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INTERNET INITIATIVE JAPAN INC

Form 6-K

November 13, 2006

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 November 13, 2006
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 permitted 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 permitted 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 registrant 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
material 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-

EXHIBIT INDEX

Exhibit	Date	Description of Exhibit
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1 2006/11/09 IIJ Announces Second Quarter Results for the Year
Ending March 31, 2007

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: November 13, 2006

/s/ Koichi Suzuki

Koichi Suzuki
President, Chief Executive Officer and
Representative Director

EXHIBIT 1

IIJ Announces Second Quarter Results for the
Year Ending March 31, 2007

Continuous Increase in Revenues and Profits due to Strong Business
Environment

TOKYO--(BUSINESS WIRE)--Nov. 9, 2006--Internet Initiative Japan Inc. (Nasdaq: IIJI, Tokyo Stock Exchange Mothers: 3774) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the second quarter of the fiscal year ending March 31, 2007 ("FY2006").(1)

Highlights of Second Quarter FY2006 Results

- Revenue totaled JPY 14,007 million (\$118.7 million), an increase of 17.4% from 2Q05.
- Operating income was JPY 811 million (\$6.9 million), an increase of 59.9% from 2Q05.
- Net income was JPY 2,120 million (\$18.0 million), an increase of 111.9% from 2Q05.

Target for FY2006(2)

- As announced on November 2, 2006, IIJ revised its original targets for FY2006 that were announced on May 10, 2006. The revised targets are JPY 56 billion for revenues, JPY 3.2 billion for operating income, JPY 5 billion for income before

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income tax expense (benefit) and JPY 5 billion for net income.

Overview of 2nd Quarter of FY2006 Financial Results and Business Outlook(2)

"We had a very strong second quarter, with revenues and profits increasing compared to the same period last year," said Koichi Suzuki, President and CEO of IIJ. "The business environment in IIJ's key markets remained quite strong this quarter. Corporate customers continued to shift to higher speed connectivity services due to the steady expansion of corporate network usage. We also continued to see strong demand for outsourcing services because corporate customers faced an increase of network-related security incidents and an overall shortage of Internet engineers. Corporate customers also increased the construction of internal information technology networks based on Internet technology. For Internet connectivity services, revenues turned to increase compared to the previous quarter, despite the continued stiff competition. The shift of customers to relatively lower-priced broadband services has almost completed and customers of IP Services, which are mainly used for Internet connectivity at corporate headquarters and data centers, shifted to higher-speed connections. Additionally, the number of contracts for broadband services for the connection of corporate branch offices and shops via Internet VPN increased. For value-added services, revenues increased in a number of areas, including e-mail related services that provide virus-fighting functions, isolate spam and record outgoing and incoming e-mails comprehensively, security-related services, Internet VPN related services and data center services. For systems integration, revenues rose mainly due to an increase in projects for companies that selected us to construct corporate information technology networks that use Internet technology, systems related to online business expansion and to enhance existing systems. In addition, we introduced several new e-mail and security-related products this quarter and will continue to try to capitalize on the growing demand in our target markets."

"According to the favorable financial results for the first half of FY2006, we announced revised targets for FY2006 on November 2, 2006," said Akihisa Watai, CFO of IIJ. "We revised our revenue target for FY2006 from JPY 55 billion to JPY 56 billion. We maintain our target for operating income of JPY 3.2 billion for FY2006, since our annual revenues and operating income are largely influenced by the financial results in the fourth quarter, which is very strong historically due to seasonal factors mainly related to corporate spending on systems integration projects, and those figures tend to fluctuate greatly in that period."

2nd Quarter FY2006 Financial Results

Operating Results Summary		(JPY in millions)	
	2Q06	2Q05	YoY % change
Total Revenues	14,007	11,929	17.4%
Total Costs	11,448	9,873	16.0%
SG&A Expenses and R&D	1,747	1,549	12.8%

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Operating Income	811	507	59.9%

Income before Income Tax Expense	1,145	1,097	4.4%

Net Income	2,120	1,001	111.9%

Revenues

Revenues in 2Q06 totaled JPY 14,007 million, an increase of 17.4% from JPY 11,929 million in 2Q05.

Revenues	(JPY in millions)		
	2Q06	2Q05	YoY % change

Total Revenues:	14,007	11,929	17.4%

Connectivity and Value-added Services	6,156	5,767	6.7%

Systems Integration	7,221	5,162	39.9%

Equipment Sales	630	1,000	(37.0%)

Connectivity and Value-added Services ("VAS") revenues were JPY 6,156 million in 2Q06, an increase of 6.7% compared to 2Q05. The increase was mainly due to an increase in revenues from value-added services, affected by an increase in demand for outsourcing services.

SI revenues increased 39.9% to JPY 7,221 million in 2Q06 compared to 2Q05. The increase was mainly due to an increase in one-time revenues from network design, construction and consultation and a steady increase in monthly recurring revenues from network operation and maintenance.

Equipment sales revenues were JPY 630 million in 2Q06, a decrease of 37.0% compared to 2Q05.

Cost and expense

Cost of revenues was JPY 11,448 million in 2Q06, an increase of 16.0% compared to 2Q05.

Cost of Revenues	(JPY in millions)		
	2Q06	2Q05	YoY % change

Cost of Revenues:	11,448	9,873	16.0%

Connectivity and Value-added Services	5,254	4,988	5.3%

Systems Integration	5,611	3,919	43.2%

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Equipment Sales	583	966	(39.7%)
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Cost of Connectivity and VAS revenues was JPY 5,254 million in 2Q06, an increase of 5.3% compared to 2Q05.

Cost of SI revenues was JPY 5,611 million in 2Q06, an increase of 43.2% compared to 2Q05. The increase was mainly due to an increase in revenues from systems integration projects.

Cost of Equipment Sales revenues was JPY 583 million in 2Q06, a decrease of 39.7% compared to 2Q05.

Sales and marketing expenses were JPY 843 million in 2Q06, an increase of 5.4% compared to 2Q05. The increase was mainly due to an increase in advertising expenses and personnel expenses.

General and administrative expenses were JPY 862 million in 2Q06, an increase of 23.3% compared to 2Q05. The increase was mainly due to an increase in personnel expenses.

Operating income

Operating income was JPY 811 million in 2Q06, an increase of 59.9% compared to 2Q05. The increase was mainly due to the increase in revenues from relatively higher-margin value-added services and systems integration.

Other income and others

Other income in 2Q06 was JPY 334 million, a decrease of 43.4% from JPY 590 million in 2Q05. The decrease was mainly due to a decrease in the gain from sale of available-for-sale securities, which is largely a reflection of the decrease in the value of the securities held due to market price fluctuations. The gain from the sale of available-for-sale securities in 2Q06 was JPY 445 million.

Income tax benefit in 2Q06 was JPY 1,109 million, compared to income tax expense of JPY 44 million in 2Q05. The benefit was mainly because of deferred tax benefits of JPY 1,266 million resulting from a release of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and others. Minority interests in earnings of subsidiaries in 2Q06 was JPY 82 million. Equity in net loss of equity method investees in 2Q06 was JPY 52 million.

Net income was JPY 2,120 million in 2Q06, an increase of 111.9% compared to 2Q05.

2nd Quarter FY2006 Business Review

Analysis by Service

Connectivity and Value-added Services

For dedicated access services, customers for IP Services, which are mainly used for corporate headquarters and data centers, continued to shift to higher speed bandwidth for IP Services. The number of contracts for broadband services also continued to increase substantially compared to 2Q05, mainly due to the increasing demand for services that connect branch offices and shops through Internet

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VPN.

The number of contracts for dedicated access services increased by 3,410 to 16,112 compared to 2Q05. Total contracted bandwidth increased by 102.2Gbps to 253.2Gbps compared to 2Q05.

Dedicated access service revenues were JPY 2,687 million, a decrease of 0.3% compared to 2Q05. The decrease is mainly related to a decrease of JPY 234 million in interconnection revenues between IIJ's network and Asia Internet Holding Co., Ltd. ("AIH"), IIJ's former equity method investee, because AIH was merged into IIJ in October 2005.

Dial-up access service revenues were JPY 606 million in 2Q06, a decrease of 11.2% compared to 2Q05, mainly due to a decrease in revenues from services for individual customers, such as IIJ4U, as well as the discontinuance of services of certain large customer to which we provided our services as OEM.

VAS revenues were JPY 1,906 million in 2Q06, an increase of 30.7% compared to 2Q05. The increase was due to an increase in revenues from various types of services, such as e-mail, security and Internet VPN related services and data center services.

Other revenues were JPY 957 million in 2Q06, an increase of 2.9% compared to 2Q05.

As a result, revenues from Internet connectivity and value-added services in 2Q06 were JPY 6,156 million, an increase of 6.7% compared to 2Q05. The gross margin for Internet connectivity and value-added services in 2Q06 was JPY 901 million, an increase of 15.7% compared to 2Q05. The gross margin ratio in 2Q06 was 14.6%, compared to 13.5% in 2Q05.

Number of Contracts for Connectivity Services

	2Q06	2Q05	YoY Change
Dedicated Access Service Contracts	16,112	12,702	3,410
IP Service (Low Bandwidth: 64kbps- 768kbps) (3)	70	61	9
IP Service (Medium Bandwidth: 1Mbps- 99Mbps) (3)	682	637	45
IP Service (High Bandwidth: 100Mbps-)	198	143	55
IIJ T1 Standard and IIJ Economy	66	182	(116)
IIJ Data Center Connectivity Service	266	234	32
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	14,830	11,445	3,385
Dial-up Access Service Contracts	585,471	663,527	(78,056)
Dial-up Access Services, under IIJ Brand	60,005	64,810	(4,805)

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Dial-up Access Services, OEM(4)	525,466	598,717	(73,251)
Total Contracted Bandwidth	253.2Gbps	151.0Gbps	102.2Gbps

Connectivity and VAS Revenue Breakdown and Cost (JPY in millions)			
	2Q06	2Q05	YoY % Change
Connectivity Service Revenues	3,293	3,378	(2.5%)
Dedicated Access Service Revenues	2,687	2,695	(0.3%)
IP Service (5)	2,095	2,121	(1.3%)
IIJ T1 Standard and IIJ Economy	51	113	(54.7%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	541	461	17.3%
Dial-up Access Service Revenues	606	683	(11.2%)
Under IIJ Brand	412	457	(9.8%)
OEM	194	226	(14.1%)
VAS Revenues	1,906	1,459	30.7%
Other Revenues	957	930	2.9%
Total Connectivity and VAS Revenues	6,156	5,767	6.7%
Cost of Connectivity and VAS	5,254	4,988	5.3%
Backbone Cost (included in the cost of Connectivity and VAS)	876	846	3.5%
Connectivity and VAS Gross Margin Ratio	14.6%	13.5%	-

Systems Integration

Revenue from systems integration was JPY 7,221 million in 2Q06, an increase of 39.9% compared to 2Q05. The increase was mainly due to an increase of 21.5% in monthly recurring revenues from outsourced operations compared to 2Q05 as well as a significant increase of 61.0% in one-time revenues from the construction of networks compared to 2Q05. The gross margin for systems integration in 2Q06 was JPY 1,610 million and the gross margin ratio in 2Q06 was 22.3%, compared to 24.1% in 2Q05.

Systems Integration Revenue Breakdown and Cost (JPY in millions)			
	2Q06	2Q05	YoY % Change
Systems Integration Revenues	7,221	5,162	39.9%

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Systems Integration	3,871	2,405	61.0%
Outsourced Operation	3,350	2,757	21.5%
Cost of Systems Integration	5,611	3,919	43.2%
Systems Integration Gross Margin Ratio	22.3%	24.1%	-

Equipment Sales

Revenue from equipment sales was JPY 630 million in 2Q06. The gross margin ratio for equipment sales in 2Q06 was 7.5%, compared to 3.5% in 2Q05.

Equipment Sales Revenue and Cost	(JPY in millions)		
	2Q06	2Q05	YoY % Change
Equipment Sales Revenues	630	1,000	(37.0%)
Cost of Equipment Sales	583	966	(39.7%)
Equipment Sales Gross Margin Ratio	7.5%	3.5%	-

Other Financial Statistics

Other Financial Statistics	(JPY in millions)		
	2Q06	2Q05	YoY % change
Adjusted EBITDA(6)	1,880	1,517	23.9%
CAPEX, including capital leases(7)	636	795	(20.0%)
Depreciation and amortization	1,069	1,010	5.8%

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income in IIJ's consolidated statements of income that are prepared in accordance with U.S. GAAP and presented in Appendix 1:

Adjusted EBITDA	(JPY in millions)	
	2Q06	2Q05
Adjusted EBITDA	1,880	1,517

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Depreciation and Amortization	(1,069)	(1,010)
Operating Income	811	507
Other Income	334	590
Income Tax Expense	(1,109)	44
Minority Interests in Earnings of Subsidiaries	(82)	(82)
Equity in Net Income (Loss) of Equity Method Investees	(52)	30
Net Income	2,120	1,001

The following table summarizes the reconciliation of capital expenditures to purchase of property and equipment in IIJ's consolidated statements of cash flows that are prepared and presented in accordance with U.S. GAAP and presented in Appendix 3:

CAPEX	(JPY in millions)	
	2Q06	2Q05
Capital Expenditures	636	795
Acquisition of Assets by Entering into Capital Leases	513	681
Purchase of Property and Equipment	123	114

Target

In consideration of recent trends in the Company's financial results, IIJ revised its targets for FY2006 financial results on November 2, 2006. For details, please see the press release that IIJ issued on November 2, 2006. The revised targets are as follows:

(JPY in millions)			
Revenues	Operating Income	Income from Operations before Income Tax Expense (Benefit), Minority Interests and Equity in Net Income (Loss) of Equity Method Investees	Net Income
56,000	3,200	5,000	5,000

Presentation

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On November 10, 2006, IIJ will post a presentation of its results on its website. For details, please access the following URL:
<http://www.iij.ad.jp/en/IR/>

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IIJI, Tokyo Stock Exchange Mothers: 3774) 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. The company's services include 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 FY2006 revenues and operating and net 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 ability to maintain and increase revenues from higher-margin services such as systems integration and value-added services; the possibility that revenues from connectivity services may decline substantially as a result of competition and other factors; the ability to compete in a rapidly evolving and competitive marketplace; the impact on IIJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IIJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IIJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IIJ's largest shareholder, may decide to exercise substantial influence over IIJ; 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.

(1) Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 2Q06 results, translations of Japanese yen amounts into U.S. dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 117.99 = US\$1.00.

(2) This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2006 revenues and operating and net income 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 included in IIJ's annual report on Form 20-F, filed with the SEC on July 11, 2006, 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 3Q06 earnings release, presently scheduled for release in February 2007.

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(3) Including IPv6 Services.

(4) OEM services provided to other service providers.

(5) IP Service revenues includes revenues from Data Center Connectivity Service.

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

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

Appendix 1

Internet Initiative Japan Inc.

Quarterly Consolidated Balance Sheets (Unaudited)

(As of September 30, 2006 and March 31, 2006)

	As of September 30, 2006		
	Thousands of U.S. Dollars	Thousands of Yen	%
ASSETS			
CURRENT ASSETS:			
Cash	108,990	12,859,745	
Accounts receivable, net of allowance for doubtful accounts of JPY 22,198 thousand and JPY 23,411 thousand at September 30, 2006 and March 31, 2006, respectively	65,994	7,786,677	
Inventories	5,034	593,899	
Prepaid expenses	11,268	1,329,486	
Other current assets, net of allowance for doubtful accounts of JPY 3,850 thousand and JPY 33,250 thousand at September 30, 2006 and March 31, 2006, respectively	7,411	874,401	
Total current assets	198,697	23,444,208	53.2
INVESTMENTS IN AND ADVANCES TO EQUITY			
METHOD INVESTEEES, net of loan loss valuation allowance of JPY 16,701 thousand at September 30, 2006 and March 31, 2006	8,843	1,043,410	2.4
OTHER INVESTMENTS	52,694	6,217,408	14.1
PROPERTY AND EQUIPMENT-Net	80,484	9,496,329	21.6
INTANGIBLE ASSETS-Net	5,383	635,147	1.4
GUARANTEE DEPOSITS	12,985	1,532,046	3.5
OTHER ASSETS, net of allowance for doubtful accounts of JPY 65,251 thousand and JPY 40,980 thousand at			

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September 30, 2006 and March 31, 2006, respectively	14,144	1,668,884	3.8
TOTAL	373,230	44,037,432	100.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings	48,733	5,750,000	
Long-term borrowings--current portion	8,988	1,060,476	
Payable under securities loan agreement	4,076	480,960	
Capital lease obligations--current portion	23,739	2,800,937	
Accounts payable	43,142	5,090,316	
Accrued expenses	5,541	653,789	
Other current liabilities	14,579	1,720,181	
Total current liabilities	148,798	17,556,659	39.9
LONG-TERM BORROWINGS	-	-	-
CAPITAL LEASE OBLIGATIONS--Noncurrent	37,053	4,371,896	9.9
ACCRUED RETIREMENT AND PENSION COSTS	2,274	268,292	0.6
OTHER NONCURRENT LIABILITIES	5,671	669,131	1.5
Total Liabilities	193,796	22,865,978	51.9
MINORITY INTEREST	11,555	1,363,362	3.1
COMMITMENTS AND CONTINGENCIES	-	-	-
SHAREHOLDERS' EQUITY:			
Common-stock			
-authorized, 377,600 shares; issued and outstanding, 204,300 shares at September 30, 2006 and March 31, 2006	142,672	16,833,847	38.2
Additional paid-in capital	225,436	26,599,217	60.4
Accumulated deficit	(227,363)	(26,826,562)	(60.9)
Accumulated other comprehensive income	27,848	3,285,828	7.5
Treasury stock--777 shares held by an equity method investee at September 30, 2006, and March 31, 2006	(714)	(84,238)	(0.2)
Total shareholders' equity	167,879	19,808,092	45.0
TOTAL	373,230	44,037,432	100.0

As of March 31, 2006

Thousands of
Yen %

ASSETS

CURRENT ASSETS:

Cash	13,727,021
Accounts receivable, net of allowance for doubtful accounts of JPY 22,198 thousand and JPY 23,411 thousand at September 30, 2006 and	

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March 31, 2006, respectively	11,962,304	
Inventories	851,857	
Prepaid expenses	1,031,325	
Other current assets, net of allowance for doubtful accounts of JPY 3,850 thousand and JPY 33,250 thousand at September 30, 2006 and March 31, 2006, respectively	214,121	

Total current assets	27,786,628	54.8
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD		
INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand at September 30, 2006 and March 31, 2006	1,162,971	2.3
OTHER INVESTMENTS		
PROPERTY AND EQUIPMENT-Net	8,020,705	15.8
INTANGIBLE ASSETS-Net	10,299,496	20.3
GUARANTEE DEPOSITS	632,594	1.2
OTHER ASSETS, net of allowance for doubtful accounts of JPY 65,251 thousand and JPY 40,980 thousand at September 30, 2006 and March 31, 2006, respectively	1,549,653	3.1
	1,252,942	2.5

TOTAL	50,704,989	100.0

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	4,555,000	
Long-term borrowings--current portion	1,989,963	
Payable under securities loan agreement	999,600	
Capital lease obligations--current portion	3,003,914	
Accounts payable	10,107,942	
Accrued expenses	540,027	
Other current liabilities	1,702,208	

Total current liabilities	22,898,654	45.2
LONG-TERM BORROWINGS	290,000	0.6
CAPITAL LEASE OBLIGATIONS--Noncurrent	4,980,659	9.8
ACCRUED RETIREMENT AND PENSION COSTS	223,332	0.4
OTHER NONCURRENT LIABILITIES	827,086	1.6

Total Liabilities	29,219,731	57.6

MINORITY INTEREST	1,263,320	2.5

COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY:		
Common-stock		
-authorized, 377,600 shares; issued and outstanding, 204,300 shares at September 30, 2006 and March 31, 2006	16,833,847	33.2
Additional paid-in capital	26,599,217	52.5
Accumulated deficit	(29,680,482)	(58.5)
Accumulated other comprehensive income	6,553,594	12.9
Treasury stock--777 shares held by an equity method investee at September 30, 2006, and March 31, 2006	(84,238)	(0.2)

Total shareholders' equity	20,221,938	39.9

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TOTAL -----
50,704,989 100.0

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.99, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 29, 2006.

Appendix 2

Internet Initiative Japan Inc.

Quarterly Consolidated Statements of Income (Unaudited)

(For the three months ended September 30, 2006 and September 30, 2005)

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005		
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	
REVENUES:						
Connectivity and value-added services:						
Dedicated access	22,771	2,686,745		2,695,325		
Dial-up access	5,134	605,809		682,439		
Value-added services	16,153	1,905,901		1,458,557		
Other	8,112	957,103		930,205		
Total	52,170	6,155,558		5,766,526		
Systems integration	61,200	7,220,973		5,161,600		
Equipment sales	5,340	630,066		1,000,701		
Total revenues	118,710	14,006,597	100.0	11,928,827	100.0	
COST AND EXPENSES:						
Cost of connectivity and value-added services	44,532	5,254,403		4,987,986		
Cost of systems integration	47,551	5,610,503		3,918,774		
Cost of						

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equipment sales	4,941	582,998		966,095	
Total cost	97,024	11,447,904	81.7	9,872,855	82.8
Sales and marketing	7,143	842,796	6.0	799,562	6.7
General and administrative	7,306	862,014	6.2	699,166	5.8
Research and development	360	42,507	0.3	49,947	0.4
Total cost and expenses	111,833	13,195,221	94.2	11,421,530	95.7
OPERATING INCOME	6,877	811,376	5.8	507,297	4.3
OTHER INCOME:					
Interest income	38	4,432		5,773	
Interest expense	(835)	(98,498)		(106,536)	
Foreign exchange gains	(6)	(700)		(3,067)	
Gain on other investments-net	3,769	444,650		660,039	
Other-net	(136)	(16,085)		33,408	
Other income-net	2,829	333,799	2.4	589,617	4.9
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	9,706	1,145,175	8.2	1,096,914	9.2
INCOME TAX EXPENSE (BENEFIT)	(9,396)	(1,108,657)	(7.9)	43,900	0.4
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES	(691)	(81,534)	(0.6)	(81,777)	(0.7)
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	(441)	(52,049)	(0.4)	29,403	0.3
NET INCOME	17,970	2,120,249	15.1	1,000,640	8.4

BASIC WEIGHTED-AVERAGE NUMBER					

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OF SHARES		203,989	191,489
DILUTED			
WEIGHTED-			
AVERAGE NUMBER			
OF SHARES		204,104	191,787
BASIC WEIGHTED-			
AVERAGE NUMBER			
OF ADS			
EQUIVALENTS		81,595,702	76,595,702
DILUTED			
WEIGHTED-			
AVERAGE NUMBER			
OF ADS			
EQUIVALENTS		81,641,597	76,715,032
BASIC NET INCOME			
PER SHARE	88.09	10,394	5,226
DILUTED NET			
INCOME PER			
SHARE	88.04	10,388	5,217
BASIC NET INCOME			
PER ADS			
EQUIVALENT	0.22	25.98	13.06
DILUTED NET			
INCOME PER ADS			
EQUIVALENT	0.22	25.97	13.04

(Note)

- 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.99, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 29, 2006.
- 2) IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers of shares of common stock authorized, and issued and outstanding, and shares held by an equity method investee in this table are calculated with the assumption that the stock split was made at the beginning of FY2005. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005.

Appendix 3

Internet Initiative Japan Inc.

Quarterly Condensed Consolidated Statements of Cash Flows (Unaudited)
 (For the three months ended September 30, 2006 and September 30, 2005)

	Three Months Ended	Three Months Ended
	September 30, 2006	September 30, 2005
Thousands of U.S. Thousands		Thousands

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	Dollars	of Yen	of Yen

OPERATING ACTIVITIES:			
Net income	17,970	2,120,249	1,000,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,060	1,068,970	1,010,139
Reversal of doubtful accounts and advances	(67)	(7,859)	(1,673)
Gains on other investments-net	(3,769)	(444,650)	(660,039)
Foreign exchange gains	(48)	(5,670)	(4,131)
Equity in net loss (income) of equity method investees	441	52,049	(29,403)
Minority interests in earnings of subsidiaries	691	81,534	81,777
Deferred income tax benefit	(10,731)	(1,266,200)	(10,681)
Others	466	54,939	(5,856)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(14,063)	(1,659,286)	(796,785)
Decrease in inventories, prepaid expenses and other current and noncurrent assets	6,172	728,292	119,783
Increase in accounts payable	9,421	1,111,574	1,272,038
Decrease in accrued expenses, other current and noncurrent liabilities	(1,917)	(226,196)	(6,362)

Net cash provided by operating activities	13,626	1,607,746	1,969,447

INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,048)	(123,604)	(114,208)
Purchase of other investments	(11,712)	(1,381,951)	(844)
Purchase of subsidiary stock from minority shareholders	-	-	(192,142)
Proceeds from sales and redemption of short-term and other investments	5,385	635,427	981,420
Acquisition of a newly controlled company, net of cash acquired	-	-	229,457
Refund (payment) of guarantee deposits-net	180	21,205	(7,256)
Other	(51)	(6,068)	(7,655)

Net cash provided by (used in) investing activities	(7,246)	(854,991)	888,772

FINANCING ACTIVITIES:			
Proceeds from issuance of long-term borrowings	-	-	1,000,000
Repayments of long-term borrowings	(4,745)	(559,866)	(1,458,892)
Proceeds from securities loan agreement	4,076	480,960	1,734,800
Repayments of securities loan agreement	(4,204)	(496,080)	(1,746,800)
Principal payments under capital leases	(6,845)	(807,669)	(748,762)
Net increase in short-term borrowings	3,390	400,000	198,790

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Net cash used in financing activities	(8,328)	(982,655)	(1,020,864)

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(12)	(1,375)	9,753
NET INCREASE (DECREASE) IN CASH	(1,960)	(231,275)	1,847,108
CASH, BEGINNING OF EACH PERIOD	110,950	13,091,020	5,106,388

CASH, END OF EACH PERIOD	108,990	12,859,745	6,953,496

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.99, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 29, 2006.

Note: The following information is to disclose IIJ's financial results for the interim period ended September 30, 2006 in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Interim Period Ended
September 30, 2006
(Under accounting principles generally accepted in the United States
("U.S. GAAP"))

November 9, 2006

Company name: Internet Initiative Japan Inc.
Exchange listed: Tokyo Stock Exchange Mothers
Stock code number: 3774
Location of headquarters: Tokyo
(URL: <http://www.iij.ad.jp>)
Representative: Koichi Suzuki, President and Representative Director
Contact: Akihisa Watai, Director and CFO TEL: (03) 5259-6500
Name of the parent and other companies:
Nippon Telegraph and Telephone Corporation ("NTT")
(stock code number: 9432)*
Percentage ownership by the parent and other companies: 29.7%
Adoption of U.S. GAAP: Yes
* Shown as a company in whose affiliates IIJ is included in accordance with the disclosure rules of the Tokyo Stock Exchange

1. Consolidated Financial Results for the Interim Period Ended
September 30, 2006
(April 1, 2006 to September 30, 2006)

(1) Consolidated Results of Operations
(Amounts less than one million yen are rounded)

Income before
income tax

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	Total revenues		Operating income		expense (benefit)	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Interim period ended September 30, 2006	26,444	21.3	1,370	81.8	2,144	20.5
Interim period ended September 30, 2005	21,809	13.7	754	315.0	1,779	-
Fiscal year ended March 31, 2006	49,813		2,411		5,379	

	Net income		Basic net income per share	Diluted net income per share
	Millions of Yen	%	Yen	Yen
Interim period ended September 30, 2006	2,854	75.8	13,991	13,978
Interim period ended September 30, 2005	1,623	-	8,476	8,469
Fiscal year ended March 31, 2006	4,754		24,301	24,258

(Notes)

1) Equity in net income (loss) of equity method investees was equity in net loss of JPY 125 million, equity in net income of JPY 32 million and equity in net loss of JPY 14 million for the interim period ended September 30, 2006, the interim period ended September 30, 2005 and the fiscal year ended March 31, 2006, respectively.

2) The weighted-average number of shares of common stock outstanding on a consolidated basis was 203,989, 191,518, and 195,613 for the interim period ended September 30, 2006, the interim period ended September 30, 2005 and the fiscal year ended March 31, 2006, respectively.

IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The weighted-average number of shares of common stock outstanding for the interim period ended September 30, 2005 is calculated with the assumption that the stock split was made at the beginning of the fiscal year ended March 31, 2006.

3) There is no change in accounting method from the most recent fiscal year.

4) In this document, income before income tax expense (benefit) represents income from operations before income tax expense (benefit), minority interests and equity in net income (loss) of equity method investees in IIJ's consolidated financial statements.

5) The percentage figures for the total revenues, operating income

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and others show an increase or decrease compared to each year's previous fiscal year. IIJ does not show the percentage figure for income before income tax expense (benefit) and net income for the interim period ended September 2005, because the amount for income before income tax expense (benefit) exceeded 1,000% and IIJ recorded a net loss for the interim period ended September 2004.

(2) Consolidated Financial Position

(Amounts less than one million yen are rounded)

	Total assets	Share- holders' equity	Shareholders' equity as a percentage of total assets	Shareholders' equity per share
	Millions of Yen	Millions of Yen	%	Yen
Interim period ended September 30, 2006	44,037	19,808	45.0	97,104
Interim period ended September 30, 2005	36,121	11,380	31.5	59,430
Fiscal year ended March 31, 2006	50,705	20,222	39.9	99,132

(Note)

The number of shares of common stock outstanding on consolidated basis was 203,989, 191,489 and 203,989 for the interim period ended September 30, 2006, the interim period ended September 30, 2005 and the fiscal year ended March 31, 2006, respectively.

(3) Consolidated Cash Flows

(Amounts less than one million yen are rounded)

	Net cash provided by operating activities	Net cash provided by (used in) investing activities	Net cash used in financing activities	Cash and cash equivalents, end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Interim period ended September 30, 2006	2,512	(1,122)	(2,251)	12,860
Interim period ended September 30, 2005	2,997	846	(2,197)	6,953
Fiscal year ended March 31, 2006	6,559	1,805	39	13,727

(4) Items regarding the Scope of Consolidation and Adoption of

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Equity Method

We had 5 consolidated subsidiaries, no non-consolidated equity method subsidiaries and 4 equity method affiliates.

(5) Changes in the Scope of Consolidation and Adoption of Equity Method

We added 1 new consolidated subsidiary.

2. Targets for Financial Results for the Fiscal Year Ending March 31, 2007

(From April 1, 2006 to March 31, 2007)

(Amounts less than one million yen are rounded)

	Total revenues	Operating income	Income before income tax expense (benefit)	Net income
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal year ending March 31, 2007	56,000	3,200	5,000	5,000

(Reference) Net income per share for the fiscal year ending March 31, 2007, based on the target above is JPY 24,511.

(Note)

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 management's current expectations, assumptions, estimates and projections about IIJ's business and the industry. These forward-looking statements, such as statements regarding revenues and operating and net profitability above, 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.

1. Current Status of IIJ Group

(1) Overview of the IIJ Group

IIJ, which has five consolidated subsidiaries and four equity method investees as of the date of the announcement of this document, provides mainly enterprises and public organizations that use networks for their business with various reliable and highly value-added network services (Internet connectivity services, value-added services ("VAS"), systems integration ("SI") and equipment sales) based on its Internet technologies comprehensively.

An overview of the businesses of IIJ and its group companies is as follows:

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Company Name	Overview of Business
IIJ	IIJ mainly provides Internet connected value-added services such as security related services, outsourcing services of network data center services. IIJ also provides consultation and construction of network equipment for the construction of network operation and maintenance. IIJ provides services into connectivity and VAS, SI, and equipment consolidated financial statements.
Five consolidated subsidiaries	
IIJ Technology Inc. ("IIJ-Tech")	IIJ-Tech mainly provides systems design, development, construction, operation and supply of equipment and its operation and the construction of systems. IIJ-Tech is classified into SI and equipment consolidated financial statements.
IIJ Financial Systems, Inc. ("IIJ-FS")	IIJ-FS mainly provides the development, operation and maintenance of systems for financial institutions. IIJ-FS provides services classified into SI in consolidated financial statements.
Net Care, Inc. ("Net Care")	Net Care mainly provides the monitoring and maintenance of networks and outsourced customer support services. Net Care provides services classified into SI in IIJ's consolidated financial statements.
IIJ America Inc. ("IIJ America")	IIJ America mainly provides Internet connectivity services in the United States and constructs the Internet backbone in the United States. IIJ America has a presence in the United States. IIJ America provides services classified into connectivity in consolidated financial statements.
Net Chart Japan Inc. ("Net Chart")	Net Chart mainly provides network construction services mainly related to Local Area Networks, such as installation and configuration of equipment, wirings and configuration, and installation and operation of applications. Net Chart provides services classified into SI in IIJ's consolidated financial statements.
Four equity method affiliates	
Internet Multifeed Co. ("Multifeed")	Multifeed was established as a joint venture and mainly operates Internet exchange, distribution of Internet content, and provides housing services.
atom Co., Ltd ("atom")	atom mainly provides content design and production services.
i-Heart Inc. ("i-Heart")	i-Heart was established as a joint venture Corporation in South Korea and provides services in South Korea.
Internet Revolution Inc. ("i-revo")	i-revo was established as a joint venture Corporation and mainly operates Internet services.

(Note)

IIJ established Net Chart as its fully-owned subsidiary in August 2006. Net Chart commenced its business operations after it succeeded the business operations of Net Chart Japan Corporation in October 2006.

In addition to the above, NTT is IIJ's other related company as defined in the disclosure rules of the Tokyo Stock Exchange, since IIJ is NTT's affiliate.

(2) Business Diagram

The overview of IIJ Group's business can be illustrated as follows:

