



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

E-mail: ir@ij.ad.jp Tel: +81-3-5259-6500

URL: <http://www.ij.ad.jp/>

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

Tokyo, August 13, 2007 - Internet Initiative Japan Inc. (Nasdaq: IJJI, 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 first quarter of the fiscal year ending March 31, 2008 ("FY2007").¹

Highlights of First Quarter FY2007 Results

- Revenue totaled JPY 13,696 million (\$ 111.0 million), an increase of 10.1% from 1Q06.
- Operating income was JPY 692 million (\$5.6 million), an increase of 23.7% from 1Q06.
- Net income was JPY 571 million (\$4.6 million), a decrease of 22.2% from 1Q06. The decrease is mainly due to a decrease in gains from the sale of available-for-sale securities and the recording of deferred tax expenses caused by a decrease in deferred income tax assets as a result of recording taxable income.

Financial Targets for FY2007²

- We favorably revised our initial target for the net income for the first half of FY2007 that we disclosed on May 15, 2007, due to our plan in 2Q07 to record deferred tax benefits exceeding the deferred tax expenses that we recorded in 1Q07. We are maintaining our initial targets for the full FY2007.

Overview of 1st Quarter FY2007 Financial Results and Business Outlook²

"We had a very good start in 1Q07," said Koichi Suzuki, President and CEO of IIJ. "Revenues increased by 10.1% and operating income increased by 23.7% compared to 1Q06. The steady increase in revenues and improving operating profitability is largely because of the favorable business trends and a steady increase in monthly recurring revenues from our connectivity services and value-added services. Revenues from connectivity services showed a significant increase compared to 1Q06, especially an 8.8% increase for corporate use. The increase is mainly due to the continuous trend of corporate customers shifting to higher speeds along with an increase in utilization of the Internet. For value-added services, there is strong demand for "Secure MX Services", which was introduced in October 2006 to provide comprehensive e-mail security. Revenues from these services increased to over JPY 50 million per month. In April 2007, we started operation of another data center in Tokyo to meet an increase in demand for data centers. The gross margin ratio for connectivity and value-added services improved significantly to 17.5% in 1Q07 from 13.5% in 1Q06."

"We completed the business investments for our mid- and long-term expansion announced previously," continued Koichi Suzuki. "We acquired hi-ho, Inc. ("hi-ho") from Panasonic Network Services Inc. in

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 1Q07 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 123.39 = 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.ij.ad.jp), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 2Q07 earnings release, presently scheduled for release in November 2007.

June 2007 to expand our Internet business for home users. We invested in GDX Japan K.K. jointly with GDX Network, Inc. in April 2007 to offer a safer e-mail environment. We made our two consolidated subsidiaries wholly owned in May 2007 to enhance our group structure.”

“We recorded deferred tax expenses in 1Q07 because we recorded deferred tax benefits in the last fiscal year and taxable income in 1Q07,” said Akihisa Watai, CFO of IJ. “However in 2Q07, we expect to record deferred tax benefits exceeding the deferred tax expenses that we recorded in 1Q07 by revising valuation allowance against deferred income tax assets, related to the application of the consolidated tax payment system for us and our wholly owned subsidiaries in addition to the increasing income trend. As a result, we favorably revised our target for the net income for the first half of FY2007 that we disclosed on May 15, 2007. The revision is related to the timing of record of income tax benefits or expenses in the fiscal year and we maintain our initial targets for the full FY2007.”

1st Quarter FY2007 Financial Results

Results of Operation

Operating Results Summary

(JPY in millions)

	1Q07	1Q06	YoY % change
Total Revenues	13,696	12,437	10.1%
Total Costs	10,942	10,134	8.0%
SG&A Expenses and R&D	2,062	1,744	18.2%
Operating Income	692	559	23.7%
Income before Income Tax Expense	757	999	(24.3%)
Net Income	571	734	(22.2%)

Revenues

Revenues in 1Q07 totaled JPY 13,696 million, an increase of 10.1% from JPY 12,437 million in 1Q06.

Revenues

(JPY in millions)

	1Q07	1Q06	YoY % change
Total Revenues:	13,696	12,437	10.1%
Connectivity and Value-added Services	6,871	5,864	17.2%
Systems Integration	6,334	6,032	5.0%
Equipment Sales	491	541	(9.5%)

Connectivity and Value-added Services ("VAS") revenues were JPY 6,871 million in 1Q07, an increase of 17.2% compared to 1Q06. The increase was mainly due to an increase in revenues from connectivity services for corporate users and value-added services overall. The increase was also affected by additional revenues of JPY 435 million from hi-ho, which IJ acquired in June 1, 2007.

SI revenues increased 5.0% to JPY 6,334 million in 1Q07 compared to 1Q06. The increase was due to a steady increase in monthly recurring revenues from systems operation and maintenance.

Equipment sales revenues were JPY 491 million in 1Q07, a decrease of 9.5% compared to 1Q06.

Cost and expense

Cost of revenues was JPY 10,942 million in 1Q07, an increase of 8.0% compared to 1Q06.

Cost of Revenues

(JPY in millions)

	1Q07	1Q06	YoY % change
Cost of Revenues:	10,942	10,134	8.0%
Connectivity and Value-added Services	5,670	5,070	11.8%
Systems Integration	4,849	4,581	5.8%
Equipment Sales	423	483	(12.3%)

Cost of Connectivity and VAS revenues was JPY 5,670 million in 1Q07, an increase of 11.8% compared to 1Q06, mainly due to an increase in costs of JPY 406 million along with additional revenues from hi-ho starting from June 1, 2007.

Cost of SI revenues was JPY 4,849 million in 1Q07, an increase of 5.8% compared to 1Q06. The increase was mainly due to an increase in revenues from systems integration projects and an increase in personnel expenses.

Cost of Equipment Sales revenues was JPY 423 million in 1Q07, a decrease of 12.3% compared to 1Q06.

Sales and marketing expenses were JPY 939 million in 1Q07, an increase of 18.9% compared to 1Q06. The increase was mainly due to an increase in personnel expenses and advertising expenses along with business expansion, as well as the addition of sales and marketing expenses from hi-ho starting from June 1, 2007.

General and administrative expenses were JPY 1,067 million in 1Q07, an increase of 16.6% compared to 1Q06. The increase was mainly due to an increase in personnel expenses and outsourcing expenses.

Operating income

Operating income was JPY 692 million in 1Q07, an increase of 23.7% compared to 1Q06. The increase was mainly due to the increase of JPY 407 million in gross margin from connectivity and value-added services, despite of the increase in sales and marketing expenses and general and administrative expenses.

Other income and others

Other income in 1Q07 was JPY 65 million, a decrease of 85.1% from JPY 440 million in 1Q06. The decrease was mainly due to a decrease in gains from the sale of available-for-sale securities. The gains from the sale of available-for-sale securities in 1Q07 were JPY 214 million, compared to JPY 478 million in 1Q06.

Income tax expense in 1Q07 was JPY 175 million, compared to income tax expense of JPY 149 million in 1Q06. The increase is mainly due to deferred tax expenses of JPY 144 million.

Minority interests in losses of subsidiaries in 1Q07 was JPY 9 million. The decrease of minority interests in losses of subsidiaries was mainly due to the elimination of minority interests related to our 4 consolidated subsidiaries wholly owned by us, because we acquired shares of IJJ Technology Inc. and Net Care, Inc. from their minority shareholders.

Equity in net loss of equity method investees in 1Q07 was JPY 20 million, mainly affected by equity in net loss of Internet Revolution Inc.

Net income was JPY 571 million in 1Q07, a decrease of 22.2% compared to 1Q06.

Financial Condition

Balance Sheets

As of June 30, 2007, total assets increased by JPY 4,082 million from the amount as of March 31, 2007 to JPY 51,775 million. For current assets, inventories increased by JPY 966 million, mainly due to an increase of on-going systems integration projects; prepaid expenses increased by JPY 1,175 million, mainly for bonus payments to our employees and maintenance expenses related to systems integration projects; and account receivables decreased by JPY 1,731 million, each from the respective amount as of March 31, 2007. Property and equipment increased by JPY 1,486 million from the amount as of March 31, 2007 mainly due to our acquisition of hi-ho and an increase of property for us to provide services to our customers and ourselves. Intangible assets increased by JPY 2,979 million from the amount as of March 31, 2007, mainly due to the recording of non-amortized intangible assets upon our acquisition of shares of two consolidated subsidiaries and hi-ho. For current liabilities, borrowings increased by JPY 5,000 million from the amount as of March 31, 2007 due to our acquisition of shares of two consolidated subsidiaries from their minority shareholders, and accounts payable decreased by JPY 2,548 million from the amount as of March 31, 2007.

Total shareholders' equity as of June 30, 2007 was JPY 21,077 million, an increase of JPY 965 million from the amount as of March 31, 2007.

Cash Flows

Cash as of June 30, 2007 was JPY 12,598 million.

Net cash used in operating activities in 1Q07 was JPY 1,328 million, compared to net cash provided by operating activities of JPY 905 million in 1Q06. Operating income increased compared to 1Q06, mainly due to a steady increase in monthly recurring revenues from connectivity and value-added services. On the other hand during 1Q07, we recorded an increase in inventories and prepaid expenses related to on-going systems integration projects, a decrease in accounts payable of JPY 1,065 million related to a systems integration project that was completed in the previous fiscal year, and payment of JPY 726 million for income taxes.

Net cash used in investing activities in 1Q07 was JPY 3,520 million, compared to JPY 267 million in 1Q06. We recorded proceeds of JPY 538 million from the sale of available-for-sale securities (the fair value of available-for-sale securities at June 30, 2007 was JPY 1,018 million). We paid JPY 1,975 million for the purchase of subsidiary stock from minority shareholders, JPY 912 million for the acquisition of a newly controlled company, hi-ho, and JPY 570 million for the purchase of property and equipment.

Net cash provided by financing activities in 1Q07 was JPY 3,898 million, compared to net cash used in financing activities of JPY 1,268 million in 1Q06. We recorded proceeds from net borrowings of JPY 5,729 million, including new borrowings of JPY 5,000 million for our acquisition of shares of two consolidated subsidiaries from their minority shareholders. We also recorded principal payments under capital leases of JPY 775 million and a net decrease in short-term borrowings with initial maturities of less than three months of JPY 750 million.

1st Quarter FY2007 Business Review

Analysis by Service

Connectivity and Value-added Services

For connectivity services for corporate use, customers continued to shift to higher speeds. Total contracted bandwidth increased by 104.9 Gbps to 330.3 Gbps compared to 1Q06.

Revenues from connectivity services for corporate users were JPY 2,973 million, an increase of 8.8% compared to 1Q06. Revenues from IP Services, the services mainly used for corporate headquarters and data centers, increased by 8.4% compared to 1Q06, mainly due to new contracts and the shift of our corporate customers to higher speeds. Revenues from broadband services increased by 21.2% compared to 1Q06, mainly due to the expansion of broadband utilization in the corporate internal network.

Revenues from connectivity services for home users were JPY 806 million in 1Q07, an increase of 64.5% compared to 1Q06. The increase was mainly due to additional revenues of JPY 339 million related to IJ's acquisition of hi-ho on June 1, 2007.

VAS revenues were JPY 2,105 million in 1Q07, an increase of 20.9% compared to 1Q06. The increase was mainly due to an increase in revenues from e-mail, security, Internet VPN related services and data centers.

Other revenues were JPY 987 million in 1Q07, an increase of 9.7% compared to 1Q06.

As a result, revenues from Internet connectivity and VAS in 1Q07 were JPY 6,871 million, an increase of 17.2% compared to 1Q06. The gross margin for Internet connectivity and value-added services in 1Q07 was JPY 1,202 million, an increase of 51.3% compared to 1Q06. The gross margin ratio in 1Q07 improved to 17.5% compared to 13.5% in 1Q06.

Number of Contracts for Connectivity Services³

	1Q07	1Q06	YoY Change
Connectivity Services (Corporate Use)	21,210	17,031	4,179
IP Service (-99Mbps)	773	747	26
IP Service (100Mbps-999Mbps)	168	131	37
IP Service (1Gbps-)	58	51	7
IIJ Data Center Connectivity Service	278	264	14
IIJ FiberAccess/F and IIJ DSL/F	18,252	14,085	4,167
Others	1,681	1,753	(72)
Connectivity Services (Home Use)	555,946	594,951	(39,005)
Under IIJ Brand	54,192	59,545	(5,353)
hi-ho	186,677	—	186,677
OEM ⁴	315,077	535,406	(220,329)
Total Contracted Bandwidth	330.3Gbps	225.4Gbps	104.9Gbps

Connectivity and VAS Revenue Breakdown and Cost⁵

(JPY in millions)

	1Q07	1Q06	YoY % Change
Connectivity Service Revenues (Corporate Use)	2,973	2,733	8.8%
IP Service ⁶	2,218	2,046	8.4%
IIJ FiberAccess/F and IIJ DSL/F	615	508	21.2%
Others	140	179	(22.0%)
Connectivity Service Revenues (Home Use)	806	490	64.5%
Under IIJ Brand	282	303	(6.9%)
hi-ho	339	—	—
OEM	185	187	(1.1%)
VAS Revenues	2,105	1,741	20.9%
Other Revenues	987	900	9.7%
Total Connectivity and VAS Revenues	6,871	5,864	17.2%
Cost of Connectivity and VAS	5,670	5,070	11.8%
Backbone Cost (included in the cost of Connectivity and VAS)	819	872	(6.1%)
Connectivity and VAS Gross Margin Ratio	17.5%	13.5%	—

Systems Integration

Revenues from systems integration were JPY 6,334 million in 1Q07, an increase of 5.0% compared to 1Q06. The increase was mainly due to an increase of 16.2% in monthly recurring revenues from systems operation and maintenance compared to 1Q06, while one-time revenues from systems construction decreased by 8.1% compared to 1Q06 because there were more projects that are expected to be completed in the second half of FY2007 and a smaller number of projects that continued from the previous quarter compared to 1Q06. The gross margin for systems integration in 1Q07 was JPY 1,486 million and the gross margin ratio in 1Q07 was 23.5%, compared to 24.0% in 1Q06.

The order backlog for systems integration and equipment sales at June 30, 2007 was JPY 17,174 million, an increase of 81.3% from the amount as of March 31, 2007.

³ The classification in the table was changed in June 2007 from the one used in the past because of our acquisition of hi-ho, a company engaged mainly in the Internet business for home use. For the table with the previous classification, please see Appendix 4.

⁴ OEM services provided to other service providers.

⁵ The classification in the table was changed in June 2007 from the one used in the past because of our acquisition of hi-ho, a company engaged mainly in the Internet business for home use. For the table with the previous classification, please see Appendix 4.

⁶ IP Service revenues include revenues from the Data Center Connectivity Service.

Systems Integration Revenue Breakdown and Cost

(JPY in millions)

	1Q07	1Q06	YoY % Change
Systems Integration Revenues	6,334	6,032	5.0%
Systems Construction	2,552	2,778	(8.1%)
Systems Operation and Maintenance	3,782	3,254	16.2%
Cost of Systems Integration	4,849	4,581	5.8%
Systems Integration Gross Margin Ratio	23.5%	24.0%	—

Equipment Sales

Revenue from equipment sales was JPY 491 million in 1Q07. The gross margin ratio for equipment sales in 1Q07 was 13.6%, compared to 10.8% in 1Q06.

Equipment Sales Revenue and Cost

(JPY in millions)

	1Q07	1Q06	YoY % Change
Equipment Sales Revenues	491	541	(9.5%)
Cost of Equipment Sales	423	483	(12.3%)
Equipment Sales Gross Margin Ratio	13.6%	10.8%	—

Other Financial Statistics

Other Financial Statistics

(JPY in millions)

	1Q07	1Q06	YoY % change
Adjusted EBITDA⁷	1,740	1,666	4.4%
CAPEX, including capital leases⁸	2,232	842	165.1%
Depreciation and amortization	1,048	1,107	(5.4%)

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)

	1Q07	1Q06
Adjusted EBITDA	1,740	1,666
Depreciation and Amortization	1,048	(1,107)
Operating Income	692	559
Other Income	65	440
Income Tax Expense	175	149
Minority Interests in Losses (Earnings) of Subsidiaries	9	(43)
Equity in Net Loss of Equity Method Investees	(20)	(73)
Net Income	571	734

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)

	1Q07	1Q06
CAPEX, including capital leases	2,232	842
Acquisition of Assets by Entering into Capital Leases	1,662	406
Purchase of Property and Equipment	570	436

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

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

Target

Our targets for the financial results for the first half of FY2007 and the full FY2007 are as follows:

(JPY in millions)

	Revenues	Operating Income	Income before Income Tax Expense (Benefit)	Net Income
First half of FY2007	30,200	1,800	1,800	3,000
Full FY2007	69,000	4,600	5,100	5,600

We favorably revised our initial target for the net income for the first half of FY2007 that we disclosed on May 15, 2007. For the details, please see the press release that we made on August 13, 2007, "IIJ Revises Targets for the Financial Results for the First Half of the Fiscal Year Ending March 31, 2008." We maintain our initial target for the full FY2007.

IIJ expects a cash dividend of JPY 750 per share of common stock for the interim period ending September 30, 2007 and JPY 750 per share of common stock for the fiscal year ending March 31, 2008. 400 American Depository Shares represent 1 share of common stock.

Presentation

On August 14, 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: IJJI, 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.

For inquiries, contact:

Taisuke ONO
IIJ Investor Relations Office
Tel: +81-3-5259-6500 E-mail: ir@iij.ad.jp URL: <http://www.iij.ad.jp/>

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 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

Internet Initiative Japan Inc.
Quarterly Consolidated Balance Sheets (Unaudited)

(As of June 30, 2007 and March 31, 2007)

	As of June 30, 2007			As of March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
ASSETS					
CURRENT ASSETS:					
Cash	102,099	12,597,948		13,554,544	
Short-term investments	98	12,146		12,093	
Accounts receivable, net of allowance for doubtful accounts of JPY 29,115 thousand and JPY 32,489 thousand at June 30, 2007 and March 31, 2007, respectively	64,385	7,944,525		9,675,725	
Inventories	16,835	2,077,268		1,111,086	
Prepaid expenses	18,058	2,228,120		1,053,270	
Other current assets, net of allowance for doubtful accounts of JPY 4,570 thousand at June 30, 2007 and March 31, 2007	6,369	785,912		930,571	
Total current assets	207,844	25,645,919	49.5	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 June 30, 2007 and March 31, 2007	6,833	843,176	1.6	858,490	1.8
OTHER INVESTMENTS	20,405	2,517,824	4.9	2,841,741	6.0
PROPERTY AND EQUIPMENT—Net	91,731	11,318,712	21.9	9,832,396	20.6
INTANGIBLE ASSETS—Net	47,462	5,856,277	11.3	2,876,894	6.0
GUARANTEE DEPOSITS	15,912	1,963,354	3.8	1,686,141	3.5
OTHER ASSETS, net of allowance for doubtful accounts of JPY 67,662 thousand and JPY 69,050 thousand at June 30, 2007 and March 31, 2007, respectively	29,417	3,629,716	7.0	3,260,053	6.9
TOTAL	419,604	51,774,978	100.0	47,693,004	100.0

	As of June 30, 2007			As of March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	89,553	11,050,000		6,050,000	
Long-term borrowings—current portion	2,180	269,000		290,000	
Capital lease obligations—current portion	27,380	3,378,436		2,953,173	
Accounts payable	47,951	5,916,634		8,464,835	
Accrued expenses	7,928	978,228		897,355	
Other current liabilities	18,196	2,245,179		2,477,486	
Total current liabilities	193,188	23,837,477	46.0	21,132,849	44.3
CAPITAL LEASE OBLIGATIONS —					
Noncurrent	41,213	5,085,243	9.8	4,318,309	9.1
ACCRUED RETIREMENT AND PENSION COSTS	6,465	797,672	1.6	750,042	1.5
OTHER NONCURRENT LIABILITIES	6,713	828,377	1.6	564,618	1.2
Total Liabilities	247,579	30,548,769	59.0	26,765,818	56.1
MINORITY INTEREST	1,207	148,983	0.3	815,182	1.7
COMMITMENTS AND CONTINGENCIES					
SHAREHOLDERS' EQUITY:					
Common-stock—authorized, 377,600 shares; issued and outstanding, 206,478 shares at June 30, 2007 and authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2007	136,428	16,833,847	32.5	16,833,847	35.3
Additional paid-in capital	223,776	27,611,737	53.3	26,599,217	55.8
Accumulated deficit	(194,558)	(24,006,463)	(46.3)	(24,270,769)	(50.9)
Accumulated other comprehensive income	5,172	638,105	1.2	949,709	2.0
Total shareholders' equity	170,818	21,077,226	40.7	20,112,004	42.2
TOTAL	419,604	51,774,978	100.0	47,693,004	100.0

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 123.39 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 June 29, 2007.

Internet Initiative Japan Inc.
Quarterly Consolidated Statements of Income (Unaudited)

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

	Three Months Ended June 30, 2007			Three Months Ended June 30, 2006	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
REVENUES:					
Connectivity and value-added services:					
Connectivity (corporate use)	24,092	2,972,772		2,732,789	
Connectivity (home use)	6,535	806,326		490,096	
Value-added services	17,061	2,105,108		1,741,318	
Other	7,998	986,870		899,726	
Total	55,686	6,871,076		5,863,929	
Systems integration	51,337	6,334,464		6,031,963	
Equipment sales	3,973	490,211		541,545	
Total revenues	110,996	13,695,751	100.0	12,437,437	100.0
COST AND EXPENSES:					
Cost of connectivity and value-added services	45,948	5,669,522		5,069,730	
Cost of systems integration	39,297	4,848,884		4,581,313	
Cost of equipment sales	3,435	423,783		483,015	
Total cost	88,680	10,942,189	79.9	10,134,058	81.5
Sales and marketing	7,611	939,130	6.9	789,932	6.3
General and administrative	8,646	1,066,843	7.8	914,711	7.4
Research and development	454	56,051	0.4	39,684	0.3
Total cost and expenses	105,391	13,004,213	95.0	11,878,385	95.5
OPERATING INCOME	5,605	691,538	5.0	559,052	4.5
OTHER INCOME:					
Interest income	91	11,212		3,049	
Interest expense	(785)	(96,908)		(107,002)	
Foreign exchange gains (losses)	(8)	(926)		690	
Net gain on other investments	1,147	141,601		478,186	
Other—net	83	10,233		65,181	
Other income— net	528	65,212	0.5	440,104	3.5
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	6,133	756,750	5.5	999,156	8.0
INCOME TAX EXPENSE	1,421	175,366	1.3	148,874	1.2
MINORITY INTERESTS IN LOSSES (EARNINGS) OF SUBSIDIARIES	75	9,224	0.1	(43,574)	(0.3)
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	(161)	(19,852)	(0.1)	(73,037)	(0.6)
NET INCOME	4,626	570,756	4.2	733,671	5.9

	Three Months Ended June 30, 2007		Three Months Ended June 30, 2006
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES		205,521	203,989
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES		205,850	204,230
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS		82,208,255	81,595,702
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS		82,340,017	81,692,077
BASIC NET INCOME PER SHARE	22.51	2,777	3,597
DILUTED NET INCOME PER SHARE	22.47	2,773	3,592
BASIC NET INCOME PER ADS EQUIVALENT	0.06	6.94	8.99
DILUTED NET INCOME PER ADS EQUIVALENT	0.06	6.93	8.98

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 123.39 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 June 29, 2007.

Internet Initiative Japan Inc.
Quarterly Condensed Consolidated Statements of Cash Flows (Unaudited)

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

	Three Months Ended June 30, 2007		Three Months Ended June 30, 2006
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:			
Net income	4,626	570,756	733,671
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	8,490	1,047,580	1,107,155
Provision for (reversal of) doubtful accounts and advances	(34)	(4,183)	3,413
Net gain on other investments	(1,147)	(141,601)	(478,186)
Foreign exchange losses	22	2,686	3,284
Equity in net loss of equity method investees	161	19,852	73,037
Minority interests in (loss) earnings of subsidiaries	(75)	(9,224)	43,574
Deferred income tax expense	1,169	144,247	21,054
Others	435	53,676	34,300
Changes in operating assets and liabilities:			
Decrease in accounts receivable	14,100	1,739,821	5,807,822
Increase in inventories, prepaid expenses and other current and noncurrent assets	(20,727)	(2,557,479)	(635,408)
Decrease in accounts payable	(18,702)	(2,307,593)	(6,071,242)
Increase in accrued expenses, other current and noncurrent liabilities	923	113,864	262,210
Net cash provided by (used in) operating activities	(10,759)	(1,327,598)	904,684
INVESTING ACTIVITIES:			
Purchase of property and equipment	(4,616)	(569,590)	(436,264)
Purchase of available-for-sale securities	(2,331)	(287,609)	—
Purchase of short-term and other investments	(257)	(31,670)	(279,230)
Purchase of subsidiary stock from minority shareholders	(16,007)	(1,975,123)	(27,559)
Proceeds from sales of available-for-sale securities	4,361	538,112	480,806
Proceeds from sales and redemption of other investments	27	3,310	1,542
Acquisition of a newly controlled company, net of cash acquired	(7,395)	(912,450)	—
Payment of guarantee deposits—net	(2,162)	(266,766)	(5,562)
Other	(144)	(17,772)	(726)
Net cash used in investing activities	(28,524)	(3,519,558)	(266,993)

FINANCING ACTIVITIES:			
Proceeds from issuance of short-term borrowings with initial maturities over three months	83,475	10,300,000	4,350,000
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(37,045)	(4,571,000)	(659,621)
Proceeds from securities loan agreement	—	—	496,080
Repayments of securities loan agreement	—	—	(999,600)
Principal payments under capital leases	(6,279)	(774,817)	(899,879)
Net decrease in short-term borrowings with initial maturities less than three months	(6,078)	(750,000)	(3,555,000)
Payment of dividends	(2,484)	(306,450)	—
Net cash provided by (used in) financing activities	31,589	3,897,733	(1,268,020)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(58)	(7,173)	(5,672)
NET DECREASE IN CASH	(7,752)	(956,596)	(636,001)
CASH, BEGINNING OF EACH PERIOD	109,851	13,554,544	13,727,021
CASH, END OF EACH PERIOD	102,099	12,597,948	13,091,020
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	774	95,500	91,001
Income taxes paid	5,880	725,557	225,563
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisition of assets by entering into capital leases	13,473	1,662,475	405,621
Purchase of minority interests of consolidated subsidiaries through share exchanges	8,206	1,012,520	—
Acquisition of business and a company:			
Assets acquired	12,730	1,570,720	—
Cash paid	(9,972)	(1,230,450)	—
Liabilities assumed	2,758	340,270	—

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 123.39 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 June 29, 2007.

The classification in the tables for connectivity service revenues and the number of contracts was changed in June 2007 from the one used in the past because of our acquisition of hi-ho, a company engaged mainly in the Internet business for home use. The following data for the past two fiscal years and the first quarter of FY2007 is disclosed for reference.

<Number of Contracts for Connectivity Services>

New Classification

	FY2005			
	1Q	2Q	3Q	4Q
Connectivity Services (Corporate Use)	14,202	14,538	15,495	16,200
IP Service (-99Mbps)	702	698	696	739
IP Service (100Mbps-999Mbps)	98	100	107	117
IP Service (1Gbps-)	33	43	38	40
IIJ Data Center Connectivity Service	234	234	240	247
IIJ FiberAccess/F and IIJ DSL/F	10,999	11,445	12,489	13,297
Others	2,136	2,018	1,925	1,760
Connectivity Services (Home Use)	675,279	661,691	645,693	628,832
Under IIJ Brand	64,197	62,974	59,869	60,525
hi-ho	—	—	—	—
OEM	611,082	598,717	585,824	568,307

	FY2006			
	1Q	2Q	3Q	4Q
Connectivity Services (Corporate Use)	17,031	17,739	18,261	19,293
IP Service (-99Mbps)	747	752	754	751
IP Service (100Mbps-999Mbps)	131	143	153	161
IP Service (1Gbps-)	51	55	60	63
IIJ Data Center Connectivity Service	264	266	264	282
IIJ FiberAccess/F and IIJ DSL/F	14,085	14,830	15,379	16,418
Others	1,753	1,693	1,651	1,618
Connectivity Services (Home Use)	594,951	583,844	569,282	532,390
Under IIJ Brand	59,545	58,378	57,286	55,907
hi-ho	—	—	—	—
OEM	535,406	525,466	511,996	476,483

	FY2007
	1Q
Connectivity Services (Corporate Use)	21,210
IP Service (-99Mbps)	773
IP Service (100Mbps-999Mbps)	168
IP Service (1Gbps-)	58
IIJ Data Center Connectivity Service	278
IIJ FiberAccess/F and IIJ DSL/F	18,252
Others	1,681
Connectivity Services (Home Use)	555,946
Under IIJ Brand	54,192
hi-ho	186,677
OEM	315,077

Old Classification

	FY2005			
	1Q	2Q	3Q	4Q
Dedicated Access Service Contracts	12,274	12,702	13,724	14,549
IP Service (Low Bandwidth: 64kbps-768kbps)	65	61	51	85
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	637	637	645	654
IP Service (High Bandwidth: 100Mbps-)	131	143	145	157
IIJ T1 Standard and IIJ Economy	208	182	154	109
IIJ Data Center Connectivity Service	234	234	240	247
IIJ FiberAccess/F and IIJ DSL/F	10,999	11,445	12,489	13,297
Dial-up Access Service Contracts	677,207	663,527	647,464	630,483
Dial-up Access Services, under IIJ Brand	66,125	64,810	61,640	62,176
Dial-up Access Services, OEM	611,082	598,717	585,824	568,307

	FY2006			
	1Q	2Q	3Q	4Q
Dedicated Access Service Contracts	15,354	16,112	16,663	17,720
IP Service (Low Bandwidth: 64kbps-768kbps)	74	70	69	64
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	673	682	685	687
IP Service (High Bandwidth: 100Mbps-)	182	198	213	224
IIJ T1 Standard and IIJ Economy	76	66	53	45
IIJ Data Center Connectivity Service	264	266	264	282
IIJ FiberAccess/F and IIJ DSL/F	14,085	14,830	15,379	16,418
Dial-up Access Service Contracts	596,628	585,471	570,880	533,963
Dial-up Access Services, under IIJ Brand	61,222	60,005	58,884	57,480
Dial-up Access Services, OEM	535,406	525,466	511,996	476,483

	FY2007
	1Q
Dedicated Access Service Contracts	19,563
IP Service (Low Bandwidth: 64kbps-768kbps)	66
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	707
IP Service (High Bandwidth: 100Mbps-)	226
IIJ T1 Standard and IIJ Economy	34
IIJ Data Center Connectivity Service	278
IIJ FiberAccess/F and IIJ DSL/F	18,252
Dial-up Access Service Contracts	557,593
Dial-up Access Services, under IIJ Brand	55,839
Dial-up Access Services, OEM	186,677
Dial-up Access Services, hi-ho	315,077

<Connectivity Revenue Breakdown>

New Classification

(JPY thousand)

	FY2005				
	1Q	2Q	3Q	4Q	Full Year
Connectivity Services	3,445,570	3,377,764	3,227,255	3,248,487	13,299,076
Connectivity Services (Corporate Use)	2,899,273	2,844,659	2,711,736	2,723,650	11,179,318
IP Service (including Data Center Connectivity Service)	2,166,078	2,121,083	1,987,448	2,015,813	8,290,422
IIJ FiberAccess/F and IIJ DSL/F	446,469	461,044	494,460	505,298	1,907,271
Others	286,726	262,532	229,828	202,539	981,625
Connectivity Services (Home Use)	546,297	533,105	515,519	524,837	2,119,758
Under IIJ Brand	313,344	307,084	288,886	292,663	1,201,977
hi-ho	—	—	—	—	—
OEM	232,953	226,021	226,633	232,174	917,781

	FY2006				
	1Q	2Q	3Q	4Q	Full Year
Connectivity Services	3,222,885	3,292,554	3,307,353	3,385,218	13,208,010
Connectivity Services (Corporate Use)	2,732,789	2,799,493	2,813,474	2,893,306	11,239,062
IP Service (including Data Center Connectivity Service)	2,045,908	2,094,465	2,112,793	2,176,196	8,429,362
IIJ FiberAccess/F and IIJ DSL/F	507,821	541,014	546,817	571,942	2,167,594
Others	179,060	164,014	153,864	145,168	642,106
Connectivity Services (Home Use)	490,096	493,061	493,879	491,912	1,968,948
Under IIJ Brand	303,262	298,938	294,196	289,780	1,186,176
hi-ho	—	—	—	—	—
OEM	186,834	194,123	199,683	202,132	782,772

	FY2007
	1Q
Connectivity Services	3,779,098
Connectivity Services (Corporate Use)	2,972,772
IP Service (including Data Center Connectivity Service)	2,217,533
IIJ FiberAccess/F and IIJ DSL/F	615,532
Others	139,707
Connectivity Services (Home Use)	806,326
Under IIJ Brand	282,453
hi-ho	339,097
OEM	184,776

Old Classification

(JPY thousand)

	FY2005				
	1Q	2Q	3Q	4Q	Full Year
Connectivity Services	3,445,570	3,377,764	3,227,255	3,248,487	13,299,076
Dedicated Access Service Revenues	2,746,900	2,695,325	2,579,659	2,603,384	10,625,268
IP Service (including Data Center Connectivity Service)	2,166,078	2,121,083	1,987,448	2,015,813	8,290,422
IIJ T1 Standard and Economy	134,353	113,198	97,751	82,273	427,575
IIJ FiberAccess/F and IIJ DSL/F	446,469	461,044	494,460	505,298	1,907,271
Dial-up Access Service Revenues	698,670	682,439	647,596	645,103	2,673,808
Under IIJ brand	465,717	456,418	420,963	412,929	1,756,027
hi-ho	—	—	—	—	—
OEM	232,953	226,021	226,633	232,174	917,781

	FY2006				
	1Q	2Q	3Q	4Q	Full Year
Connectivity Services	3,222,885	3,292,554	3,307,353	3,385,218	13,208,010
Dedicated Access Service Revenues	2,615,890	2,686,745	2,702,783	2,786,285	10,791,703
IP Service (including Data Center Connectivity Service)	2,045,908	2,094,465	2,112,793	2,176,196	8,429,362
IIJ T1 Standard and Economy	62,161	51,266	43,173	38,147	194,747
IIJ FiberAccess/F and IIJ DSL/F	507,821	541,014	546,817	571,942	2,167,594
Dial-up Access Service Revenues	606,995	605,809	604,570	598,933	2,416,307
Under IIJ brand	420,161	411,686	404,887	396,801	1,633,535
hi-ho	—	—	—	—	—
OEM	186,834	194,123	199,683	202,132	782,772

	FY2007
	1Q
Connectivity Services	3,779,098
Dedicated Access Service Revenues	2,864,993
IP Service (including Data Center Connectivity Service)	2,217,533
IIJ T1 Standard and Economy	31,928
IIJ FiberAccess/F and IIJ DSL/F	615,532
Dial-up Access Service Revenues	914,105
Under IIJ brand	390,232
hi-ho	339,097
OEM	184,776