



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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IIJ Announces Third Quarter Results for the Year Ending March 31, 2006

- Steady Expansion of Revenues and Profits from the Same Quarter Last Year -

Tokyo and New York, February 10, 2006 - Internet Initiative Japan Inc. (Nasdaq: IJJI, Tokyo Stock Exchange Mothers: 3774) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the third quarter of the fiscal year ending March 31, 2006 ("FY2005").¹

Highlights of Third Quarter FY2005 Results

- Revenue totaled JPY 11,870 million (\$100.7 million), an increase of 15.7% from 3Q04.
- Operating income was JPY 691 million (\$5.9 million), an increase of 68.4% from 3Q04.
- Net income was JPY 1,189 million (\$10.1 million), an increase of 80.3% from 3Q04.

Target for FY2005²

- Due to the steady increase in outsourcing and systems integration ("SI") projects, we revise our revenue and net income targets for FY2005 that we announced on November 9, 2005. We are increasing our revenue target by 3.6% to JPY 48.0 billion and our net income target by 18.9% to JPY 4.4 billion. Our target for operating income remains unchanged.

Overview of 3rd Quarter of FY2005 Financial Results and Business Outlook²

"In December 2005, we listed on the Mothers market of the Tokyo Stock Exchange ("TSE)," said Koichi Suzuki, President and CEO of IIJ. "Back in August 1999, we became the first Japanese company to list on NASDAQ without a domestic listing, and now six years later, we are very pleased to list in the market that also shares our major customer base. This marks the first quarterly financial results announcement since our listing in Japan, and we are quite satisfied with the continued progress that we have been making. For the quarter, we recorded significantly higher revenue and income compared to the same period last year. This was mainly due to continued revenue growth from outsourcing services and systems integration projects, and is largely a reflection of expanding corporate investment in Japan for information technology and network systems. We believe that this positive business climate will continue in the fourth quarter and as a result, we have raised our guidance accordingly."

"During the quarter, we also experienced several significant business developments," continued Koichi Suzuki. "From a service standpoint, we enhanced our security service line-ups that cater to various corporate customers. In October 2005, we announced our plans to launch two main services. First, we introduced the "IBPS Database Security Assessment Service" to evaluate the vulnerability of internal corporate databases and to prevent the risk of tampering or information leaks. The second was the "IIJ DDoS Solution Service," which protects corporate network systems from large scale external cyber

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 3Q05 results, translations of Japanese yen amounts into US dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 117.88 = US\$1.00, the approximate exchange rate on December 31, 2005. 3Q04 figures have been restated to reflect the change in income tax expense (benefit) previously announced by IIJ in its press release dated April 11, 2005.

² This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2005 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 August 3, 2005, 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 4Q05 earnings release, presently scheduled for release in May 2006.

attacks. In November 2005, we introduced the "IIJ Quarantine Network Solution" service to check, isolate, treat, disinfect and delete any computer that is improperly connected to a corporate network. In addition, our SEIL Management Framework ("SMF"), a proprietary network management system that controls routers at customer sites from a central location, was steadily provided to more vendors, including Oki Electric Industry Co., Ltd. and NTT Communications Corporation, on an Original Equipment Manufacturing ("OEM") basis. As our progress with these developments demonstrates, we continue to try to increase revenues from higher-margin outsourcing services, such as our various value-added services, by adapting new technologies into products."

"From a business standpoint, we are happy to report that we established a joint venture with Konami Corporation ("Konami") called "Internet Revolution Inc." (or "i-revo") that would operate comprehensive Internet portals. We will provide a safe and secure networking environment while Konami will use its expertise in digital entertainment content development to provide customers with what we believe will be an innovative new online experience."

3rd Quarter FY2005 Financial Results

Operating Result Summary

(JPY in millions)

	3Q05	3Q04	YoY % change
Total Revenues	11,870	10,261	15.7%
Total Costs	9,652	8,486	13.7%
SG&A Expenses and R&D	1,527	1,365	11.9%
Operating Income	691	410	68.4%
Income before Income Tax Expense	1,333	743	79.4%
Net Income	1,189	660	80.3%

Revenues

Revenues in 3Q05 totaled JPY 11,870 million, an increase of 15.7% from JPY 10,261 million in 3Q04.

Revenues

(JPY in millions)

	3Q05	3Q04	YoY % change
Total Revenues:	11,870	10,261	15.7%
Connectivity and Value-added Services	5,840	5,666	3.1%
Systems Integration	5,261	3,970	32.5%
Equipment Sales	769	625	23.0%

Connectivity and Value-added Services ("VAS") revenues were JPY 5,840 million in 3Q05, an increase of 3.1 % compared to 3Q04. The revenues from connectivity services decreased by JPY 234 million as a result of the reorganization of IIJ's group companies in October 2005. Asia Internet Holding Co., Ltd. ("AIH"), a former equity method investee, was merged into IIJ which eliminated the revenues related to the interconnection of Internet backbones with AIH. However, total connectivity and VAS revenues increased compared to 3Q04 due to a steady increase in revenues from value-added services, mainly for data center services, security services, e-mail solutions such as anti-spam, and the connection of multiple operational sites.

SI revenues increased 32.5% to JPY 5,261 million in 3Q05 compared to 3Q04. The increase was mainly due to a steady increase in revenues from higher-margin outsourced operations, as well as an increase in revenues from one-time systems integration.

Equipment sales revenues were JPY 769 million in 3Q05, an increase of 23.0% compared to 3Q04.

Cost and expense

Cost of revenues was JPY 9,652 million in 3Q05, an increase of 13.7% compared to 3Q04.

Cost of Revenues

(JPY in millions)

	3Q05	3Q04	YoY % change
Cost of Revenues:	9,652	8,486	13.7%
Connectivity and Value-added Services	5,035	4,874	3.3%
Systems Integration	3,910	3,031	29.0%
Equipment Sales	707	581	21.6%

Cost of Connectivity and VAS revenues was JPY 5,035 million in 3Q05, an increase of 3.3% compared to 3Q04.

Cost of SI revenues was JPY 3,910 million in 3Q05, an increase of 29.0% compared to 3Q04. The increase was mainly due to an increase in purchase, outsourcing expenses and personnel expenses that were caused by an increase in systems integration projects.

Cost of Equipment Sales revenues was JPY 707 million in 3Q05, an increase of 21.6% compared to 3Q04.

Sales and marketing expenses were JPY 755 million in 3Q05, an increase of 10.4% compared to 3Q04. The increase was mainly due to an increase in personnel and advertising expenses.

General and administrative expenses were JPY 739 million in 3Q05, an increase of 16.8% compared to 3Q04. The increase was mainly due to an increase in personnel expenses.

Operating income

Operating income was JPY 691 million in 3Q05, an increase of 68.4% compared to 3Q04. The increase was mainly due to the increase of the gross margin ratio by 1.4 points to 18.7%, reflecting the increase of revenues from higher-margin value-added services and systems integration projects.

Other income and others

Other income in 3Q05 was JPY 642 million, an increase from JPY 333 million in 3Q04. The increase was mainly due to an increase in gain from sale of available-for-sale securities and a decrease in interest expense caused by the redemption of convertible notes in March 2005. The income tax expense for 3Q05 was JPY 28 million. Equity in net income of equity method investees totaled to JPY 21 million in 3Q05.

Net income was JPY 1,189 million in 3Q05, an increase of 80.3% compared to 3Q04. The increase was mainly due to an increase in operating income, and an increase in gain from sale of available-for-sale securities.

3rd Quarter FY2005 Business Review

Analysis by Service

Connectivity and Value-added Services

The number of contracts and contracted bandwidth for dedicated access services continued to increase steadily. The number of contracts for dedicated access services increased by 4,297 to 13,724 compared to 3Q04. As a result, the contracted bandwidth increased by 76.0Gbps to 185.5Gbps compared to 3Q04. For IP Service, the number of contracts for over 100Mbps increased, reflecting that a number of corporate customers increased their bandwidth.

Dedicated access service revenues were JPY 2,580 million in 3Q05, a decrease of 7.2% compared to 3Q04, mainly due to a decrease in revenues by JPY 234 million that was caused by the reorganization of IJ's group companies in October 2005 (AIH, a former equity method investee, was merged into IJ and it eliminated the revenues related to the interconnection of Internet backbones with AIH), although the number of contracts for broadband services increased due to an increase of multi-site connection projects.

Dial-up access service revenues were JPY 647 million in 3Q05, a decrease of 10.9% compared to 3Q04,

mainly due to the decrease in revenues from services for individual customers, such as IJ4U.

VAS revenues were JPY 1,649 million in 3Q05, an increase of 29.2% compared to 3Q04. The increase was mainly due to a steady increase in revenues from data center-related services, server outsourcing such as e-mails, network outsourcing services such as SEIL, SMF for multi-site connection projects, and overall, was affected by an increase in corporate demand for outsourced operations.

Other revenues were JPY 964 million in 3Q05, an increase of 9.3% compared to 3Q04. The increase was mainly due to a steady increase in revenues from Wide-area Ethernet Services.

As a result, revenues from Internet connectivity and value-added services in 3Q05 were JPY 5,840 million, an increase of 3.1% compared to 3Q04. The gross margin of Internet connectivity and value-added services in 3Q05 was JPY 806 million, an increase of 1.7% compared to 3Q04. The gross margin ratio of Internet connectivity and value-added services in 3Q05 was 13.8% compared to 14.0% in 3Q04.

Number of Contracts for Connectivity Services

	3Q05	3Q04	YoY Change
Dedicated Access Service Contracts	13,724	9,427	4,297
IP Service (Low Bandwidth: 64kbps-768kbps) ³	51	67	(16)
IP Service (Medium Bandwidth: 1Mbps-99Mbps) ³	645	609	36
IP Service (High Bandwidth: 100Mbps-)	145	103	42
IJ T1 Standard and IJ Economy	154	313	(159)
IJ Data Center Connectivity Service	240	228	12
IJ FiberAccess/F and IJ DSL/F (Broadband Services)	12,489	8,107	4,382
Dial-up Access Service Contracts	647,464	708,517	(61,053)
Dial-up Access Services, under IJ Brand	61,640	69,260	(7,620)
Dial-up Access Services, OEM ⁴	585,824	639,257	(53,433)
Total Contracted Bandwidth	185.5Gbps	109.5Gbps	76.0Gbps

Connectivity and VAS Revenue Breakdown and Cost

(JPY in millions)

	3Q05	3Q04	YoY % Change
Connectivity Service Revenues	3,227	3,508	(8.0%)
Dedicated Access Service Revenues	2,580	2,781	(7.2%)
IP Service ⁵	1,987	2,186	(9.1%)
IJ T1 Standard and IJ Economy	98	195	(49.8%)
IJ FiberAccess/F and IJ DSL/F (Broadband Services)	495	400	23.5%
Dial-up Access Service Revenues	647	727	(10.9%)
Under IJ Brand	421	478	(11.9%)
OEM	226	249	(8.9%)
VAS Revenues	1,649	1,276	29.2%
Other Revenues	964	882	9.3%
Total Connectivity and VAS Revenues	5,840	5,666	3.1%
Cost of Connectivity and VAS	5,035	4,874	3.3%
Backbone Cost (included in the cost of Connectivity and VAS)	884	858	3.0%
Connectivity and VAS Gross Margin Ratio	13.8%	14.0%	—

Systems Integration

Revenue from systems integration was JPY 5,261 million in 3Q05, an increase of 32.5% compared to 3Q04. The increase was mainly due to increased revenue from outsourced operations of JPY 2,821 million that will generate steady monthly recurring revenue, as well as an increase in revenues from one-time systems integration. Revenue from outsourced operations increased by 22.8% compared to

³ Including IPv6 Services.

⁴ OEM services provided to other service providers.

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

3Q04. The gross margin ratio for SI in 3Q05 increased by 2.0 points to 25.7% compared to 3Q04. The improvement in gross margin was mainly due to the increase in higher-margin outsourced operations.

Systems Integration Revenue Breakdown and Cost

(JPY in millions)

	3Q05	3Q04	YoY % Change
Systems Integration Revenues	5,261	3,970	32.5%
Systems Integration	2,440	1,672	46.0%
Outsourced Operation	2,821	2,298	22.8%
Cost of Systems Integration	3,910	3,031	29.0%
Systems Integration Gross Margin Ratio	25.7%	23.7%	—

Equipment Sales

Revenue from equipment sales was JPY 769 million in 3Q05. The gross margin ratio for equipment sales in 3Q05 was 8.0%.

Equipment Sales Revenue and Cost

(JPY in millions)

	3Q05	3Q04	YoY % change
Equipment Sales Revenues	769	625	23.0%
Cost of Equipment Sales	707	581	21.6%
Equipment Sales Gross Margin Ratio	8.0%	7.0%	—

Other Financial Statistics

Other Financial Statistics

(JPY in millions)

	3Q05	3Q04	YoY % change
Adjusted EBITDA⁶	1,751	1,508	16.1%
CAPEX, including capital leases⁷	1,697	2,017	(15.9%)
Depreciation and amortization⁸	1,060	1,116	(5.1%)

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of income that are prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and presented on page 10:

Adjusted EBITDA

(JPY in millions)

	3Q05	3Q04
Adjusted EBITDA	1,751	1,508
Depreciation and Amortization⁹	(1,060)	(1,098)
Operating Income	691	410
Other Income (Expenses)	642	333
Income Tax Expense	28	39
Minority Interests in Earnings of Subsidiaries	(137)	(43)
Equity in Net Income (Loss) of Equity Method Investees	21	(1)
Net Income (Loss)	1,189	660

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment according to the consolidated statements of cash flows that are prepared and presented in accordance with U.S. GAAP on page 12:

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

⁷ Please refer to the Reconciliation of Non-GAAP Financial Measures on the next page.

⁸ Depreciation and amortization in 3Q04 includes amortization of issuance cost of convertible notes.

⁹ Depreciation and amortization in 3Q04 excludes amortization of issuance cost of convertible notes that was included in other expenses.

CAPEX

(JPY in millions)

	3Q05	3Q04
Capital Expenditures	1,697	2,017
Acquisition of Assets by Entering into Capital Leases	1,308	1,911
Purchase of Property and Equipment	389	106

Target

Our initial target for the annual fiscal year and the revised target are as follows:

(JPY in millions)

	Revenues	Operating Income	Income from Operations before Income Tax Expense, Minority Interests and Equity in Net Income (Loss) of Equity Method Investees	Net Income
Target Announced on November 9, 2005 (A)	46,330	2,320	3,990	3,700
Target Revised (B)	48,000	2,320	4,800	4,400
Change (B-A)	1,670	—	810	700
Change (%)	3.6%	—	20.3%	18.9%
(For Reference) Fiscal Year Ended March 31, 2005	41,703	1,248	3,149	2,906

The increase in our net income target is mainly due to the expected sale of available-for-sale securities. The resulting investment gains will be reflected in our net income.

For the details on the revision of the target, please see the press release, "IIJ Announces Revision of Target for the Fiscal Year Ending March 31, 2006" that IIJ announced on February 10, 2006.

Presentation

On February 11, 2005, IIJ will post a presentation of its results on its website. For details, please access the following URL: <http://www.iij.ad.jp/en/IR/>

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IIJ, NASDAQ: IIJI, Tokyo Stock Exchange Mothers: 3774) is one of Japan's leading Internet-access and comprehensive network solutions providers. The company has built one of the largest Internet backbone networks in Japan, and between Japan and the United States. IIJ and its group of companies provide total network solutions that mainly cater to high-end corporate customers. The company's services include high-quality systems integration and security services, Internet access, hosting/housing, and content design.

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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 FY2005 revenues and operating and net profitability, 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. These risks, uncertainties and other factors include: IJ'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 IJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IJ's largest shareholder, may decide to exercise substantial influence over IJ; and other risks referred to from time to time in IJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

Quarterly Consolidated Financial Statements
(From October 1, 2005 through December 31, 2005)

(1) Quarterly Consolidated Balance Sheets

	As of December 31, 2005 (Unaudited)			As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	109,607	12,920,492		5,286,477	
Accounts receivable, net of allowance for doubtful accounts of JPY 17,268 thousand and JPY 41,400 thousand at December 31, 2005 and March 31, 2005, respectively	57,111	6,732,241		7,407,439	
Inventories	5,995	706,657		140,096	
Prepaid expenses	10,523	1,240,384		604,935	
Other current assets	1,082	127,593		108,228	
Total current assets	184,318	21,727,367	49.4	13,547,175	36.5
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEEES, net of loan loss valuation allowance of JPY 31,378 thousand and JPY 31,378 thousand at December 31, 2005 and March 31, 2005, respectively	4,020	473,954	1.1	713,607	1.9
OTHER INVESTMENTS	74,220	8,749,015	19.9	9,930,781	26.8
PROPERTY AND EQUIPMENT—Net	81,056	9,554,859	21.7	9,722,366	26.2
INTANGIBLE ASSETS—Net	5,363	632,224	1.5	561,211	1.5
GUARANTEE DEPOSITS	17,798	2,098,008	4.8	2,050,665	5.5
OTHER ASSETS, net of allowance for doubtful accounts of JPY 40,654 thousand and JPY 376,092 thousand at December 31, 2005 and March 31, 2005, respectively	6,080	716,725	1.6	590,666	1.6
TOTAL	372,855	43,952,152	100.0	37,116,471	100.0

	As of December 31, 2005 (Unaudited)			As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Short-term borrowings	43,860	5,170,216		4,724,633	
Payable under securities loan agreement	9,577	1,128,960		1,729,520	
Long-term borrowings—current portion	20,266	2,388,977		2,736,056	
Capital lease obligations—current portion	23,973	2,825,959		2,774,974	
Accounts payable	34,745	4,095,648		4,860,733	
Accrued expenses	5,021	591,887		541,118	
Other current liabilities	13,529	1,594,807		817,517	
Total current liabilities	150,971	17,796,454	40.5	18,184,551	49.0
LONG-TERM BORROWINGS	8,487	1,000,363	2.3	1,529,963	4.1
CAPITAL LEASE OBLIGATIONS —Noncurrent	36,474	4,299,577	9.8	4,339,028	11.7
ACCRUED RETIREMENT AND PENSION COSTS	1,722	203,022	0.5	143,346	0.4
OTHER NONCURRENT LIABILITIES	3,820	450,326	1.0	275,533	0.7
Total Liabilities	201,474	23,749,742	54.1	24,472,421	65.9
MINORITY INTEREST	9,776	1,152,396	2.6	1,028,977	2.8
COMMITMENTS AND CONTINGENCIES	—	—		—	
SHAREHOLDERS' EQUITY:					
Common-stock—authorized, 377,600 shares; issued and outstanding, 204,300 shares at December 31, 2005, authorized, 377,600 shares; issued and outstanding, 191,800 shares at March 31, 2005	142,805	16,833,847	38.3	13,765,372	37.1
Additional paid-in capital	225,647	26,599,217	60.5	23,637,628	63.7
Accumulated deficit	(268,255)	(31,621,887)	(72.0)	(34,434,052)	(92.8)
Accumulated other comprehensive income	62,123	7,323,075	16.7	8,690,125	23.4
Treasury stock—777 shares and 602 shares held by an equity method investee at December 31, 2005 and March 31, 2005, respectively	(715)	(84,238)	(0.2)	(44,000)	(0.1)
Total shareholders' equity	161,605	19,050,014	43.3	11,615,073	31.3
TOTAL	372,855	43,952,152	100.0	37,116,471	100.0

(Note)

- 1) The translations of Japanese Yen amounts into U.S. dollar amounts with respect to December 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 117.88=\$1, the appropriate rate of exchange on December 31, 2005.
- 2) IIJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers of shares of common stock authorized, and issued and outstanding, and shares held by an equity method investee in this table are calculated with the assumption that the stock split was made at the beginning of FY2004. IIJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005.

(2) Quarterly Consolidated Statements of Income

	Three Months Ended December 31, 2005 (Unaudited)			Three Months Ended December 31, 2004 (Unaudited)		
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	YoY %
REVENUES:						
Connectivity and value-added services:						
Dedicated access	21,884	2,579,659	21.7	2,780,955	27.1	(7.2)
Dial-up access	5,494	647,596	5.5	726,798	7.1	(10.9)
Value-added services	13,988	1,648,893	13.9	1,275,958	12.4	29.2
Other	8,181	964,417	8.1	882,466	8.6	9.3
Total	49,547	5,840,565	49.2	5,666,177	55.2	3.1
Systems integration	44,629	5,260,867	44.3	3,969,610	38.7	32.5
Equipment sales	6,522	768,794	6.5	625,196	6.1	23.0
Total revenues	100,698	11,870,226	100.0	10,260,983	100.0	15.7
COST AND EXPENSES:						
Cost of connectivity and value-added services	42,713	5,034,990	42.4	4,873,759	47.5	3.3
Cost of systems integration	33,172	3,910,321	32.9	3,030,666	29.5	29.0
Cost of equipment sales	5,998	707,030	6.0	581,368	5.7	21.6
Total cost	81,883	9,652,341	81.3	8,485,793	82.7	13.7
Sales and marketing	6,404	754,918	6.4	683,731	6.6	10.4
General and administrative	6,269	738,931	6.2	632,874	6.2	16.8
Research and development	283	33,331	0.3	48,406	0.5	(31.1)
Total cost and expenses	94,839	11,179,521	94.2	9,850,804	96.0	13.5
OPERATING INCOME	5,859	690,705	5.8	410,179	4.0	68.4
OTHER INCOME (EXPENSES):						
Interest income	15	1,795	0.0	1,942	0.0	
Interest expense	(918)	(108,252)	(0.9)	(174,605)	(1.7)	
Foreign exchange losses	(14)	(1,650)	(0.0)	(13,463)	(0.1)	
Gain on other investments—net	6,246	736,212	6.2	528,766	5.1	
Other—net	116	13,693	0.1	(10,016)	(0.1)	
Other income (expenses)—net	5,445	641,798	5.4	332,623	3.2	93.0
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	11,304	1,332,503	11.2	742,802	7.2	79.4
INCOME TAX EXPENSE	233	27,449	0.2	39,436	0.4	(30.4)
MINORITY INTERESTS IN (EARNINGS) LOSSES OF SUBSIDIARIES	(1,164)	(137,167)	(1.2)	(43,040)	(0.4)	218.7
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	178	20,964	0.2	(795)	0.0	(2,737.0)
NET INCOME	10,085	1,188,851	10.0	659,531	6.4	80.3

	Three Months Ended December 31, 2005 (Unaudited)			Three Months Ended December 31, 2004 (Unaudited)		
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	YoY %
WEIGHTED-AVERAGE NUMBER OF SHARES		195,565		191,559		
WEIGHTED-AVERAGE NUMBER OF SHARES (INCLUDING POTENTIAL SHARES)		196,132		191,559		
WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS		78,226,137		76,623,702		
WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (INCLUDING POTENTIAL SHARES)		78,452,932		76,623,702		
BASIC NET INCOME PER SHARE		6,079		3,443		
DILUTED NET INCOME PER SHARE		6,061		3,443		
BASIC NET INCOME PER ADS EQUIVALENT		15.20		8.61		
DILUTED NET INCOME PER ADS EQUIVALENT		15.15		8.61		

(Note)

- 1) The translations of Japanese Yen amounts into U.S. dollar amounts with respect to the three months ended December 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 117.88=\$1, the appropriate rate of exchange on December 31, 2005.
- 2) IJ conducted a 1 for 5 stock split effective on October 11, 2005. The weighted-average numbers of shares of common stock in this table are calculated with the assumption that the stock split was made at the beginning of FY2004. IJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005. The numbers are calculated with the number of IJ shares of common stock outstanding reduced by the number of IJ's shares owned by IJ's equity method investee multiplied by IJ's percentage ownership in the equity method investee. All potential common shares are shares issuable upon exercise of stock options or conversion of convertible notes. Diluted net income per share are computed in consideration of a dilutive effect of the potential common shares.

(3) Quarterly Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31, 2005 (Unaudited)		Three Months Ended December 31, 2004 (Unaudited)
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:			
Net income	10,085	1,188,851	659,531
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,991	1,059,859	1,116,447
Provision for doubtful accounts	(137)	(16,180)	(18,455)
Gains on other investments—net	(6,245)	(736,212)	(527,300)
Foreign exchange losses (gains)	(30)	(3,495)	14,912
Equity in net income (loss) of equity method investees	(178)	(20,964)	795
Minority interests in earnings of subsidiaries	1,164	137,167	43,040
Deferred income tax expense	95	11,262	633
Others	1	138	53,395
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	(234)	(27,566)	582,873
Increase in inventories	(3,565)	(420,290)	(109,964)
Decrease in accounts payable	(8,100)	(954,857)	(985,459)
Others	6,220	733,252	(199,860)
Net cash provided by operating activities	8,067	950,965	630,588
INVESTING ACTIVITIES:			
Purchase of property and equipment	(3,300)	(389,008)	(105,946)
Purchase of other investments	(2,385)	(281,181)	(4,854)
Proceeds from sales of other investments	6,410	755,583	750,800
Refund of guarantee deposits—net	22	2,655	31,162
Acquisition of business	—	—	(371,011)
Other	313	36,943	(1,029)
Net cash provided by investing activities	1,060	124,992	299,122
FINANCING ACTIVITIES:			
Proceeds from issuance of long-term borrowings	—	—	1,250,000
Repayments of long-term borrowings	(1,774)	(209,133)	(58,179)
Proceeds from securities loan agreement	18,346	2,162,640	722,800
Repayments of securities loan agreement	(21,650)	(2,552,080)	(816,800)
Principal payments under capital leases	(6,764)	(797,392)	(756,982)
Net increase (decrease) in short-term borrowings	2,104	248,039	(906,360)
Proceeds from issuance of common stock, net of issuance cost	51,154	6,030,064	—
Net cash provided by (used in) financing activities	41,416	4,882,138	(565,521)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	76	8,901	(7,564)
NET INCREASE IN CASH AND CASH EQUIVALENTS	50,619	5,966,996	356,625
CASH AND CASH EQUIVALENTS, BEGINNING OF EACH PERIOD	58,988	6,953,496	11,802,165
CASH AND CASH EQUIVALENTS, END OF EACH PERIOD	109,607	12,920,492	12,158,790

(Note)

1) The translations of Japanese Yen amounts into U.S. dollar amounts with respect to the three months ended December 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 117.88=\$1, the appropriate rate of exchange on December 31, 2005.

Note: The following information is to disclose IIJ's financial results for the nine months ended December 31, 2005 in the form defined by the Tokyo Stock Exchange.

Overview of Financial Results for the Nine Months Ended December 31, 2005 (Consolidated)

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

February 10, 2006

Company name **Internet Initiative Japan Inc.**

("IIJ", stock code number: 3774, the Mothers Market of the Tokyo Stock Exchange ("TSE"))
(URL <http://www.iij.ad.jp/>)

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

1. Items regarding Preparation of Quarterly Consolidated Financial Results

- (1) Standard used for preparation of the quarterly consolidated financial statements:
Standard for Preparation of Interim Consolidated Financial Statements
- (2) Changes in accounting method from the most recent fiscal year: No
- (3) Changes in scope of consolidation and equity method: Yes

On October 1, 2005, IIJ Media Communications Inc. ("IIJ-MC"), IIJ's former consolidated subsidiary, was merged into IIJ after a portion of IIJ-MC's business was transferred to IIJ Technology Inc., our consolidated subsidiary, on October 1, 2005. Asia Internet Holding Co., Ltd., IIJ's former equity method investee, became IIJ's wholly owned consolidated subsidiary, and was merged into IIJ on October 1, 2005. In each of the mergers, IIJ became the surviving company.

2. Overview of Financial Results for the Nine Months Ended December 31, 2005 (April 1, 2005 through December 31, 2005)

(1) Consolidated Results of Operations

(Amounts less than one million yen are rounded)

	Total Revenues		Operating Income		Income before Income Tax Expense		Net Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Nine months ended December 31, 2005	33,679	14.4	1,445	144.1	3,111	307.4	2,812	332.2
Nine months ended December 31, 2004	29,448	—	592	—	764	—	651	—
(For reference) Year ended March 31, 2005	41,703		1,248		3,149		2,906	

	Basic Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended December 31, 2005	14,580	14,559
Nine months ended December 31, 2004	3,397	3,397
(For reference) Year ended March 31, 2005	15,172	15,172

(Notes)

- 1) Equity in net income (loss) of equity method investees was equity in net income of JPY 53 million, equity in net income of JPY 4 million and equity in net loss of JPY 33 million for the nine months ended December 31, 2005, the nine months ended December 31, 2004 and the year ended March 31, 2005, respectively.
- 2) The weighted-average number of shares of common stock outstanding (consolidated) was 192,872, 191,559 and 191,559

for the nine months ended December 31, 2005, the nine months ended December 31, 2004 and the year ended March 31, 2005, respectively. IJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock split was made at the beginning of the year ended March 31, 2005. IJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005. The numbers are calculated with the number of IJ shares of common stock outstanding deducted by the number of IJ's shares owned by IJ's equity method investee multiplied by IJ's ownership in the equity method investee.

- 3) The percentage figures for the total revenues, operating income and others for the nine months ended December 31, 2005 show an increase or decrease compared to the same quarter in the last fiscal year. As IJ began to prepare the financial statements as required by TSE for the nine months ended December 31, 2004, IJ does not show the percentage figures for the total revenues, operating income and others for the nine months ended December 31, 2004.
- 4) The potential shares did not have a dilutive effect for the nine months ended December 31, 2004 and the year ended March 31, 2005.
- 5) In this document, income before income tax expense represents income from operations before income tax expense, minority interests and equity in net income (loss) of equity method investees in IJ's consolidated financial statements.

(Qualitative Information Regarding Consolidated Results of Operations)

(1) Overview of Results of Operations

For the nine months ended December 31, 2005, large-sized companies and public organizations in Japan, which are IJ Group's principal customers, increasingly used Internet-related technologies for their internal corporate networks or business systems. At the same time, business network traffic has increased and corporate networks have become increasingly complex. IJ Group continued to capture the demand for network outsourcing from these customers and provide highly reliable total network solutions.

As a result, revenues through the nine months ended December 31, 2005 totaled JPY 33,679 million, an increase of 14.4% compared to the nine months ended December 31, 2004, operating income totaled JPY 1,445 million, an increase of 144.1% compared to the nine months ended December 31, 2004, income before income tax expense totaled JPY 3,111 million, an increase of 307.4% compared to the nine months ended December 31, 2004, and net income totaled JPY 2,812 million, an increase of 332.2% compared to the nine months ended December 31, 2004.

Results of operations by service are as follows:

a) Internet Connectivity and Value-added Services ("VAS")

Dedicated access service revenues were JPY 8,022 million, a decrease of 6.0% compared to the nine months ended December 31, 2004. A number of corporate customers have increased their bandwidth and the number of contracts of broadband services increased with an increase of multi-site connection projects. However, the revenues decreased mainly due to a decrease of JPY 234 million due to the reorganization of IJ's group companies in October 2005 (Asia Internet Holding Co., Ltd. ("AIH")), a former equity method investee, was merged into IJ and it ceased the revenues related to the interconnection of Internet backbones with AIH), and a decrease of a unit price per connection speed.

Dial-up access service revenues were JPY 2,029 million, a decrease of 8.6% compared to the nine months ended December 31, 2004. The decrease was mainly due to the decreasing trend of revenues from services for individual customers, such as IJ4U.

VAS revenues were JPY 4,495 million, an increase of 22.1% compared to the nine months ended December 31, 2004. The increase was mainly due to a steady increase in revenues from data center-related services, e-mail solutions such as anti-spam, network outsourcing services such as SEIL, SMF for multi-site connection projects, and overall, was favorably affected by an increase in corporate demand for outsourced operations.

Other revenues were JPY 2,828 million, an increase of 29.1% compared to the nine months ended December 31, 2004, due to an increase in revenues from Wide-area Ethernet Services.

As a result, revenues from Internet connectivity and VAS in the nine months ended December 31, 2005 were JPY 17,374 million, an increase of 4.5% compared to the nine months ended December 31, 2004. The gross margin of Internet connectivity and VAS was JPY 2,387 million, an increase of 10.6% compared to the nine months ended December 31, 2004 and the gross margin ratio was 13.7%, an improvement of 0.7 points compared to the nine months ended December 31, 2004, which was mainly due to an increase in revenues from the higher-margin VAS and a decrease of backbone costs.

<Connectivity and VAS Revenue Breakdown and Cost>

	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2004	YoY % Change
	Millions of Yen	Millions of Yen	%
Connectivity Service Revenues	10,051	10,750	(6.5%)
Dedicated Access Service Revenues	8,022	8,532	(6.0%)
IP Service ¹⁾	6,275	6,687	(6.2%)
IIJ T1 Standard and IIJ Economy	345	698	(50.5%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	1,402	1,147	22.2%
Dial-up Access Service Revenues	2,029	2,219	(8.6%)
Under IIJ Brand ²⁾	1,343	1,488	(9.7%)
OEM ³⁾	686	731	(6.2%)
VAS Revenues	4,495	3,683	22.1%
Other Revenues	2,828	2,190	29.1%
Total Connectivity and VAS Revenues	17,374	16,624	4.5%
Cost of Connectivity and VAS	14,987	14,465	3.6%
Backbone Cost (included in the cost of Connectivity and VAS)	2,594	2,720	(4.6%)
Connectivity and VAS Gross Margin Ratio	13.7%	13.0%	—

(Notes)

- 1) IP Service revenues includes revenues from Data Center Connectivity Service.
- 2) Dial-up Access Service revenues are the revenues from Dial-up Access Services for corporate and individual customers, including customers using the services with ADSL or FTTH for local accesses as options. Dial-up Access Services for individual customers are mainly IIJ4U and IIJmio.
- 3) OEM services are services provided to other service providers.

b) Systems integration ("SI")

Systems integration revenues in the nine months ended December 31, 2005 were JPY 14,263 million, an increase of 35.8% compared to the nine months ended December 31, 2004. The increase is mainly due to an increase of 44.6% to JPY 8,225 million in revenues from outsourced operation that will generate steady monthly recurring revenues compared to the nine months ended December 31, 2004, as well as an increase in revenues from one-time systems integration. The gross margin ratio for SI in the nine months ended December 31, 2005 increased by 2.5 points to 24.7% compared to the nine months ended December 31, 2004. The improvement in gross margin was mainly due to the increase in higher-margin outsourced operations.

<Systems Integration Revenue Breakdown and Cost>

	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2004	YoY % Change
	Millions of Yen	Millions of Yen	%
SI Revenues	14,263	10,502	35.8%
Systems Integration	6,038	4,812	25.5%
Outsourced Operation	8,225	5,690	44.6%
Cost of SI	10,739	8,170	31.5%
SI Gross Margin Ratio	24.7%	22.2%	—

c) Equipment sales

Equipment sales revenues in the nine months ended December 31, 2005 were JPY 2,043 million. The gross margin ratio was 6.2%.

<Equipment Sales Revenue and Cost>

	Nine Months Ended December 31, 2005	Nine Months Ended December 31, 2004	YoY % Change
	Millions of Yen	Millions of Yen	%
Equipment Sales Revenues	2,043	2,322	(12.0%)
Cost of Equipment Sales	1,917	2,148	(10.8%)
Equipment Sales Gross Margin Ratio	6.2%	7.5%	—

(2) Changes in Consolidated Financial Position

(Amounts less than one million yen are rounded)

	Total Assets	Shareholders' Equity	Equity-to-Assets Ratio	Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
As of December 31, 2005	43,952	19,050	43.3	93,387
As of December 31, 2004	45,259	10,362	22.9	54,094
(For reference) As of March 31, 2005	37,116	11,615	31.3	60,634

(Note)

The number of shares of common stock outstanding (consolidated) was 203,989, 191,559 and 191,559 as of December 31, 2005, December 31, 2004 and March 31, 2005, respectively. IJ conducted a 1 for 5 stock split effective on October 11, 2005. The numbers are calculated with the assumption that the stock split had been made at the beginning of the year ended March 31, 2005. IJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005. The numbers are calculated with the number of IJ shares of common stock outstanding reduced by the number of IJ's shares owned by IJ's equity method investee multiplied by IJ's percentage ownership in the equity method investee.

(3) Consolidated Cash Flows

(Amounts less than one million yen are rounded)

	Net cash provided by operating activities	Net cash provided by investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Nine months ended December 31, 2005	3,948	971	2,685	12,920
Nine months ended December 31, 2004	2,697	127	(2,969)	12,159
(For reference) Year ended March 31, 2005	5,238	1,974	(14,213)	5,286

(Note)

As for the cash flows, the effect of exchange rate changes on cash was JPY 30 million, JPY 19 million and JPY 2 million for the nine months ended December 31, 2005, the nine months ended December 31, 2004 and the year ended March 31, 2005, respectively.

(Qualitative Information Regarding Changes in Consolidated Financial Position)

The balance of cash and cash equivalents as of December 31, 2005 was JPY 12,920 million.

(Net cash provided by operating activities)

Net cash provided by operating activities increased by JPY 1,250 million to JPY 3,948 million from the nine months ended December 31, 2004. The factors to change the net cash provided by operating activities were mainly an increase in operating income caused by an increase in revenues from higher-margin VAS revenues, a decrease in backbone costs and an increase in revenues from higher-margin outsourced operations.

(Net cash provided by investing activities)

Net cash provided by investing activities increased by JPY 844 million to JPY 971 million from the nine months ended December 31, 2004. Purchases of property and equipment of JPY 717 million and short-term and other investments of JPY 581 million partly offset proceeds of JPY 2,252 million from sales and redemption of short-term and other investments.

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

Net cash provided by financing activities increased to JPY 2,685 million from net cash used in financing activities of JPY 2,969 million in the nine months ended December 31, 2004. Repayments of long-term borrowings of JPY 1,877 million, repayments of securities loan agreement of JPY 4,498 million and principal payments under capital leases of JPY 2,313 million partly offset proceeds from issuance of common stock when IJ listed on the Mothers market of TSE of JPY 6,030 million, proceeds from issuance of long-term borrowings of JPY 1,000 million and proceeds from securities loan agreement of JPY 3,897 million.

**3. Target of Consolidated Financial Results for the Year Ending March 31, 2006
(April 1, 2005 through March 31, 2006)**

(Amounts less than one million yen are rounded)

	Total Revenues	Operating Income	Income before Income Tax Expense	Net Income
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Year ending March 31, 2006	48,000	2,320	4,800	4,400

(Reference) Net income per share for the year ending March 31, 2006, based on the target above: JPY 21,537

(Notes)

- 1) IJ conducted a 1 for 5 stock split effective on October 11, 2005. IJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005. The target for net income per share above is calculated using the 204,300 shares outstanding at the end of the nine months ended December 31, 2005.
- 2) Statements made in this press release regarding IJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues and operating and net profitability of the year ending March 31, 2006, 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. These risks, uncertainties and other factors include: IJ'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 IJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IJ's largest shareholder, may decide to exercise substantial influence over IJ; and other risks referred to from time to time in IJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

(Qualitative Information regarding Targets for Consolidated Financial Results)

IJ revised its target for consolidated and non-consolidated financial results for the year ending March 31, 2006 that we announced on November 9, 2005, based on the financial results for the nine months ended December 31, 2005. The revised target for the consolidated financial results for the year ending March 31, 2006 are as the above.

Along with a trend of increasing corporate spending related to information networks reflecting steady corporate earnings and the recovery of Japan's economy, the total revenues in the consolidated financial results for the year ending March 31, 2006 are expected to be higher than the target that we announced in November 2005. The income before income tax expense and net income in the consolidated financial results for the year ending March 31, 2006 are expected to be higher than the target that we announced in November 2005, mainly due to the expectedly increasing gains from sale of available-for-sale securities reflected by the recovering securities market.

For details, please see the press release, "IJ Announces Revision of Target for the Fiscal Year Ending March 31, 2006" that IJ announced on February 10, 2006.

**4. Quarterly Consolidated Financial Statements
(Unaudited, from April 1, 2005 through December 31, 2005)**

(1) Quarterly Consolidated Balance Sheets

	As of December 31, 2005			As of December 31, 2004		As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen	%
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	109,607	12,920,492		12,158,790		5,286,477	
Accounts receivable, net of allowance for doubtful accounts of JPY 17,268 thousand, JPY 20,975 thousand and JPY 41,400 thousand at December 31, 2005, December 31, 2004 and March 31, 2005, respectively	57,111	6,732,241		6,231,361		7,407,439	
Inventories	5,995	706,657		372,144		140,096	
Prepaid expenses	10,523	1,240,384		989,003		604,935	
Other current assets	1,082	127,593		334,169		108,228	
Total current assets	184,318	21,727,367	49.4	20,085,467	44.4	13,547,175	36.5
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 31,378 thousand, JPY 23,900 thousand and JPY 31,378 thousand at December 31, 2005, December 31, 2004 and March 31, 2005, respectively	4,020	473,954	1.1	759,585	1.7	713,607	1.9
OTHER INVESTMENTS	74,220	8,749,015	19.9	11,072,053	24.4	9,930,781	26.8
PROPERTY AND EQUIPMENT—Net	81,056	9,554,859	21.7	10,003,936	22.1	9,722,366	26.2
INTANGIBLE ASSETS—Net	5,363	632,224	1.5	576,689	1.3	561,211	1.5
GUARANTEE DEPOSITS	17,798	2,098,008	4.8	2,050,305	4.5	2,050,665	5.5
OTHER ASSETS, net of allowance for doubtful accounts of JPY 40,654 thousand, JPY 320,883 thousand and JPY 376,092 thousand at December 31, 2005, December 31, 2004 and March 31, 2005 respectively	6,080	716,725	1.6	711,335	1.6	590,666	1.6
TOTAL	372,855	43,952,152	100.0	45,259,370	100.0	37,116,471	100.0

	As of December 31, 2005			As of December 31, 2004		As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen	%
LIABILITIES AND SHAREHOLDERS' EQUITY							
CURRENT LIABILITIES:							
Short-term borrowings	43,860	5,170,216		4,825,844		4,724,633	
Payable under securities loan agreement	9,577	1,128,960		722,800		1,729,520	
Long-term borrowings—current portion	20,266	2,388,977		2,185,094		2,736,056	
Convertible notes	—	—		11,088,000		—	
Capital lease obligations—current portion	23,973	2,825,959		2,784,469		2,774,974	
Accounts payable	34,745	4,095,648		3,566,158		4,860,733	
Accrued expenses	5,021	591,887		665,821		541,118	
Other current liabilities	13,529	1,594,807		780,267		817,517	
Total current liabilities	150,971	17,796,454	40.5	26,618,453	58.8	18,184,551	49.0
LONG-TERM BORROWINGS	8,487	1,000,363	2.3	2,389,339	5.3	1,529,963	4.1
CAPITAL LEASE OBLIGATIONS—Noncurrent	36,474	4,299,577	9.8	4,459,352	9.8	4,339,028	11.7
ACCRUED RETIREMENT AND PENSION COSTS	1,722	203,022	0.5	120,732	0.3	143,346	0.4
OTHER NONCURRENT LIABILITIES	3,820	450,326	1.0	320,393	0.7	275,533	0.7
Total Liabilities	201,474	23,749,742	54.1	33,908,269	74.9	24,472,421	65.9
MINORITY INTEREST	9,776	1,152,396	2.6	988,964	2.2	1,028,977	2.8
COMMITMENTS AND CONTINGENCIES	—	—		—		—	

	As of December 31, 2005			As of December 31, 2004		As of March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen	%
SHAREHOLDERS' EQUITY:							
Common-stock—authorized, 377,600 shares; issued and outstanding, 204,300 shares at December 31, 2005, authorized, 377,600 shares; issued and outstanding, 191,800 shares at December 31, 2004 and March 31, 2005	142,805	16,833,847	38.3	13,765,372	30.4	13,765,372	37.1
Additional paid-in capital	225,647	26,599,217	60.5	23,637,628	52.2	23,637,628	63.7
Accumulated deficit	(268,255)	(31,621,887)	(72.0)	(36,689,673)	(81.0)	(34,434,052)	(92.8)
Accumulated other comprehensive income	62,123	7,323,075	16.7	9,692,810	21.4	8,690,125	23.4
Treasury stock—777 shares, 602 shares and 602 shares held by an equity method investee at December 31, 2005, December 31, 2004 and March 31, 2005	(715)	(84,238)	(0.2)	(44,000)	(0.1)	(44,000)	(0.1)
Total shareholders' equity	161,605	19,050,014	43.3	10,362,137	22.9	11,615,073	31.3
TOTAL	372,855	43,952,152	100.0	45,259,370	100.0	37,116,471	100.0

(Note)

- 1) The translations of Japanese Yen amounts into U.S. dollar amounts with respect to December 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 117.88=\$1, the appropriate rate of exchange on December 31, 2005.

(2) Quarterly Consolidated Statements of Income

	Nine Months Ended December 31, 2005			Nine Months Ended December 31, 2004		Year Ended March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
REVENUES:							
Connectivity and value-added services:							
Dedicated access	68,051	8,021,884		8,531,798		11,372,701	
Dial-up access	17,210	2,028,705		2,218,688		2,936,973	
Value-added services	38,135	4,495,343		3,682,914		5,004,730	
Other	23,988	2,827,742		2,190,473		3,169,413	
Total	147,384	17,373,674		16,623,873		22,483,817	
Systems integration	120,992	14,262,542		10,501,959		15,853,824	
Equipment sales	17,331	2,042,933		2,322,386		3,364,926	
Total revenues	285,707	33,679,149	100.0	29,448,218	100.0	41,702,567	100.0
COST AND EXPENSES:							
Cost of connectivity and value-added services	127,136	14,986,811		14,465,368		19,483,890	
Cost of systems integration	91,104	10,739,357		8,169,863		12,200,137	
Cost of equipment sales	16,261	1,916,824		2,147,704		3,111,369	
Total cost	234,501	27,642,992	82.1	24,782,935	84.2	34,795,396	83.4
Sales and marketing	19,700	2,322,281	6.9	2,058,342	7.0	2,794,561	6.7
General and administrative	18,256	2,152,014	6.4	1,866,051	6.3	2,665,980	6.4
Research and development	994	117,182	0.3	149,011	0.5	198,979	0.5
Total cost and expenses	273,451	32,234,469	95.7	28,856,339	98.0	40,454,916	97.0
OPERATING INCOME	12,256	1,444,680	4.3	591,879	2.0	1,247,651	3.0
OTHER INCOME (EXPENSES):							
Interest income	82	9,669		8,655		12,877	
Interest expense	(2,750)	(324,165)		(506,163)		(685,857)	
Foreign exchange gains (losses)	28	3,313		(2,168)		5,958	
Gain on other investments—net	15,991	1,885,009		596,721		2,439,330	
Gain arising from issuance of equity method investee's share	—	—		25,933		25,933	
Other—net	788	92,822		48,757		102,616	
Other income (expenses)—net	14,139	1,666,648	4.9	171,735	0.6	1,900,857	4.6

	Nine Months Ended December 31, 2005			Nine Months Ended December 31, 2004		Year Ended March 31, 2005	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	26,395	3,111,328	9.2	763,614	2.6	3,148,508	7.6
INCOME TAX EXPENSE	929	109,460	0.3	70,031	0.2	99,870	0.2
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES	(2,060)	(242,799)	(0.7)	(46,693)	(0.2)	(109,161)	(0.3)
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	450	53,096	0.1	3,758	0.0	(33,208)	(0.1)
NET INCOME	23,856	2,812,165	8.3	650,648	2.2	2,906,269	7.0
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		192,872		191,559		191,559	
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		193,161		191,559		191,559	
BASIC NET INCOME PER COMMON SHARE		14,580		3,397		15,172	
DILUTED NET INCOME PER COMMON SHARE		14,559		3,397		15,172	

(Note)

- 1) The translations of Japanese Yen amounts into U.S. dollar amounts with respect to the nine months ended December 31, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 117.88=\$1, the appropriate rate of exchange on December 31, 2005.

(3) Quarterly Consolidated Statements of Shareholders' Equity

Consolidated statements of shareholders' equity for the nine months ended December 31, 2005 (in Japanese Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares	Thousand of Yen					
BALANCE, APRIL 1, 2005	38,360	13,765,372	23,637,628	(34,434,052)	8,690,125	(44,000)	11,615,073
Net income				2,812,165			2,812,165
Other comprehensive loss, net of tax					(1,367,050)		(1,367,050)
Total comprehensive income							1,445,115
Stock split	153,440						
Issuance of common stock	12,500	3,068,475	2,961,589				6,030,064
Purchase of common stock by an equity method investee						(40,238)	(40,238)
BALANCE, DECEMBER 31, 2005	204,300	16,833,847	26,599,217	(31,621,887)	7,323,075	(84,238)	(19,050,014)

Consolidated statements of shareholders' equity for the nine months ended December 31, 2005 (in U.S. dollars)

	Shares of Common Stock Outstanding (Including Treasury Stock)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares	Thousand of U.S.dollars					
BALANCE, APRIL 1, 2005	38,360	116,774	200,523	(292,111)	73,720	(373)	98,533
Net income				23,856			23,856
Other comprehensive loss, net of tax					(11,597)		(11,597)
Total comprehensive income							12,259
Stock split	153,440						
Issuance of common stock	12,500	26,031	25,124				51,155
Purchase of common stock by an equity method investee						(342)	(342)
BALANCE, DECEMBER 31, 2005	204,300	142,805	225,647	(268,255)	62,123	(715)	(161,605)

(Note)

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Consolidated statements of shareholders' equity for the nine months ended December 31, 2004

	Shares of Common Stock Outstanding (Including Treasury Stock)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares	Thousand of Yen					
BALANCE, APRIL 1, 2004	38,360	13,765,372	23,637,628	(37,340,321)	6,195,449	(44,000)	6,214,128
Net income				650,648			650,648
Other comprehensive income, net of tax					3,497,361		3,497,361
Total comprehensive income							4,148,009
BALANCE, DECEMBER 31, 2004	38,360	13,765,372	23,637,628	(36,689,673)	9,692,810	(44,000)	10,362,137

Consolidated statements of shareholders' equity for the year ended March 31, 2005

	Shares of Common Stock Outstanding (Including Treasury Stock)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Shares	Thousand of Yen					
BALANCE, APRIL 1, 2004	38,360	13,765,372	23,637,628	(37,340,321)	6,195,449	(44,000)	6,214,128
Net income				2,906,269			2,906,269
Other comprehensive income, net of tax					2,494,676		2,494,676
Total comprehensive income							5,400,945
BALANCE, MARCH 31, 2005	38,360	13,765,372	23,637,628	(34,434,052)	8,690,125	(44,000)	11,615,073

(4) Quarterly Condensed Consolidated Statements of Cash Flows

	Nine Months Ended December 31, 2005		Nine Months Ended December 31, 2004	Year Ended March 31, 2005
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
OPERATING ACTIVITIES:				
Net income	23,856	2,812,165	650,648	2,906,269
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	26,160	3,083,743	3,132,149	4,193,093
Provision for doubtful accounts and advances	(197)	(23,192)	(11,423)	24,781
Gains on other investments—net	(15,991)	(1,885,009)	(596,721)	(2,439,330)
Foreign exchange gains	(118)	(13,904)	(6,825)	(15,466)
Loss on retirement of convertible notes	—	—	5,195	5,195
Equity in net income (loss) of equity method investees	(450)	(53,096)	(3,758)	33,208
Minority interests in earnings of subsidiaries	2,060	242,799	46,693	109,161
Deferred income tax expense (benefit)	161	18,924	633	(11,023)
Others	389	45,900	139,140	366,935
Changes in operating assets and liabilities:				
Decrease in accounts receivable	6,762	797,068	2,813,766	1,607,692
Decrease (increase) in inventories	(4,806)	(566,561)	64,963	286,751
Decrease in accounts payable	(6,921)	(815,811)	(3,513,394)	(2,307,729)
Others	2,586	304,884	(23,621)	478,960
Net cash provided by operating activities	33,491	3,947,910	2,697,445	5,238,497
INVESTING ACTIVITIES:				
Purchases of property and equipment	(6,080)	(716,701)	(480,591)	(577,133)
Purchase of short-term and other investments	(4,932)	(581,336)	(10,227)	(12,566)
Purchase of subsidiary stock from minority shareholders	(1,630)	(192,142)	—	(61,680)
Proceeds from sales and redemption of short-term and other investments	19,101	2,251,661	967,367	2,976,017
Acquisition of a newly controlled company, net of cash acquired—net	1,947	229,457	—	—
Refund (payment) of guarantee deposits —net	(372)	(43,811)	26,497	23,167
Acquisition of business	—	—	(371,011)	(375,123)
Other	201	23,640	(4,976)	1,321
Net cash provided by investing activities	8,235	970,768	127,059	1,974,003

		Nine Months Ended December 31, 2005		Nine Months Ended December 31, 2004	Year Ended March 31, 2005
	Note	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
FINANCING ACTIVITIES:					
Proceeds from issuance of long-term borrowings		8,483	1,000,000	2,250,000	2,250,000
Repayments of long-term borrowings		(15,920)	(1,876,679)	(1,531,832)	(1,840,246)
Proceeds from securities loan agreement		33,063	3,897,440	1,539,600	2,546,320
Repayments of securities loan agreement		(38,157)	(4,498,000)	(816,800)	(816,800)
Principal payments under capital leases		(19,622)	(2,312,961)	(2,114,447)	(2,867,625)
Net increase (decrease) in short-term borrowings		3,780	445,583	(1,738,250)	(1,839,460)
Repurchase of convertible notes		—	—	(745,488)	(745,488)
Redemption of convertible notes		—	—	—	(11,088,000)
Proceeds from issuance of subsidiary stock to minority shareholders		—	—	188,632	188,632
Proceeds from issuance of common stock, net of issuance cost		51,154	6,030,064	—	—
Net cash provided by (used in) financing activities		22,781	2,685,447	(2,968,585)	(14,212,667)
EFFECT OF EXCHANGE RATE CHANGES ON CASH					
		254	29,890	18,632	2,405
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
		64,761	7,634,015	(125,449)	(6,997,762)
CASH AND CASH EQUIVALENTS, BEGINNING OF EACH PERIOD					
		44,846	5,286,477	12,284,239	12,284,239
CASH AND CASH EQUIVALENTS, END OF EACH PERIOD					
		109,607	12,920,492	12,158,790	5,286,477
ADDITIONAL CASH FLOW INFORMATION:					
Interest paid		2,582	304,367	441,685	613,817
Income taxes paid		1,027	121,038	28,837	29,227
NONCASH INVESTING AND FINANCING ACTIVITIES:					
Acquisition of assets by entering into capital leases		19,584	2,308,588	4,181,874	4,433,906
Exchange of common stock investment due to merger:					
Market value of common shares acquired		—	—	37,950	37,950
Cost of investment		—	—	2,500	2,500
Acquisition of business:					
Capital lease assets		7,155	843,485	—	1,202,007
Cash paid		(6,223)	(733,589)	—	(375,123)
Liabilities assumed		932	109,896	—	826,884

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