



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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**IIJ Announces First Six Months Financial Results
for Fiscal Year Ending March 31, 2009**

Tokyo, November 13, 2008 - Internet Initiative Japan Inc. ("IIJ", NASDAQ:IIJ, TSE:3774) today announced its consolidated financial results for the first six months of Fiscal Year Ending March 31, 2009 (from April to September 2008, "1H08").¹

1H08 Financial Results In Line with 10/24/08 Revised Target

	<u>10/24 Target</u>	<u>Actual Results</u>
Revenues	JPY33,200 million	JPY33,254 million (\$313.9 million)
Operating Income	JPY950 million	JPY1,005 million (\$9.5 million)
Net Income	JPY300 million	JPY368 million (\$3.5 million)

1H08 Highlights

- Revenue was up 10.9% YoY with the steady increase from recurring revenues.
- Operating income was down 44.6% YoY. While gross margin decreased by 0.2% YoY as revenue growth was weaker than expected, costs related to business expansion increased and there were losses from 4 new subsidiaries of JPY453 million.
- Net income was down 89.4% YoY largely affected by deferred tax expense whereas we had deferred tax benefit of JPY1,970 million in 1H07. We expect deferred tax benefit in 4Q08 due to the difference in the timing of accounting the deferred tax benefit.
- Board-approved plan to repurchase own shares starting from November 14, 2008
- Board-approved to pay cash dividend of JPY1,000 per share of IIJ's common stock for interim period ended September 30, 2008 (400 ADSs is equivalent to 1 share of IIJ's common stock).

Overview of 1H08 Financial Results and Business Outlook²

Koichi Suzuki, President and CEO of IIJ said, "On October 24, we revised our 1H08 and Full FY2008 financial targets to reflect the volatile systems construction environment. Reported results are in line with the guidance and we will continue to take decisive steps to achieve our full year target in the tough environment. "

"In the first half of FY2008, we continued to see stable growth in connectivity and outsourcing business supported by the need to facilitate the use of IT and to improve work efficiency. IP Services, especially connectivity of over 1Gbps are back on track with expected revenues in the following quarter, IIJ Mobile Service has exceeded 17,000 contracts as of today and Data Center demands are still strong. The new Nerima DC will begin operation in February 2009. On the contrary, systems construction was weak falling short of our budget as we saw some delays in decision making and there was an unprofitable systems integration project. The weak Japanese economy struck just when we began taking new measures for business expansion, such as increasing the number of engineers or starting new businesses." continued Suzuki.

"In the latter half of FY2008, while focusing on increasing recurring revenues from our current business and preparing the basis for mid- to long-term business growth, we plan to exercise effective cost control,

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 JPY105.94 per US\$1.00, which was the noon buying rate on September 30, 2008.

especially in the systems construction area to improve our operating margin ratio as systems construction revenues are expected to be weak for a while due to the deteriorating Japanese economy. "Though the Japanese economy is facing many challenges, we are determined that IT related investments for Japanese corporate, from small- to-large, are essential in the mid- and long-term and we see growth opportunities ahead."

1H08 Financial Results

Results of Operation

Operating Results Summary

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
Total Revenues	33,254	29,990	10.9%
Total Costs	27,085	23,811	13.7%
SG&A Expenses and R&D	5,164	4,363	18.4%
Operating Income	1,005	1,816	(44.6%)
Income before Income Tax Expense	766	1,697	(54.9%)
Net Income	368	3,477	(89.4%)

Revenues

Revenues totaled JPY33,254 million, an increase of 10.9% YoY.

Revenues

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
Total Revenues:	33,254	29,990	10.9%
Connectivity and Outsourcing Services	17,001	14,807	14.8%
SI	15,718	14,302	9.9%
Equipment Sales	524	881	(40.5%)
ATM Operation Business²	11	-	-

Connectivity and Outsourcing Services revenue were JPY17,001 million, an increase of 14.8% YoY lead by the increase in outsourcing services revenues reflecting needs for data center and email related services, the increase in connectivity for home use revenues due to the full contribution from hi-ho, which we acquired in June 2007, of JPY2,425 million (6 months) compared to JPY1,419 million in 1H07 (4 months), and the increase in revenues from connectivity service for corporate use.

SI revenues were JPY15,718 million, an increase of 9.9% YoY. Systems construction revenues were down 6.4% YoY to JPY6,290 million as revenues fell short of our budget affected by the weak Japanese economy. Systems operation and maintenance revenues were up 24.4% YoY to JPY9,248 million.

Equipment sales revenues were JPY524 million, a decrease of 40.5% YoY.

ATM Operation Business revenues were JPY11 million.

² From 1Q08, we have disclosed revenues and costs related to ATM Operation Business.

Cost and expense

Cost of revenues was JPY27,085 million, an increase of 13.7% YoY.

Cost of Revenues

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
Cost of Revenues:	27,085	23,811	13.7%
Connectivity and Outsourcing Services	14,341	12,268	16.9%
SI	12,178	10,787	12.9%
Equipment Sales	466	756	(38.5%)
ATM Operation Business	100	-	-

Cost of Connectivity and Outsourcing Services revenue were JPY14,341 million, an increase of 16.9% YoY due to the increase in cost incurred by hi-ho for 6 months compared to 4 months in 1H07, network operation related and personnel related costs resulting from business expansion, and circuit related cost along with the upgrade in backbone. There were also initial cost related to GDX Japan Inc. and On-Demand Solutions Inc. of JPY76 million.

Gross margin was JPY2,660 million, an increase of 4.8% YoY. Gross margin ratio was 15.6% compared to 17.1% in 1H07.

Cost of SI revenues was JPY12,178 million in 2Q08, an increase of 12.9% YoY mainly due to the increase in outsourcing related costs.

Gross margin was JPY3,539 million, an increase of 0.7% YoY. Gross margin ratio was 22.5% compared to 24.6% in 1H07. We had an unprofitable systems integration project in 1H08.

Cost of Equipment Sales revenues was JPY466 million, a decrease of 38.5% YoY due to the decrease in equipment sales revenues. Gross margin ratio was 11.3% compared to 14.2% in 1H07.

Cost of ATM Operation Business revenues was JPY100 million and the gross margin was a loss of JPY89 million.

SG&A Expenses and R&D

Sales and marketing expenses were JPY2,351 million, an increase of 16.0% YoY. The increases were mainly due to the increase in personnel related expenses resulting from the hiring of personnel mainly in 1Q08 as well as expenses related to hi-ho of 6 months.

General and administrative expenses were JPY2,669 million, an increase of 20.3% YoY. The increases were mainly due to the increase in personnel and outsourcing related expenses. There were also expenses related to the 4 new subsidiaries.

Research and development expenses were JPY144 million, an increase of 23.4% YoY.

Operating income

Operating income was JPY1,005 million, a decrease of 44.6% YoY. While gross margin decreased by 0.2% YoY as revenue growth was weaker than expected mainly as a result of weak systems construction revenue and unprofitable systems integration project, cost related to business expansion increased. There were also losses from the 4 new subsidiaries totaling JPY453 million.

Other income (expenses) and others

Other income (expenses) was a net other expense of JPY239 million compared to net other expenses of JPY119 million in 1H07. There were losses of JPY61 million in 1H08 mainly related to equity securities compared to net gains of JPY49 million in 1H07.

Income tax expense was JPY539 million mainly due to deferred tax expense of JPY378 million compared to income tax benefit of JPY1,805 million in 1H07. In 1H07, there were deferred tax benefits of JPY1,970 million resulting from the revision of the valuation allowance against deferred income tax assets.

Minority interests in losses of subsidiaries were JPY140 million related to GDX Japan and Trust Networks Inc. compared to minority interests in losses of subsidiaries of JPY24 million in 1H07.

Equity in net income of equity method investees was JPY1 million compared to equity in net loss of equity method investees of JPY49 million in 1H07.

Net income was JPY368 million, a decrease of 89.4% YoY.

Financial Condition

Balance Sheets

As of September 30, 2008, total assets decreased by JPY2,427 million from the previous fiscal year end to JPY53,275 million.

For current assets, inventories increased by JPY353 million, mainly for ongoing SI projects; and account receivables decreased by JPY2,275 million, each from the respective amount as of March 31, 2008. Property and equipment increased by JPY1,928 million mainly due to an increase in property for our internal use. The fair value of available-for-sale securities as of September 30, 2008 decreased by JPY92 million to JPY753 million compared to March 31, 2008. For current liabilities, short-term borrowings decreased by JPY2,150 million due to repayments; and accounts payable decreased by JPY1,101 million, each from the respective amount as of March 31, 2008.

Total shareholders' equity as of September 30, 2008 was JPY24,979 million and shareholder's equity ratio (shareholder's equity/total assets) as of September 30, 2008 was 46.9%.

Cash Flows

Cash and cash equivalents as of September 30, 2008 decreased by JPY2,152 million to JPY9,319 million, compared to JPY11,471 million as of March 31, 2008.

Net cash provided by operating activities in 1H08 was JPY4,005 million, compared to net cash provided by operating activities of JPY117 million in 1H07, mainly due to operating income of JPY1,005 million, decrease in accounts receivable of JPY2,256 million, increase in inventories related to on-going SI projects, decrease in accounts payable mainly related to SI projects and payment of income taxes.

Net cash used in investing activities in 1H08 was JPY2,034 million, compared to net cash used in investing activities of JPY4,352 million in 1H07, mainly due to payment of JPY1,748 million for the purchase of property and equipment, JPY119 million for the purchase of short-term and other investments, and JPY100 million for the purchase of available-for-sales securities.

Net cash used in financing activities in 1H08 was JPY4,100 million, compared to net cash provided by financing activities of JPY2,346 million in 1H07, due to repayments of short-term borrowing with initial maturities over three months of JPY475 million (net), principal payments under capital leases of JPY1,744 million, a net decrease of JPY1,675 million in short-term borrowings with initial maturities less than three month and payment of JPY206 million for FY2007 year-end dividends.

1H08 Business Review

Analysis by Service

Connectivity and Outsourcing Services

Connectivity services revenues for corporate use increased by 5.8% YoY as contracted numbers for IP Service, broadband services and IJ Mobile Services increased respectively. Contracts for over 1Gbps IP Service increased by 15 contracts compared to September 30, 2007 with expected increase in revenues in the following quarters. IJ Mobile Service has reached 17,000 contracts, in line with our expectations as we cultivate customers with large sales-force whom are in need to access their internal network from outside, with our high reliable security solutions. The total contracted bandwidth increased by 114.2Gbps to 449.1Gbps compared to September 30, 2007.

Connectivity services revenues for home use increased by 39.9% YoY to JPY3,211 million due to the full contribution to revenues from hi-ho of JPY2,425 million (6 months) compared to JPY1,419 million (4 months). Also users are shifting from dial-up and ADSL services to optical line services which charges higher monthly fees.

Outsourcing services revenues increased by 14.3% YoY as steady and continuous demands for email related and data center services in general continued.

Number of Contracts for Connectivity Services

	September 30, 2008	September 30, 2007	YoY Change
Connectivity Services (Corporate Use)	40,611	22,949	17,662
IP Service (-99Mbps)	895	811	84
IP Service (100Mbps-999Mbps)	213	179	34
IP Service (1Gbps-)	76	61	15
IIJ Data Center Connectivity Service	299	288	11
IIJ FiberAccess/F and IIJ DSL/F	25,101	19,994	5,107
Others	14,027	1,616	12,411
Connectivity Services (Home Use)	457,289	500,185	(42,896)
Under IIJ Brand	48,287	52,878	(4,591)
hi-ho	186,396	189,872	(3,476)
OEM ³	222,606	257,435	(34,829)
Total Contracted Bandwidth	449.1Gbps	334.9Gbps	114.2Gbps

Connectivity and Outsourcing Services Revenues Breakdown and Cost

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
Connectivity Service (Corporate Use)	6,328	5,981	5.8%
IP Service ⁴	4,565	4,443	2.8%
IIJ FiberAccess/F and IIJ DSL/F	1,434	1,280	12.1%
Others	329	258	27.0%
Connectivity Service (Home Use)	3,211	2,295	39.9%
Under IIJ Brand	512	560	(8.6%)
hi-ho	2,425	1,419	70.9%
OEM	274	316	(13.1%)
Outsourcing Services	7,462	6,531	14.3%
Total Connectivity and Outsourcing Services	17,001	14,807	14.8%
Cost of Connectivity and Outsourcing Services	14,341	12,268	16.9%
Backbone Cost (included in the cost of Connectivity and Outsourcing Service)	1,846	1,668	10.7%
Connectivity and Outsourcing Services Gross Margin Ratio	15.6%	17.1%	

SI

One-time revenues from systems construction decreased by 6.4% YoY and recurring revenues from systems operation and maintenance increased by 24.4% YoY.

Order backlog for SI and equipment sales as of September 30, 2008 decreased by 8.7% to JPY17,296 million compared to September 30, 2007. The order backlog for systems construction including equipment sales decreased by 40.4% to JPY5,500 million and systems operation and maintenance increased by 21.5% to JPY11,796 million compared to September 30, 2008 respectively.

³ OEM services provided to other service providers.

⁴ IP Service revenues include revenues from the Data Center Connectivity Service.

SI Revenue Breakdown and Cost

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
SI Revenues	15,718	14,302	9.9%
Systems Construction	6,290	6,721	(6.4%)
Systems Operation and Maintenance	9,428	7,581	24.4%
Cost of SI	12,178	10,787	12.9%
SI Gross Margin Ratio	22.5%	24.6%	

Order Backlog for SI and Equipment Sales

	September 30, 2008	September 30, 2007	YoY % Change
	JPY millions	JPY millions	
SI and Equipment Sales Order Backlog	17,296	18,938	(8.7%)

Equipment Sales

Equipment Sales Revenue and Cost

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
Equipment Sales Revenues	524	881	(40.5%)
Cost of Equipment Sales	466	756	(38.5%)
Equipment Sales Gross Margin Ratio	11.3%	14.2%	

ATM Operation Business

ATM Operation Business Revenue and Cost

	1H08	1H07	YoY % change
	JPY millions	JPY millions	
ATM Operation Business Revenues	11		
Cost of ATM Operation Business	100		

Segment Information

Operating Revenues

	1H08
	JPY millions
Network services and Systems Integration Business	33,323
External Customers	33,243
Inter-Segment	80
ATM Operation Business	11
External Customers	11
Inter-Segment	
Elimination	80
Consolidated	33,254

Operating Income (losses)

	1H08
	JPY millions
Network services and Systems Integration Business	1,253
ATM Operation Business	(233)
Elimination	14
Consolidated	1,005

FY2008 Financial Target

As corporate earnings are decreasing and capital expenditures are weakening in general, and the Japanese economy is deteriorating and is expected to continue for a while, we have revised IIJ's full FY2008 financial target downward from the initial target announced on May 15, 2008.

	Revenues	Operating Income	Income before Income Tax Expense (Benefit)	Net Income
Target (Announced on Oct 24, 2008)	JPY million 73,000	JPY million 3,800	JPY million 3,000	JPY million 2,800

Dividend

The Board of Directors of IIJ resolved today to pay cash dividend of JPY1,000 per share of common stock for interim period ended September 30, 2008 to the shareholders of record as of September 30, 2008, payable December 5, 2008. IIJ also plans to pay year-end cash dividend of JPY1,000 per share (payable to shareholders of record as of March 31, 2009).

	Dividend per share		
	Interim	Year-end	Total
	JPY	JPY	JPY
Fiscal year ended March 31, 2008	750.00	1,000.00	1,750.00
Fiscal year ending March 31, 2009	1,000.00	-	-
Fiscal year ending March 31, 2009 (target)	-	1,000.00	2,000.00

Repurchase of Own Shares

On October 28, 2008, The Board of Directors of IIJ resolved to repurchase its own shares pursuant to Article 156, Paragraph 1 of the Corporation Law as applied pursuant to Article 165, Paragraph 3 of the Corporation Law and IIJ's Article of Incorporation.

- (1) Type of shares to be repurchased: Common stock of IIJ
- (2) Total number of shares to be repurchased: Up to 4,000 shares
(Equivalent to 1.94% of the common shares outstanding)
- (3) Total amount to be repurchased: Up to JPY 400,000,000
- (4) Repurchasing period: From November 14, 2008 to January 30, 2009

* The shares to be repurchased within the limitation provided by law may include IIJ's American Depository Shares ("ADS"). The ADS is quoted on the Nasdaq market and the current ADS/share ratio is 400 ADSs per 1 share of IIJ's common stock and can be transferred through our depository.

Presentation

Presentation Materials will be posted on our web site (<http://www.iij.ad.jp/en/IR/>) on November 13, 2008.

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. ("IIJ", NASDAQ: IIJI, TSE1: 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 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 FY2008 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 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 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

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

	As of September 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	87,967	9,319,235		11,470,980	
Short-term investments	-	-		12,181	
Accounts receivable, net of allowance for doubtful accounts of JPY 23,544 thousand and JPY 24,677 thousand at September 30, 2008 and March 31, 2008, respectively	94,210	9,980,614		12,255,163	
Inventories	14,512	1,537,377		1,184,160	
Prepaid expenses	20,275	2,147,960		2,005,274	
Other current assets, net of allowance for doubtful accounts of JPY 15,320 thousand and JPY 7,470 thousand at September 30, 2008 and March 31, 2008, respectively	12,284	1,301,333		1,557,869	
Total current assets	229,248	24,286,519	45.6	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 September 30, 2008 and March 31, 2008	9,024	956,006	1.8	991,237	1.8
OTHER INVESTMENTS	22,437	2,376,978	4.5	2,363,770	4.2
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of JPY 15,417,585 thousand and JPY 14,029,785 thousand at September 30, 2008 and March 31, 2008, respectively	129,020	13,668,382	25.7	11,740,210	21.1
GOODWILL	23,667	2,507,258	4.7	2,507,258	4.5
OTHER INTANGIBLE ASSETS —Net	31,736	3,362,102	6.3	3,400,117	6.1
GUARANTEE DEPOSITS	19,776	2,095,045	3.9	2,037,165	3.7
OTHER ASSETS, net of allowance for doubtful accounts of JPY 65,088 thousand and JPY 64,796 thousand at September 30, 2008 and March 31, 2008, respectively	37,976	4,023,185	7.5	4,177,162	7.5
TOTAL	502,884	53,275,475	100.0	55,702,546	100.0

	As of September 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	66,075	7,000,000		9,150,000	
Capital lease obligations —current portion	34,143	3,617,081		3,455,948	
Accounts payable	64,136	6,794,589		7,895,238	
Accrued expenses	9,954	1,054,540		994,138	
Accrued retirement and pension costs —current	108	11,436		11,436	
Deferred income	17,696	1,874,696		1,552,896	
Other current liabilities	3,768	399,207		864,366	
Total current liabilities	195,880	20,751,549	38.9	23,924,022	42.9
CAPITAL LEASE OBLIGATIONS —Noncurrent	51,163	5,420,254	10.2	4,738,359	8.5
ACCRUED RETIREMENT AND PENSION COSTS —Noncurrent	11,624	1,231,434	2.3	1,101,951	2.0
OTHER NONCURRENT LIABILITIES	6,973	738,712	1.4	663,399	1.2
Total Liabilities	265,640	28,141,949	52.8	30,427,731	54.6
MINORITY INTEREST	1,458	154,309	0.3	294,102	0.6
COMMITMENTS AND CONTINGENCIES					
SHAREHOLDERS' EQUITY:					
Common-stock—authorized, 377,600 shares; issued and outstanding, 206,478 shares at September 30, 2008 and March 31, 2008	158,900	16,833,847	31.6	16,833,847	30.2
Additional paid-in capital	260,636	27,611,737	51.8	27,611,737	49.6
Accumulated deficit	(183,070)	(19,394,413)	(36.4)	(19,555,489)	(35.1)
Accumulated other comprehensive income (loss)	(680)	(71,954)	(0.1)	90,618	0.1
Total shareholders' equity	235,786	24,979,217	46.9	24,980,713	44.8
TOTAL	502,884	53,275,475	100.0	55,702,546	100.0

(Note) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 105.94 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 30, 2008.

Internet Initiative Japan Inc.
Quarterly Consolidated Statements of Income (Unaudited)
(For the first half ended September 30, 2008 and September 30, 2007)

	Six Months Ended September 30, 2008			Six Months Ended September 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)	59,729	6,327,721		5,981,284	
Connectivity (home use)	30,312	3,211,251		2,294,848	
Outsourcing services	70,439	7,462,257		6,530,574	
Total	160,480	17,001,229		14,806,706	
Systems integration:					
Systems Construction	59,373	6,289,946		6,720,912	
Systems Operation and Maintenance	88,990	9,427,609		7,581,276	
Total	148,363	15,717,555		14,302,188	
Equipment sales	4,947	524,087		881,350	
ATM operation business	103	10,970		-	
Total revenues	313,893	33,253,841	100.0	29,990,244	100.0
COST AND EXPENSES:					
Cost of connectivity and outsourcing services	135,373	14,341,393		12,267,670	
Cost of systems integration	114,955	12,178,300		10,786,859	
Cost of equipment sales	4,388	464,841		756,386	
Cost of ATM operation business	943	99,984		-	
Total cost	255,659	27,084,518	81.5	23,810,915	79.4
Sales and marketing	22,192	2,351,033	7.1	2,027,153	6.7
General and administrative	25,195	2,669,171	8.0	2,219,623	7.4
Research and development	1,356	143,677	0.4	116,445	0.4
Total cost and expenses	304,402	32,248,399	97.0	28,174,136	93.9
OPERATING INCOME	9,491	1,005,442	3.0	1,816,108	6.1
OTHER INCOME (EXPENSE):					
Interest income	248	26,243		31,555	
Interest expense	(1,949)	(206,407)		(215,278)	
Foreign exchange gains	38	3,998		923	
Net gains on sales of other investments				213,530	
Losses on write-down of other investments	(577)	(61,092)		(164,056)	
Other—net	(20)	(2,134)		14,702	
Other income (expense) — net	(2,260)	(239,392)	(0.7)	(118,624)	(0.4)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), MINORITY INTERESTS AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	7,231	766,050	2.3	1,697,484	5.7
INCOME TAX EXPENSE (BENEFIT)	5,089	539,124	1.6	(1,804,833)	(6.0)
MINORITY INTERESTS IN LOSSES OF SUBSIDIARIES	1,320	139,793	0.4	24,212	0.1
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEES	7	835	0.0	(49,129)	(0.2)
NET INCOME	3,469	367,554	1.1	3,477,400	11.6

	Six Months Ended September 30, 2008		Six Months Ended September 30, 2007
NET INCOME PER SHARE			
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES (shares)		206,478	206,002
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES (shares)		206,538	206,228
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)		82,591,200	82,400,774
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)		82,615,200	82,491,200
BASIC NET INCOME PER SHARE (U.S. Dollars / JPY / JPY)	16.80	1,780	16,880
DILUTED NET INCOME PER SHARE (U.S. Dollars / JPY / JPY)	16.80	1,780	16,862
BASIC NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY)	0.04	4.45	42.20
DILUTED NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY)	0.04	4.45	42.14

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 105.94 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 30, 2008.

(Note2) The above presentation for the first half ended September 30, 2007 has been changed to conform to the presentation for the first half ended September 30, 2008.

Internet Initiative Japan Inc.
Quarterly Consolidated Statements of Cash Flows (Unaudited)
(For the first half ended September 30, 2008 and September 30, 2007)

	Six Months Ended September 30, 2008		Six Months Ended September 30, 2007
	Thousands of U.S. Dollars	Thousands of JPY	Thousands of JPY
OPERATING ACTIVITIES:			
Net income	3,469	367,554	3,477,400
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,534	2,599,105	2,238,630
Provision for retirement and pension costs, less payments	1,222	129,483	84,723
Provision for (reversal of) allowance for doubtful accounts and advances	79	8,391	(4,924)
Loss on disposal of property and equipment	337	35,728	11,524
Net gains on sales of other investments	-	-	(213,530)
Losses on write-down of other investments	577	61,092	164,056
Foreign exchange losses	84	8,867	3,397
Equity in net loss of equity method investees (net of dividend)	279	29,545	49,129
Minority interests in losses of subsidiaries	(1,319)	(139,793)	(24,212)
Deferred income tax expense (benefit)	3,568	377,983	(1,969,437)
Others	16	1,707	-
Changes in operating assets and liabilities net of effects from acquisition of business and a company			
Decrease in accounts receivable	21,293	2,255,821	576,507
Increase in inventories, prepaid expenses and other current and noncurrent assets	(3,885)	(411,600)	(1,639,019)
Decrease in accounts payable	(11,686)	(1,238,019)	(2,183,876)
Decrease in accrued expenses, other current and noncurrent liabilities	(767)	(81,276)	(453,660)
Net cash provided by operating activities	37,801	4,004,588	116,708
INVESTING ACTIVITIES:			
Purchase of property and equipment	(16,499)	(1,747,972)	(991,559)
Purchase of available-for-sale securities	(944)	(99,992)	(513,895)
Purchase of short-term and other investments	(1,126)	(119,263)	(31,822)
Investment in equity method investee	-	-	(250,389)
Purchases of subsidiary stock from minority shareholders	-	-	(1,975,123)
Proceeds from sales of available-for-sale securities	-	-	609,112
Proceeds from sales and redemption of short-term and other investments	113	12,009	6,751
Acquisition of a newly controlled company, net of cash acquired	-	-	(912,450)
Payments of guarantee deposits	(743)	(78,718)	(265,850)
Refund of guarantee deposits	169	17,882	3,361
Payments for refundable insurance policies	(242)	(25,614)	(23,439)
Refund from insurance policies	70	7,382	-
Other	(1)	(104)	(6,690)
Net cash used in investing activities	(19,203)	(2,034,390)	(4,351,993)

	Six Months Ended September 30, 2008		Six Months Ended September 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	50,972	5,400,000	10,400,000
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(55,456)	(5,875,000)	(6,340,000)
Principal payments under capital leases	(16,460)	(1,743,847)	(1,657,941)
Net Increase (decrease) in short-term borrowings with initial maturities less than three months	(15,811)	(1,675,000)	250,000
Dividends paid	(1,949)	(206,478)	(306,450)
Net cash provided by (used in) financing activities	(38,704)	(4,100,325)	2,345,609
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(205)	(21,618)	5,008
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,311)	(2,151,745)	(1,884,668)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	108,278	11,470,980	13,554,544
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	87,967	9,319,235	11,669,876
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	1,942	205,700	216,937
Income taxes paid	3,794	401,943	727,324
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Acquisition of assets by entering into capital leases	26,128	2,768,002	2,298,102
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 105.94 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 30, 2008.

(Note2) The above presentation for the first half ended September 30, 2007 has been changed to conform to the presentation for the first half ended September 30, 2008.

2nd Quarter FY2008 Consolidated Financial Results (3 months)

The following tables are highlight data of 2nd Quarter FY2008 consolidated financial results (unaudited, from July 1, 2008 to September 30, 2008).

Operating Results Summary

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
Total Revenues:	16,926	16,294	3.9%
Connectivity and Outsourcing Services	8,605	7,936	8.4%
SI	8,029	7,968	0.8%
Equipment Sales	286	391	(26.9%)
ATM Operation Business	6		
Cost of Revenues:	13,782	12,869	7.1%
Connectivity and Outsourcing Services	7,276	6,598	10.3%
SI	6,154	5,938	3.6%
Equipment Sales	266	333	(20.1%)
ATM Operation Business	86		
SG&A Expenses and R&D	2,550	2,301	10.8%
Operating Income	594	1,125	(47.2%)
Income before Income Tax Expense	456	941	(51.5%)
Net Income	198	2,907	(93.2%)

Connectivity and Outsourcing Services Revenues Breakdown and Cost

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
Connectivity and Outsourcing Services Revenues	8,605	7,936	8.4%
Connectivity Service (Corporate Use)	3,218	3,009	7.0%
IP Service	2,295	2,225	3.1%
IJ FiberAccess/F and IJ DSL/F	721	664	8.6%
Others	202	119	69.4%
Connectivity Service (Home Use)	1,615	1,489	8.5%
Under IJ Brand	254	277	(8.4%)
hi-ho	1,222	1,080	13.2%
OEM	139	131	5.8%
Outsourcing Services	3,772	3,438	9.7%
Cost of Connectivity and Outsourcing Services	7,276	6,598	10.3%
Backbone Cost (included in the cost of Connectivity and Outsourcing Service)	951	849	12.0%
Connectivity and Outsourcing Services Gross Margin Ratio	15.4%	16.9%	

SI Revenue Breakdown and Cost

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
SI Revenues	8,029	7,968	0.8%
Systems Construction	3,254	4,168	(21.9%)
Systems Operation and Maintenance	4,775	3,799	25.7%
Cost of SI	6,154	5,938	3.6%
SI Gross Margin Ratio	23.3%	25.5%	
SI and Equipment Sales Order Backlog	17,296	18,928	(8.6%)

Equipment Sales Revenue and Cost

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
Equipment Sales Revenues	286	391	(26.9%)
Cost of Equipment Sales	266	333	(20.1%)
Equipment Sales Gross Margin Ratio	7.0%	15.0%	

ATM Operation Business Revenue and Cost

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
ATM Operation Business Revenues	6		
Cost of ATM Operation Business	86		

Other Financial Statistics

	2Q08	2Q07	YoY Change
	JPY millions	JPY millions	
Adjusted EBITDA	1,948	2,316	(15.9%)
CAPEX, including capital leases	2,685	1,058	153.9%
Depreciation and amortization	1,354	1,191	13.7%

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.

Adjusted EBITDA

	2Q08	2Q07
	JPY millions	JPY millions
Adjusted EBITDA	1,948	2,316
Depreciation and Amortization	1,354	1,191
Operating Income	594	1,125
Other Income (Expense)	(138)	(184)
Income Tax Expense	326	(1,980)
Minority Interests in Losses of Subsidiaries	85	15
Equity in Net Income (Loss) of Equity Method Investees	(17)	(29)
Net Income	198	2,907

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.

CAPEX

	2Q08	2Q07
	JPY millions	JPY millions
CAPEX, including capital leases	2,685	1,058
Acquisition of Assets by Entering into Capital Leases	1,705	636
Purchase of Property and Equipment	980	422

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

	Three Months Ended September 30, 2008			Three Months Ended September 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)	30,375	3,217,967		3,008,512	
Connectivity (home use)	15,245	1,615,048		1,488,522	
Outsourcing services	35,603	3,771,761		3,438,596	
Total	81,223	8,604,776		7,935,630	
Systems integration:					
Systems Construction	30,717	3,254,198		4,168,310	
Systems Operation and Maintenance	45,069	4,774,533		3,799,414	
Total	75,786	8,028,731		7,967,724	
Equipment sales	2,700	286,066		391,139	
ATM operation business	58	6,135		-	
Total revenues	159,767	16,925,708	100.0	16,294,493	100.0
COST AND EXPENSES:					
Cost of connectivity and outsourcing services	68,683	7,276,321		6,598,148	
Cost of systems integration	58,090	6,154,063		5,937,975	
Cost of equipment sales	2,510	265,915		332,603	
Cost of ATM operation business	806	85,303		-	
Total cost	130,089	13,781,602	81.4	12,868,726	79.0
Sales and marketing	11,122	1,178,307	7.0	1,088,023	6.7
General and administrative	12,143	1,286,463	7.6	1,152,780	7.1
Research and development	804	85,156	0.5	60,394	0.3
Total cost and expenses	154,158	16,331,528	96.5	15,169,923	93.1
OPERATING INCOME	5,609	594,180	3.5	1,124,570	6.9
OTHER INCOME (EXPENSE):					
Interest income	173	18,287		20,343	
Interest expense	(946)	(100,204)		(118,370)	
Foreign exchange gains	60	6,401		1,849	
Losses on write-down of other investments	(507)	(53,701)		(92,127)	
Other—net	(80)	(8,484)		4,469	
Other income (expense) — net	(1,300)	(137,701)	(0.8)	(183,836)	(1.1)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEEES	4,309	456,479	2.7	940,734	5.8
INCOME TAX EXPENSE (BENEFIT)	3,077	325,909	1.9	(1,980,199)	(12.1)
MINORITY INTERESTS IN LOSSES OF SUBSIDIARIES	800	84,766	0.5	14,988	0.1
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEEES	(159)	(16,859)	(0.1)	(29,277)	(0.2)
NET INCOME	1,873	198,477	1.2	2,906,644	17.8

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007
NET INCOME PER SHARE			
BASIC WEIGHTED-AVERAGE NUMBER OF SHARES (shares)		206,478	206,478
DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES (shares)		206,478	206,603
BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)		82,591,200	82,591,200
DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS (ADSs)		82,591,200	82,641,071
BASIC NET INCOME PER SHARE (U.S. Dollars / JPY / JPY)	9.07	961	14,077
DILUTED NET INCOME PER SHARE (U.S. Dollars / JPY / JPY)	9.07	961	14,069
BASIC NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY)	0.02	2.40	35.19
DILUTED NET INCOME PER ADS EQUIVALENT (U.S. Dollars / JPY / JPY)	0.02	2.40	35.17

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 105.94 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 30, 2008.

(Note2) The above presentation for the quarter ended September 30, 2007 has been changed to conform to the current quarter (the quarter ended September 30, 2008) presentation.

Internet Initiative Japan Inc.
Quarterly Consolidated Statements of Cash Flows (Unaudited)
(For the quarter ended September 30, 2008 and September 30, 2007)

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007
	Thousands of U.S. Dollars	Thousands of JPY	Thousands of JPY
OPERATING ACTIVITIES:			
Net income	1,873	198,477	2,906,644
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,783	1,354,192	1,191,050
Provision for retirement and pension costs, less payments	540	57,227	37,309
Provision for (reversal of) allowance for doubtful accounts and advances	73	7,699	(741)
Loss on disposal of property and equipment	57	6,040	4,896
Losses on write-down of other investments	507	53,701	92,127
Foreign exchange losses	18	1,946	711
Equity in net loss of equity method investees	159	16,859	29,277
Minority interests in losses of subsidiaries	(800)	(84,766)	(14,988)
Deferred income tax expense (benefit)	2,372	251,271	(2,113,684)
Others	16	1,707	366
Changes in operating assets and liabilities			
Increase in accounts receivable	(11,183)	(1,184,692)	(1,163,314)
Decrease in inventories, prepaid expenses and other current and noncurrent assets	5,031	533,012	918,460
Increase in accounts payable	5,411	573,285	123,717
Increase (decrease) in accrued expenses, other current and noncurrent liabilities	1,896	200,796	(567,524)
Net cash provided by operating activities	18,753	1,986,754	1,444,306
INVESTING ACTIVITIES:			
Purchase of property and equipment	(9,250)	(979,895)	(421,969)
Investment in equity method investee	-	-	(250,389)
Purchase of available-for-sale securities	(944)	(99,992)	(226,286)
Purchase of short-term and other investments	(1,126)	(119,263)	(152)
Proceeds from sales of available-for-sale securities	-	-	71,000
Proceeds from sales and redemption of short-term and other investments	64	6,728	3,441
Payments of guarantee deposits	(131)	(13,855)	(3,754)
Refund of guarantee deposits	19	1,965	8,031
Payments for refundable insurance policies	(120)	(12,676)	(12,357)
Refund from insurance policies	70	7,382	-
Other	(0)	(52)	-
Net cash used in investing activities	(11,418)	(1,209,658)	(832,435)

	Three Months Ended September 30, 2008		Three Months Ended September 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	2,832	300,000	100,000
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(4,955)	(525,000)	(1,769,000)
Principal payments under capital leases	(8,542)	(904,912)	(883,124)
Net increase (decrease) in short-term borrowings with initial maturities less than three months	(2,596)	(275,000)	1,000,000
Net cash used in financing activities	(13,261)	(1,404,912)	(1,552,124)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	36	3,846	12,181
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,890)	(623,970)	(928,072)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	93,857	9,943,205	12,597,948
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	87,967	9,319,235	11,669,876

(Note 1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 105.94 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of September 30, 2008.

(Note2) The above presentation for the quarter ended September 30, 2007 has been changed to conform to the current quarter (the quarter ended September 30, 2008) presentation.

Note: The following information is provided to disclose IIJ's financial results (unaudited) for the six months ended September 30, 2008 in the form defined by the Tokyo Stock Exchange.

**Consolidated Financial Results for the Six Months Ended September 30, 2008 ("1H FY2008")
[Under accounting principles generally accepted in the United States ("U.S. GAAP")]**

November 13, 2008

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

Stock code number: 3774

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

Representative: Koichi Suzuki, President and Representative Director

Contact: Akihisa Watai, Director and CFO TEL: (03) 5259-6500

Filing of quarterly report (*Shihanki-hokokusho*) to the regulatory organization in Japan: November 14, 2008 (Scheduled)

Payment of dividend: Scheduled to start on December 5, 2008

(Amounts of less than JPY one million are rounded)

**1. Consolidated Financial Results for the Six Months Ended September 30, 2008
(April 1, 2008 to September 30, 2008)**

(1) Consolidated Results of Operations

(% shown is YoY change)

	Total Revenues		Operating Income		Income before Income Tax Expense (Benefit)		Net Income	
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%
Six months ended September 30, 2008	33,254	-	1,005	-	766	-	368	-
Six months ended September 30, 2007	29,990	13.4	1,816	32.5	1,697	(20.8)	3,477	21.8

	Basic Net Income per Share	Diluted Net Income per Share
	JPY	JPY
Six months ended September 30, 2008	1,780.11	1,779.60
Six months ended September 30, 2007	16,880.42	16,861.92

(Note) In this document, income before income tax expense (benefit) represents income from operations before income tax expense (benefit), minority interests and equity in net loss of equity method investees in IIJ's consolidated financial statements for the six months ended September 30, 2008.

(2) Consolidated Financial Position

	Total Assets	Shareholders' Equity	Shareholders' Equity as a percentage of Total Assets	Shareholders' Equity per share
	JPY millions	JPY millions	%	JPY
Six months ended September 30, 2008	53,275	24,979	46.9	120,977.62
Six months ended September 30, 2007	55,703	24,981	44.8	120,985.87

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

2. Dividends

	Dividend per Share				
	End of the first quarter	End of the second quarter	End of the third quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year Ended March 31, 2008	-	750.00	-	1,000.00	1,750.00
Fiscal Year Ending March 31, 2009	-	1,000.00	-	-	-
Fiscal Year Ending March 31, 2009 (Target)	-	-	-	1,000.00	2,000.00

(Note) Scheduled revision to dividends during the six months ended September 30, 2008: None

3. Target of Consolidated Financial Results for the Fiscal Year Ending March 31, 2009

(April 1, 2008 through March 31, 2009)

(% shown is YoY change)

	Total Revenues		Operating Income		Income before Income Tax Expense (Benefit)		Net Income		Basic Net Income per share
	JPY millions	%	JPY millions	%	JPY millions	%	JPY millions	%	JPY
Fiscal year ending March 31, 2009	73,000	9.2	3,800	(20.2)	3,000	(31.2)	2,800	(45.9)	13,560.77

(Note) Changes in target for year-end consolidated financial results for the fiscal year ending March 31, 2009: None

4. Others

(1) Change of Condition in Consolidated Subsidiaries during the Six Months Ended September 30, 2008 (Change of Condition in Specific Consolidated Subsidiaries with a Change of Scope of Consolidation): None

(2) Application of Simplified Accounting Method or Specific Accounting Principles for the preparation of *Shihanki-hokokusho* : None

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

1) Changes caused by revision of accounting standards: Yes

2) Others: Yes

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

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

1) The number of shares outstanding:

For the Six Months Ended September 30, 2008 206,478 shares

For the Fiscal Year Ended March 31, 2008 206,478 shares

2) The number of treasury stock:

For the Six Months Ended September 30, 2008 0 shares

For the Fiscal Year Ended March 31, 2008 0 shares

3) The weighted average number of shares outstanding:

For the Six Months Ended September 30, 2008 206,478 shares

For the Six Months Ended September 30, 2007 206,002 shares