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INTERNET INITIATIVE JAPAN INC

Form 6-K

February 09, 2007

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 9, 2007
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 [X] 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 [X]

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

EXHIBIT INDEX

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Exhibit -----	Date ----	Description of Exhibit -----
1	2007/02/08	IIJ Announces Third Quarter Results for the Year Ending March 31, 2007
2	2007/02/08	IIJ Announces its Plan for the Annual Dividend for the Fiscal 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: February 9, 2007

By: /s/ Koichi Suzuki

Koichi Suzuki
President, Chief Executive Officer and
Representative Director

EXHIBIT 1

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

Favorable Results Continued Largely Due to Increasing Outsourcing
and Integration Demand

TOKYO--(BUSINESS WIRE)--Feb. 8, 2007--Internet Initiative Japan Inc. (Nasdaq: IIJI, Tokyo Stock Exchange First Section: 3774) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the third quarter of the fiscal year ending March 31, 2007 ("FY2006").(1)

Highlights of Third Quarter FY2006 Results

- Revenue totaled JPY 13,587 million (\$114.2 million), an increase of 14.5% from 3Q05.
- Operating income was JPY 986 million (\$8.3 million), an increase of 42.7% from 3Q05.
- Net income was JPY 1,405 million (\$11.8 million), an increase of 18.2% from 3Q05.

Target for FY2006(2)

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- IIJ revised its targets for FY2006 that were announced on November 2, 2006. The revised targets are JPY 56.5 billion for revenues, JPY 3.4 billion for operating income, JPY 5.2 billion for income before income tax expense (benefit) (3) and JPY 5.2 billion for net income.
- As announced today, we plan to pay an annual cash dividend of JPY 1,500 per one share of common stock for FY2006.

Overview of 3rd Quarter of FY2006 Financial Results and Business Outlook(2)

"Our financial results continued to be very favorable this quarter," said Koichi Suzuki, President and CEO of IIJ. "This was largely due to continued increasing demand from our corporate customers for outsourcing services and systems integration. Corporate customers are expanding their use of Internet Protocol in their information systems and have been more willing to invest in their information systems to increase their competitiveness. To capture the demand, we have been developing products based on our high engineering skills and enhancing our solutions line-up. We started to provide services such as "IIJ Secure MX Service" and "IIJ Managed Firewall" this quarter. "IIJ Secure MX Service" is a service that provides comprehensive e-mail security functions for corporate risk management, such as anti-spam, the recording of all incoming and outgoing e-mails, the encryption of e-mail connections and the provision of on-line storage. We have received many orders and inquiries for this service since we introduced it last October and currently we provide our anti-spam solutions to over 200,000 e-mail accounts. We are also actively involved in research and development activities, such as a pilot program for broadcasting high quality video content of NHK (Japan Broadcasting Corporation) to realize a content distribution platform. We also take part in various projects to develop safer, more secure and more effective usage of the Internet, such as the "Secure Service Platform", a technology to realize a safer and more secure Internet environment, and the international logistics pilot program using RFID."

"Today, we also announced that we plan to pay an annual cash dividend for FY2006, subject to an approval by our general shareholders' meeting," continued Suzuki. "The payment of dividends will be the first time since our establishment, and we continue to make efforts to pay dividends to our shareholders while simultaneously enhancing our financial position, enhancing our business in the mid and long-term and retaining earnings for new business development (please refer to the press release that we made today for the details)."

"In consideration of our achievements through the third quarter, we revised our target for our financial results for FY2006 favorably," said Akihisa Watai, CFO of IIJ. "We believe that the increase in value-added services and systems integration revenues will continue to contribute to continued growth in revenues and income."

3rd Quarter FY2006 Financial Results

Operating Results Summary		(JPY in millions)	
	3Q06	3Q05	YoY % change

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Total Revenues	13,587	11,870	14.5%
Total Costs	10,727	9,652	11.1%
SG&A Expenses and R&D	1,874	1,527	22.7%
Operating Income	986	691	42.7%
Income before Income Tax Expense	1,603	1,333	20.3%
Net Income	1,405	1,189	18.2%

Revenues

Revenues in 3Q06 totaled JPY 13,587 million, an increase of 14.5% from JPY 11,870 million in 3Q05.

	Revenues (JPY in millions)		
	3Q06	3Q05	YoY % change
Total Revenues:	13,587	11,870	14.5%
Connectivity and Value-added Services	6,100	5,840	4.4%
Systems Integration	7,093	5,261	34.8%
Equipment Sales	394	769	(48.8%)

Connectivity and Value-added Services ("VAS") revenues were JPY 6,100 million in 3Q06, an increase of 4.4% compared to 3Q05. The increase was mainly due to an increase in revenues from value-added services.

SI revenues increased 34.8% to JPY 7,093 million in 3Q06 compared to 3Q05. The increase was 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 394 million in 3Q06, a decrease of 48.8% compared to 3Q05.

Cost and expense

Cost of revenues was JPY 10,727 million in 3Q06, an increase of 11.1% compared to 3Q05.

	Cost of Revenues (JPY in millions)		
	3Q06	3Q05	YoY % change
Cost of Revenues:	10,727	9,652	11.1%
Connectivity and Value-added Services	5,073	5,035	0.7%
Systems Integration	5,322	3,910	36.1%
Equipment Sales	332	707	(52.9%)

Cost of Connectivity and VAS revenues was JPY 5,073 million in 3Q06, an increase of 0.7% compared to 3Q05.

Cost of SI revenues was JPY 5,322 million in 3Q06, an increase of 36.1% compared to 3Q05. The increase was mainly due to an increase in revenues from systems integration projects.

Cost of Equipment Sales revenues was JPY 332 million in 3Q06, a decrease of 52.9% compared to 3Q05. The decrease was mainly due to a decrease in revenues from equipment sales.

Sales and marketing expenses were JPY 910 million in 3Q06, an increase of 20.6% compared to 3Q05. The increase was mainly due to an increase in advertising expenses and personnel expenses along with business expansion.

General and administrative expenses were JPY 924 million in 3Q06, an increase of 25.0% compared to 3Q05. The increase was mainly due to an increase in personnel expenses.

Operating income

Operating income was JPY 986 million in 3Q06, an increase of 42.7% compared to 3Q05. 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 3Q06 was JPY 617 million, a decrease of 3.8% from JPY 642 million in 3Q05. The gain from the sale of available-for-sale securities in 3Q06 was JPY 757 million.

Income tax expense in 3Q06 was JPY 92 million, compared to income tax expense of JPY 28 million in 3Q05. Minority interests in earnings of subsidiaries in 3Q06 was JPY 70 million. Equity in net loss of equity method investees in 3Q06 was JPY 36 million.

Net income was JPY 1,405 million in 3Q06, an increase of 18.2% compared to 3Q05.

3rd Quarter FY2006 Business Review

Analysis by Service

Connectivity and Value-added Services

For dedicated access services, the number of contracts increased by 2,939 to 16,663 compared to 3Q05. Total contracted bandwidth increased by 185.5 Gbps to 260.0 Gbps compared to 3Q05.

Dedicated access service revenues were JPY 2,703 million, an increase of 4.8% compared to 3Q05. The increase was mainly due to the shift to higher speed bandwidth by customers in IP Services, which are mainly used for Internet connections in corporate headquarters and data centers, and an increase in the number of contracts for broadband services that connect corporate branch offices and shops through Internet VPN.

Dial-up access service revenues were JPY 604 million in 3Q06, a

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decrease of 6.6% compared to 3Q05, mainly due to a decrease in revenues from services for individual customers, such as IIJ4U.

VAS revenues were JPY 1,861 million in 3Q06, an increase of 12.9% compared to 3Q05. 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, though there was a factor to decrease the revenues on quarter over quarter comparison, such as a merger between our customers.

Other revenues were JPY 932 million in 3Q06, a decrease of 3.4% compared to 3Q05.

As a result, revenues from Internet connectivity and value-added services in 3Q06 were JPY 6,100 million, an increase of 4.4% compared to 3Q05. The gross margin for Internet connectivity and value-added services in 3Q06 was JPY 1,028 million, an increase of 27.6% compared to 3Q05. The gross margin ratio in 3Q06 was 16.8%, compared to 13.8% in 3Q05.

Number of Contracts for Connectivity Services

	3Q06	3Q05	YoY Change
Dedicated Access Service Contracts	16,663	13,724	2,939
IP Service (Low Bandwidth: 64kbps-768kbps)	69	51	18
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	685	645	40
IP Service (High Bandwidth: 100Mbps-)	213	145	68
IIJ T1 Standard and IIJ Economy	53	154	(101)
IIJ Data Center Connectivity Service	264	240	24
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	15,379	12,489	2,890
Dial-up Access Service Contracts	570,880	647,464	(76,584)
Dial-up Access Services, under IIJ Brand	58,884	61,640	(2,756)
Dial-up Access Services, OEM(4)	511,996	585,824	(73,828)
Total Contracted Bandwidth	260.0Gbps	185.5Gbps	74.5Gbps

Connectivity and VAS Revenue Breakdown and Cost (JPY in millions)

	3Q06	3Q05	YoY % Change
Connectivity Service Revenues	3,307	3,227	2.5%
Dedicated Access Service Revenues	2,703	2,580	4.8%
IP Service (5)	2,113	1,987	6.3%

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IIJ T1 Standard and IIJ Economy	43	98	(55.8%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	547	495	10.6%
Dial-up Access Service Revenues	604	647	(6.6%)
Under IIJ Brand	405	421	(3.8%)
OEM	199	226	(11.9%)
VAS Revenues	1,861	1,649	12.9%
Other Revenues	932	964	(3.4%)
Total Connectivity and VAS Revenues	6,100	5,840	4.4%
Cost of Connectivity and VAS	5,073	5,035	0.7%
Backbone Cost (included in the cost of Connectivity and VAS)	888	884	0.5%
Connectivity and VAS Gross Margin Ratio	16.8%	13.8%	--

Systems Integration

Revenue from systems integration was JPY 7,093 million in 3Q06, an increase of 34.8% compared to 3Q05. The increase was due to an increase of 23.7% in monthly recurring revenues from outsourced operations compared to 3Q05 as well as a significant increase of 47.7% in one-time revenues from the construction of networks compared to 3Q05. The gross margin for systems integration in 3Q06 was JPY 1,772 million and the gross margin ratio in 3Q06 was 25.0%, compared to 25.7% in 3Q05.

Systems Integration Revenue Breakdown and Cost (JPY in millions)

	3Q06	3Q05	YoY % Change
Systems Integration Revenues	7,093	5,261	34.8%
Systems Integration	3,605	2,440	47.7%
Outsourced Operation	3,488	2,821	23.7%
Cost of Systems Integration	5,322	3,910	36.1%
Systems Integration Gross Margin Ratio	25.0%	25.7%	--

Equipment Sales

Revenue from equipment sales was JPY 394 million in 3Q06. The gross margin ratio for equipment sales in 3Q06 was 15.4%, compared to 8.0% in 3Q05.

Equipment Sales Revenue and Cost	(JPY in millions)		
	3Q06	3Q05	YoY % Change

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Equipment Sales Revenues	394	769	(48.8%)
Cost of Equipment Sales	332	707	(52.9%)
Equipment Sales Gross Margin Ratio	15.4%	8.0%	--

Other Financial Statistics

Other Financial Statistics	(JPY in millions)		
	3Q06	3Q05	YoY % change
Adjusted EBITDA(6)	2,044	1,751	16.8%
CAPEX, including capital leases(7)	1,250	1,697	(26.3%)
Depreciation and amortization	1,058	1,060	(0.1%)

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 2:

Adjusted EBITDA	(JPY in millions)	
	3Q06	3Q05
Adjusted EBITDA	2,044	1,751
Depreciation and Amortization	(1,058)	(1,060)
Operating Income	986	691
Other Income	617	642
Income Tax Expense (Benefit)	92	28
Minority Interests in Earnings of Subsidiaries	(70)	(137)
Equity in Net Income (Loss) of Equity Method Investees	(36)	21
Net Income	1,405	1,189

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)	
	3Q06	3Q05
CAPEX, including capital leases	1,250	1,697
Acquisition of Assets by Entering into Capital Leases	824	1,308

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Purchase of Property and Equipment	426	389
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Target

In consideration of recent trends in the Company's financial results mentioned in the overview of the financial results and business outlook, IIJ revised its targets for its FY2006 financial results. The revised targets are as follows:

(JPY in millions)

Revenues	Operating Income	Income before Income Tax Expense (Benefit)	Net Income
56,500	3,400	5,200	5,200

As announced today, IIJ plans to pay an annual cash dividend of JPY 1,500 per one share of common stock for the fiscal year ending March 31, 2007.

Presentation

On February 9, 2007, 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 First Section: 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

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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 3Q06 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 119.02 = 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 4Q06 earnings release, presently scheduled for release in May 2007.

(3) 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.

(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 December 31, 2006 and March 31, 2006)

	As of December 31, 2006		As of March 31, 2006	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen
<hr/>				
ASSETS				
CURRENT ASSETS:				
Cash	117,250	13,955,110		13,727,021
Accounts receivable, net of				

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allowance for doubtful accounts of JPY 24,690 thousand and JPY 23,411 thousand at December 31, 2006 and March 31, 2006, respectively	68,640	8,169,550		11,962,304	
Short-term investment	99	11,809		--	
Inventories	9,143	1,088,259		851,857	
Prepaid expenses	13,132	1,562,891		1,031,325	
Other current assets, net of allowance for doubtful accounts of JPY 3,850 thousand and JPY 33,250 thousand at December 31, 2006 and March 31, 2006, respectively	8,376	996,890		214,121	
	-----			-----	
Total current assets	216,640	25,784,509	56.7	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 December 31, 2006 and March 31, 2006	8,473	1,008,407	2.2	1,162,971	2.3
OTHER INVESTMENTS	45,719	5,441,508	12.0	8,020,705	15.8
PROPERTY AND EQUIPMENT--Net	79,123	9,417,245	20.7	10,299,496	20.3
INTANGIBLE ASSETS--Net	5,641	671,429	1.5	632,594	1.2
GUARANTEE DEPOSITS	13,301	1,583,128	3.5	1,549,653	3.1
OTHER ASSETS, net of allowance for doubtful accounts of JPY 66,366 thousand and JPY 40,980 thousand at December 31, 2006 and March 31, 2006, respectively	13,081	1,556,832	3.4	1,252,942	2.5
	-----			-----	
TOTAL	381,978	45,463,058	100.0	50,704,989	100.0
	-----			-----	
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	47,051	5,600,000		4,555,000	
Long-term borrowings--current portion	8,405	1,000,363		1,989,963	

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Payable under securities loan agreement	4,719	561,600		999,600	
Capital lease obligations--current portion	23,929	2,848,075		3,003,914	
Accounts payable	48,799	5,808,051		10,107,942	
Accrued expenses	5,588	665,112		540,027	
Other current liabilities	16,757	1,994,410		1,702,208	
	-----			-----	
Total current liabilities	155,248	18,477,611	40.6	22,898,654	45.2
LONG-TERM BORROWINGS	--	--	--	290,000	0.6
CAPITAL LEASE OBLIGATIONS--Noncurrent	36,094	4,295,908	9.5	4,980,659	9.8
ACCRUED RETIREMENT AND PENSION COSTS	3,215	382,619	0.8	223,332	0.4
OTHER NONCURRENT LIABILITIES	5,042	600,167	1.3	827,086	1.6
	-----			-----	
Total Liabilities	199,599	23,756,305	52.2	29,219,731	57.6
MINORITY INTEREST	12,043	1,433,341	3.2	1,263,320	2.5
	-----			-----	
COMMITMENTS AND CONTINGENCIES	--	--	--	--	--
SHAREHOLDERS' EQUITY:					
Common-stock--authorized, 377,600 shares; issued and outstanding, 204,300 shares at December 31, 2006 and March 31, 2006	141,437	16,833,847	37.0	16,833,847	33.2
Additional paid-in capital	223,485	26,599,217	58.5	26,599,217	52.5
Accumulated deficit	(213,591)	(25,421,633)	(55.9)	(29,680,482)	(58.5)
Accumulated other comprehensive income	19,713	2,346,219	5.2	6,553,594	12.9
Treasury stock--777 shares held by an equity method investee at December 31, 2006, and March 31, 2006	(708)	(84,238)	(0.2)	(84,238)	(0.2)
	-----			-----	
Total shareholders' equity	170,336	20,273,412	44.6	20,221,938	39.9
	-----			-----	
TOTAL	381,978	45,463,058	100.0	50,704,989	100.0
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(Note)

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The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, 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 December 29, 2006.

Appendix 2

Internet Initiative Japan Inc.

Quarterly Consolidated Statements of Income (Unaudited)

(For the three months ended December 31, 2006 and December 31, 2005)

	Three Months Ended December 31, 2006		% of total revenues	Three Months Ended December 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen		Thousands of Yen	% of total revenues
REVENUES:					
Connectivity and value- added services:					
Dedicated access	22,709	2,702,783		2,579,659	
Dial-up access	5,080	604,570		647,596	
Value-added services	15,637	1,861,118		1,648,893	
Other	7,829	931,872		964,417	
Total	51,255	6,100,343		5,840,565	
Systems integration	59,598	7,093,326		5,260,867	
Equipment sales	3,305	393,436		768,794	
Total revenues	114,158	13,587,105	100.0	11,870,226	100.0
COST AND EXPENSES:					
Cost of connectivity and value- added services	42,621	5,072,712		5,034,990	
Cost of systems integration	44,712	5,321,685		3,910,321	
Cost of equipment sales	2,798	333,035		707,030	
Total cost	90,131	10,727,432	78.9	9,652,341	81.3
Sales and marketing	7,647	910,087	6.7	754,918	6.4
General and administrative	7,764	924,021	6.8	738,931	6.2
Research and development	334	39,786	0.3	33,331	0.3
Total cost					

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and expenses	105,876	12,601,326	92.7	11,179,521	94.2
OPERATING INCOME	8,282	985,779	7.3	690,705	5.8
OTHER INCOME:					
Interest income	31	3,701		1,795	
Interest expense	(830)	(98,861)		(108,252)	
Foreign exchange losses	(2)	(244)		(1,650)	
Gain on other investments--net	6,356	756,521		736,212	
Other--net	(367)	(43,720)		13,693	
Other income--net	5,188	617,397	4.5	641,798	5.4
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	13,470	1,603,176	11.8	1,332,503	11.2
INCOME TAX EXPENSE	778	92,596	0.7	27,449	0.2
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES	(588)	(69,927)	(0.5)	(137,167)	(1.2)
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	(300)	(35,724)	(0.3)	20,964	0.2
NET INCOME	11,804	1,404,929	10.3	1,188,851	10.0
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES			203,989		195,565
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES			204,224		196,132
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS			81,595,600		78,226,000
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS			81,689,600		78,452,800

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BASIC NET INCOME			
PER SHARE	57.86	6,887	6,079
DILUTED NET			
INCOME PER			
SHARE	57.80	6,879	6,061
BASIC NET INCOME			
PER ADS			
EQUIVALENT	0.14	17.22	15.20
DILUTED NET			
INCOME PER ADS			
EQUIVALENT	0.14	17.20	15.15

(Note)

- 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, 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 December 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 December 31, 2006 and December 31, 2005)

	Three Months Ended December 31, 2006	Three Months Ended December 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:			
Net income	11,804	1,404,929	1,188,851
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,893	1,058,490	1,059,859
Provision for (reversal of) doubtful accounts	38	4,471	(16,180)
Gains on other investments--net	(6,356)	(756,521)	(736,212)
Foreign exchange losses (gains)	36	4,321	(3,495)
Equity in net loss (income) of equity method investees	300	35,724	(20,964)
Minority interests in earnings of subsidiaries	588	69,927	137,167
Deferred income tax expense	184	21,871	11,262
Others	1,752	208,481	138
Changes in operating assets and			

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liabilities:			
Increase in accounts receivable	(2,383)	(283,644)	(27,566)
Increase in inventories, prepaid expenses and other current and noncurrent assets	(5,909)	(703,233)	(672,961)
Increase (decrease) in accounts payable	6,992	832,177	(954,857)
Increase in accrued expenses, other current and noncurrent liabilities	1,398	166,449	985,923

Net cash provided by operating activities	17,337	2,063,442	950,965

INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,583)	(426,499)	(389,008)
Purchase of short-term and other investments	(3,504)	(417,043)	(281,181)
Proceeds from sales of other investments	8,312	989,247	755,583
Acquisition of businesses	(628)	(74,751)	--
Refund (payment) of guarantee deposits--net	(278)	(33,039)	2,655
Other	(109)	(12,949)	36,943

Net cash provided by investing activities	210	24,966	124,992

FINANCING ACTIVITIES:			
Proceeds from issuance of short- term borrowings with initial maturities over three months	34,868	4,150,000	--
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(37,053)	(4,410,113)	(209,133)
Proceeds from securities loan agreement	678	80,640	2,162,640
Repayments of securities loan agreement	--	--	(2,552,080)
Principal payments under capital leases	(7,277)	(866,065)	(797,392)
Net increase in short-term borrowings	420	50,000	248,039
Proceeds from issuance of common stock, net of issuance cost	--	--	6,030,064

Net cash provided by (used in) financing activities	(8,364)	(995,538)	4,882,138

EFFECT OF EXCHANGE RATE CHANGES ON CASH			
	20	2,495	8,901
NET INCREASE IN CASH	9,203	1,095,365	5,966,996
CASH, BEGINNING OF EACH PERIOD	108,047	12,859,745	6,953,496

CASH, END OF EACH PERIOD	117,250	13,955,110	12,920,492

(Note)

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The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, 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 December 29, 2006.

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(English Translation)

Overview of Financial Results for the Nine Months Ended December 31, 2006 (Consolidated)

(Prepared in accordance with Generally Accepted Accounting Principles
in the United States of America ("U.S. GAAP"))

February 8, 2007

Company name Internet Initiative Japan Inc.
("IIJ", stock code number: 3774, the First Section of the Tokyo Stock Exchange
("TSE"))
(URL <http://www.iij.ad.jp/>)

Contacts Company representative: Koichi Suzuki, President and
Representative Director
Person-in-charge: Akihisa Watai, Director and CFO TEL: (03)-5259-6500

1. Items regarding Preparation of Quarterly Consolidated Financial Results

- (1) Adoption of simplified accounting method: No
- (2) Changes in accounting method from the most recent fiscal year: No
- (3) Changes in scope of consolidation and equity method: Yes

IIJ added 1 subsidiary into the consolidation.

2. Overview of Financial Results for the Nine Months Ended December 31, 2006 (April 1, 2006 through December 31, 2006)

- (1) Consolidated Results of Operations

(Amounts less than one million yen are rounded)

	Total revenues		Operating income		Income before income tax expense (benefit)	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Nine months ended December 31, 2006	40,031	18.9	2,356	63.1	3,748	20.4
Nine months ended December 31, 2005	33,679	14.4	1,445	144.1	3,111	307.4
(For reference) Year ended March 31, 2006	49,813		2,411		5,379	

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	Net Income		Basic Net Income per Share	Diluted Net Income per Share
	Millions of Yen	%	Yen	Yen
Nine months ended December 31, 2006	4,259	51.4	20,878	20,858
Nine months ended December 31, 2005	2,812	332.2	14,580	14,559
(For reference) 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 161 million, equity in net income of JPY 53 million and equity in net loss of JPY 14 million for the nine months ended December 31, 2006, the nine months ended December 31, 2005 and the fiscal year ended March 31, 2006, respectively.
- 2) The weighted-average number of shares of common stock outstanding (consolidated) was 203,989, 192,872 and 195,613 for the nine months ended December 31, 2006, the nine months ended December 31, 2005 and the year ended March 31, 2006, respectively. IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock split was made at the beginning of the fiscal year ended March 31, 2006.
- 3) 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.
- 4) The percentage figures for total revenues, operating income and others show an increase or decrease compared to the same quarter in the last fiscal year.

(2) Changes in Consolidated Financial Position (Amounts less than one million yen are rounded)

	Total Assets	Shareholders' Equity	Equity-to-Assets Ratio	Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2006	45,463	20,273	44.6	99,385
As of December 31, 2005	43,952	19,050	43.3	93,387
(For reference) As of March 31, 2006	50,705	20,222	39.9	99,132

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(Note)

The number of shares of common stock outstanding (consolidated) was 203,989, 203,989 and 203,989 as of December 31, 2006, December 31, 2005 and 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 provided by (used in) financing activities	Cash and cash equivalents at of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Nine months ended December 31, 2006	4,576	(1,097)	(3,246)	13,955
Nine months ended December 31, 2005	3,948	971	2,685	12,920
(For reference) Year ended March 31, 2006	6,559	1,805	39	13,727

* The financial statements and others in this document are unaudited.

3. Results of Operations and Financial Conditions

[Qualitative Information Regarding Results of Operations]

(1) Overview of Financial Results for the Nine Months ended December 31, 2006
(from April 1, 2006 to December 31, 2006)

For the nine months ended December 31, 2006, the revenues and profits increased compared to the nine months ended December 31, 2005, affected by an increase of corporate investment in information networks and expansion of Internet usage.

The IIJ Group provides high quality comprehensive suite of Internet connectivity services, value-added services such as e-mail, security, network-related services, and systems integration, along with expansion of broadband in corporate customers, such as Internet VPN to connect corporate branch offices and shops with broadband services and an increase in customers' demands for Internet engineering skills because corporate customers are having open systems for their internal network systems.

For the recent topics, IIJ started to provide "IIJ Secure MX Service" in October 2006 and IIJ have received many orders and inquiries for this service. It is a service that provides comprehensive e-mail security functions for corporate risk management, such as anti-spam, the recording of all incoming and outgoing e-mails, the encryption of e-mail connections and the provision of on-line storage. At the end of the nine months ended December 31, 2006, IIJ provides its anti-spam solutions to over 200,000 e-mail accounts.

The IIJ Group is also actively involved in research and development activities, such as a pilot program for broadcasting high quality video content, such as NHK (Japan Broadcasting Corporation) program "Project X: The challengers" provided by NHK Enterprises, Inc. and other hi-vision video. The

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IIJ Group also take part in various projects to develop safer, more secure and more effective usage of the Internet, such as the "Secure Service Platform", a technology to realize a safer and more secure Internet environment, and the international logistics pilot program using RFID.

As a result, for the IIJ Group's consolidated results of operation for the nine months ended December 31, 2006, total revenues amounted to JPY 40,031 million, an increase of 18.9% compared to the nine months ended December 31, 2005. Operating income amounted to JPY 2,356 million, an increase of 63.1% compared to the nine months ended December 31, 2005. Income before income tax benefit amounted to JPY 3,748 million, an increase of 20.4% compared to the nine months ended December 31, 2005 and net income amounted to JPY 4,259 million, an increase of 51.4% compared to the nine months ended December 31, 2005.

(2) Analysis of the Results of Operations

1) Revenues

Revenues for the nine months ended December 31, 2006 totaled JPY 40,031 million, an increase of 18.9% compared to the nine months ended December 31, 2005.

	Nine months ended December 31, 2006 (From April 1, 2006 to December 31, 2006)	Nine months en December 31, (From April 1, December 31,
	Millions of Yen	Millions of
Connectivity and value-added services ("VAS")	18,120	
Systems Integration ("SI")	20,347	
Equipment Sales	1,564	
Total Revenues	40,031	

Connectivity and VAS revenues were JPY 18,120 million for the nine months ended December 31, 2006, an increase of 4.3% compared to the nine months ended December 31, 2005.

SI revenues increased by 42.7% from the nine months ended December 31, 2005 to JPY 20,347 million for the nine months ended December 31, 2006. The increase was mainly due to a steady increase in revenues from network system outsourcing and maintenance which generated recurring revenues and increase in one-time revenues from network design, construction and consultation.

Equipment sales revenues were JPY 1,564 million for the nine months ended December 31, 2006, a decrease of 23.4 % compared to the nine months ended December 31, 2005.

2) Cost of Revenues

The cost of revenues was JPY 32,309 million for the nine months ended December 31, 2006, an increase of 16.9% compared to the nine months ended December 31, 2005.

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	Nine months ended December 31, 2006 (From April 1, 2006 to December 31, 2006)	Nine months e December 31, (From April 1, December 31,
	Millions of Yen	Millions of
Connectivity and VAS	15,397	
SI	15,514	
Equipment Sales	1,398	
Total Cost of Revenues	32,309	

The cost of connectivity and VAS revenues was JPY 15,397 million for the nine months ended December 31, 2006, an increase of 2.7% compared to the nine months ended December 31, 2005.

The cost of SI revenues increased by 44.5% to JPY 15,514 million for the nine months ended December 31, 2006 from the nine months ended December 31, 2005, mainly due to an increase in revenues from systems integration.

The cost of equipment sales revenues was JPY 1,398 million for the nine months ended December 31, 2006, a decrease of 27.0% compared to the nine months ended December 31, 2005, mainly due to a decrease in revenues from equipment sales.

3) Sales and Marketing Expenses

Sales and marketing expenses were JPY 2,543 million for the nine months ended December 31, 2006, an increase of 9.5% compared to the nine months ended December 31, 2005. The increase was mainly due to an increase in personnel expenses and advertising expenses along with the business expansion.

4) General and Administrative Expenses

General and administrative expenses were JPY 2,701 million for the nine months ended December 31, 2006, an increase of 25.5% compared to the nine months ended December 31, 2005. The increase was mainly due to an increase in personnel related expenses.

5) Operating Income

Operating income was JPY 2,356 million for the nine months ended December 31, 2006, an increase of 63.1% compared to the nine months ended December 31, 2005. The increase was mainly due to the increase in gross margin, which was caused by the increase in revenues from value-added services and systems integration.

6) Other Income and Others

Other income for nine months ended December 31, 2006 was JPY 1,391 million, a decrease of 16.5% compared to the nine months ended December 31, 2005. The increase included a gain from sale of available-for-sale securities of JPY 1,680 million.

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Income tax benefit for the nine months ended December 31, 2006 was JPY 867 million. The benefit was mainly because of deferred tax benefits of JPY 1,223 million resulting from a release of valuation allowance against deferred tax assets related to tax operating loss carryforwards and others. Minority interests in earnings of subsidiaries for the nine months ended December 31, 2006 was JPY 195 million. Equity in net loss of equity method investees for the nine months ended December 31, 2006 was JPY 161 million.

7) Net Income

Net income for the nine months ended December 31, 2006 was JPY 4,259 million, an increase of 51.4% compared to the nine months ended December 31, 2005.

c. Analysis by Service

1) Connectivity and VAS

Dedicated access service revenues have been in the increasing trend in quarterly (3 months) comparison. However, the revenue decreased by 0.2% to JPY 8,006 million mainly related to a decrease by JPY 468 million in interconnection revenues between IIJ's network and Asia Internet Holding Co., Ltd. ("AIH"), IIJ's former equity method investee, because AIH merged into IIJ. The increase in the number of new contracts and contracted bandwidth for IP Service are the main factors for the increasing trend.

Dial-up access service revenues were JPY 1,817 million for the nine months ended December 31, 2006, a decrease of 10.4% compared to the nine months ended December 31, 2005. The decrease was mainly due to the decrease in revenues from services for individual customers, such as IIJ4U, as well as the discontinuance of services of a large customer to which IIJ provided its services as OEM.

VAS revenues were JPY 5,508 million for the nine months ended December 31, 2006, an increase of 22.5% compared to the nine months ended December 31, 2005. The increase was due to an increase in revenues from various types of services, such as e-mail, security and network-related outsourcing services and data center services, though there was a factor to decrease the revenues on quarter over quarter comparison, such as a merger between IIJ's major customers (in October).

Other revenues were JPY 2,789 million for the nine months ended December 31, 2006, a decrease of 1.4% compared to the nine months ended December 31, 2005.

As a result, revenues from connectivity and VAS for the nine months ended December 31, 2006 were JPY 18,120 million, an increase of 4.3% compared to the nine months ended December 31, 2005. The gross margin of connectivity and VAS was JPY 2,723 million, an increase of 14.1% compared to the nine months ended December 31, 2005 and the gross margin ratio was 15.0%.

(Connectivity and VAS Revenue Breakdown and Cost)

	Nine months ended December 31, 2006 (From April 1, 2006 to December 31, 2006)	Nine months en December 31, (From April 1, December 31,
	Millions of Yen	Millions of

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Connectivity and VAS Revenues	18,120
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Dedicated Access Service Revenues	8,006
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Dial-up Access Service Revenues	1,817
<hr style="border-top: 1px dashed black;"/>	
VAS Revenues	5,508
<hr style="border-top: 1px dashed black;"/>	
Other Revenues	2,789
<hr style="border-top: 1px dashed black;"/>	
Cost of Connectivity and VAS	15,397
<hr style="border-top: 1px dashed black;"/>	
Backbone Cost (included in the cost of Connectivity and VAS)	2,636
<hr style="border-top: 1px dashed black;"/>	
Connectivity and VAS Gross Margin Ratio	15.0%
<hr style="border-top: 1px dashed black;"/>	

(Number of Contracts for Connectivity Services and Total Contracted Bandwidth)

	At the end of nine months ended December 31, 2006 (As of December 31, 2006)	At the end of ni ended December (As of December
<hr style="border-top: 1px dashed black;"/>		
Dedicated Access Service Contracts	16,663	
<hr style="border-top: 1px dashed black;"/>		
IP Service (Low Bandwidth: 64kbps-768kbps)	69	
<hr style="border-top: 1px dashed black;"/>		
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	685	
<hr style="border-top: 1px dashed black;"/>		
IP Service (High Bandwidth: 100Mbps-)	213	
<hr style="border-top: 1px dashed black;"/>		
IIJ T1 Standard and IIJ Economy	53	
<hr style="border-top: 1px dashed black;"/>		
IIJ Data Center Connectivity Service	264	
<hr style="border-top: 1px dashed black;"/>		
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	15,379	
<hr style="border-top: 1px dashed black;"/>		
Dial-up Access Service Contracts	570,880	
<hr style="border-top: 1px dashed black;"/>		
Dial-up Access Services, under IIJ Brand	58,884	
<hr style="border-top: 1px dashed black;"/>		
Dial-up Access Services, OEM	511,996	
<hr style="border-top: 1px dashed black;"/>		
Total Contracted Bandwidth	260.0Gbps	
<hr style="border-top: 1px dashed black;"/>		

2) SI

Revenues from SI were JPY 20,347 million for the nine months ended December 31, 2006, an increase of 42.7% compared to the nine months ended December 31, 2005. The one-time revenues from systems construction was JPY 10,254 million, a significant increase of 69.8% compared to the nine months ended December 31, 2005. The recurring revenues from network system outsourcing and maintenance was JPY 10,093 million, a continuous increase of 22.7% compared to the nine months ended December 31, 2005. The gross margin of SI was JPY 4,833 million, an increase of 37.2% compared to the nine months ended December 31, 2005 and the

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gross margin ratio was 23.8%.

(SI Revenues, Cost of Revenues and Gross Margin Ratio)

	Nine months ended December 31, 2006 (From April 1, 2006 to December 31, 2006)	Nine months e December 31, (From April 1, December 31,
	Millions of Yen	Millions of
SI Revenues	20,347	
Systems Integration	10,254	
Outsourced Operation	10,093	
Cost of SI	15,514	
SI Gross Margin Ratio	23.8%	

3) Equipment sales

Revenues from equipment sales were JPY 1,564 million for the nine months ended December 31, 2006. The gross margin of equipment sales was JPY 166 million and the gross margin ratio was 10.6%.

(Equipment Sales Revenue and Cost)

	Nine months ended December 31, 2006 (From April 1, 2006 to December 31, 2006)	Nine months en December 31, (From April 1, December 31,
	Millions of Yen	Millions of
Equipment Sales Revenues	1,564	
Cost of Equipment Sales	1,398	
Equipment Sales Gross Margin Ratio	10.6%	

[Qualitative Information Regarding Changes in Consolidated Financial Position]

Cash at the end of the nine months ended December 31, 2006 was JPY 13,955 million (JPY 12,920 million at the end of the nine months ended December 31, 2005).

(Net cash provided by operating activities)

Net cash provided by operating activities was JPY 4,576 million for the nine months ended December 31, 2006 (net cash provided by operating activities was

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JPY 3,948 million for the nine months ended December 31, 2005). Operating income increased due to an increase in revenues from value-added services and systems integration.

(Net cash provided by (used in) investing activities)

Net cash used in investing activities was JPY 1,097 million for the nine months ended December 31, 2006 (net cash provided by investing activities was JPY 971 million for the nine months ended December 31, 2005). Purchase of short-term and other investments of JPY 2,078 million and purchase of property and equipment of JPY 986 million offset proceeds from sales and redemption of short-term and other investments of JPY 2,107 million.

(Net cash provided by (used in) financing activities)

Net cash used in financing activities was JPY 3,246 million for the nine months ended December 31, 2006 (net cash provided by investing activities was JPY 2,685 million for the nine months ended December 31, 2005). Repayments of short-term borrowings with initial maturities over three months and long-term borrowings of JPY 5,630 million, net decrease in short-term borrowings of JPY 3,405 million, principal payments under capital leases of JPY 2,574 million, repayments of securities loan agreement of JPY 1,496 million offset proceeds from issuance of short-term borrowings with initial maturities over three months and long-term borrowings of JPY 8,800 million and proceeds from securities loan agreement of JPY 1,058 million.

[Reference] Overview of Non-consolidated Financial Results for the Nine Months Ended December 31, 2006

(1) Results of Operations

	(Amounts less than one million Yen)			
	Total revenues		Operating income	
	Millions of Yen	%	Millions of Yen	%
Nine months ended December 31, 2006	28,844	12.6	1,022	270.0
Nine months ended December 31, 2005	25,610	8.0	276	50.8
(For reference) Year ended March 31, 2006	37,458		846	
	Net Income		Basic Net Income per Share	Dilu
	Millions of Yen	%	Yen	
Nine months ended December 31, 2006	2,895	41.8	14,171.51	
Nine months ended December 31, 2005	2,042	315.9	10,570.31	
(For reference) Year ended March 31, 2006	4,231		21,597.37	

(Notes)

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- 1) The weighted-average number of shares of common stock outstanding was 204,300, 193,164 and 195,910 for the nine months ended December 31, 2006, the nine months ended December 31, 2005 and the fiscal year ended March 31, 2006, respectively. IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock split was made at the beginning of the fiscal year ended March 31, 2006.
- 2) The percentage figures for the total revenues, operating income and others show an increase or decrease compared to the same quarter in the last fiscal year.

(2) Changes in Financial Position	(Amounts less than		
	Total Assets	Shareholders' Equity	Equity-to-Assets Ratio
	Millions of Yen	Millions of Yen	%
As of December 31, 2006	30,397	18,632	61
As of December 31, 2005	31,603	16,480	52
(For reference) As of March 31, 2006	36,294	18,223	50

(Note)

The number of shares of common stock outstanding was 204,300, 204,300 and 204,300 as of December 31, 2006, December 31, 2005 and March 31, 2006, respectively.

4. Target of Consolidated Financial Results for the Fiscal Year Ending March 31, 2007 (April 1, 2006 through March 31, 2007)

	(Amounts less than one		
	Total Revenues	Operating Income	Income before In Tax Expense (Ben
	Millions of Yen	Millions of Yen	Millions of Yen
Year ending March 31, 2007	56,500	3,400	5,200

(Reference) Net income per share for the fiscal year ending March 31, 2007, based on the target above: JPY 25,492

[Qualitative Information Regarding Results of Operations]

For the nine months ended December 31, 2006, the business environment in IIJ's key markets continued to be favorable such as demand from corporate customers for higher speed Internet connectivity services due to the expansion of network usage, demand for outsourcing services because of an increase of security incidents and an overall shortage of Internet engineers, and

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construction of corporate information technology networks based on Internet connectivity. For the nine months ended December 31, 2006, revenues increased stably in each of connectivity and value-added services and systems integration. The IIJ Group's consolidated financial results tend to fluctuate greatly in the fourth quarter when many companies in Japan have their fiscal year end. Revenues will exceed the previously announced target mainly due to the higher revenues from connectivity and value-added services and systems integration. Income before income tax expense (benefit) and net income will exceed the previously announced target along with an increase in operating income.

[Reference] Target of Non-consolidated Financial Results for the Fiscal Year Ending March 31, 2007 (April 1, 2006 through March 31, 2007)

	Total Revenues	Operating Income	Ordinary Income
	Millions of Yen	Millions of Yen	Millions of Yen
Year ending March 31, 2007	41,000	1,400	1,400

(Reference) Net income per share for the fiscal year ending March 31, 2007, based on the target above: JPY 21,047.48

5. Other Reference Information

IIJ announced its plan for the annual dividend for the fiscal year ending March 31, 2007 on February 8, 2007 as below:

	At the end of the interim period	At the end of the fiscal year	Total annual dividend
Plan previously announced (November 9, 2006)	--	--	--
Plan revised this time	--	JPY 1,500	JPY 1,500
(Reference) Actual dividend payment in the previous fiscal year	--	--	--

(Reference) Please see the press release "IIJ announces its plan for the annual dividend for the fiscal year ending March 31, 2007" that IIJ made on February 8, 2007 for the details.

(Note for the target of financial results and plan for the annual dividend)

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

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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. 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.

Consolidated Financial Statements (Unaudited)
(From April 1, 2006 through December 31, 2006)

(1) Consolidated Balance Sheets

	As of December 31, 2006			As of December 31, 2005
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of U.S. Dollars
ASSETS				
CURRENT ASSETS:				
Cash	117,250	13,955,110		12,920,
Accounts receivable, net of allowance for doubtful accounts of JPY 24,690 thousand, and JPY 17,268 thousand and JPY 23,411 thousand at December 31, 2006, December 31, 2005 and March 31, 2006, respectively	68,640	8,169,550		6,732,
Short term investment	99	11,809		
Inventories	9,143	1,088,259		706,
Prepaid expenses	13,132	1,562,891		1,240,
Other current assets, net of allowance for doubtful accounts of JPY 3,850 thousand, JPY 34,400 thousand and JPY 33,250 thousand at December 31, 2006, December 31, 2005 and March 31, 2006, respectively	8,376	996,890		127,
Total current assets	216,640	25,784,509	56.7	21,727,
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD				
INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand, JPY 31,378 thousand and JPY 16,701 thousand at December 31, 2006, December 31, 2005 and March 31, 2006, respectively	8,473	1,008,407	2.2	473,

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OTHER INVESTMENTS	45,719	5,441,508	12.0	8,749,
PROPERTY AND EQUIPMENT--Net	79,123	9,417,245	20.7	9,554,
INTANGIBLE ASSETS--Net	5,641	671,429	1.5	632,
GUARANTEE DEPOSITS	13,301	1,583,128	3.5	2,098,
OTHER ASSETS, net of allowance for doubtful accounts of JPY 66,366 thousand, JPY 40,654 thousand and JPY 40,980 thousand at December 31, 2006, December 31, 2005 and March 31, 2006, respectively	13,081	1,556,832	3.4	716,
TOTAL	381,978	45,463,058	100.0	43,952,

	As of December 31, 2006			As of Decembe
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term borrowings	47,051	5,600,000		5,170,
Long-term borrowings--current portion	8,405	1,000,363		2,388,
Payable under securities loan agreement	4,719	561,600		1,128,
Capital lease obligations--current portion	23,929	2,848,075		2,825,
Accounts payable	48,799	5,808,051		4,095,
Accrued expenses	5,588	665,112		591,
Other current liabilities	16,757	1,994,410		1,594,
Total current liabilities	155,248	18,477,611	40.6	17,796,
LONG-TERM BORROWINGS	--	--	--	1,000,
CAPITAL LEASE OBLIGATIONS--Noncurrent	36,094	4,295,908	9.5	4,299,
ACCRUED RETIREMENT AND PENSION COSTS	3,215	382,619	0.8	203,
OTHER NONCURRENT LIABILITIES	5,042	600,167	1.3	450,
Total Liabilities	199,599	23,756,305	52.2	23,749,
MINORITY INTEREST	12,043	1,433,341	3.2	1,152,
COMMITMENTS AND CONTINGENCIES	--	--	--	
SHAREHOLDERS' EQUITY:				
Common-stock				
--authorized, 377,600 shares; issued and outstanding, 204,300 shares at December 31, 2006, December 31, 2005 and March 31, 2006	141,437	16,833,847	37.0	16,833,
Additional paid-in capital	223,485	26,599,217	58.5	26,599,
Accumulated deficit	(213,591)	(25,421,633)	(55.9)	(31,621,
Accumulated other comprehensive income	19,713	2,346,219	5.2	7,323,

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Treasury stock--777 shares held by an equity method investee at December 31, 2006, December 31, 2005 and March 31, 2006

	(708)	(84,238)	(0.2)	(84,
Total shareholders' equity	170,336	20,273,412	44.6	19,050,
TOTAL	381,978	45,463,058	100.0	43,952,

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, which was the rate used by the U.S. Customs and Border Protection for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York as of December 29, 2006.

(2) Consolidated Statements of Income

	Nine Months Ended December 31, 2006			Nine Months Ended December 31, 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	67,261	8,005,418		8,021,884	
Dial-up access	15,269	1,817,374		2,028,705	
Value-added services	46,281	5,508,337		4,495,343	
Other	23,431	2,788,701		2,827,742	
Total	152,242	18,119,830		17,373,674	
Systems integration	170,955	20,347,104		14,262,542	
Equipment sales	13,143	1,564,205		2,042,933	
Total revenues	336,340	40,031,139	100.0	33,679,149	100.0
COST AND EXPENSES:					
Cost of connectivity and value-added services	129,363	15,396,845		14,986,811	
Cost of systems integration	130,344	15,513,501		10,739,357	
Cost of equipment sales	11,755	1,399,048		1,916,824	

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Total cost	271,462	32,309,394	80.7	27,642,992	8
Sales and marketing	21,365	2,542,815	6.4	2,322,281	
General and administrative	22,691	2,700,746	6.7	2,152,014	
Research and development	1,025	121,977	0.3	117,182	
Total cost and expenses	316,543	37,674,932	94.1	32,234,469	9
OPERATING INCOME	19,797	2,356,207	5.9	1,444,680	
OTHER INCOME:					
Interest income	94	11,182		9,669	
Interest expense	(2,557)	(304,361)		(324,165)	
Foreign exchange gains (losses)	(2)	(254)		3,313	
Gain on other investments--net	14,110	1,679,356		1,885,009	
Other--net	45	5,377		92,822	
Other income--net	11,690	1,391,300	3.5	1,666,648	
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES					
	31,487	3,747,507	9.4	3,111,328	
INCOME TAX EXPENSE (BENEFIT)	(7,286)	(867,187)	(2.2)	109,460	
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES					
	(1,639)	(195,035)	(0.5)	(242,799)	(
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES					
	(1,351)	(160,810)	(0.4)	53,096	
NET INCOME	35,783	4,258,849	10.7	2,812,165	
	Nine Months Ended December 31, 2006			Nine Months Ended December 31, 2005	
	U.S. Dollars		Yen	Yen	
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES		203,989		192,872	
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES		204,186		193,161	
BASIC NET INCOME PER SHARE	175	20,878		14,580	
DILUTED NET INCOME PER SHARE	175	20,858		14,559	

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, which is the rate of exchange between the U.S. dollar and the yen as of December 31, 2006. New York City for cable transfers in foreign currencies as certified for customs purposes by t

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York prevailing as of December 29, 2006.

- 2) IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers of shares of common stock issued and outstanding, and shares held by an equity method investee in this table are calculated as if the stock split was made at the beginning of FY2005.

(3) Consolidated Statements of Shareholders' Equity

Consolidated statements of shareholders' equity for the nine months ended December 31, 2006

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accu- O Comp I
BALANCE, APRIL 1, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6
Net income				4,258,849	
Other comprehensive loss, net of tax					(4)
Total comprehensive income					
BALANCE, DECEMBER 31, 2006	204,300	16,833,847	26,599,217	(25,421,633)	2

Consolidated statements of shareholders' equity for the nine months ended December 31, 2006

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accu- O Comp I
BALANCE, APRIL 1, 2006	204,300	141,437	223,485	(249,374)	(Un
Net income				35,783	
Other comprehensive loss, net of tax					
Total comprehensive income					
BALANCE, DECEMBER 31, 2006	204,300	141,437	223,485	(213,591)	

(Note)

- 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, which was the rate of exchange in New York City for cable transfers in foreign currencies as certified for customs purposes by the U.S. Customs and Border Protection on December 29, 2006.

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Consolidated statements of shareholders' equity for the nine months ended December 31, 2005

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accu O Comp I
BALANCE, APRIL 1, 2005	191,800	13,765,372	23,637,628	(34,434,052)	8
Net income				2,812,165	
Other comprehensive loss, net of tax					(1)
Total comprehensive income					
Issuance of common stock, net of issuance cost	12,500	3,068,475	2,961,589		
Purchase of common stock by an equity method investee					
BALANCE, DECEMBER 31, 2005	204,300	16,833,847	26,599,217	(31,621,887)	7

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2006

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accu O Comp I
BALANCE, APRIL 1, 2005	191,800	13,765,372	23,637,628	(34,434,052)	8
Net income				4,753,570	
Other comprehensive loss, net of tax					(2)
Total comprehensive income					
Issuance of common stock, net of issuance cost	12,500	3,068,475	2,961,589		
Purchase of common stock by an equity method investee					
BALANCE, MARCH 31, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6

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(4) Condensed Consolidated Statements of Cash Flows

	Nine Months Ended December 31, 2006	Nine Months Ended December 31, 2005
	Thousands of U.S. Dollars	Thousands of Yen
OPERATING ACTIVITIES:		
Net income	35,783	4,258,849
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,177	3,234,615
Provision for (reversal of) doubtful accounts and advances	0	25
Gains on other investments--net	(14,110)	(1,679,356)
Foreign exchange losses (gains)	16	1,935
Equity in net loss (income) of equity method investees	1,351	160,810
Minority interests in earnings of subsidiaries	1,639	195,035
Deferred income tax expense (benefit)	(10,278)	(1,223,275)
Others	2,501	297,719
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	32,473	3,864,892
Increase in inventories, prepaid expenses and other current and noncurrent assets	(5,128)	(610,349)
Decrease in accounts payable	(34,679)	(4,127,491)
Increase in accrued expenses, other current and noncurrent liabilities	1,701	202,463
Net cash provided by operating activities	38,446	4,575,872
INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,287)	(986,367)
Purchase of short-term and other investments	(17,461)	(2,078,224)
Investment in an equity method investee	-	-
Purchase of subsidiary stock from minority shareholders	(232)	(27,559)

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Proceeds from sales and redemption of short-term and other investments	17,703	2,107,022	
Acquisition of a newly controlled company, net of cash acquired	-	-	
Acquisition of businesses	(628)	(74,751)	
Refund (payment) of guarantee deposits--net	(146)	(17,396)	
Other	(166)	(19,743)	

Net cash provided by (used in) investing activities	(9,217)	(1,097,018)	

	Nine Months Ended	December 31, 2006	Nine Months Ended
	Thousands of U.S.	Thousands of Yen	Thousands of Yen
	Dollars		Thousands

FINANCING ACTIVITIES:			
Proceeds from issuance of short-term borrowings with initial maturities over three months and long-term borrowings	73,937	8,800,000	
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(47,300)	(5,629,600)	
Proceeds from securities loan agreement	8,887	1,057,680	
Repayments of securities loan agreement	(12,567)	(1,495,680)	
Principal payments under capital leases	(21,623)	(2,573,613)	
Net increase (decrease) in short-term borrowings	(28,609)	(3,405,000)	
Proceeds from issuance of common stock, net of issuance cost	-	-	

Net cash provided by (used in) financing activities	(27,275)	(3,246,213)	

EFFECT OF EXCHANGE RATE CHANGES ON CASH	(38)	(4,552)	
NET INCREASE IN CASH	1,916	228,089	
CASH, BEGINNING OF EACH PERIOD	115,334	13,727,021	

CASH, END OF EACH PERIOD	117,250	13,955,110	1

ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	2,415	287,451	

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Income taxes paid	2,856	339,973
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of assets by entering into capital leases	14,635	1,741,877
Exchange of common stock investment due to merger:		
Market value of common shares acquired	-	-
Cost of investment	-	-
Acquisition of business and a company:		
Assets acquired	1,985	236,307
Cash paid	(628)	(74,751)
Liabilities assumed	1,357	161,556

(Note)

- 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 119.02, which New York City for cable transfers in foreign currencies as certified for customs purposes by t
York prevailing as of December 29, 2006.

EXHIBIT 2

IIJ Announces its Plan for the Annual Dividend for the Fiscal Year Ending March 31, 2007

TOKYO--(BUSINESS WIRE)--Feb. 8, 2007--Internet Initiative Japan Inc. ("IIJ", NASDAQ: IIJI, TSE1: 3774), one of Japan's leading Internet access and comprehensive network solutions providers, today announced that it plans to pay an annual cash dividend for the fiscal year ending March 31, 2007 ("FY2006") in consideration to the recent financial results.

The plan for the annual cash dividend for FY2006
(From April 1, 2006 to March 31, 2007)

Dividend per one share of common stock*: JPY 1,500

* 400 American Depository Shares represent one share of common stock

IIJ continues to make efforts to pay dividends to shareholders continuously and stably, while simultaneously enhancing its financial position, expanding its business in the mid and long-term and retaining earnings for new business development.

IIJ eliminated its accumulated deficit in its non-consolidated financial statements by reducing additional paid-in capital and common stock in August 2006. As a result, IIJ expects to have retained earnings in its non-consolidated financial statements. IIJ's financial

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results for FY2006 have been in the favorable trend as it announced today. IIJ expects to pay dividends to its shareholders for the first time in its history for FY2006.

IIJ plans to propose the dividend payment at its general shareholders' meeting that is scheduled to be held in June 2007.

About IIJ

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IIJI, TSE1: 3774) is one of Japan's leading Internet-access and comprehensive network solutions providers. 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. Moreover, the company has built one of the largest Internet backbone networks in Japan, and between Japan and the United States. IIJ was listed on NASDAQ in 1999 and on the First Section of the Tokyo Stock Exchange in 2006. For more information about IIJ, visit the IIJ Web site at <http://www.iij.ad.jp/en/>.

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.

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