



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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**IIJ Announces First Quarter Results
for the Fiscal Year Ending March 31, 2009**

Tokyo, August 12, 2008 - Internet Initiative Japan Inc. (Nasdaq: IIJ, Tokyo Stock Exchange First Section: 3774) ("IIJ") announced its first quarter financial results for the fiscal year ending March 31, 2009 ("FY2008").¹

Highlights of First Quarter FY2008 Results

- Revenues totaled JPY16,328 million (\$154.3 million), an increase of 19.2% from 1Q07. Connectivity grew by 24.5%, Outsourcing² by 19.4% and SI by 21.4% from 1Q07 respectively.
- Operating income was JPY411 million (\$3.9 million), a decrease of 40.5% from 1Q07. There were unrealized income related to personnel cost from SI deferred and loss from newly established consolidated subsidiaries.
- Net income was JPY169 million (\$1.6 million), a decrease of 70.4% from 1Q07. Decreased operating income and absence of capital gains from the sale of equity securities which were recorded in 1Q07 had adverse effect.

Overview of 1st Quarter FY2008 Financial Results and Business Outlook²

"In 1Q07, we've seen continuous demands for IT related outsourcing. Our recurring revenues from connectivity and outsourcing services, systems operation and maintenance accumulated and showed steady growth year-over-year. Systems construction was not strong as it tends to be weak in the first quarter of every fiscal year due to seasonal factor." said Koichi Suzuki, President and CEO of IIJ.

"As for the recurring revenues, they have increased by 23.5% year-over-year led by continuous needs for e-mail security and data center related outsourcing services. Also, demands for anti-DDoS service are gradually arising and the increase in system operation and maintenance followed by the completion of SI project in the previous quarters are accumulating. Further more, our new service launched in January 2008 called IIJ Mobile Service, a mobile data communication service for corporate use that are provided together with outsourcing services is expanding. The growth is in line with our anticipation with approximately 10,000 contracts in 1Q08 which make additional accumulation of our connectivity revenue hereafter. As for the systems construction, in a quarter where systems construction revenues are seasonally low, the increase in work in process related to personnel cost of SI affected the gross margin for SI. These work in process are expected to realize with the completion of SI projects in the coming quarters. From the above and from the increase in SG&A expenses along with business expansion and loss related to newly established consolidated subsidiaries affected the decrease in operating income year-over-year."

"In the coming years, even if Japanese economic situation may worsen, network utilizations and IT related outsourcings by corporate will become indispensable to them. In such environment, we will make effort in maintaining our position to take in outsourcing demands with our IP related technological skills and excellent client base. Also, other than the growth from existing services driven by demands for network related outsourcing services, we anticipate additional growth from new business developments to contribute to revenue and income in the upcoming years."

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. The translations of Japanese yen into U.S. dollars are solely for the convenience of readers outside of Japan. The rate used for the translation was JPY106.17 per US\$1.00, which was the noon buying rate on June 30, 2008.

² From 1Q08, "Value-added Service Revenues ("VAS")" and "Other Revenues" of "Connectivity and VAS revenues" have been reclassified to "Outsourcing Services". Related to this reclassification, "Connectivity and VAS revenues" has been renamed to "Connectivity and Outsourcing Services revenues".

1st Quarter FY2008 Financial Results

Results of Operations

Operating Results Summary

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % change |
|---|---------------|--------|--------------|
| Total Revenues | 16,328 | 13,696 | 19.2% |
| Total Costs | 13,303 | 10,942 | 21.6% |
| SG&A Expenses and R&D | 2,614 | 2,062 | 26.8% |
| Operating Income | 411 | 692 | (40.5%) |
| Income before Income Tax Expense | 310 | 757 | (59.1%) |
| Net Income | 169 | 571 | (70.4%) |

Revenues

Revenues in 1Q08 totaled JPY16,328 million, an increase of 19.2% from JPY 13,696 million in 1Q07.

Revenues

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % change |
|--|---------------|--------|--------------|
| Total Revenues: | 16,328 | 13,696 | 19.2% |
| Connectivity and Outsourcing Services | 8,396 | 6,871 | 22.2% |
| SI | 7,689 | 6,334 | 21.4% |
| Equipment Sales | 238 | 491 | (51.4%) |
| ATM Operation Business³ | 5 | - | - |

Connectivity and Outsourcing Services revenue were JPY8,396 million in 1Q08, an increase of 22.2% compared to 1Q07 mostly led by the followings; 1) Continuous increase in outsourcing services revenues especially from email and data center related services reflecting needs for outsourcing and networking from corporate and 2) the increase in connectivity service for home use (up 98.0% YoY) due to the full contribution from hi-ho, which we acquired in June 2007, of JPY1,203 million (3 months) compared to JPY339 million in 1Q07 (1 months).

SI revenues increased by 21.4% to JPY 7,689 million in 1Q08 compared to 1Q07. Systems construction was not strong (up 14.7% year-over-year) in the first quarter of every fiscal year due to seasonal factor in corporate spending in Japan⁴. Systems operation and maintenance on the contrary increased (up 25.9% year-over-year) with the steady accumulation from the previous quarters.

Equipment sales revenues were JPY 238million in 1Q08, a decrease of 51.4% compared to 1Q07.

ATM Operation Business revenues were JPY5 million in 1Q08. These revenues are from Trust Networks Inc. which was established to provide and operates ATM network systems placed in designated facilities. This new business is currently under planning and preparation for business launch.

Cost and expense

Cost of revenues was JPY13,303 million in 1Q08, an increase of 21.6% compared to 1Q07.

Cost of Revenues

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % change |
|--|---------------|--------|--------------|
| Cost of Revenues: | 13,303 | 10,942 | 21.6% |
| Connectivity and Outsourcing Services | 7,065 | 5,670 | 24.6% |
| SI | 6,024 | 4,849 | 24.2% |
| Equipment Sales | 199 | 423 | (53.1%) |
| ATM Operation Business | 15 | - | - |

³ From 1Q08, we have disclosed revenues and costs related to ATM Operation Business. ATM Operation Business revenue consists of commission received for each withdrawal transaction from a bank account and ATM operation service. The commission for each withdrawal are billed and recognized monthly. ATM operation service lends ATM machines for a contract term of one year and receives monthly fees. This service are billed and recognized monthly on a straight-line basis. Initial set up fees received in connection with ATMs operation service are deferred and recognized over the contract period.

⁴ Corporate spending in Japan has the tendency to become the largest in the fourth quarter and the lowest in the first quarter as many Japanese companies have fiscal years ending in March 31.

Cost of Connectivity and Outsourcing Services revenue were JPY7,065 million in 1Q08, an increase of 24.6% compared to 1Q07 mainly due to the increase in network operation and data center related costs resulting from increase in revenue growth and the cost incurred by hi-ho of JPY1,133 million (3 months).

The gross margin for Internet connectivity and outsourcing services in 1Q08 was JPY1,331 million, an increase of 10.8% compared to 1Q07. The gross margin ratio in 1Q08 was 15.9%, compared to 17.5% in 1Q07, affected by the relatively low gross margin of hi-ho and the initial costs for new business development.

Cost of SI revenues was JPY6,024 million in 1Q08, an increase of 24.2% compared to 1Q07 mainly due to the increase in outsourcing and personnel related costs resulting from increase in revenue growth.

The gross margin for SI in 1Q08 was JPY1,665 million, an increase of 12.0% compared to 1Q07. The gross margin ratio was 21.6% compared to 23.5% in 1Q07.

Cost of Equipment Sales revenues was JPY199 million in 1Q08, a decrease of 53.1% compared to 1Q07.

The gross margin ratio for equipment sales in 1Q08 was 16.4%, compared to 13.6% in 1Q07.

Cost of ATMs Operation Business revenues was JPY15 million in 1Q08. Gross margin was a loss of JPY10 million.

Sales and marketing expenses were JPY1,173 million in 1Q08, an increase of 24.9% compared to 1Q07. The increase was mainly due to the increase in personnel and advertising expenses resulting from business expansion, as well as expenses related to hi-ho of 3 months.

General and administrative expenses were JPY1,383 million in 1Q08, an increase of 29.6% compared to 1Q07. The increase was mainly due to the increase in personnel related and outsourcing expenses and rent expenses resulting from business expansion. There were also expenses related to new business from On-Demand Solutions Inc., Trust Networks Inc., GDX Japan, K.K. and IJ Innovation Institute Inc.

Research and development expenses were JPY59 million in 1Q08, an increase of 4.4% compared to 1Q07.

Operating income

Operating income was JPY411 million in 1Q08, a decrease of 40.5% compared to 1Q07 of JPY692 million. The increase in personnel related costs from business expansion and loss from new business developments of JPY166 million offset the increase in gross margin (up 9.9% YoY).

Other income (expenses) and others

Other income (expenses) in 1Q08 were a net other expense of JPY102 million mainly due to interest payments of JPY106 million and as there were net loss of JPY7 million (zero gains and impairment loss of JPY7 million) from available-for-sale securities. On the contrary, 1Q07 was net other income of JPY 65 million as there were net gains of JPY142 million (gains of JPY214 million and impairment loss of JPY72 million) from available-for-sale securities.

Income tax expense in 1Q08 was JPY213 million mainly due to deferred tax expense of JPY127 million and the increase in income tax expenses. 1Q07 was an expense of JPY 175 million.

Minority interests in losses of subsidiaries in 1Q08 were JPY55 million related to GDX Japan Inc. and Trust Networks Inc., compared to minority interests in losses of subsidiaries of JPY 9 million in 1Q07.

Equity in net income of equity method investees in 1Q08 was JPY18 million, compared to equity in net loss of equity method investees of JPY 20 million in 1Q07.

Net income was JPY169 million in 1Q08, a decrease of 70.4% compared to 1Q07.

Financial Condition

Balance Sheets

As of June 30, 2008, total assets decreased by JPY3,786 million from the prior year end to JPY51,934 million.

For current assets, prepaid expenses increased by JPY931 million, mainly for bonus payments to our employees and maintenance expenses related to SI projects; account receivables decreased by JPY3,458 million, each from the respective amount as of March 31, 2008. The fair value of available-for-sale securities as of June 30, 2008 increased by JPY90 million to JPY934 million compared to March 31, 2008. For current liabilities, short-term borrowings decreased by JPY1,650 million due to repayments; and accounts payable decreased by JPY1,965 million, each from the respective amount as of March 31, 2008.

Total shareholders' equity as of June 30, 2008 was JPY24,991 million and shareholder's equity ratio (shareholder's equity/total assets) as of June 30, 2008 was 48.1%.

Cash Flows

Cash and cash equivalents as of June 30, 2008 decreased by JPY1,528 million to JPY9,943 million, compared to JPY 13,555 million as of March 31, 2008.

Net cash provided by operating activities in 1Q08 was JPY2,108 million, compared to net cash used in operating activities of JPY 1,328 million in 1Q07, mainly due to the increase in operating income, decrease in accounts payable of JPY3,441 million, decrease in prepaid expenses related to on-going SI projects of JPY945 million, decrease in accounts payable of JPY1,881 million mainly related to SI projects and payment of JPY512 million for income taxes.

Net cash used in investing activities in 1Q08 was JPY825 million, compared to net cash used in investing activities of JPY 3,520 million in 1Q07, mainly due to payment of JPY768 million for the purchase of property and equipment.

Net cash used in financing activities in 1Q08 was JPY2,695 million, compared to net cash provided by financing activities of JPY 3,898 million in 1Q07, mainly due to repayments of short-term borrowing with initial maturities over three months of JPY250 million (net), principal payments under capital leases of JPY839 million and a net decrease of JPY1,400 million in short-term borrowings with initial maturities less than three month.

4th Quarter FY2008 Business Review

Analysis by Service

Connectivity and Outsourcing Services

Connectivity services revenues for corporate use increased by 4.6% compared to 1Q07 as the contracted bandwidth from IP Service increased together with the steady increase in contracts of broadband services. As for IJ Mobile service which was launched in January 2008 was in line with our anticipation with approximately 10,000 contracts. The total contracted bandwidth increased by 91.8Gpbs to 422.1Gbps compared to 1Q07.

For connectivity services for home use, there were full contribution to revenues from hi-ho of JPY1,203 million (3 months) compared to JPY339 million (1 months).

Outsourcing services revenues increased by 19.4% compared to 1Q07 as strong demands from email related services, data center services and internet-VPN had continued.

Number of Contracts for Connectivity Services

| | 1Q08 | 1Q07 | YoY Change |
|--|------------------|-----------|------------|
| Connectivity Services (Corporate Use) | 32,939 | 21,210 | 11,729 |
| IP Service (-99Mbps) | 854 | 773 | 81 |
| IP Service (100Mbps-999Mbps) | 203 | 168 | 35 |
| IP Service (1Gbps-) | 72 | 58 | 14 |
| IIJ Data Center Connectivity Service | 286 | 278 | 8 |
| IIJ FiberAccess/F and IIJ DSL/F | 24,466 | 18,252 | 6,214 |
| Others | 7,058 | 1,681 | 5,377 |
| Connectivity Services (Home Use) | 467,453 | 555,946 | (88,493) |
| Under IIJ Brand | 49,279 | 54,192 | (4,913) |
| hi-ho | 188,575 | 186,677 | 1,898 |
| OEM ⁵ | 229,599 | 315,077 | (85,478) |
| Total Contracted Bandwidth | 422.1Gbps | 330.3Gbps | 91.8Gbps |

Connectivity and Outsourcing Services Revenues Breakdown and Cost⁴ (JPY in millions)

| | 1Q08 | 1Q07 | YoY % Change |
|---|--------------|-------|--------------|
| Connectivity Service (Corporate Use) | 3,110 | 2,973 | 4.6% |
| IP Service ⁶ | 2,270 | 2,218 | 2.4% |
| IIJ FiberAccess/F and IIJ DSL/F | 713 | 615 | 15.8% |
| Others | 127 | 140 | (9.2%) |
| Connectivity Service (Home Use) | 1,633 | 806 | 102.5% |
| Under IIJ Brand | 258 | 282 | (8.8%) |
| hi-ho | 1,239 | 339 | 265.5 |
| OEM | 136 | 185 | (26.5%) |
| Outsourcing Services | 3,690 | 3,092 | 19.4% |
| Total Connectivity and Outsourcing Services | 8,268 | 6,871 | 20.3% |
| Cost of Connectivity and Outsourcing Services | 7,065 | 5,670 | 24.6% |
| Backbone Cost (included in the cost of Connectivity and Outsourcing Service) | 895 | 819 | 9.3% |
| Connectivity and Outsourcing Services Gross Margin Ratio | 15.9% | 17.5% | |

SI

One-time revenues from systems construction in 1Q08 increased by 21.4% compared to 1Q07. Recurring revenues from systems operation and maintenance in 1Q08 increased by 14.7% compared to 1Q07.

The order backlog for SI and equipment sales as of June 30, 2008 was JPY16,836 million, a decrease of 2.0% from the amount as of June 30, 2007. In 1Q07, we received order of a large-scaled SI project of JPY1,833 million which completed in 3Q07. The order backlog for systems construction including equipment sales decreased by 34.2% to JPY5,081 million and systems operation and maintenance increased by 24.3% to JPY11,755 million compared to 1Q07 respectively.

SI Revenue Breakdown and Cost

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % Change |
|---|---------------|--------|--------------|
| SI Revenues⁷ | 7,688 | 6,334 | 21.4% |
| Systems Construction | 4,760 | 3,782 | 25.9% |
| Systems Operation and Maintenance | 2,929 | 2,552 | 14.7% |
| Cost of SI | 6,024 | 4,849 | 24.2% |
| SI Gross Margin Ratio | 21.6% | 23.5% | |
| SI and Equipment Sales Order Backlog | 16,836 | 17,174 | (2.0%) |

⁵ OEM services provided to other service providers.

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

⁷ From 1Q08, we have disclosed Systems integration revenue breakdown in our consolidated statements of income.

Equipment Sales

Equipment Sales Revenue and Cost

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % Change |
|------------------------------------|-------|-------|-----------------|
| Equipment Sales Revenues | 238 | 491 | (51.4%) |
| Cost of Equipment Sales | 199 | 423 | (53.1%) |
| Equipment Sales Gross Margin Ratio | 16.4% | 13.6% | |

ATM Operation Business

ATM Operation Business Revenue and Cost

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % Change |
|-------------------------------------|------|------|-----------------|
| ATM Operation Business Revenues | 5 | - | - |
| Cost of ATM Operation Business | 15 | - | - |
| ATM Operation Business Gross Margin | (10) | - | - |

Other Financial Statistics

Other Financial Statistics

(JPY in millions)

| | 1Q08 | 1Q07 | YoY % Change |
|--|-------|-------|-----------------|
| Adjusted EBITDA ⁸ | 1,656 | 1,740 | % |
| CAPEX, including capital leases ⁹ | 1,831 | 2,232 | % |
| Depreciation and amortization | 1,245 | 1,048 | % |

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income in our consolidated statements of income that are prepared in accordance with U.S. GAAP and presented in Appendix 2:

Adjusted EBITDA

(JPY in millions)

| | 1Q08 | 1Q07 |
|--|-------|-------|
| Adjusted EBITDA | 1,656 | 1,740 |
| Depreciation and Amortization | 1,245 | 1,048 |
| Operating Income | 412 | 692 |
| Other Income (Expense) | (102) | 65 |
| Income Tax Expense | 259 | 175 |
| Minority Interests in Losses of Subsidiaries | 55 | 9 |
| Equity in Net Income (Loss) of Equity Method Investees | 18 | (20) |
| Net Income | 125 | 571 |

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment in our consolidated statements of cash flows that are prepared and presented in accordance with U.S. GAAP in Appendix 3:

CAPEX

(JPY in millions)

| | 1Q08 | 1Q07 |
|---|-------|-------|
| CAPEX, including capital leases | 1,831 | 2,232 |
| Acquisition of Assets by Entering into Capital Leases | 1,063 | 1,662 |
| Purchase of Property and Equipment | 768 | 570 |

Presentation

Presentation Materials will be posted on our web site (<http://www.ij.ad.jp/en/IR/>) on August 12, 2008.

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

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

About Internet Initiative Japan Inc.

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

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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 FY2008 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 outsourcing services; the possibility that revenues from connectivity services may decline substantially as a result of competition and other factors; the ability to compete in a rapidly evolving and competitive marketplace; the impact on IIJ's profits of fluctuations in costs such as backbone costs and subcontractor costs; the impact on IIJ's profits of fluctuations in the price of available-for-sale securities; the impact of technological changes in its industry; IIJ's ability to raise additional capital to cover its indebtedness; the possibility that NTT, IIJ's largest shareholder, may decide to exercise substantial influence over IIJ; and other risks referred to from time to time in IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission.

Tables to follow

Internet Initiative Japan Inc.
Quarterly Consolidated Balance Sheets (Unaudited)
(As of June 30, 2008 and March 31, 2008)

| | As of June 30, 2008 | | | As of March 31, 2008 | |
|--|------------------------------|---------------------|-------|----------------------|-------|
| | Thousands of U.S. Dollars | Thousands of JPY | % | Thousands of JPY | % |
| ASSETS | | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | 93,654 | 9,943,205 | | 11,470,980 | |
| Short-term investments | - | - | | 12,181 | |
| Accounts receivable, net of allowance for doubtful accounts of JPY 18,591 thousand and JPY 24,677 thousand at June 30, 2008 and March 31, 2008, respectively | 82,861 | 8,797,364 | | 12,255,163 | |
| Inventories | 11,164 | 1,185,250 | | 1,184,160 | |
| Prepaid expenses | 27,659 | 2,936,607 | | 2,005,274 | |
| Other current assets, net of allowance for doubtful accounts of JPY xxx thousand and JPY 7,470 thousand at June 30, 2008 and March 31, 2008, respectively | 14,980 | 1,590,377 | | 1,557,869 | |
| Total current assets | 230,317 | 24,452,803 | 47.1 | 28,485,627 | 51.1 |
| INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand at June 30, 2008 and March 31, 2008 | 9,162 | 972,744 | 1.9 | 991,237 | 1.8 |
| OTHER INVESTMENTS | 23,060 | 2,448,326 | 4.7 | 2,363,770 | 4.2 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of JPY 14,316,358 thousand and JPY 14,029,785 thousand at June 30, 2008 and March 31, 2008 | 113,148 | 12,012,871 | 23.1 | 11,740,210 | 21.1 |
| GOODWILL | 23,616 | 2,507,258 | 4.8 | 2,507,258 | 4.5 |
| OTHER INTANGIBLE ASSETS —Net | 31,843 | 3,380,745 | 6.5 | 3,400,117 | 6.1 |
| GUARANTEE DEPOSITS | 19,599 | 2,080,875 | 4.0 | 2,037,165 | 3.7 |
| OTHER ASSETS, net of allowance for doubtful accounts of JPY 67,251 thousand, JPY 64,796 thousand at June 30, 2008 and March 31, 2008, respectively | 38,414 | 4,078,542 | 7.9 | 4,177,162 | 7.5 |
| TOTAL | 489,160 | 51,934,164 | 100.0 | 55,702,546 | 100.0 |

| | As of June 30, 2008 | | | As of March 31, 2008 | |
|--|------------------------------|---------------------|--------------|----------------------|--------------|
| | Thousands of U.S. Dollars | Thousands of JPY | % | Thousands of JPY | % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| CURRENT LIABILITIES: | | | | | |
| Short-term borrowings | 70,641 | 7,500,000 | | 9,150,000 | |
| Capital lease obligations —current portion | 31,950 | 3,392,140 | | 3,455,948 | |
| Accounts payable | 55,853 | 5,929,863 | | 7,895,238 | |
| Accrued expenses | 9,580 | 1,017,076 | | 994,138 | |
| Accrued retirement and pension costs —current | 108 | 11,436 | | 11,436 | |
| Deferred income | 14,663 | 1,556,795 | | 1,552,896 | |
| Other current liabilities | 5,626 | 597,366 | | 864,366 | |
| Total current liabilities | 188,421 | 20,004,676 | 38.5 | 23,924,022 | 42.9 |
| CAPITAL LEASE OBLIGATIONS —Noncurrent | 45,783 | 4,860,731 | 9.4 | 4,738,359 | 8.5 |
| ACCRUED RETIREMENT AND PENSION COSTS —Noncurrent | 11,060 | 1,174,207 | 2.3 | 1,101,951 | 2.0 |
| OTHER NONCURRENT LIABILITIES | 6,255 | 664,196 | 1.3 | 663,399 | 1.2 |
| Total Liabilities | 251,519 | 26,703,810 | 51.4 | 30,427,731 | 54.6 |
| MINORITY INTEREST | 2,252 | 239,075 | 0.5 | 294,102 | 0.6 |
| COMMITMENTS AND CONTINGENCIES | | | | | |
| SHAREHOLDERS' EQUITY: | | | | | |
| Common-stock—authorized, 377,600 shares; issued and outstanding, 206,478 shares at June 30, 2008 and at March 31, 2008 | 158,556 | 16,833,847 | 32.4 | 16,833,847 | 30.2 |
| Additional paid-in capital | 260,071 | 27,611,737 | 53.2 | 27,611,737 | 49.6 |
| Accumulated deficit | (184,543) | (19,592,890) | (37.7) | (19,555,489) | (35.1) |
| Accumulated other comprehensive income | 1,305 | 138,585 | 0.2 | 90,618 | 0.1 |
| Total shareholders' equity | 235,389 | 24,991,279 | 48.1 | 24,980,713 | 44.8 |
| TOTAL | 489,160 | 51,934,164 | 100.0 | 55,702,546 | 100.0 |

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 106.17 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of June 30, 2008.

(Note 2) Certain reclassifications have been made to the periods to conform to the last fiscal year (the fiscal year ended March 31, 2008) presentation.

Internet Initiative Japan Inc.
Quarterly Consolidated Statements of Income (Unaudited)
(For the three months ended June 30, 2008 and June 30, 2007)

| | Three Months Ended June 30, 2008 | | | Three Months Ended June 30, 2007 | |
|--|-------------------------------------|---------------------|------------------------|-------------------------------------|------------------------|
| | Thousands of U.S. Dollars | Thousands of JPY | % of total revenues | Thousands of JPY | % of total revenues |
| REVENUES: | | | | | |
| Connectivity and outsourcing services: | | | | | |
| Connectivity (corporate use) | 29,290 | 3,109,754 | | 2,972,772 | |
| Connectivity (home use) | 15,035 | 1,596,203 | | 806,326 | |
| Outsourcing services | 34,760 | 3,690,496 | | 3,091,978 | |
| Total | 79,085 | 8,396,453 | | 6,871,076 | |
| Systems integration: | | | | | |
| Systems Construction | 27,587 | 2,928,948 | | 2,552,602 | |
| Systems Operation and Maintenance | 44,833 | 4,759,876 | | 3,781,862 | |
| Total | 72,420 | 7,688,824 | | 6,334,464 | |
| Equipment sales | 2,242 | 238,021 | | 490,211 | |
| ATM operation business | 45 | 4,835 | | | |
| Total revenues | 153,792 | 16,328,133 | 100.0 | 13,695,751 | 100.0 |
| COST AND EXPENSES: | | | | | |
| Cost of connectivity and outsourcing services | 66,545 | 7,065,072 | | 5,669,522 | |
| Cost of systems integration | 56,741 | 6,024,237 | | 4,848,884 | |
| Cost of equipment sales | 1,874 | 198,926 | | 423,783 | |
| Cost of ATM operation business | 138 | 14,681 | | | |
| Total cost | 125,298 | 13,302,916 | 81.5 | 10,942,189 | 79.9 |
| Sales and marketing | 11,046 | 1,172,726 | 7.2 | 939,130 | 6.9 |
| General and administrative | 13,024 | 1,382,708 | 8.5 | 1,066,843 | 7.8 |
| Research and development | 550 | 58,521 | 0.3 | 56,051 | 0.4 |
| Total cost and expenses | 149,918 | 15,916,871 | 97.5 | 13,004,213 | 95.0 |
| OPERATING INCOME | 3,874 | 411,262 | 2.5 | 691,538 | 5.0 |
| OTHER INCOME (EXPENSE): | | | | | |
| Interest income | 75 | 7,956 | | 11,212 | |
| Interest expense | (1,000) | (106,203) | | (96,908) | |
| Foreign exchange gains | (23) | (2,403) | | (926) | |
| Net gain on sales of other investments | - | - | | 213,530 | |
| Losses on write-down of other investments | (70) | (7,391) | | (71,929) | |
| Other—net | 60 | 6,350 | | 10,233 | |
| Other income—net | (958) | (101,691) | (0.6) | 65,212 | 0.5 |
| INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES | 2,916 | 309,571 | 1.9 | 756,750 | 5.5 |
| INCOME TAX EXPENSE | 2,008 | 213,215 | 1.3 | 175,366 | 1.3 |
| MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES | 518 | 55,027 | 0.3 | 9,224 | 0.1 |
| EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES | 167 | 17,694 | 0.1 | (19,852) | (0.1) |
| NET INCOME | 1,593 | 169,077 | 1.0 | 570,756 | 4.2 |

| | Three Months Ended June 30, 2008 | | Three Months Ended June 30, 2007 |
|---|-------------------------------------|------------|-------------------------------------|
| NET INCOME PER SHARE | | | |
| BASIC WEIGHTED-AVERAGE NUMBER OF SHARES (shares) | | 206,478 | 205,521 |
| DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES (shares) | | 206,598 | 205,850 |
| BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs) | | 82,591,200 | 82,208,255 |
| DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs) | | 82,639,332 | 82,340,017 |
| BASIC NET INCOME PER SHARE (U.S. Dollars / JPY / JPY) | 7.71 | 819 | 2,777 |
| DILUTED NET INCOME PER SHARE (U.S. Dollars / JPY / JPY) | 7.70 | 818 | 2,773 |
| BASIC NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY) | 0.02 | 2.05 | 6.94 |
| DILUTED NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY) | 0.02 | 2.05 | 6.93 |

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 106.17 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of June 30, 2008.

(Note 2) Certain reclassifications have been made to the periods to conform to the current quarter (the quarter ended June 30, 2008) presentation.

Internet Initiative Japan Inc.
Quarterly Condensed Consolidated Statements of Cash Flows (Unaudited)
(For the three months ended June 30, 2008 and June 30, 2007)

| | Three Months Ended June 30, 2008 | | Three Months Ended June 30, 2007 |
|---|-------------------------------------|---------------------|-------------------------------------|
| | Thousands of U.S. Dollars | Thousands of JPY | Thousands of JPY |
| OPERATING ACTIVITIES: | | | |
| Net income | 1,593 | 169,077 | 570,756 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 11,726 | 1,244,913 | 1,047,580 |
| Provision for (reversal of) doubtful accounts and advances | 7 | 692 | (4,183) |
| Net gains on sales of other investments -net | | | (213,530) |
| Losses on write-down of other investments | 70 | 7,391 | 71,929 |
| Foreign exchange losses | 65 | 6,921 | 2,686 |
| Equity in net loss of equity method investees (net of dividend) | 119 | 12,686 | 19,852 |
| Minority interests in (loss) earnings of subsidiaries | (518) | (55,027) | (9,224) |
| Deferred income tax expense (benefit) | 1,193 | 126,712 | 144,247 |
| Others | 960 | 101,944 | 53,676 |
| Changes in operating assets and liabilities net of effects from acquisition of business and a company | | | |
| Decrease in accounts receivable | 32,405 | 3,440,513 | 1,739,821 |
| Increase in inventories, prepaid expenses and other current and noncurrent assets | (8,897) | (944,612) | (2,557,479) |
| Decrease in accounts payable | (17,060) | (1,811,304) | (2,307,593) |
| Increase in accrued expenses, other current and noncurrent liabilities | (2,657) | (282,072) | 113,864 |
| Net cash provided by (used in) operating activities | 19,006 | 2,017,834 | (1,327,598) |
| INVESTING ACTIVITIES: | | | |
| Purchase of property and equipment | (7,234) | (768,077) | (569,590) |
| Purchase of available-for-sale securities | | | (287,609) |
| Proceeds from sale of short-term and other investments | 50 | 5,281 | (31,670) |
| Purchase of subsidiary stock from minority shareholders | | | (1,975,123) |
| Proceeds from sales of available-for-sale securities | | | 538,112 |
| Proceeds from sales and redemption of other investments | | | 3,310 |
| Acquisition of a newly controlled company, net of cash acquired | | | (912,450) |
| Payment of guarantee deposits—net | (461) | (48,946) | (266,766) |
| Other | (123) | (12,990) | (17,772) |
| Net cash used in investing activities | (7,768) | (824,732) | (3,519,558) |

| | Three Months Ended June 30, 2008 | | Three Months Ended June 30, 2007 |
|--|-------------------------------------|---------------------|-------------------------------------|
| | Thousands of U.S. Dollars | Thousands of JPY | Thousands of JPY |
| FINANCING ACTIVITIES: | | | |
| Proceeds from issuance of short-term borrowings with initial maturities over three months | 48,036 | 5,100,000 | 10,300,000 |
| Repayments of short-term borrowings with initial maturities over three months and long-term borrowings | (50,391) | (5,350,000) | (4,571,000) |
| Principal payments under capital leases | (7,902) | (838,935) | (774,817) |
| Net decrease in short-term borrowings with initial maturities less than three months | (13,186) | (1,400,000) | (750,000) |
| Payment of dividends | (1,945) | (206,478) | (306,450) |
| Net cash provided by (used in) financing activities | (25,388) | (2,695,413) | 3,897,733 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (239) | (25,464) | (7,173) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (14,389) | (1,527,775) | (956,596) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | 108,043 | 11,470,980 | 13,554,544 |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | 93,654 | 9,943,205 | 12,597,948 |
| ADDITIONAL CASH FLOW INFORMATION: | | | |
| Interest paid | 988 | 104,913 | 95,500 |
| Income taxes paid | 4,822 | 511,927 | 725,557 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Acquisition of assets by entering into capital leases | 10,014 | 1,063,149 | 1,662,475 |
| Purchase of minority interests of consolidated subsidiaries through share exchanges | — | — | 1,012,520 |
| Acquisition of business and a company: | | | |
| Assets acquired | — | — | 1,570,720 |
| Cash paid | — | — | (1,230,450) |
| Liabilities assumed | — | — | 340,270 |

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 106.17 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of June 30, 2008.

(Note 2) Certain reclassifications have been made to the periods to conform to the current quarter (the quarter ended June 30, 2008) presentation.