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INTERNET INITIATIVE JAPAN INC

Form 6-K

November 13, 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 November 13, 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

Exhibit	Date	Description of Exhibit
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1

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2007/11/12

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IIJ Announces Second Quarter Results for the  
Fiscal Year Ending March 31, 2008

Exhibit 1

IIJ Announces Second Quarter Results for the  
Fiscal Year Ending March 31, 2008

TOKYO--(BUSINESS WIRE)--Nov. 13, 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 second quarter of the fiscal year ending March 31, 2008 ("FY2007")(1).

Highlights of Second Quarter FY2007 Results

- Revenue totaled JPY 16,294 million (\$ 141.7 million), an increase of 16.3% from 2Q06.
- Operating income was JPY 1,125 million (\$9.8 million), an increase of 38.6% from 2Q06.
- Net income was JPY 2,907 million (\$25.3 million), an increase of 37.1% from 2Q06.
- Today, IIJ's board of directors resolved to pay a cash dividend of JPY 750 per share of common stock for the interim period ended September 30, 2007 (400 American Depository Shares represent 1 share of common stock).

Financial Targets for FY2007(2)

- We are maintaining our initial targets for the full FY2007 that we disclosed on May 15, 2007.
- We plan to pay an additional cash dividend of JPY 750 per share of common stock for FY2007.

Overview of 2nd Quarter FY2007 Financial Results and Business Outlook(2)

"We continued to record good results in 2Q07," said Koichi Suzuki, President and CEO of IIJ. "The revenues and operating income have shown a steady increasing trend supported by the favorable increase in monthly recurring revenues from our Internet connectivity and value-added services, or VAS. Revenues from Internet connectivity services increased continuously in 2Q07 mainly due to the shift by corporate customers to higher speeds and our business expansion in the home users market by our acquisition of hi-ho, Inc., or hi-ho. Corporate customers keep showing strong demands for our outsourcing services including anti-spam services and data centers to reduce the risk of interruptions to their businesses and increase security measures. As a result, the gross margin from connectivity and VAS increased by 48.4% compared to 2Q06. For systems integration, or SI, we continued to see strong demands and revenues from SI increased by

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10.3% compared to 2Q06. Some projects are becoming larger in scale and are expected to be completed in the last half of FY2007 and the order backlog for SI and equipment sales increased by 82.8% compared to 2Q06."

"In 2Q07, we continued to build the basis for further growth in the middle and long-term," continued Suzuki. "In August 2007, we announced that we would provide our high-quality content distribution platform to "actVila", TV portals established by major home appliance manufacturers in Japan for digital televisions connected to the Internet. In September 2007, GDX Japan Inc., or GDX, our consolidated subsidiary, announced that it will provide "GDX Trusted Platform" to offer corporate customers a revolutionary and highly reliable e-mail messaging infrastructure."

### 2nd Quarter FY2007 Financial Results

#### Results of Operation

#### Operating Results Summary

	(JPY in millions)		
	2Q07	2Q06	YoY % change
-----	-----	-----	-----
Total Revenues	16,294	14,007	16.3%
-----	-----	-----	-----
Total Costs	12,869	11,448	12.4%
-----	-----	-----	-----
SG&A Expenses and R&D	2,301	1,747	31.7%
-----	-----	-----	-----
Operating Income	1,125	811	38.6%
-----	-----	-----	-----
Income before Income Tax Benefit (3)	941	1,145	(17.9%)
-----	-----	-----	-----
Net Income	2,907	2,120	37.1%
-----	-----	-----	-----

#### Revenues

Revenues in 2Q07 totaled JPY 16,294 million, an increase of 16.3% from JPY 14,007 million in 2Q06.

	(JPY in millions)		
Revenues	2Q07	2Q06	YoY % change
-----	-----	-----	-----
Total Revenues:	16,294	14,007	16.3%
-----	-----	-----	-----
Connectivity and VAS	7,936	6,156	28.9%
-----	-----	-----	-----
SI	7,968	7,221	10.3%
-----	-----	-----	-----
Equipment Sales	391	630	(37.9%)
-----	-----	-----	-----

Connectivity and VAS revenues were JPY 7,936 million in 2Q07, an increase of 28.9% compared to 2Q06. The increase was mainly due to an increase in revenues from connectivity services for corporate users, JPY 1,080 million of revenues from connectivity services for home users provided by hi-ho, which we acquired on June 1, 2007, and an increase in revenues from value-added services overall.

SI revenues increased 10.3% to JPY 7,968 million in 2Q07 compared

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to 2Q06. The increase was due to an increase in one-time revenues from systems construction as well as monthly recurring revenues from systems operation and maintenance.

Equipment sales revenues were JPY 391 million in 2Q07, a decrease of 37.9% compared to 2Q06.

### Cost and expense

Cost of revenues was JPY 12,869 million in 2Q07, an increase of 12.4% compared to 2Q06.

	(JPY in millions)		
Cost of Revenues	2Q07	2Q06	YoY % change
-----	-----	-----	-----
Cost of Revenues:	12,869	11,448	12.4%
-----	-----	-----	-----
Connectivity and VAS	6,598	5,254	25.6%
-----	-----	-----	-----
SI	5,938	5,611	5.8%
-----	-----	-----	-----
Equipment Sales	333	583	(42.9%)
-----	-----	-----	-----

Cost of Connectivity and VAS revenues was JPY 6,598 million in 2Q07, an increase of 25.6% compared to 2Q06, mainly due to JPY 1,081 million of costs along with revenues of JPY 1,314 million from hi-ho, which we acquired on June 1, 2007, and an increase in personnel related costs and supplies costs. The cost of revenues also included amortization of intangible assets of JPY 21 million for hi-ho.

Cost of SI revenues was JPY 5,938 million in 2Q07, an increase of 5.8% compared to 2Q06. The increase was mainly due to an increase in revenues from SI projects and an increase in personnel expenses.

Cost of Equipment Sales revenues was JPY 333 million in 2Q07, a decrease of 42.9% compared to 2Q06.

Sales and marketing expenses were JPY 1,088 million in 2Q07, an increase of 29.1% compared to 2Q06. The increase was mainly due to an increase in personnel related expenses with business expansion and sales and marketing expenses related to hi-ho of JPY 155 million.

General and administrative expenses were JPY 1,153 million in 2Q07, an increase of 33.7% compared to 2Q06. The increase was mainly due to an increase in personnel related expenses and an increase in rent expenses caused by expansion of offices along with the business growth.

Research and development expenses were JPY 60 million in 2Q07, an increase of 42.1% compared to 2Q06.

### Operating income

Operating income was JPY 1,125 million in 2Q07, an increase of 38.6% compared to 2Q06. The increase was mainly due to an increase in gross margin from connectivity and VAS of JPY 436 million and gross margin from SI of JPY 419 million, despite of the increase in sales and marketing expenses and general and administrative expenses.

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Other income (expense) and others

Other expense in 2Q07 was JPY 184 million, compared to other income of JPY 334 million in 2Q06. The decrease was mainly due to a decrease in gains from the sale of available-for-sale securities.

Income tax benefit in 2Q07 was JPY 1,980 million, compared to income tax benefit of JPY 1,109 million in 2Q06. The increase is mainly due to deferred tax benefits of JPY 2,114 million resulting from a reduction of the valuation allowance against deferred income tax assets due to the increasing income trend and the application of the consolidated tax filing system for IIJ and its wholly owned subsidiaries.

Minority interests in losses of subsidiaries in 2Q07 was JPY 15 million, an amount which was affected by the elimination of minority interests related to our 4 consolidated subsidiaries wholly owned by us, after we made our two subsidiaries, IIJ Technology Inc. and Net Care, Inc. wholly owned through the share exchanges in May 2007. Minority interests in losses of subsidiaries were related to GDY.

Equity in net loss of equity method investees in 2Q07 was JPY 29 million, which was mainly due to equity in net loss of Internet Revolution Inc.

Net income was JPY 2,907 million in 2Q07, an increase of 37.1% compared to 2Q06.

Financial Condition

Balance Sheets

As of September 30, 2007, total assets increased by JPY 5,545 million from the amount as of March 31, 2007 to JPY 53,238 million. For current assets, inventories increased by JPY 767 million, related to on-going SI projects; prepaid expenses increased by JPY 682 million, mainly for maintenance expenses related to SI projects; other current assets increased by JPY 847 million mainly due to an increase in current deferred tax assets (net) resulting from a reduction of the valuation allowance; and cash decreased by JPY 1,885 million, each from the respective amount as of March 31, 2007. Property and equipment increased by JPY 1,468 million from the amount as of March 31, 2007 mainly due to our acquisition of hi-ho and an increase in property for us and to provide services to our customers. Intangible assets increased by JPY 2,940 million from the amount as of March 31, 2007, mainly due to the recording of intangible assets of JPY 2,302 million upon our acquisition of the minority shares of two consolidated subsidiaries and of JPY 659 million upon our acquisition of hi-ho, including amortizable intangible assets of JPY 289 million. Other assets increased by JPY 1,217 million mainly due to an increase in non-current deferred tax assets (net) resulting from a revision of valuation allowance. The fair value of available-for-sale securities as of September 30, 2007 decreased by JPY 266 million from the amount of March 31, 2007 to JPY 1,043 million.

For current liabilities, short-term borrowings increased by JPY 4,600 million from the amount as of March 31, 2007, mainly related to our acquisition of shares of two consolidated subsidiaries from their respective minority shareholders, and accounts payable decreased by JPY 2,338 million from the amount as of March 31, 2007.

Total shareholders' equity as of September 30, 2007 was JPY 23,786

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million, an increase of JPY 3,674 million from the amount as of March 31, 2007.

### Cash Flows

Cash as of September 30, 2007 was JPY 11,670 million, a decrease of JPY 1,190 million compared to 2Q06.

Net cash provided by operating activities in 2Q07 was JPY 1,444 million, compared to JPY 1,608 million in 2Q06. In 1Q07, we recorded net cash used in operating activities of JPY 1,328 million mainly due to changes in operating assets and liabilities resulting from an increase in inventories and prepaid expenses related to on-going SI projects, a decrease in accounts payable and payment of income tax. However in 2Q07, we recorded net cash provided by operating activities because operating income continued to increase, mainly due to a steady increase in revenues from connectivity and VAS, and there was less effect from changes in operating assets and liabilities during this quarter.

Net cash used in investing activities in 2Q07 was JPY 832 million, compared to JPY 855 million in 2Q06. We paid JPY 422 million for the purchase of property and equipment and JPY 250 million for an investment in an equity method investee.

Net cash used in financing activities in 2Q07 was JPY 1,552 million, compared to JPY 983 million in 2Q06. We recorded a net increase in short-term borrowings with initial maturities less than three months of JPY 1,000 million. We also recorded repayments of short-term borrowings with initial maturities over three months and long-term borrowings of JPY 1,769 million and principal payments under capital leases of JPY 883 million.

### 2nd Quarter FY2007 Business Review

#### Analysis by Service

#### Connectivity and VAS

For connectivity services for corporate use, customers continued to shift to higher speeds. Total contracted bandwidth increased by 81.7 Gbps to 334.9 Gbps compared to 2Q06.

Revenues from connectivity services for corporate users were JPY 3,009 million, an increase of 7.5% compared to 2Q06. Revenues from IP Services, the services mainly used by corporate headquarters and data centers, increased by 6.2% compared to 2Q06, primarily due to new contracts and the shift by our corporate customers to higher speeds. Revenues from broadband services increased by 22.8% compared to 2Q06, largely due to the expansion of broadband utilization in the corporate internal network.

Revenues from connectivity services for home users were JPY 1,489 million in 2Q07, an increase of 201.9% compared to 2Q06. The increase was mainly due to additional revenues of JPY 1,080 million from hi-ho, which we acquired on June 1, 2007, partially offset by the decrease in revenues from services under IIJ Brand and OEM services.

VAS revenues were JPY 2,379 million in 2Q07, an increase of 24.8% compared to 2Q06. The increase was mainly due to an increase in revenues from e-mail, security-related services and data centers, resulting from an increase in demand for outsourcing services by

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corporate customers.

Other revenues were JPY 1,059 million in 2Q07, an increase of 10.7% compared to 2Q06.

As a result, revenues from Internet connectivity and VAS in 2Q07 were JPY 7,936 million, an increase of 28.9% compared to 2Q06. The gross margin for Internet connectivity and VAS in 2Q07 was JPY 1,337 million, an increase of 48.4% compared to 2Q06. The gross margin ratio in 2Q07 improved to 16.9% compared to 14.6% in 2Q06.

### Number of Contracts for Connectivity Services(4)

	2Q07	2Q06	YoY Change
Connectivity Services (Corporate Use)	22,949	17,739	5,210
IP Service (-99Mbps)	811	752	59
IP Service (100Mbps-999Mbps)	179	143	36
IP Service (1Gbps-)	61	55	6
IIJ Data Center Connectivity Service	288	266	22
IIJ FiberAccess/F and IIJ DSL/F	19,994	14,830	5,164
Others	1,616	1,693	(77)
Connectivity Services (Home Use)	500,185	583,844	(83,659)
Under IIJ Brand	52,878	58,378	(5,500)
hi-ho	189,872	--	189,872
OEM(5)	257,435	525,466	(268,031)
Total Contracted Bandwidth	334.9Gbps	253.2Gbps	81.7Gbps

### Connectivity and VAS Revenue Breakdown and Cost(6)

	(JPY in millions)		
	2Q07	2Q06	YoY % Change
Connectivity Service Revenues (Corporate Use)	3,009	2,799	7.5%
IP Service(7)	2,225	2,094	6.2%
IIJ FiberAccess/F and IIJ DSL/F	664	541	22.8%
Others	119	164	(27.3%)
Connectivity Service Revenues (Home Use)	1,489	493	201.9%
Under IIJ Brand	277	299	(7.3%)
hi-ho	1,080	--	--
OEM	131	194	(32.3%)

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VAS Revenues	2,379	1,906	24.8%
Other Revenues	1,059	957	10.7%
Total Connectivity and VAS Revenues	7,936	6,156	28.9%
Cost of Connectivity and VAS	6,598	5,254	25.6%
Backbone Cost (included in the cost of Connectivity and VAS)	849	876	(3.0%)
Connectivity and VAS Gross Margin Ratio	16.9%	14.6%	--

SI

Revenues from SI were JPY 7,968 million in 2Q07, an increase of 10.3% compared to 2Q06. The increase was mainly due to an increase of 13.4% in monthly recurring revenues from systems operation and maintenance compared to 2Q06 and an increase of 7.7% in one-time revenues from systems construction compared to 2Q06. The order backlog for SI and equipment sales at September 30, 2007 was JPY 18,938 million, an increase of 82.8% from the amount as of September 30, 2006. The increase is mainly because some projects are becoming larger in scale and are expected to be completed in the last half of FY2007.

The gross margin for SI in 2Q07 was JPY 2,030 million and the gross margin ratio in 2Q07 was 25.5%, compared to 22.3% in 2Q06.

SI Revenue Breakdown and Cost	(JPY in millions)		
	2Q07	2Q06	YoY % Change
SI Revenues	7,968	7,221	10.3%
Systems Construction	4,168	3,871	7.7%
Systems Operation and Maintenance	3,799	3,350	13.4%
Cost of SI	5,938	5,611	5.8%
SI Gross Margin Ratio	25.5%	22.3%	--

Equipment Sales

Revenue from equipment sales was JPY 391 million in 2Q07. The gross margin ratio for equipment sales in 2Q07 was 15.0%, compared to 7.5% in 2Q06.

Equipment Sales Revenue and Cost	(JPY in millions)		
	2Q07	2Q06	YoY % Change
Equipment Sales Revenues	391	630	(37.9%)
Cost of Equipment Sales	333	583	(42.9%)
Equipment Sales Gross Margin Ratio	15.0%	7.5%	--



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### Other Financial Statistics

Other Financial Statistics	(JPY in millions)		
	2Q07	2Q06	YoY % change
Adjusted EBITDA(8)	2,316	1,880	23.1%
CAPEX, including capital leases(9)	1,058	636	66.2%
Depreciation and amortization	1,191	1,069	11.4%

### 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)	
	2Q07	2Q06
Adjusted EBITDA	2,316	1,880
Depreciation and Amortization	(1,191)	(1,069)
Operating Income	1,125	811
Other Income (Expense)	(184)	334
Income Tax Benefit	(1,980)	(1,109)
Minority Interests in Losses (Earnings) of Subsidiaries	15	(82)
Equity in Net Loss of Equity Method Investees	(29)	(52)
Net Income	2,907	2,120

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)	
	2Q07	2Q06
CAPEX, including capital leases	1,058	636
Acquisition of Assets by Entering into Capital Leases	636	513
Purchase of Property and Equipment	422	123

### Target

Our targets for the financial results for the full FY2007 are as follows:

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			(JPY in millions)	
Revenues	Operating Income	Income before Income Tax Benefit	Net	Income
Full FY2007	69,000	4,600	5,100	5,600

On November 12, 2007, our board of directors resolved to pay a cash dividend of JPY 750 per share of common stock for the interim period ended September 30, 2007. We plan to pay an additional cash dividend of JPY 750 per share of common stock for FY2007 (400 American Depository Shares represent 1 share of common stock).

### Presentation

On November 13, 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 its management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and its management's current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding FY2007 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.

Tables to follow

(1) Unless otherwise stated, all financial figures discussed in

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this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 2Q07 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 114.97 = US\$1.00.

(2) This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2007 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 6, 2007, 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](http://www.iij.ad.jp)), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 3Q07 earnings release, presently scheduled for release in February 2008.

(3) In this document, income before income tax benefit represents income from operations before income tax benefit, minority interests and equity in net loss of equity method investees in our consolidated financial statements.

(4) As we announced in our 1Q07 earnings release, the classification in the table was changed from the table used in the past because of our acquisition of hi-ho, a company engaged mainly in the Internet business for home use. "Dedicated access services" and "dial-up access services" were reclassified to "connectivity services for corporate use" and "connectivity services for home use", respectively.

(5) OEM services provided to other service providers.

(6) As we announced in our 1Q07 earnings release, the classification in the table was changed from the table used in the past because of our acquisition of hi-ho, a company engaged mainly in the Internet business for home use. "Dedicated access services" and "dial-up access services" were reclassified to "connectivity services for corporate use" and "connectivity services for home use", respectively.

(7) IP Service revenues include revenues from the Data Center Connectivity Service.

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

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

Appendix 1

Internet Initiative Japan Inc.

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Quarterly Consolidated Balance Sheets (Unaudited)  
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(As of September 30, 2007 and March 31, 2007)

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As of September 30, 2007      As of March 31, 2007  
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	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
ASSETS					
CURRENT ASSETS:					
Cash	101,504	11,669,876		13,554,544	
Short-term investment	112	12,836		12,093	
Accounts receivable, net of allowance for doubtful accounts of JPY 31,983 thousand and JPY 32,489 thousand at September 30, 2007 and March 31, 2007, respectively	79,215	9,107,377		9,675,725	
Inventories	16,334	1,877,963		1,111,086	
Prepaid expenses	15,096	1,735,540		1,053,270	
Other current assets, net of allowance for doubtful accounts of JPY 719 thousand and JPY 4,570 thousand at September 30, 2007 and March 31, 2007, respectively	15,462	1,777,657		930,571	
Total current assets	227,723	26,181,249	49.2	26,337,289	55.2
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand at September 30, 2007 and March 31, 2007, respectively					
	9,267	1,065,431	2.0	858,490	1.8
OTHER INVESTMENTS	21,179	2,434,984	4.6	2,841,741	6.0
PROPERTY AND EQUIPMENT--Net	98,294	11,300,856	21.2	9,832,396	20.6
INTANGIBLE ASSETS--Net	50,595	5,816,862	10.9	2,876,894	6.0
GUARANTEE DEPOSITS	17,056	1,960,988	3.7	1,686,141	3.5
OTHER ASSETS, net					

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of allowance for doubtful accounts of JPY 67,027 thousand and JPY 69,050 thousand at September 30, 2007 and March 31, 2007, respectively	38,945	4,477,523	8.4	3,260,053	6.9
TOTAL	463,059	53,237,893	100.0	47,693,004	100.0

LIABILITIES AND  
SHAREHOLDERS'  
EQUITY  
CURRENT

LIABILITIES:					
Short-term borrowings	92,633	10,650,000		6,050,000	
Long-term borrowings-- current portion	--	--		290,000	
Capital lease obligations-- current portion	29,394	3,379,457		2,953,173	
Accounts payable	53,289	6,126,583		8,464,835	
Accrued expenses	8,529	980,609		897,355	
Other current liabilities	15,779	1,814,126		2,477,486	
Total current liabilities	199,624	22,950,775	43.1	21,132,849	44.3
CAPITAL LEASE OBLIGATIONS-- Noncurrent	41,831	4,809,338	9.0	4,318,309	9.1
ACCRUED RETIREMENT AND PENSION COSTS	7,263	834,981	1.6	750,042	1.5
OTHER NONCURRENT LIABILITIES	6,351	730,180	1.4	564,618	1.2
Total Liabilities	255,069	29,325,274	55.1	26,765,818	56.1
MINORITY INTEREST	1,100	126,424	0.2	815,182	1.7

COMMITMENTS AND  
CONTINGENCIES  
SHAREHOLDERS'  
EQUITY:

Common-stock  
--authorized,  
377,600 shares;  
issued and  
outstanding,

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206,478 shares at September 30, 2007 --authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2007	146,419	16,833,847	31.6	16,833,847	35.3
Additional paid-in capital	240,165	27,611,737	51.9	26,599,217	55.8
Accumulated deficit	(183,525)	(21,099,819)	(39.6)	(24,270,769)	(50.9)
Accumulated other comprehensive income	3,831	440,430	0.8	949,709	2.0
<hr/>					
Total shareholders' equity	206,890	23,786,195	44.7	20,112,004	42.2
<hr/>					
TOTAL	463,059	53,237,893	100.0	47,693,004	100.0
	<hr/>	<hr/>		<hr/>	

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 114.97, 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 28, 2007.

Appendix 2

Internet Initiative Japan Inc.

-----  
 Quarterly Consolidated Statements of Income (Unaudited)  
 -----  
 (For the three months ended September 30, 2007 and September 30, 2006)  
 -----

Three Months Ended September 30, 2007

	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues
-----			
REVENUES:			
Connectivity and value-added services:			
Connectivity (corporate use)	26,168	3,008,512	
Connectivity (home use)	12,947	1,488,522	
Value-added services	20,695	2,379,359	
Other	9,213	1,059,237	
	<hr/>	<hr/>	
Total	69,023	7,935,630	
Systems integration	69,303	7,967,724	
Equipment sales	3,402	391,139	
	<hr/>	<hr/>	
Total revenues	141,728	16,294,493	100.0
	<hr/>	<hr/>	

COST AND EXPENSES:



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Connectivity (home use)	493,061	
Value-added services	1,905,901	
Other	957,103	
	-----	
Total	6,155,558	
Systems integration	7,220,973	
Equipment sales	630,066	
	-----	
Total revenues	14,006,597	100.0
	-----	
COST AND EXPENSES:		
Cost of connectivity and value-added services	5,254,403	
Cost of systems integration	5,610,503	
Cost of equipment sales	582,998	
	-----	
Total cost	11,447,904	81.7
Sales and marketing	842,796	6.0
General and administrative	862,014	6.2
Research and development	42,507	0.3
	-----	
Total cost and expenses	13,195,221	94.2
	-----	
OPERATING INCOME	811,376	5.8
	-----	
OTHER INCOME (EXPENSES):		
Interest income	4,432	
Interest expense	(98,498)	
Foreign exchange gain (loss)	(700)	
Gain (loss) on other investments--net	444,650	
Other--net	(16,085)	
	-----	
Other income (expenses) -- net	333,799	2.4
	-----	
INCOME FROM OPERATIONS BEFORE INCOME TAX BENEFIT, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES		
	1,145,175	8.2
INCOME TAX BENEFIT	(1,108,657)	(7.9)
MINORITY INTERESTS IN (EARNINGS)		
LOSSES OF SUBSIDIARIES	(81,534)	(0.6)
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	(52,049)	(0.4)
	-----	
NET INCOME	2,120,249	15.1
	-----	
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES	203,989	
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES	204,104	
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS	81,595,702	
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS	81,641,597	
BASIC NET INCOME PER SHARE	10,394	
DILUTED NET INCOME PER SHARE	10,388	
BASIC NET INCOME PER ADS EQUIVALENT	25.98	
DILUTED NET INCOME PER ADS EQUIVALENT	25.97	
	-----	

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 114.97, which was the noon buying rate in New York City



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for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 28, 2007.

Appendix 3

Internet Initiative Japan Inc.

-----  
Quarterly Condensed Consolidated Statements of Cash Flows (Unaudited)  
-----

(For the three months ended September 30, 2007 and September 30, 2006)  
-----

	Three Months Ended September 30, 2007		Three Months Ended September 30, 2006
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
-----			
OPERATING ACTIVITIES:			
Net income	25,282	2,906,644	2,120,249
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,360	1,191,050	1,068,970
Reversal of doubtful accounts and advances	(6)	(741)	(7,859)
Loss (Gain) on other investments--net	801	92,127	(444,650)
Foreign exchange loss (gain)	6	711	(5,670)
Equity in net loss of equity method investees	255	29,277	52,049
Minority interests in earnings (losses) of subsidiaries	(130)	(14,988)	81,534
Deferred income tax benefit	(18,385)	(2,113,684)	(1,266,200)
Others	370	42,571	54,939
Changes in operating assets and liabilities:			
Increase in accounts receivable	(10,118)	(1,163,314)	(1,659,286)
Decrease in inventories, prepaid expenses and other current and noncurrent assets	7,989	918,460	728,292
Increase in accounts payable	1,076	123,717	1,111,574
Decrease in accrued expenses, other current and noncurrent liabilities	(4,936)	(567,524)	(226,196)
-----			
Net cash provided by operating activities	12,562	1,444,306	1,607,746
-----			
INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,670)	(421,969)	(123,604)
Investment in an equity method investee	(2,178)	(250,389)	--
Purchase of available-for-sale securities	(1,968)	(226,286)	(170,564)
Purchase of short-term and other investments	(1)	(152)	(1,211,387)
Proceeds from available-for-sale securities	618	71,000	619,568

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Proceeds from sales and redemption of other investments	30	3,441	15,859
Refund of guarantee deposits--net	37	4,277	21,205
Other	(107)	(12,357)	(6,068)
-----			
Net cash used in investing activities	(7,240)	(832,435)	(854,991)
-----			
FINANCING ACTIVITIES:			
Proceeds from issuance of short-term borrowings with initial maturities over three months	870	100,000	--
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(15,387)	(1,769,000)	(559,866)
Proceeds from securities loan agreement	--	--	480,960
Repayments of securities loan agreement	--	--	(496,080)
Principal payments under capital leases	(7,681)	(883,124)	(807,669)
Increase in short-term borrowings with initial maturities less than three months -- net	8,698	1,000,000	400,000
-----			
Net cash used in financing activities	(13,500)	(1,552,124)	(982,655)
-----			
EFFECT OF EXCHANGE RATE CHANGES ON CASH	106	12,181	(1,375)
NET DECREASE IN CASH	(8,072)	(928,072)	(231,275)
CASH, BEGINNING OF EACH PERIOD	109,576	12,597,948	13,091,020
-----			
CASH, END OF EACH PERIOD	101,504	11,669,876	12,859,745
-----			

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 114.97, 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 28, 2007.

Note: The following information is provided to disclose IIJ's financial results for the interim period ended September 30, 2007 in the form defined by the Tokyo Stock Exchange.

Consolidated Financial Results for the Interim Period Ended September 30, 2007

(Under accounting principles generally accepted in the United States ("U.S. GAAP"))

November 12, 2007

Company name: Internet Initiative Japan Inc.  
Exchange listed: Tokyo Stock Exchange First Section

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Stock code number: 3774  
 URL: <http://www.iij.ad.jp/>  
 Representative: Koichi Suzuki, President and Representative Director  
 Contact: Akihisa Watai, Director and CFO  
 TEL: (03) 5259-6500

Filing of an interim report (Hanki-hokokusho) with the regulatory organization in Japan:  
 Scheduled for December 20, 2007  
 Payment of dividend: Scheduled to be started on December 4, 2007  
 (Amounts of less than JPY one million are rounded)

### 1. Consolidated Financial Results for the Interim Period Ended September 30, 2007

(April 1, 2007 to September 30, 2007)

(1) Consolidated Results of Operations (% shown is YoY change)

	Total revenues	%	Operating income	%	Income before income tax benefit		Net income	

	JPY millions	%	JPY millions	%	JPY millions		JPY millions	
Interim period ended September 30, 2007	29,990	13.4	1,816	32.5	1,697	(20.8)	3,477	21.8
Interim period ended September 30, 2006	26,444	21.3	1,370	81.8	2,144	20.5	2,854	75.8
Fiscal year ended March 31, 2007	57,055	--	3,500	--	5,049	--	5,410	--

	Basic Net Income per Share		Diluted Net Income per Share				
	JPY		JPY				
Interim period ended September 30, 2007	16,880		16,862				
Interim period ended September 30, 2006	13,991		13,978				
Fiscal year ended March 31, 2007	26,519		26,487				

(Reference) Equity in net loss of equity method investees was JPY 49 million, JPY 125 million and JPY 210 million for the interim period ended September 30, 2007, the interim period ended September 30, 2006 and the fiscal year ended March 31, 2007, respectively.

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

### (2) Consolidated Financial Position

Total assets	Shareholders' equity	Shareholders' equity as a percentage	Shareholders' equity as a percentage	Shareholders' equity per

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			of total assets	share
	JPY millions	JPY millions	%	JPY
Interim period ended September 30, 2007	53,238	23,786	44.7	115,200
Interim period ended September 30, 2006	44,037	19,808	45.0	97,104
Fiscal year ended March 31, 2007	47,693	20,112	42.2	98,592

(Note) Shareholders' equity, shareholders' equity as a percentage of total assets and shareholders' equity per share are calculated in accordance with U.S. GAAP.

(3) Consolidated Cash Flows

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents, end of period
	JPY millions	JPY millions	JPY millions	JPY millions
Interim period ended September 30, 2007	117	(4,352)	2,346	11,670
Interim period ended September 30, 2006	2,512	(1,122)	(2,251)	12,860
Fiscal year ended March 31, 2007	7,402	(3,014)	(4,560)	13,555

2. Dividends

	Dividend per share		
	Interim	Year-end	Total
	JPY	JPY	JPY
Fiscal year ended March 31, 2007	--	1,500.00	1,500.00
Fiscal year ending March 31, 2008	750.00		
Fiscal year ending March 31, 2008 (target)		750.00	1,500.00

3. Target of Consolidated Financial Results for the Fiscal Year Ending March 31, 2008

(April 1, 2007 through March 31, 2008)  
(% shown is YoY change)

Total revenues      Operating income

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Fiscal year ending March 31, 2008	JPY		JPY		
	millions	%	millions	%	
	69,000	20.9	4,600	31.4	
	Income before income tax benefit	Net income	Basic net income per share		
Fiscal year ending March 31, 2008	JPY		JPY		JPY
	millions	%	millions	%	
	5,100	1.0	5,600	3.5	27,122

(Note) The number of shares of common stock used to calculate basic net income per share above is 206,478 shares.

Statements made in this press release regarding IIJ's or its management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and its 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.

4. Others

(1) Change of Condition in Consolidated Subsidiaries during the Interim Period Ended September 30, 2007 (Change of Condition in Specific Consolidated Subsidiaries with a Change of Scope of Consolidation): None

(2) Changes in Significant Accounting and Reporting Policies for Consolidated Financial Statements

1) Changes caused by revision of accounting standards: Yes

2) Others: None

(3) Number of Shares Outstanding (Shares of Common Stock)

1) The number of shares outstanding (inclusive of treasury stock) was 206,478, 204,300, and 204,300 at the end of the interim period ended September 30, 2007, the interim period ended September 30, 2006 and the fiscal year ended March 31, 2007, respectively.

2) The number of treasury stock was 0, 311 and 0 at the end of the interim period ended September 30, 2007, the interim period ended September 30, 2006 and the fiscal year ended March 31, 2007, respectively.

3) The weighted average number of shares outstanding was 206,002, 203,989 and 203,992 at the end of the interim period ended September 30, 2007, the interim period ended September 30, 2006 and the fiscal year ended March 31, 2007, respectively.

(Note) The number of treasury stock at the end of the interim

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period ended September 30, 2006 is the number of shares owned by IIJ's equity method investee multiplied by IIJ's ownership in the equity method investee.

[Qualitative Information and Financial Statements]

### 1. Results of Operations

#### (1) Analysis of Consolidated Results of Operations

##### a. Overview of Consolidated Results for the Interim Period Ended September 30, 2007

The Japanese economy for the interim period ended September 30, 2007 seems to continue to be in a gentle recovery trend mainly resulting from an improving trend of employment and recovering personal consumptions, as well as improvements in corporate earnings and an increase of corporate capital investments, while a trend of the economy in the United States and fluctuation in crude oil prices must be watched carefully.

For the data communication market which the IIJ Group belongs to, the IIJ Group continues to see steadily increasing corporate IT investment and expenditure and corporate customers are shifting to higher speeds for Internet connectivity and showing the strong demands for outsourcing services to reduce the risk of interruptions to their businesses and increase security measures.

Under such business environment, for the business results of the IIJ Group in the interim period ended September 30, 2007, revenues from connectivity services and value-added services ("VAS") such as anti-spam services and data centers increased steadily. Gross margin from connectivity and VAS increased by JPY 844 million, 49.8% year-over-year and the structural income increasing trend continued from the previous quarter. Revenues from systems integration ("SI") increased by JPY 1,049 million, 7.9% year-over-year. Some projects are becoming larger in scale and the order backlog for SI and equipment sales increased by JPY 8,576 million, 82.8% year-over-year.

As for business development, the IIJ Group continued to build the structure for its further growth in the middle and long-term. The IIJ Group engaged in the video distribution business such as provision of content distribution platform to "acTVila", TV portals for digital televisions. IIJ established GDx Japan Inc. to prepare to introduce message exchange network services. IIJ also acquired hi-ho, Inc. ("hi-ho"), an Internet Service Provider for home users.

As a result, for the consolidated results of operations for the interim period ended September 30, 2007, revenues were JPY 29,990 million, an increase of 13.4% year-over-year. Gross margin was JPY 6,179 million, an increase of 27.1% year-over-year. Operating income was JPY 1,816 million, an increase of 32.5% year-over-year. Income before income tax benefit was JPY 1,697 million, a decrease of 20.8% year-over-year, mainly due to a decrease in the gains from the sale of available-for-sale securities. Net income was JPY 3,477 million, an increase of 21.8% year-over-year, mainly due to the record of deferred tax benefits of JPY 1,970 million.

##### b. Analysis of Results of Operations

###### 1) Revenues

Revenues for the interim period ended September 30, 2007 were JPY 29,990 million, an increase of 13.4% year-over-year.

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	Interim period ended September 30, 2007	Interim period September 30,
	JPY millions	JPY millio
Connectivity and VAS	14,807	
SI	14,302	
Equipment sales	881	
<b>Total revenues</b>	<b>29,990</b>	

Revenues from connectivity and VAS were JPY 14,807 million, an increase of 23.2% year-over-year, mainly due to an increase in revenues from connectivity services for corporate users, JPY 1,419 million (for four months) of revenues from connectivity services for home users provided by hi-ho, which IIJ acquired on June 1, 2007, and an increase in revenues from VAS overall.

SI revenues increased to JPY 14,302 million, an increase of 7.9% year-over-year, due to an increase in one-revenues from systems construction as well as monthly recurring revenues from systems operation and maintenance, along with increasing corporate IT investment and expenditure.

Equipment sales revenues were JPY 881 million, a decrease of 24.8% year-over-year.

### 2) Cost of Revenues

Cost of revenues was JPY 23,811 million, an increase of 10.3% year-over-year.

	Interim period ended September 30, 2007	Interim period September 30,
	JPY millions	JPY millio
Connectivity and VAS	12,268	
SI	10,787	
Equipment sales	756	
<b>Total cost of revenues</b>	<b>23,811</b>	

The cost of connectivity and VAS revenues, which are mostly fixed-type cost such as cost for backbone, was JPY 12,268 million, an increase of 18.8% year-over-year. The increase is mainly due to JPY 1,488 million of costs along with revenues of JPY 1,748 million from hi-ho, which IIJ acquired on June 1, 2007 (both for four months), and an increase in personnel related costs and supplies costs. The cost of revenues also included amortization of intangible assets of JPY 21 million for hi-ho.

The cost of SI revenues, which are mostly variable-type cost such as outsourcing costs and purchase, was JPY 10,787 million, an increase of 5.8% year-over-year. The increase was mainly due to an increase in revenues from SI projects and an increase in personnel expenses.

The cost of equipment sales revenues was JPY 756 million, a decrease of 29.0%

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year-over-year, as revenues from equipment sales declined.

### 3) Sales and Marketing Expenses, General and Administrative Expenses and Research and Development

Sales and marketing expenses were JPY 2,027 million, an increase of 24.2% year-over-year. The increase mainly due to an increase in personnel related expenses and advertising expenses, and sales and marketing expenses related to hi-ho of JPY 184 million (for four months).

General and administrative expenses were JPY 2,220 million, an increase of 24.9% year-over-year. The increase was mainly due to an increase in personnel related expenses and an increase in rent expenses caused by expansion of offices along with the business growth.

Research and development expenses were JPY 116 million, an increase of 41.7% year-over-year.

### 5) Operating Income

Operating income was JPY 1,816 million, an increase of 32.5% year-over-year. The increase was due to an increase in gross margin from connectivity and VAS of JPY 844 million and gross margin from SI of JPY 454 million, despite of the increase in sales and marketing expenses and general and administrative expenses.

### 6) Other Income (Expense)

Other expense was JPY 119 million, compared to other income of JPY 774 million in the interim period ended September 30, 2006. The decrease was mainly due to a decrease in gains from the sale of available-for-sale securities to JPY 214 million from JPY 925 million in the interim period ended September 30.

### 7) Income before Income Tax Benefit

Income before income tax benefit was JPY 1,697 million, a decrease of 20.8% year-over-year. The decrease was because IIJ recorded other expense of JPY 119 million mainly due to the decrease in gains from the sale of available-for-sale securities.

### 8) Income Tax Benefit, Minority Interests and Equity in Net Loss of Equity Method Investees

Income tax benefit was JPY 1,805 million, compared to income tax benefit of JPY 960 million in the interim period ended September 30, 2006. The increase was mainly due to deferred tax benefits of JPY 1,970 million resulting from a reduction of the valuation allowance against deferred income tax assets due to the increasing income trend and the application of the consolidated tax filing system for IIJ and its wholly owned subsidiaries.

Minority interests in losses of subsidiaries were JPY 24 million, affected by the elimination of minority interests related to our 4 consolidated subsidiaries wholly owned by us, after IIJ made our two subsidiaries, IIJ Technology Inc. ("IIJ-Tech") and Net Care Inc. ("Net Care") wholly owned through the share exchanges in May 2007. Minority interests in losses of subsidiaries were related to GDx.

Equity in net loss of equity method investees was JPY 49 million, which was mainly due to equity in net loss of Internet Revolution Inc.

### 9) Net Income



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Net income was JPY 3,477 million, an increase of 21.8% year-over-year.

### c. Analysis by Service

#### 1) Internet Connectivity and VAS

Revenues from connectivity services for corporate use were JPY 5,981 million, an increase of 8.1% year-over-year. IIJ had new contracts for IP Service and customers shifted to higher speeds.

Revenues from connectivity services for home use were JPY 2,295 million, an increase of 133.4% year-over-year. The increase was mainly due to additional revenues of JPY 1,419 million from hi-ho (for four months), partially offset by the decrease in revenues from services under IIJ Brand and OEM services.

Revenues from VAS were JPY 4,485 million, an increase of 23.0% year-over-year. The increase was mainly due to a steady increase in revenues from network-related outsourcing services such as e-mail, securities-related and Internet VPN services and data centers affected by an increase in corporate outsourcing needs.

Other revenues were JPY 2,046 million, an increase of 10.2% year-over-year.

As a result, revenues from connectivity services and VAS totaled JPY 14,807 million, an increase of 23.2% year-over-year. The gross margin was JPY 2,539 million, an increase of 49.8% year-over-year and the gross margin ratio was up to 17.1% from 14.1% of the interim period ended September 30, 2006.

(Connectivity and VAS Revenues, Cost of Revenues and Gross Margin Ratio)

	Interim period ended September 30, 2007	Interim period September 30,
	JPY millions	JPY milli
Connectivity and VAS revenues	14,807	
Connectivity service revenues (corporate use)	5,981	
IP Service (including Data Center Connectivity Service)	4,443	
IIJ FiberAccess/F and IIJ DSL/F (broadband services)	1,280	
Others	258	
Connectivity service revenues (home use)	2,295	
Under IIJ brand	560	
hi-ho	1,419	
OEM	316	
VAS revenues	4,485	

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Other revenues	2,046
Cost of connectivity and VAS	12,268
Backbone cost	1,668
Gross margin ratio	17.1%

(Numbers of Internet Connectivity Contracts and Total Contracted Bandwidth)

	Interim period ended September 30, 2007	Interim period September 30,
	Contracts	Contracts
Connectivity services (corporate use)	22,949	
IP Service (-99Mbps)	811	
IP Service (100Mbps-999Mbps)	179	
IP Service (1Gbps-)	61	
IIJ Data Center Connectivity Service	288	
IIJ FiberAccess/F and IIJ DSL/F	19,994	
Others	1,616	
Connectivity services (home use)	500,185	
Under IIJ brand	52,878	
hi-ho	189,872	
OEM	257,435	
Total contracted bandwidth	334.9 Gbps	2

2) SI

Revenues from SI were JPY 14,302 million, an increase of 7.9% year-over-year. One-time revenues from systems construction were JPY 6,721 million, an increase of 1.1% year-over-year. Recurring revenues from systems operation and maintenance steadily increased to JPY 7,581 million, an increase of 14.8% year-over-year. The order backlog for SI and equipment sales at September 30, 2007 was JPY 18,938 million, an increase of 82.8% from the amount as of September 30, 2006. The increase was mainly because some projects were becoming larger in scale and were expected to be completed in the last half of FY2007.

The gross margin from SI was JPY 3,515 million, an increase of 14.8% year-over-year, and the gross margin ratio was 24.6%.

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

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	Interim period ended September 30, 2007	Interim period September 30,
	JPY millions	JPY million
SI revenues	14,302	
Systems construction	6,721	
Systems operation and maintenance	7,581	
Cost of SI	10,787	
SI gross margin ratio	24.6%	

3) Equipment sales

Revenues from equipment sales were JPY 881 million. The gross margin for equipment sales was JPY 125 million and the gross margin ratio was 14.2%.

(Equipment Sales Revenue and Cost)

	Interim period ended September 30, 2007	Interim period September 30,
	JPY million	JPY million
Equipment sales revenues	881	
Cost of equipment sales	756	
Equipment sales gross margin ratio	14.2%	

d. Target for the fiscal year ending March 31, 2008

The Japanese economy is expected to continue to be in a gentle recovery trend, while a trend of the economy in the United States and fluctuation in crude oil prices must be watched carefully.

The business results of the IIJ Group in the interim period ended September 30, 2007 were almost in line with the target for the interim period ended September 30, 2007 that IIJ disclosed in the press release made on August 13, 2007 (see note).

IIJ does not revise the target for the fiscal year ending March 31, 2008, that IIJ disclosed in the press release on August 13, 2007. The targets are JPY 69,000 million for total revenues, an increase of 20.9% year-over-year, JPY 4,600 million for operating income, an increase of 31.4% year-over-year, JPY 5,100 million for income before income tax benefit, an increase of 1.0% year-over-year, and JPY 5,600 million for net income, an increase of 3.5% year-over-year.

(Note) On August 13, 2007, IIJ only revised its target for net income for the interim period ended September 30, 2007, because IIJ planned to revise valuation

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allowance against deferred income tax assets, related to the increasing income trend and the application of the consolidated tax payment system for IIJ and its wholly owned subsidiaries. The revision was related to the timing of the recording of income tax benefits or expenses within the fiscal year and IIJ did not revise targets for the financial results for full FY2007.

### (2) Analysis for Financial Condition

#### a. Assets, Liabilities and Total Shareholders' Equity

As of September 30, 2007, total assets increased by JPY 5,545 million from the amount as of March 31, 2007 to JPY 53,238 million. For current assets, inventories increased by JPY 767 million, related to on-going SI projects; prepaid expenses increased by JPY 682 million, mainly for maintenance expenses related to SI projects; other current assets increased by JPY 847 million mainly due to an increase in current deferred tax assets (net) resulting from a reduction of the valuation allowance; and cash decreased by JPY 1,885 million, each from the respective amount as of March 31, 2007. Property and equipment increased by JPY 1,468 million from the amount as of March 31, 2007 mainly due to our acquisition of hi-ho and an increase in property for us and to provide services to our customers. Intangible assets increased by JPY 2,940 million from the amount as of March 31, 2007, mainly due to the recording of intangible assets of JPY 2,302 million upon IIJ's acquisition of the minority shares of two consolidated subsidiaries, and of JPY 659 million upon IIJ's acquisition of hi-ho, including amortizable intangible assets of JPY 289 million. Other assets increased by JPY 1,217 million mainly due to an increase in non-current deferred tax assets (net) resulting from a revision of valuation allowance. The fair value of available-for-sale securities as of September 30, 2007 decreased by JPY 266 million from the amount of March 31, 2007 to JPY 1,043 million. For current liabilities, short-term borrowings increased by JPY 4,600 million from the amount as of March 31, 2007, mainly related to IIJ's acquisition of shares of two consolidated subsidiaries from their respective minority shareholders, and accounts payable decreased by JPY 2,338 million from the amount as of March 31, 2007.

Total shareholders' equity as of September 30, 2007 was JPY 23,786 million, an increase of JPY 3,674 million from the amount as of March 31, 2007.

#### b. Cash Flows

Cash at the end of the interim period ended September 30, 2007 was JPY 11,670 million, a decrease of JPY 1,885 million compared to the end of the fiscal year ended March 31, 2007.

(Net cash provided by operating activities)

Net cash provided by operating activities in the interim period ended September 30, 2007 was JPY 117 million, compared to net cash provided by operating activities of JPY 2,512 million in the interim period ended September 30, 2006. Operating income increased year-over-year, mainly due to an increase in gross margin from connectivity and VAS. On the other hand during the interim period ended September 30, 2007, IIJ recorded an increase in operating assets such as inventories and prepaid expenses related to on-going systems integration projects, a decrease in operating liabilities such as accounts payable related to systems integration projects that were completed in the previous fiscal year, and payment for income taxes.

(Net cash used in investing activities)

Net cash used in investing activities was JPY 4,352 million in the interim

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period ended September 30, 2007, compared to net cash used in investing activities of JPY 1,122 million in the interim period ended September 30, 2006. IIJ paid JPY 1,975 million for the purchase of subsidiary stock from minority shareholders, JPY 992 million for the purchase of property and equipment and JPY 912 million for the acquisition of a newly controlled company (hi-ho).

(Net cash provided by financing activities)

Net cash provided by financing activities was JPY 2,346 million in the interim period ended September 30, 2007, compared to the net cash used in financing activities of JPY 2,251 million in the interim period ended September 30, 2006. IIJ recorded proceeds of JPY 4,060 million from net borrowings (short-term borrowings with initial maturities over three months and long-term borrowings), including new borrowings, for the acquisition of shares of two consolidated subsidiaries from their minority shareholders, and proceeds of JPY 250 million from net short-term borrowings (short-term borrowings initial maturities less than three months). IIJ also recorded principal payments under capital leases of JPY 1,658 million and payments of dividends of JPY 306 million.

### (3) Basic Policy for the Distribution of Profits and Dividends for the Fiscal Year Ending March 31, 2008

IIJ, while giving full consideration to securing its funds to strengthen its financial position and to prepare for its operation development, seeks to achieve continuous and steady dividends to shareholders.

IIJ plans to pay its dividend twice a year, at interim and fiscal year-end period based on the Company's article of incorporation. The dividends for interim and fiscal year-end period will be decided at the Company's board of directors and the general meeting of stockholders, respectively.

As IIJ announced in the press release on May 15, 2007, the total dividend for the fiscal year ending March 31, 2008 is planned to be JPY 1,500 per share of common stock (JPY 750 at interim end and JPY 750 at fiscal year-end).

IIJ pays JPY 750 per share of common stock for the interim period ended September 30, 2007 in consideration of its results of the period.

### (4) Risk Factors

The results of operations and financial position of IIJ or the IIJ Group may be adversely and materially impacted by the following and other factors. IIJ filed its annual report (Yuka-shoken-hokokusho) for the fiscal year ended March 31, 2007 with the regulatory organization in Japan on June 27, 2007. IIJ believes that there is no new material risk to be disclosed after the filing date. The following major factors were quoted from the annual report.

- Risk from effects on the IIJ Group's business developments by a lack of improvement of Japan's economy, or a change in economic conditions
- Risk from the IIJ Group's dependence on other companies for telecommunication circuits
- Risk from the IIJ Group's failure to maintain its quality of service and operate its services properly
- Risk from the possibility of an interruption of services of the IIJ Group
- Risk of the IIJ Group's failure to keep and manage its private customer

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information, such as personal information

- Risk due to the IIJ Group's failure to keep up with technological developments or the necessity of vast financial resources
- Risk associated with the IIJ Group's international business developments
- Risk from the effects on the IIJ Group's results of operations and financial position by increased price competition
- Risk associated from the fluctuation in backbone circuit costs
- Risk affected by the failure to manage and control outsourcing costs
- Risk of less achievement in business developments than expected, due to the IIJ Group's failure to differentiate itself from its competitors
- Risk of the IIJ Group's failure to attract and control its human resources properly
- Risk associated with a reduction of value of investments into the IIJ Group companies or requirement of additional financial resources
- Risk arising from Nippon Telegraph and Telephone Corporation ("NTT"), our largest shareholder
- Risk of failing to achieve expected revenues and profits in the future
- Risk from the IIJ Group's results of operations and financial position being affected by seasonal fluctuations in SI and equipment sales (revenues and income tend to increase in the fourth quarter of each fiscal year)
- Risk from the impact on the IIJ Group's results of operation by fluctuations in its net income affected by income tax effects
- Risk from the impact on the IIJ Group's results of operations and financial position by fluctuations in the stock prices of companies in which it has invested
- Risk of the IIJ Group's recording impairment losses on its non-amortizable intangible assets
- Risk associated with regulatory matters and new legislation related to the telecommunications
- Risk associated with legal regulations regarding the Internet
- Risk of the IIJ Group's violation of intellectual property rights of other parties
- Risk of being named as defendants in litigation

IIJ filed its annual report on Form 20-F with the United States Securities and Exchange Commission under the securities laws and regulations in the United States, in addition to its annual report on a Yuka-shoken-hokokusho, filed with the regulatory public organization in Japan under the laws and regulations in Japan. Please refer to these documents for the details of risks regarding IIJ Group's business.

### 2. Current Status of IIJ Group

#### (1) Overview of the IIJ Group

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IIJ, which has seven consolidated subsidiaries and five equity method investees as of the end of the interim period ended September 30, 2007, provides mainly enterprises and public organizations that use networks for their business with various reliable and highly value-added network services (Internet connectivity services, VAS, SI and equipment sales) based on its Internet technologies comprehensively.

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

Company name	Overview of business
IIJ	IIJ mainly provides Internet connectivity services such as security related outsourcing services, network and servers and data center services. I consultation and construction of networks and pr construction of networks and its operation and services classified into connectivity and VAS, its consolidated financial statements.
Seven consolidated subsidiaries	
IIJ Technology Inc. ("IIJ-Tech")	IIJ-Tech mainly provides systems design, consultati construction, operation and maintenance, and supply operation and maintenance for the construction of s services classified into SI and equipment sales in financial statements.
IIJ Financial Systems, Inc. ("IIJ-FS")	IIJ-FS mainly provides the development, operation for financial institutions. IIJ-FS provides servi IIJ's consolidated financial statements.
Net Care, Inc. ("Net Care")	Net Care mainly provides the monitoring and operati outsourced customer support and call centers. Net C classified connectivity and VAS and SI in IIJ' statements.
Net Chart Japan Inc. ("NCJ")	NCJ mainly provides network construction services, as network installation wiring, installation a installation of applications, and operational suppo
GDX Japan Inc. ("GDX")	GDX mainly provides message exchange network servic classified into connectivity and VAS in IIJ's conso statements.
hi-ho Inc. ("hi-ho")	hi-ho mainly provides Internet services to per solutions to corporate users. hi-ho provides connectivity and VAS in IIJ's consolidated financia
IIJ America Inc. ("IIJ America")	IIJ America mainly provides Internet connectivity s States and constructs and operates an Internet back as the IIJ Group's presence in the United States. I services classified into connectivity and VAS in II statements.
Five equity method investees	
Internet Multifeed Co. ("Multifeed")	Multifeed was established as a joint venture with t

