki, President and CEO of IIJ. "We achieved both positive quarterly operating income for the first time since 4Q01 and positive quarterly net income for the first time since our IPO. Our breakthrough to profitability was the result of our successful efforts at cutting costs while increasing revenues from our more profitable services. Though the competition in the Japanese market is still severe, we plan to capitalize on our industry leading skills to continue to increase revenues and seek higher profitability on a continuous basis by actively providing and developing services that meet the demands of corporate customers for advanced network solutions. We are receiving many sales leads, particularly in our Network Integration business which we expect to become one of the main drivers of our future growth."

"In this quarter, we were particularly successful at reducing our backbone costs which contributed to improved connectivity service profitability," said Yasuhiro Nishi, CFO of IIJ. "In our SI business, revenue from operational outsourcing services increased steadily and contributed to improved operating income. Operating income would have turned positive even without the recovery related to a previously

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reserved accounts receivable of Crosswave Communications Inc., formerly written-off but now became collectible. Net income turned positive as a result of operating income turning positive and the approximately JPY 1.6 billion of gain on the sale of shares of DLJdirect SFG Securities. We expect operating income to remain positive during 4Q03."

3rd Quarter FY2003 Financial Results

Revenues

Revenues in 3Q03 totaled JPY 9,633 million, a decrease of 8.8% from JPY 10,564 million in 3Q02 and an increase of 4.9% from JPY 9,185 million in 2Q03.

Table 1. Revenues (JPY in millions)

Revenues	3Q03	3Q02	YoY % change	2Q03	QoQ % change

Connectivity and value-added services:					

Dedicated access services	3,204	3,404	(5.9%)	3,236	(1.0%)
Dial-up access services	780	776	0.4%	784	(0.5%)
Total Connectivity Services	3,984	4,180	(4.7%)	4,020	(0.9%)

Value-added services	1,125	913	23.2%	1,081	4.0%

Other	525	468	12.3%	536	(2.1%)

Total Connectivity and value-added services	5,633	5,561	1.3%	5,637	(0.1%)

Systems integration revenues	2,889	3,684	(21.6%)	2,549	13.3%

Equipment sales	1,111	1,319	(15.8%)	999	11.2%
=====					
Total revenues	9,633	10,564	(8.8%)	9,185	4.9%

Connectivity and value-added services revenues were JPY 5,633 million in 3Q03, an increase of 1.3% compared to 3Q02 and almost flat compared to 2Q03.

Table 2. Connectivity Services (JPY in millions)

Connectivity Services	3Q03	3Q02	YoY % change	2Q03	QoQ % change

Dedicated access services:					

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IP Service + DC (connectivity)	2,485	2,548	(2.5%)	2,485	0.0%
Others(4)	719	856	(16.0%)	751	(4.3%)
Total Dedicated Access Services	3,204	3,404	(5.9%)	3,236	(1.0%)

Dedicated access service revenues were JPY 3,204 million in 3Q03, a decrease of 5.9% compared to 3Q02 and a slight decrease of 1.0% compared to 2Q03. IP Service, including Data Center Connectivity services, decreased by 2.5% in 3Q03 compared to 3Q02 but stayed nearly flat compared to 2Q03. Customers continued to shift from dedicated line-based connectivity services such as IIJ T1 Standard and IIJ Economy Service to lower-cost broadband services such as IIJ FiberAccess/F Service (Maximum 10-100Mbps). However, the increase in IIJ FiberAccess/F Service did not offset the decrease in IIJ T1 Standard and IIJ Economy Service.

Table 3. Number of Contracts

	3Q03	3Q02	2Q03
IP Services			
64kbps - 128kbps	76	130	79
192kbps - 768kbps	22	37	23
1Mbps - 2Mbps	226	279	226
3Mbps - 1.2Gbps	381	212	336
Number of Contracts of DC Connectivity Services	188	139	184
Other	5,991	3,922	5,402
Total Dedicated Access Services	6,884	4,719	6,250
IIJ4U (Dial-up access services for retail market)	69,688	82,193	72,560
Other Dial-Up Access Services	597,232	370,543	563,086
Total Dial-Up Access Services	666,920	452,736	635,646

Table 4. Number of Contract Bandwidth (Unit: Gbps)

	3Q03	3Q02	2Q03
Dedicated Access Services	60.3	23.3	51.6
DC Connectivity Services	15.5	7.0	15.1
Total Contract Bandwidth	75.8	30.3	66.7

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Dial-up access service revenues were JPY 780 million in 3Q03, an increase of 0.4% compared to 3Q02 and a decrease of 0.5% compared to 2Q03. The steady revenue growth of OEM services, including the CDN platform and NTT's regional L-mode service, mostly offset the decrease in IIJ4U service revenues.

Value-added service revenues were JPY 1,125 million in 3Q03, an increase of 23.2% compared to 3Q02 and an increase of 4.0% compared to 2Q03. These increases were mainly due to revenue increases from security related services and IIJ VPN standard services.

Table 5. Value-added Services (JPY in millions)

Value-Added Services	3Q03	3Q02	YoY % change	2Q03	QoQ % change
Internet Data Center services	373	359	3.7%	371	0.3%
Other value-added services	752	554	35.8%	710	6.0%
Total Value-Added Service Revenues	1,125	913	23.2%	1,081	4.0%

Systems integration services revenues decreased 21.6% to JPY 2,889 million in 3Q03 compared to 3Q02 but recovered 13.3% compared to 2Q03 due to an increase in recurring fees of outsourcing services such as mail and web gateway services.

Equipment sales revenues were JPY 1,111 million in 3Q03, a decrease of 15.8% compared to 3Q02 and an increase of 11.2% compared to 2Q03.

Cost and expenses

Cost of total revenues was JPY 8,125 million in 3Q03, a decrease of 15.4% compared to 3Q02, and a decrease of 2.5% compared to 2Q03.

Table 6. Costs and Expenses (JPY in millions)

Costs and expenses:	3Q03	3Q02	YoY % change	2Q03	QoQ % change
Cost of Revenues:					
Cost of connectivity and value-added services	4,877	5,180	(5.9%)	5,127	(4.9%)
Cost of systems integration	2,198	3,173	(30.7%)	2,275	(3.4%)
Cost of equipment sales	1,050	1,254	(16.3%)	935	12.3%
Total of Cost of Revenues	8,125	9,607	(15.4%)	8,337	(2.5%)
Sales and marketing	699	894	(21.8%)	1,100	(36.4%)

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General and administrative	486	512	(4.9%)	482	0.9%
Research and development	87	117	(25.6%)	96	(9.5%)
Total costs and expenses	9,397	11,130	(15.6%)	10,015	(6.2%)

Cost of connectivity and value-added services was JPY 4,877 million, a decrease of 5.9% compared to 3Q02 and a decrease of 4.9% compared to 2Q03. The gross margin ratio for connectivity and value-added services in 3Q03 was 13.4%, compared to 6.9% in 3Q02 and 9.1% in 2Q03. The improvement in gross margin compared to 2Q03 was a result of our continuous efforts to reduce backbone costs.

Table 7. Backbone Costs (JPY in millions)

Backbone Costs	3Q03	3Q02	YoY % Change	2Q03	QoQ % Change
International Backbone Costs	156	432	(63.9%)	247	(36.9%)
Domestic Backbone Costs	939	902	4.1%	993	(5.5%)

International backbone costs were JPY 156 million, a decrease of 63.9% compared to 3Q02 and a decrease of 36.9% compared to 2Q03 as we continued to benefit from our efforts to optimize our network.

Domestic backbone costs were JPY 939 million, an increase of 4.1% compared to 3Q02 and a decrease of 5.5% compared to 2Q03. The year-over-year increase was due to an increase in connection fees with NTT's regional access networks (FLET'S), along with our broadband strategy of strengthening our backbone network to provide various broadband network services and solutions nationwide. The quarter-over-quarter decrease reflects a decline in backbone prices, which offset an increase in connection fees with FLET'S.

Cost of SI Revenues was JPY 2,199 million in 3Q03, a decrease of 30.7% compared to 3Q02 and a decrease of 3.4% compared to 2Q03. The gross margin for SI improved to 23.9% in 3Q03 compared to 13.9% in 3Q02 and 10.7% in 2Q03. The gross margin in 3Q03 improved compared to 2Q03 because of an improvement in profitability in SI development contracts and an increase in outsourcing service revenues.

Sales and Marketing Expenses were JPY 699 million in 3Q03, a decrease of 21.8% compared to 3Q02 and a decrease of 36.4% compared to 2Q03. The 2Q03 expenses included the write-off of JPY 287 million in accounts receivable from Crosswave Communications Inc. ("Crosswave"). In 3Q03, JPY 71 million of the amount that was written-off became collectible. This amount was recorded as income as a result of the reversal of allowance for doubtful receivables from Crosswave.

General and administrative expenses were JPY 486 million in 3Q03, a decrease of 4.9% compared to 3Q02 and an increase of 0.9% compared to 2Q03.

Operating income (loss)

Operating income increased to JPY 236 million in 3Q03 compared to

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a loss of JPY 567 million in 3Q02 and a loss of JPY 830 million in 2Q03. The improvement from 2Q03 is due to improved profitability in SI, cost reduction for international and domestic backbones and the expected collection of a portion of accounts receivable from Crosswave which required the reversal of related services, that were previously written-off.

Other income for 3Q03 was JPY 1,570 million, compared to other expenses of JPY 228 million in 3Q02 and JPY 157 million in 2Q03. IIJ recorded a gain on the sale of its shares of DLJdirect SFG Securities, which amounted to JPY 1,572 million and gains from the repurchase and subsequent retirement before maturity of convertible notes, which amounted to JPY 89 million in 3Q03.

Income tax benefit (expense) for 3Q03 was a benefit of JPY 280 million, compared to an expense of JPY 138 million in 3Q02 and a benefit of JPY 572 million in 2Q03. This is due to a decrease in the valuation allowance for deferred tax assets attributable primarily to the income tax effect of increasing unrealized gains during the quarter on certain available-for-sale securities.

Equity in net loss of equity method investees amounted to JPY 58 million in 3Q03, compared to JPY 1,375 million in 3Q02, and JPY 50 million in 2Q03.

Net income was JPY 1,979 million in 3Q03, compared to net losses of JPY 2,266 million in 3Q02 and JPY 278 million in 2Q03. The improvement from 3Q02 is primarily due to the absence in equity method net loss in Crosswave, and the improvement from 2Q03 is due to the return of positive operating income, the gain on the sale of the shares of DLJdirect SFG Securities and the retirement of convertible notes. Basic net income per ADS equivalent was JPY 25.83 in 3Q03, compared to a net loss of JPY 50.40 in 3Q02 and JPY 5.04 in 2Q03.

Table 8. Other Financial Statistics (JPY in millions)

Other Financial Statistics	3Q03	3Q02	YoY % Change	2Q03	QoQ % Change
Adjusted EBITDA(5)	1,218	349	249.2%	126	863.5%
CAPEX, including capitalized leases(6)	508	1,519	(66.5%)	579	(12.3%)
Depreciation and amortization(7)	1,004	943	6.5%	984	2.1%

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of operations that are prepared and presented in accordance with U.S. generally accepted accounting principles in Appendix 1:

Table 9. Adjusted EBITDA (JPY in millions)

	3Q03	3Q02	2Q03

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Adjusted EBITDA	1,218	349	126
-----	-----	-----	-----
Depreciation and amortization(8)	(982)	(916)	(956)
-----	-----	-----	-----
Operating income (loss)	236	(567)	(830)
=====	=====	=====	=====
Other income (expenses)	1,570	(228)	(157)
-----	-----	-----	-----
Income tax expense (benefit)	(280)	138	(572)
-----	-----	-----	-----
Minority interests in consolidated subsidiaries	(49)	42	187
-----	-----	-----	-----
Equity in net income (loss) of equity method investees	(58)	(1,375)	(50)
=====	=====	=====	=====
Net income (loss)	1,979	(2,266)	(278)
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The following table summarizes the reconciliation of capital expenditures to purchase of property and equipment according to the consolidated statements of cash flows that are prepared and presented in accordance with U.S. generally accepted accounting principles in Appendix 4:

Table 10. CAPEX (JPY in millions)

	3Q03	3Q02	2Q03
-----	-----	-----	-----
Capital expenditures	508	1,519	579
-----	-----	-----	-----
Acquisition of assets by entering into capital leases	168	1,014	431
-----	-----	-----	-----
Purchase of property and equipment	340	505	148
-----	-----	-----	-----

3rd Quarter FY2003 Business Review

Service Development

Development of new high-performance routers for cost effective site connectivity network:

In November 2003, IIJ announced the development of the latest model of the SEIL series of high-performance routers. The router supports higher throughput to maximize utilization of broadband circuits and enhanced VPN functionality with hardware processing to help customers build more cost effective site connectivity networks over the Internet.

New movement against spam:

In January 2004, IIJ and IIJ America Inc. started to move against email message abuse. IIJ and IIJ America participated in founding a working group against spam with 19 other international telecommunications companies, Internet Service Providers (ISPs) and related businesses. The kick-off meeting was held in December 2003, and it aims to develop measures that will combat spam emails and other

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unethical uses of the Internet.

Introducing new technology to JP DNS Service in cooperation with JPRS:

In January 2004, IIJ announced the introduction of IP Anycast technology to JP Domain Name System (DNS) Service with Japan Registry Service (JPRS). This is the first case of this technology being applied to JP DNS Service and it enables more redundancy and effectiveness for users to access the mail servers and websites with ".jp" domain names.

Network Infrastructure Development

In 3Q03, IIJ continued to enhance its Internet backbone to maintain the network quality that it provides to its customers. This quarter, IIJ installed one new circuit and upgraded one circuit for the international backbone, and installed one new circuit and upgraded three circuits for the domestic backbone. IIJ is considering cost effectiveness and overall profitability in undertaking the upgrades.

Finance

Repurchase and cancellation of convertible notes:

On November 19, 2003, IIJ announced that it had repurchased a portion of its convertible notes that were to be due in 2005 and cancelled them. As a result, IIJ recorded a one-time gain of JPY 89 million.

Key Developments of the IIJ Group

Outsourcing Solutions:

In 3Q03, IIJ Technology continued to expand its variety of outsourcing solutions. "SoMail" is a large-scale mail system solution that helps customers with more than thousand employees to build a mail server with system extensibility, reliability and stability by adapting open-source-based software. Enhanced Version of Data Integration Service is the world's first platform service that serves as an Internet-based purchasing system (IBPS) top layer and EAI service provider. IBPS Web Application Inspection Service is a service that checks the security vulnerabilities that occur when implementing Web applications. These solutions are provided in cooperation with the vendors with each area's specialty.

Teleconference/Webcast

On February 12 at 9:00 am (EST), IIJ will host a conference call to discuss the Company's results and outlook. There will be a simultaneous webcast available at www.vcall.com. A replay will also be available at the same URL.

Company Information

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IIJIE) is one of Japan's leading Internet-access and comprehensive network solutions providers. The company has built one of the largest Internet backbone networks in Japan, and between Japan and the United States. IIJ and its group of companies provide total network solutions that mainly cater to high-end corporate customers. Services range from the delivery of new generation network services over an optical-fiber infrastructure that is optimized for data communications, to the

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construction of pan-Asian IP backbone networks. The company also offers high-quality systems integration and security services, Internet access, hosting/housing, and content design.

Statements made in this press release regarding IIJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding 4Q03 total revenues and operating profitability, are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include: IIJ's expectation that net losses will continue or may increase; IIJ's ability to raise additional capital to cover its accumulated deficit; IIJ's ability to continue to increase subscribers to its connectivity services, particularly at higher bandwidths; IIJ's ability to generate significant revenues from its other services such as systems integration; the ability to compete in a rapidly evolving and competitive marketplace; the impact of technological changes in its industry; and other risks referred to from time to time in IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

(1)Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited, consolidated, and represent comparisons between the three-month period ended December 31, 2003, and the equivalent three-month period ended December 31, 2002. For all 3Q03 results, translations of Japanese yen amounts into US dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 107.13 = US\$1.00, the approximate exchange rate on December 31, 2003.

(2)Please refer to the Reconciliation of Non-GAAP Financial Measures on page 6.

(3)This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding 4Q03 total revenues and operating profitability that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include, but are not limited to, the factors noted at the end of this release and to the risk factors and other information contained in IIJ's filings on Form 20-F and Form 6-K, as well as other filings and documents furnished to the Securities and Exchange Commission. IIJ plans to keep this press release publicly available on its Web site (www.iij.ad.jp), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 4Q03 earnings release, presently scheduled for May 2004.

(4)Others are IIJ FiberAccess/F Service, IIJ Ether Standard, IIJ DSL/F Service, IIJ T1 Standard and IIJ Economy Service.

(5)Please refer to the Reconciliation of Non-GAAP Financial Measures below.

(6)Please refer to the Reconciliation of Non-GAAP Financial Measures below.

(7)Depreciation and amortization includes amortization of issuance cost of convertible notes.

(8)Depreciation and amortization excludes amortization of issuance cost of convertible notes that was presented as other expenses.

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Appendix 1

INTERNET INITIATIVE JAPAN INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Three Months Ended Dec 31, 2003, Dec 31, 2002 and Sept 30, 2003 (Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD) Except for Per Share and ADS Data) (1)

	Year-over-year Comparison Dec 31, 2003		
	USD (1)	JPY	% of Total Revenues
Revenues:			
Connectivity and value-added services:			
Dedicated access services	29,908	3,204,046	33.3%
Dial-up access services	7,277	779,544	8.1
Value-added services	10,497	1,124,596	11.7
Other	4,902	525,106	5.4
Total connectivity and value-added services	52,584	5,633,292	58.5
Systems integration revenues	26,966	2,888,936	30.0
Equipment sales	10,370	1,110,927	11.5
Total revenues	89,920	9,633,155	100.0
Costs and expenses:			
Cost of connectivity and value-added services	45,522	4,876,741	50.6
Cost of systems integration revenues	20,523	2,198,668	22.8
Cost of equipment sales	9,798	1,049,663	10.9
Total costs	75,843	8,125,072	84.3
Sales and marketing	6,524	698,948	7.3
General and administrative	4,540	486,332	5.1
Research and development	812	86,966	0.9
Total costs and expenses	87,719	9,397,318	97.6
Operating income(loss)	2,201	235,837	2.4
Other income(expenses)	14,655	1,569,957	16.3
Income(Loss) before income tax expense(benefit)	16,856	1,805,794	18.7

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Income tax expense(benefit)	(2,618)	(280,406)	(2.9)
Minority interests in consolidated subsidiaries	(455)	(48,710)	(0.5)
Equity in net loss of equity method investees	(545)	(58,354)	(0.6)

Net income(loss)	18,474	1,979,136	20.5%
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Basic Net Income(Loss) Per Share	51,658
Basic Net Income(Loss) Per ADS Equivalent	25.83
Weighted Average Number of Shares	38,312
Weighted Average Number of ADS Equivalents	76,623,702

Year-over-year Comparison
Dec 30, 2002

	JPY	% of Total Revenues	YOY Chg %
Revenues:			
Connectivity and value-added services:			
Dedicated access services	3,404,016	32.2%	(5.9%)
Dial-up access services	776,173	7.4	0.4
Value-added services	913,152	8.6	23.2
Other	467,629	4.4	12.3
Total connectivity and value-added services	5,560,970	52.6	1.3
Systems integration revenues	3,683,978	34.9	(21.6)
Equipment sales	1,318,630	12.5	(15.8)
Total revenues	10,563,578	100.0	(8.8)

Costs and expenses:			
Cost of connectivity and value-added services			
Cost of systems integration revenues	5,179,920	49.0	(5.9)
Cost of equipment sales	3,173,211	30.0	(30.7)
Total costs	1,254,073	11.9	(16.3)
Total costs	9,607,204	90.9	(15.4)

Sales and marketing	894,340	8.5	(21.8)
General and administrative	511,604	4.9	(4.9)
Research and development	116,950	1.1	(25.6)
Total costs and expenses	11,130,098	105.4	(15.6)

Operating income(loss)	(566,520)	(5.4)	(141.6)
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Other income(expenses)	(228,058)	(2.1)	(788.4)
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Income(Loss) before income tax expense(benefit)	(794,578)	(7.5)	(327.3)
Income tax expense(benefit)	137,936	1.3	(303.3)
Minority interests in consolidated subsidiaries	41,813	0.4	(216.5)
Equity in net loss of equity method investees	(1,375,338)	(13.0)	(95.8)
Net income(loss)	(2,266,039)	(21.4%)	(187.3%)
Basic Net Income(Loss) Per Share	(100,802)		
Basic Net Income(Loss) Per ADS Equivalent	(50.40)		
Weighted Average Number of Shares	22,480		
Weighted Average Number of ADS Equivalents	44,960,000		

Sequential Comparison
Sep 30, 2003

	JPY	% of Total Revenues	QOQ Chg %
Revenues:			
Connectivity and value-added services:			
Dedicated access services	3,236,405	35.2%	(1.0%)
Dial-up access services	783,589	8.5	(0.5)
Value-added services	1,080,876	11.8	4.0
Other	536,389	5.9	(2.1)
Total connectivity and value-added services	5,637,259	61.4	(0.1)
Systems integration revenues	2,549,379	27.7	13.3
Equipment sales	998,621	10.9	11.2
Total revenues	9,185,259	100.0	4.9
Costs and expenses:			
Cost of connectivity and value-added services	5,126,708	55.8	(4.9)
Cost of systems integration revenues	2,275,704	24.8	(3.4)
Cost of equipment sales	934,711	10.2	12.3
Total costs	8,337,123	90.8	(2.5)
Sales and marketing	1,099,560	12.0	(36.4)
General and administrative	482,218	5.2	0.9
Research and development	96,118	1.0	(9.5)
Total costs and expenses	10,015,019	109.0	(6.2)

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Operating income(loss)	(829,760)	(9.0)	(128.4)
Other income(expenses)	(157,294)	(1.7)	(1,098.1)
Income(Loss) before income tax expense(benefit)	(987,054)	(10.7)	(282.9)
Income tax expense(benefit)	(571,642)	(6.2)	(50.9)
Minority interests in consolidated subsidiaries	186,931	2.0	(126.1)
Equity in net loss of equity method investees	(49,945)	(0.5)	16.8
Net income(loss)	(278,426)	(3.0%)	(810.8%)
Basic Net Income(Loss) Per Share	(10,082)		
Basic Net Income(Loss) Per ADS Equivalent	(5.04)		
Weighted Average Number of Shares	27,617		
Weighted Average Number of ADS Equivalents	55,233,050		

Note (1):The translation of Japanese yen amounts into US dollar amounts with respect to the three months ended Dec 31, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 107.13 = \$1, the approximate rate of exchange on Dec 31, 2003.

Appendix 2

INTERNET INITIATIVE JAPAN INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

For the Nine Months Ended Dec 31, 2003 and Dec 31, 2002
(Expressed in Thousands of Japanese Yen (JPY) and U.S.
Dollars (USD) Except for Per Share and ADS Data) (1)

Year-over-year Comparison
Dec 31, 2003

	USD (1)	JPY	% of Total Revenues
Revenues:			
Connectivity and value-added services:			
Dedicated access services	91,120	9,761,680	35.9%
Dial-up access services	21,754	2,330,551	8.6
Value-added services	29,802	3,192,670	11.8
Other	14,760	1,581,204	5.8
Total connectivity and			

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value-added services	157,436	16,866,105	62.1
Systems integration revenues	73,240	7,846,238	28.9
Equipment sales	22,871	2,450,117	9.0
Total revenues	253,547	27,162,460	100.0
Costs and expenses:			
Cost of connectivity and value-added services	142,235	15,237,607	56.1
Cost of systems integration revenues	63,453	6,797,764	25.0
Cost of other equipment sales	21,426	2,295,320	8.5
Total costs	227,114	24,330,691	89.6
Sales and marketing	25,871	2,771,562	10.2
General and administrative	14,754	1,580,597	5.8
Research and development	2,606	279,182	1.0
Total costs and expenses	270,345	28,962,032	106.6
Operating loss	(16,798)	(1,799,572)	(6.6)
Other income (expenses)	11,278	1,208,265	4.4
Loss before income tax expense (benefit)	(5,520)	(591,307)	(2.2)
Income tax expense (benefit)	(11,594)	(1,242,083)	(4.6)
Minority interests in consolidated subsidiaries	3,670	393,107	1.5
Equity in net loss of equity method investees:			
Equity method net loss	(912)	(97,740)	(0.4)
Impairment loss on investment, advances and deposits for Crosswave	(16,055)	(1,719,981)	(6.3)
Net loss	(7,223)	(773,838)	(2.8%)
Basic Net Loss Per Share		(26,198)	
Basic Net Loss Per ADS Equivalent		(13.10)	
Weighted Average Number of Shares		29,538	
Weighted Average Number of ADS Equivalents		59,076,611	

Year-over-year Comparison Dec 31, 2002

		% of Total Revenues	YoY Chg %
JPY			
Revenues:			

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Connectivity and value-added services:				
Dedicated access services	10,473,722	33.8%	(6.8%)	
Dial-up access services	2,390,179	7.7	(2.5)	
Value-added services	2,671,448	8.6	19.5	
Other	1,344,530	4.4	17.6	

Total connectivity and value-added services	16,879,879	54.5	(0.1)	
Systems integration revenues	10,107,204	32.6	(22.4)	
Equipment sales	3,994,039	12.9	(38.7)	

Total revenues	30,981,122	100.0	(12.3)	

Costs and expenses:				
Cost of connectivity and value-added services	15,353,621	49.6	(0.8)	
Cost of systems integration revenues	8,842,530	28.5	(23.1)	
Cost of other equipment sales	3,778,191	12.2	(39.2)	

Total costs	27,974,342	90.3	(13.0)	
Sales and marketing	2,386,931	7.7	16.1	
General and administrative	1,543,002	5.0	2.4	
Research and development	301,304	1.0	(7.3)	

Total costs and expenses	32,205,579	104.0	(10.1)	

Operating loss	(1,224,457)	(4.0)	47.0	

Other income (expenses)	(909,141)	(2.9)	(232.9)	

Loss before income tax expense (benefit)	(2,133,598)	(6.9)	(72.3)	

Income tax expense (benefit)	814,109	2.6	(252.6)	
Minority interests in consolidated subsidiaries	131,909	0.4	198.0	
Equity in net loss of equity method investees:				
Equity method net loss	(4,371,424)	(14.1)	(97.8)	
Impairment loss on investment, advances and deposits for Crosswave				

Net loss	(7,187,222)	(23.2%)	(89.2%)	
	=====			
Basic Net Loss Per Share	(319,716)			
Basic Net Loss Per ADS Equivalent	(159.86)			
Weighted Average Number of Shares	22,480			
Weighted Average Number of ADS Equivalents	44,960,000			

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the year ended Dec 31, 2003 are included

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solely for the convenience of readers outside Japan and have been made at the rate of JPY 107.13 = \$1, the approximate rate of exchange on Dec 31, 2003.

Appendix 3

INTERNET INITIATIVE JAPAN INC.

----- CONSOLIDATED BALANCE SHEETS (UNAUDITED) -----

As of Dec 31, 2003, Dec 31, 2002 and Sept 30, 2003
(Expressed in Thousands of Japanese Yen (JPY) and U.S.
Dollars (USD)) (1)

	Dec 31, 2003		
	USD (1)	JPY	%
ASSETS			

Current Assets:			
Cash and cash equivalent	113,326	12,140,595	31.5%
Accounts receivable, net	61,982	6,640,226	17.3
Inventories	1,832	196,252	0.5
Prepaid expenses	8,171	875,338	2.3
Other current assets	3,657	391,766	1.0
Total current assets	188,968	20,244,177	52.6
Investments in and Advances to Equity Method Investees	9,560	1,024,126	2.7
Other Investments	54,344	5,821,912	15.1
Property and Equipment, net	78,861	8,448,327	22.0
Restricted Cash			
Guarantee Deposits	19,382	2,076,387	5.4
Other Assets	7,934	849,954	2.2
Total assets	359,049	38,464,883	100.0%

LIABILITIES AND

----- SHAREHOLDERS' EQUITY (CAPITAL DEFICIENCY) -----

Current Liabilities:			
Short-term borrowings	63,142	6,764,410	17.6%
Accounts payable	43,047	4,611,586	12.0
Accrued expenses	4,798	513,996	1.3
Other current liabilities	5,554	594,974	1.5
Long-term borrowings-			
current portion	18,177	1,947,309	5.1
Capital lease obligations-			
current portion	22,548	2,415,596	6.3

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Total current liabilities	157,266	16,847,871	43.8
Long-term Borrowings	18,160	1,945,434	5.0
Convertible Notes	110,445	11,832,000	30.7
Capital Lease Obligations- Noncurrent	26,155	2,801,993	7.3
Accrued Retirement and Pension Costs	631	67,557	0.2
Other Noncurrent Liabilities	1,683	180,329	0.5

Total liabilities	314,340	33,675,184	87.5

Minority Interest	4,540	486,388	1.3

Shareholders' Equity (Capital Deficiency):			
Common stock (2)	128,492	13,765,372	35.8
Additional paid-in capital (2)	220,645	23,637,628	61.5
Accumulated deficit	(330,992)	(35,459,129)	(92.2)
Accumulated other comprehensive income	22,025	2,359,503	6.1
Treasury stock	(1)	(63)	0.0

Total shareholders' equity (capital deficiency)	40,169	4,303,311	11.2

Total liabilities and shareholders' equity (capital deficiency)	359,049	38,464,883	100.0%
=====			

	Dec 31, 2002		Sep 30, 2003	
	JPY	%	JPY	%

ASSETS				

Current Assets:				
Cash and cash equivalent	4,270,613	11.4%	11,782,935	30.7%
Accounts receivable, net	7,305,169	19.5	6,726,563	17.5
Inventories	813,863	2.2	268,519	0.7
Prepaid expenses	882,854	2.4	654,269	1.7
Other current assets	135,828	0.4	464,418	1.2

Total current assets	13,408,327	35.9	19,896,704	51.8

Investments in and Advances to Equity Method Investees	4,522,602	12.1	1,106,062	2.9
Other Investments	3,461,695	9.2	5,513,137	14.3
Property and Equipment, net	8,898,123	23.8	9,108,783	23.7
Restricted Cash	5,000,000	13.4		
Guarantee Deposits	1,369,596	3.7	2,080,764	5.4
Other Assets	699,998	1.9	728,580	1.9

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Total assets	37,360,341	100.0%	38,434,030	100.0%

LIABILITIES AND				

SHAREHOLDERS'				
EQUITY (CAPITAL DEFICIENCY)				

Current Liabilities:				
Short-term borrowings	4,510,000	12.1%	4,304,906	11.2%
Accounts payable	5,852,779	15.7	4,856,325	12.6
Accrued expenses	364,366	1.0	489,568	1.3
Other current liabilities	570,719	1.5	410,577	1.1
Long-term borrowings-				
current portion	1,200,000	3.2	2,946,377	7.7
Capital lease obligations-				
current portion	2,424,701	6.5	2,588,505	6.7

Total current liabilities	14,922,565	40.0	15,596,258	40.6
Long-term Borrowings	3,400,000	9.1	1,982,612	5.2
Convertible Notes	15,000,000	40.1	15,000,000	39.0
Capital Lease Obligations-				
Noncurrent	3,463,132	9.3	3,198,073	8.3
Accrued Retirement and				
Pension Costs	75,047	0.2	69,794	0.2
Other Noncurrent				
Liabilities	184,847	0.5	193,043	0.5

Total liabilities	37,045,591	99.2	36,039,780	93.8

Minority Interest	900,837	2.4	437,678	1.1

Shareholders' Equity (Capital				
Deficiency):				
Common stock (2)	7,082,336	18.9	13,765,372	35.8
Additional paid-in				
capital (2)	17,068,353	45.7	23,637,628	61.5
Accumulated deficit	(25,395,691)	(68.0)	(37,438,265)	(97.4)
Accumulated other				
comprehensive income	658,915	1.8	1,991,900	5.2
Treasury stock			(63)	0.0

Total shareholders'				
equity (capital deficiency)	(586,087)	(1.6)	1,956,572	5.1

Total liabilities				
and shareholders'				
equity (capital deficiency)	37,360,341	100.0%	38,434,030	100.0%
=====				

Note (1): The translation of Japanese yen amounts into US dollar amounts with respect to Dec 31, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY107.13 = \$1, the approximate rate of exchange on Dec 31, 2003.
 Note (2): New 12,615 shares have been issued on Sep 17, 2003, in

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the net proceeds of JPY11,886,887.

Appendix 4

INTERNET INITIATIVE JAPAN INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Dec 31, 2003, Dec 31, 2002 and Sept 30, 2003 (Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Dec 31, 2003		Dec 31, 2002	Sept 30, 2003
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net income (loss)	18,474	1,979,136	(2,266,039)	(278,426)
Depreciation and amortization	9,374	1,004,236	942,854	983,736
Provision for doubtful accounts	(377)	(40,428)	59,019	313,968
Equity method net loss	545	58,354	1,375,338	49,945
Minority interests in net income (loss) of consolidated subsidiaries	455	48,710	(41,813)	(186,931)
Foreign exchange losses	115	12,279	32,834	3,282
Gain on retirement of convertible bonds	(830)	(88,975)	-	-
Net losses (gains) on other investments	(14,301)	(1,532,033)	-	50,490
Decrease (increase) in accounts receivable	1,292	138,452	493,961	(1,100,671)
Increase (decrease) in accounts payable	(656)	(70,261)	1,033,939	216,306
Decrease (increase) in inventories	674	72,267	(398,092)	72,432
Deferred income taxes	(2,672)	(286,208)	132,230	(577,444)
Other	(1,957)	(209,740)	(111,975)	(73,111)
Net cash provided by (used in) operating activities	10,136	1,085,789	1,252,256	(526,424)
Investing Activities:				
Purchase of property and equipment	(3,170)	(339,621)	(505,169)	(148,007)
Proceeds from sales of other investment	18,173	1,946,875	-	122,650
Purchase of other investments	(56)	(6,039)	(28,377)	(304,517)
Refund of guarantee deposits-net	6	727	22,972	1,199
Other	(2)	(225)	(30,506)	9,875

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Net cash provided by (used in) investing activities	14,951	1,601,717	(541,080)	(318,800)

Financing Activities:				
Repayments of long- term borrowings	(9,673)	(1,036,247)	(200,000)	(36,017)
Repurchase of convertible notes	(28,446)	(3,047,460)	-	-
Principal payments under capital leases	(6,267)	(671,339)	(651,546)	(671,376)
Net increase (decrease) in short- term borrowings	22,958	2,459,505	(322,254)	(1,370,436)
Proceeds from issuance of common stock	-	-	-	11,886,887

Net cash provided by (used in) financing activities	(21,428)	(2,295,541)	(1,173,800)	9,809,058

Effect of Exchange Rate Changes on Cash	(320)	(34,305)	(39,516)	94

Net Increase (Decrease) in Cash	3,339	357,660	(502,140)	8,963,928

Cash, Beginning of Period	109,987	11,782,935	4,772,753	2,819,007

Cash, End of Period	113,326	12,140,595	4,270,613	11,782,935
=====				

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Dec 31, 2003 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY107.13 = \$1, the approximate rate of exchange on Dec 31, 2003.

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