



Internet Initiative Japan

**For Immediate Release**

**Internet Initiative Japan Inc.**

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

**Tokyo, November 12, 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 second quarter of the fiscal year ending March 31, 2008 ("FY2007").<sup>1</sup>

**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<sup>2</sup>**

- 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 2<sup>nd</sup> Quarter FY2007 Financial Results and Business Outlook<sup>2</sup>**

"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 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

<sup>1</sup> 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 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.

<sup>2</sup> 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](http://www.ij.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.

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.”

## 2<sup>nd</sup> Quarter FY2007 Financial Results

### Results of Operation

#### Operating Results Summary

(JPY in millions)

	2Q07	2Q06	YoY % change
<b>Total Revenues</b>	<b>16,294</b>	14,007	16.3%
<b>Total Costs</b>	<b>12,869</b>	11,448	12.4%
<b>SG&amp;A Expenses and R&amp;D</b>	<b>2,301</b>	1,747	31.7%
<b>Operating Income</b>	<b>1,125</b>	811	38.6%
<b>Income before Income Tax Benefit<sup>3</sup></b>	<b>941</b>	1,145	(17.9%)
<b>Net Income</b>	<b>2,907</b>	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.

#### Revenues

(JPY in millions)

	2Q07	2Q06	YoY % change
<b>Total Revenues:</b>	<b>16,294</b>	14,007	16.3%
<b>Connectivity and VAS</b>	<b>7,936</b>	6,156	28.9%
<b>SI</b>	<b>7,968</b>	7,221	10.3%
<b>Equipment Sales</b>	<b>391</b>	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 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.

#### Cost of Revenues

(JPY in millions)

	2Q07	2Q06	YoY % change
<b>Cost of Revenues:</b>	<b>12,869</b>	11,448	12.4%
<b>Connectivity and VAS</b>	<b>6,598</b>	5,254	25.6%
<b>SI</b>	<b>5,938</b>	5,611	5.8%
<b>Equipment Sales</b>	<b>333</b>	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.

<sup>3</sup> 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.

**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.

### **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 IJ 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, IJ Technology Inc. and Net Care, Inc. 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 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 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.

## **2<sup>nd</sup> Quarter FY2007 Business Review**

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### **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 IJ 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 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<sup>4</sup>

	2Q07	2Q06	YoY Change
<b>Connectivity Services (Corporate Use)</b>	<b>22,949</b>	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)
<b>Connectivity Services (Home Use)</b>	<b>500,185</b>	583,844	(83,659)
Under IIJ Brand	52,878	58,378	(5,500)
hi-ho	189,872	—	189,872
OEM <sup>5</sup>	257,435	525,466	(268,031)
<b>Total Contracted Bandwidth</b>	<b>334.9Gbps</b>	253.2Gbps	81.7Gbps

### Connectivity and VAS Revenue Breakdown and Cost<sup>6</sup>

(JPY in millions)

	2Q07	2Q06	YoY % Change
<b>Connectivity Service Revenues (Corporate Use)</b>	<b>3,009</b>	2,799	7.5%
IP Service <sup>7</sup>	2,225	2,094	6.2%
IIJ FiberAccess/F and IIJ DSL/F	664	541	22.8%
Others	119	164	(27.3%)
<b>Connectivity Service Revenues (Home Use)</b>	<b>1,489</b>	493	201.9%
Under IIJ Brand	277	299	(7.3%)
hi-ho	1,080	—	—
OEM	131	194	(32.3%)
<b>VAS Revenues</b>	<b>2,379</b>	1,906	24.8%
<b>Other Revenues</b>	<b>1,059</b>	957	10.7%
<b>Total Connectivity and VAS Revenues</b>	<b>7,936</b>	6,156	28.9%
<b>Cost of Connectivity and VAS</b>	<b>6,598</b>	5,254	25.6%
<b>Backbone Cost (included in the cost of Connectivity and VAS)</b>	<b>849</b>	876	(3.0%)
<b>Connectivity and VAS Gross Margin Ratio</b>	<b>16.9%</b>	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.

<sup>4</sup> 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.

<sup>5</sup> OEM services provided to other service providers.

<sup>6</sup> 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.

<sup>7</sup> IP Service revenues include revenues from the Data Center Connectivity Service.

### SI Revenue Breakdown and Cost

(JPY in millions)

	2Q07	2Q06	YoY % Change
<b>SI Revenues</b>	<b>7,968</b>	7,221	10.3%
<b>Systems Construction</b>	<b>4,168</b>	3,871	7.7%
<b>Systems Operation and Maintenance</b>	<b>3,799</b>	3,350	13.4%
<b>Cost of SI</b>	<b>5,938</b>	5,611	5.8%
<b>SI Gross Margin Ratio</b>	<b>25.5%</b>	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
<b>Equipment Sales Revenues</b>	<b>391</b>	630	(37.9%)
<b>Cost of Equipment Sales</b>	<b>333</b>	583	(42.9%)
<b>Equipment Sales Gross Margin Ratio</b>	<b>15.0%</b>	7.5%	—

### Other Financial Statistics

#### Other Financial Statistics

(JPY in millions)

	2Q07	2Q06	YoY % change
<b>Adjusted EBITDA<sup>8</sup></b>	<b>2,316</b>	1,880	23.1%
<b>CAPEX, including capital leases<sup>9</sup></b>	<b>1,058</b>	636	66.2%
<b>Depreciation and amortization</b>	<b>1,191</b>	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
<b>Adjusted EBITDA</b>	<b>2,316</b>	1,880
<b>Depreciation and Amortization</b>	<b>(1,191)</b>	(1,069)
<b>Operating Income</b>	<b>1,125</b>	811
<b>Other Income (Expense)</b>	<b>(184)</b>	334
<b>Income Tax Benefit</b>	<b>(1,980)</b>	(1,109)
<b>Minority Interests in Losses (Earnings) of Subsidiaries</b>	<b>15</b>	(82)
<b>Equity in Net Loss of Equity Method Investees</b>	<b>(29)</b>	(52)
<b>Net Income</b>	<b>2,907</b>	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
<b>CAPEX, including capital leases</b>	<b>1,058</b>	636
<b>Acquisition of Assets by Entering into Capital Leases</b>	<b>636</b>	513
<b>Purchase of Property and Equipment</b>	<b>422</b>	123

<sup>8</sup> Please refer to the Reconciliation of Non-GAAP Financial Measures below.

<sup>9</sup> Please refer to the Reconciliation of Non-GAAP Financial Measures below.

## Target

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

(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

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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.

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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:

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*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

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

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

	As of September 30, 2007			As of March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
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	
<b>Total current assets</b>	<b>227,723</b>	<b>26,181,249</b>	<b>49.2</b>	<b>26,337,289</b>	<b>55.2</b>
<b>INVESTMENTS IN AND ADVANCES TO EQUITY METHOD</b>					
<b>INVESTEES</b> , 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
<b>OTHER INVESTMENTS</b>	21,179	2,434,984	4.6	2,841,741	6.0
<b>PROPERTY AND EQUIPMENT—Net</b>	98,294	11,300,856	21.2	9,832,396	20.6
<b>INTANGIBLE ASSETS—Net</b>	50,595	5,816,862	10.9	2,876,894	6.0
<b>GUARANTEE DEPOSITS</b>	17,056	1,960,988	3.7	1,686,141	3.5
<b>OTHER ASSETS</b> , net 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
<b>TOTAL</b>	<b>463,059</b>	<b>53,237,893</b>	<b>100.0</b>	<b>47,693,004</b>	<b>100.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
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	
<b>Total current liabilities</b>	<b>199,624</b>	<b>22,950,775</b>	<b>43.1</b>	<b>21,132,849</b>	<b>44.3</b>
<b>CAPITAL LEASE OBLIGATIONS—Noncurrent</b>	41,831	4,809,338	9.0	4,318,309	9.1
<b>ACCRUED RETIREMENT AND PENSION COSTS</b>	7,263	834,981	1.6	750,042	1.5
<b>OTHER NONCURRENT LIABILITIES</b>	6,351	730,180	1.4	564,618	1.2
<b>Total Liabilities</b>	<b>255,069</b>	<b>29,325,274</b>	<b>55.1</b>	<b>26,765,818</b>	<b>56.1</b>
<b>MINORITY INTEREST</b>	1,100	126,424	0.2	815,182	1.7
<b>COMMITMENTS AND CONTINGENCIES</b>					
<b>SHAREHOLDERS' EQUITY:</b>					
Common-stock					
—authorized, 377,600 shares; issued and outstanding, 206,478 shares at September 30, 2007	146,419	16,833,847	31.6	16,833,847	35.3
—authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2007					
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
<b>Total shareholders' equity</b>	<b>206,890</b>	<b>23,786,195</b>	<b>44.7</b>	<b>20,112,004</b>	<b>42.2</b>
<b>TOTAL</b>	<b>463,059</b>	<b>53,237,893</b>	<b>100.0</b>	<b>47,693,004</b>	<b>100.0</b>

(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.



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			Three Months Ended September 30, 2006	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
<b>REVENUES:</b>					
Connectivity and value-added services:					
Connectivity (corporate use)	26,168	3,008,512		2,799,493	
Connectivity (home use)	12,947	1,488,522		493,061	
Value-added services	20,695	2,379,359		1,905,901	
Other	9,213	1,059,237		957,103	
Total	69,023	7,935,630		6,155,558	
Systems integration	69,303	7,967,724		7,220,973	
Equipment sales	3,402	391,139		630,066	
Total revenues	141,728	16,294,493	100.0	14,006,597	100.0
<b>COST AND EXPENSES:</b>					
Cost of connectivity and value-added services	57,390	6,598,148		5,254,403	
Cost of systems integration	51,648	5,937,975		5,610,503	
Cost of equipment sales	2,893	332,603		582,998	
Total cost	111,931	12,868,726	79.0	11,447,904	81.7
Sales and marketing	9,464	1,088,023	6.7	842,796	6.0
General and administrative	10,027	1,152,780	7.1	862,014	6.2
Research and development	525	60,394	0.3	42,507	0.3
Total cost and expenses	131,947	15,169,923	93.1	13,195,221	94.2
<b>OPERATING INCOME</b>	9,781	1,124,570	6.9	811,376	5.8
<b>OTHER INCOME (EXPENSES):</b>					
Interest income	177	20,343		4,432	
Interest expense	(1,030)	(118,370)		(98,498)	
Foreign exchange gain (loss)	16	1,849		(700)	
Gain (loss) on other investments—net	(801)	(92,127)		444,650	
Other—net	39	4,469		(16,085)	
Other income (expenses) — net	(1,599)	(183,836)	(1.1)	333,799	2.4
<b>INCOME FROM OPERATIONS BEFORE INCOME TAX BENEFIT, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD</b>	8,182	940,734	5.8	1,145,175	8.2
<b>INVESTEEES</b>					
<b>INCOME TAX BENEFIT</b>	(17,224)	(1,980,199)	(12.1)	(1,108,657)	(7.9)
<b>MINORITY INTERESTS IN (EARNINGS)</b>	131	14,988	0.1	(81,534)	(0.6)
<b>LOSSES OF SUBSIDIARIES</b>					
<b>EQUITY IN NET LOSS OF EQUITY METHOD</b>					
<b>INVESTEEES</b>	(255)	(29,277)	(0.2)	(52,049)	(0.4)
<b>NET INCOME</b>	25,282	2,906,644	17.8	2,120,249	15.1
<b>BASIC WEIGHTED-AVERAGE NUMBER OF SHARES</b>			206,478	203,989	
<b>DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES</b>			206,603	204,104	
<b>BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS</b>			82,591,200	81,595,702	
<b>DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS</b>			82,641,071	81,641,597	
<b>BASIC NET INCOME PER SHARE</b>	122.44		14,077	10,394	
<b>DILUTED NET INCOME PER SHARE</b>	122.37		14,069	10,388	
<b>BASIC NET INCOME PER ADS EQUIVALENT</b>	0.31		35.19	25.98	
<b>DILUTED NET INCOME PER ADS EQUIVALENT</b>	0.31		35.17	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 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.

**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
<b>OPERATING ACTIVITIES:</b>			
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
<b>INVESTING ACTIVITIES:</b>			
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
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)
<b>FINANCING ACTIVITIES:</b>			
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 IJ'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

Stock code number: 3774 URL: <http://www.ij.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 IJ's consolidated financial statements.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity as a percentage of total assets	Shareholders' equity per 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		1,500.00
Fiscal year ending March 31, 2008 (target)		750.00	

### 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		Income before income tax benefit		Net income		Basic net income per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal year ending March 31, 2008	69,000	20.9	4,600	31.4	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 IJ's or its management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJ's and its management's current expectations, assumptions, estimates and projections about IJ'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 IJ'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 period ended September 30, 2006 is the number of shares owned by IJ's equity method investee multiplied by IJ's ownership in the equity method investee.

**Consolidated Financial Statements (Unaudited)**  
**(From April 1, 2007 through September 30, 2007)**

(1) Consolidated Balance Sheets

	As of September 30, 2007			As of September 30, 2006		As of March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen	%
<b>ASSETS</b>							
<b>CURRENT ASSETS:</b>							
Cash	101,504	11,669,876		12,859,745		13,554,544	
Accounts receivable, net of allowance for doubtful accounts of JPY 31,983 thousand, JPY 22,198 thousand and JPY 32,489 thousand at September 30, 2007, September 30, 2006 and March 31, 2007, respectively	79,215	9,107,377		7,786,677		9,675,725	
Short-term investment	112	12,836		—		12,093	
Inventories	16,334	1,877,963		593,899		1,111,086	
Prepaid expenses	15,096	1,735,540		1,329,486		1,053,270	
Other current assets, net of allowance for doubtful accounts of JPY 719 thousand, JPY 3,850 thousand and JPY 4,570 thousand at September 30, 2007, September 30, 2006 and March 31, 2007, respectively	15,462	1,777,657		874,401		930,571	
<b>Total current assets</b>	<b>227,723</b>	<b>26,181,249</b>	<b>49.2</b>	<b>23,444,208</b>	<b>53.2</b>	<b>26,337,289</b>	<b>55.2</b>
<b>INVESTMENTS IN AND ADVANCES TO EQUITY</b>							
METHOD INVESTEEES, net of loan loss valuation allowance of JPY 16,701 at September 30, 2007, September 30, 2006 and March 31, 2007, respectively	9,267	1,065,431	2.0	1,043,410	2.4	858,490	1.8
<b>OTHER INVESTMENTS</b>	<b>21,179</b>	<b>2,434,984</b>	<b>4.6</b>	<b>6,217,408</b>	<b>14.1</b>	<b>2,841,741</b>	<b>6.0</b>
<b>PROPERTY AND EQUIPMENT—Net</b>	<b>98,294</b>	<b>11,300,856</b>	<b>21.2</b>	<b>9,496,329</b>	<b>21.6</b>	<b>9,832,396</b>	<b>20.6</b>
<b>INTANGIBLE ASSETS—Net</b>	<b>50,595</b>	<b>5,816,862</b>	<b>10.9</b>	<b>635,147</b>	<b>1.4</b>	<b>2,876,894</b>	<b>6.0</b>
<b>GUARANTEE DEPOSITS</b>	<b>17,056</b>	<b>1,960,988</b>	<b>3.7</b>	<b>1,532,046</b>	<b>3.5</b>	<b>1,686,141</b>	<b>3.5</b>
<b>OTHER ASSETS, net of allowance for doubtful accounts of JPY 67,027 thousand, JPY 65,251 thousand and JPY 69,050 thousand at September 30, 2007, September 30, 2006 and March 31, 2007, respectively</b>	<b>38,945</b>	<b>4,477,523</b>	<b>8.4</b>	<b>1,668,884</b>	<b>3.8</b>	<b>3,260,053</b>	<b>6.9</b>
<b>TOTAL</b>	<b>463,059</b>	<b>53,237,893</b>	<b>100.0</b>	<b>44,037,432</b>	<b>100.0</b>	<b>47,693,004</b>	<b>100.0</b>

	As of September 30, 2007			As of September 30, 2006		As of March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen	%
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Short-term borrowings	92,633	10,650,000		5,750,000		6,050,000	
Long-term borrowings—current portion	—	—		1,060,476		290,000	
Payable under securities loan agreement	—	—		480,960		—	
Capital lease obligations—current portion	29,394	3,379,457		2,800,937		2,953,173	
Accounts payable	53,289	6,126,583		5,090,316		8,464,835	
Accrued expenses	8,529	980,609		653,789		897,355	
Other current liabilities	15,779	1,814,126		1,720,181		2,477,486	
Total current liabilities	199,624	22,950,775	43.1	17,556,659	39.9	21,132,849	44.3
CAPITAL LEASE OBLIGATIONS—Noncurrent	41,831	4,809,338	9.0	4,371,896	9.9	4,318,309	9.1
ACCRUED RETIREMENT AND PENSION COSTS	7,263	834,981	1.6	268,292	0.6	750,042	1.5
OTHER NONCURRENT LIABILITIES	6,351	730,180	1.4	669,131	1.5	564,618	1.2
Total Liabilities	255,069	29,325,274	55.1	22,865,978	51.9	26,765,818	56.1
MINORITY INTEREST	1,100	126,424	0.2	1,363,362	3.1	815,182	1.7
COMMITMENTS AND CONTINGENCIES							
SHAREHOLDERS' EQUITY:							
Common stock—authorized, 377,600 shares; issued and outstanding, 206,478 shares at September 30, 2007	146,419	16,833,847	31.6	16,833,847	38.2	16,833,847	35.3
—authorized, 377,600 shares; issued and outstanding, 204,300 shares at September 30, 2006 and March 31, 2007							
Additional paid-in capital	240,165	27,611,737	51.9	26,599,217	60.4	26,599,217	55.8
Accumulated deficit	(183,525)	(21,099,819)	(39.6)	(26,826,562)	(60.9)	(24,270,769)	(50.9)
Accumulated other comprehensive income	3,831	440,430	0.8	3,285,828	7.5	949,709	2.0
Treasury stock—777 shares held by an equity method investee at September 30, 2006	—	—	—	(84,238)	(0.2)	—	—
Total shareholders' equity	206,890	23,786,195	44.7	19,808,092	45.0	20,112,004	42.2
TOTAL	463,059	53,237,893	100.0	44,037,432	100.0	47,693,004	100.0

(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.

## (2) Consolidated Statements of Income

	Interim Period Ended September 30, 2007			Interim Period Ended September 30, 2006		Fiscal Year Ended March 31, 2007	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
<b>REVENUES:</b>							
Connectivity and value-added services:							
Connectivity (corporate use)	52,025	5,981,284		5,532,282		11,239,062	
Connectivity (home use)	19,960	2,294,848		983,157		1,968,948	
Value-added services	39,005	4,484,467		3,647,219		7,415,533	
Other	17,797	2,046,107		1,856,829		3,729,633	
Total	128,787	14,806,706		12,019,487		24,353,176	
Systems integration	124,399	14,302,188		13,252,936		30,527,081	
Equipment sales	7,666	881,350		1,171,611		2,174,324	
Total revenues	260,852	29,990,244	100.0	26,444,034	100.0	57,054,581	100.0
<b>COST AND EXPENSES:</b>							
Cost of connectivity and value-added services	106,703	12,267,670		10,324,133		20,545,358	
Cost of systems integration	93,823	10,786,859		10,191,816		23,529,045	
Cost of equipment sales	6,579	756,386		1,066,013		1,893,216	
Total cost	207,105	23,810,915	79.4	21,581,962	81.6	45,967,619	80.6
Sales and marketing	17,632	2,027,153	6.7	1,632,728	6.2	3,438,725	6.0
General and administrative	19,306	2,219,623	7.4	1,776,725	6.7	3,970,692	7.0
Research and development	1,013	116,445	0.4	82,191	0.3	177,273	0.3
Total cost and expenses	245,056	28,174,136	93.9	25,073,606	94.8	53,554,309	93.9
OPERATING INCOME	15,796	1,816,108	6.1	1,370,428	5.2	3,500,272	6.1
<b>OTHER INCOME:</b>							
Interest income	274	31,555		7,481		23,037	
Interest expense	(1,872)	(215,278)		(205,500)		(397,439)	
Foreign exchange gain (loss)	8	923		(10)		(297)	
Gain (loss) on other investments —net	430	49,474		922,836		1,866,510	
Other—net	128	14,702		49,096		56,605	
Other income (loss) —net	(1,032)	(118,624)	(0.4)	773,903	2.9	1,548,416	2.7
<b>INCOME FROM OPERATIONS BEFORE INCOME TAX BENEFIT, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES</b>	14,764	1,697,484	5.7	2,144,331	8.1	5,048,688	8.8
<b>INCOME TAX BENEFIT</b>	(15,698)	(1,804,833)	(6.0)	(959,783)	(3.7)	(803,943)	(1.4)
<b>MINORITY INTERESTS IN (EARNINGS) LOSSES OF SUBSIDIARIES</b>	211	24,212	0.1	(125,108)	(0.5)	(232,719)	(0.4)
<b>EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES</b>	(427)	(49,129)	(0.2)	(125,086)	(0.5)	(210,199)	(0.3)
<b>NET INCOME</b>	30,246	3,477,400	11.6	2,853,920	10.8	5,409,713	9.5



	Interim Period Ended September 30, 2007		Interim Period Ended September 30, 2006	Fiscal Year Ended March 31, 2007
	U.S. Dollars	Yen	Yen	Yen
BASIC WEIGHTED- AVERAGE NUMBER OF SHARES		206,002	203,989	203,992
DILUTED WEIGHTED- AVERAGE NUMBER OF SHARES		206,228	204,166	204,244
BASIC NET INCOME PER SHARE	146.82	16,880	13,991	26,519
DILUTED NET INCOME PER SHARE	146.66	16,862	13,978	26,487

(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.

## (3) Consolidated Statements of Shareholders' Equity

Consolidated statements of shareholders' equity for the interim period ended September 30, 2007

(Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2007	204,300	16,833,847	26,599,217	(24,270,769)	949,709	—	20,112,004
Net income				3,477,400			3,477,400
Other comprehensive loss, net of tax					(509,279)		(509,279)
Total comprehensive income							2,968,121
Payment of dividends				(306,450)			(306,450)
Issuance of common stock related to share exchanges, net of issuance cost	2,178		1,012,520				1,012,520
BALANCE, SEPTEMBER 30, 2007	206,478	16,833,847	27,611,737	(21,099,819)	440,430	—	23,786,195

Consolidated statements of shareholders' equity for the interim period ended September 30, 2007

(Unit: Thousands of U.S. Dollars)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2007	204,300	146,419	231,358	(211,105)	8,260	—	174,932
Net income				30,246			30,246
Other comprehensive loss, net of tax					(4,430)		(4,430)
Total comprehensive income							25,816
Payment of dividends				(2,665)			(2,665)
Issuance of common stock related to share exchanges, net of issuance cost	2,178		8,807				8,807
BALANCE, SEPTEMBER 30, 2007	206,478	146,419	240,165	(183,525)	3,831	—	206,890

(Note)

1) 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.

Consolidated statements of shareholders' equity for the interim period ended September 30, 2006

(Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6,553,594	(84,238)	20,221,938
Net income				2,853,920			2,853,920
Other comprehensive loss, net of tax					(3,267,766)		(3,267,766)
Total comprehensive loss							(413,846)
BALANCE, SEPTEMBER 30, 2006	204,300	16,833,847	26,599,217	(26,826,562)	3,285,828	(84,238)	19,808,092

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2007

(Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6,553,594	(84,238)	20,221,938
Net income				5,409,713			5,409,713
Other comprehensive loss, net of tax					(5,492,154)		(5,492,154)
Total comprehensive loss							(82,441)
Adjustment to initially apply SFAS158, net of tax					(111,731)		(111,731)
Dissolution of reciprocal interests due to sale of investment in an equity method investee						84,238	84,238
BALANCE, MARCH 31, 2006	204,300	16,833,847	26,599,217	(24,270,769)	949,709	—	20,112,004

## (4) Condensed Consolidated Statements of Cash Flows

	Interim Period Ended September 30, 2007		Interim Period Ended September 30, 2006	Fiscal Year Ended March 31, 2007
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
<b>OPERATING ACTIVITIES:</b>				
Net income	30,246	3,477,400	2,853,920	5,409,713
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	19,471	2,238,630	2,176,125	4,228,048
Provision for (reversal of) doubtful accounts and advances	(43)	(4,924)	(4,446)	12,232
Gain on other investments—net	(430)	(49,474)	(922,836)	(1,866,510)
Foreign exchange loss (gain)	30	3,397	(2,386)	2,226
Equity in net loss of equity method investees	427	49,129	125,086	210,199
Minority interests in earnings (losses) of subsidiaries	(211)	(24,212)	125,108	232,719
Deferred income tax benefit	(17,130)	(1,969,437)	(1,245,146)	(1,494,685)
Others	837	96,247	89,239	534,035
Changes in operating assets and liabilities:				
Decrease in accounts receivable	5,014	576,507	4,148,536	2,376,126
(Decrease) increase in inventories, prepaid expenses and other current and noncurrent assets	(14,256)	(1,639,019)	92,884	(1,235,003)
Decrease in accounts payable	(18,995)	(2,183,876)	(4,959,668)	(1,872,969)
Increase (decrease) in accrued expenses, other current and noncurrent liabilities	(3,946)	(453,660)	36,014	865,376
Net cash provided by operating activities	1,015	116,708	2,512,430	7,401,507
<b>INVESTING ACTIVITIES:</b>				
Purchase of property and equipment	(8,625)	(991,559)	(559,868)	(1,287,906)
Purchase of available-for-sale securities	(4,470)	(513,895)	(170,564)	(802,662)
Purchase of short-term and other investments	(277)	(31,822)	(1,490,617)	(1,794,358)
Investment in an equity method investee	(2,178)	(250,389)	—	—
Proceeds from sales of investment in an equity method investee	—	—	—	185,900
Purchase of subsidiary stock from minority shareholders	(17,179)	(1,975,123)	(27,559)	(3,077,764)
Proceeds from sales of available-for-sale securities	5,298	609,112	1,100,374	3,883,915
Proceeds from sales and redemption of short-term and other investments	59	6,751	17,401	110,446
Acquisition of a newly controlled company, net of cash acquired	(7,936)	(912,450)	—	—
Acquisition of businesses	—	—	—	(74,751)
Refund (payment) of guarantee deposits—net	(2,283)	(262,489)	15,643	(118,411)
Other	(262)	(30,129)	(6,794)	(38,020)
Net cash used in investing activities	(37,853)	(4,351,993)	(1,121,984)	(3,013,611)

	Interim Period Ended September 30, 2007		Interim Period Ended September 30, 2006	Fiscal Year Ended March 31, 2007
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
<b>FINANCING ACTIVITIES:</b>				
Proceeds from issuance of short-term borrowings with initial maturities over three months and long-term borrowings	90,458	10,400,000	4,350,000	10,500,000
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(55,145)	(6,340,000)	(1,219,487)	(7,639,963)
Proceeds from securities loan agreement	—	—	977,040	1,057,680
Repayments of securities loan agreement	—	—	(1,495,680)	(2,057,280)
Principal payments under capital leases	(14,421)	(1,657,941)	(1,707,548)	(3,259,875)
Increase (decrease) in short-term borrowings with initial maturities less than three months—net	2,174	250,000	(3,155,000)	(3,355,000)
Proceeds from issuance of subsidiary stock to minority shareholders	—	—	—	194,679
Amount of dividend payment	(2,665)	(306,450)	—	—
Net cash provided by (used in) financing activities	20,402	2,345,609	(2,250,675)	(4,559,759)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	44	5,008	(7,047)	(614)
<b>NET DECREASE IN CASH</b>	(16,393)	(1,884,668)	(867,276)	(172,477)
<b>CASH, BEGINNING OF EACH PERIOD</b>	117,896	13,554,544	13,727,021	13,727,021
<b>CASH, END OF EACH PERIOD</b>	101,504	11,669,876	12,859,745	13,554,544
<b>ADDITIONAL CASH FLOW INFORMATION:</b>				
Interest paid	1,887	216,937	193,869	383,461
Income taxes paid	6,326	727,324	211,428	347,826
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>				
Acquisition of assets by entering into capital leases	19,989	2,298,102	918,273	2,664,706
Purchase of minority interests of consolidated subsidiaries through share exchanges	8,807	1,012,520	—	—
Acquisition of business and a company:				
Assets acquired	13,662	1,570,720	—	236,307
Cash paid	(10,702)	(1,230,450)	—	(74,751)
Liabilities assumed	2,960	340,270	—	161,556

(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.