



Internet Initiative Japan

**For Immediate Release**

**Internet Initiative Japan Inc.**

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**IIJ Announces Full Year and Fourth Quarter Results  
for the Fiscal Year Ended March 31, 2007**

**Tokyo, May 15, 2007** - Internet Initiative Japan Inc. (Nasdaq: IJJI, Tokyo Stock Exchange First Section: 3774) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the fourth quarter and the full fiscal year ended March 31, 2007 ("FY2006").<sup>1</sup>

**Highlights of FY2006 Results**

- Revenue totaled JPY 57,055 million (\$485.3 million), an increase of 14.5% from FY2005.
- Operating income was JPY 3,500 million (\$29.8 million), an increase of 45.2% from FY2005.
- Net income was JPY 5,410 million (\$46.0 million), an increase of 13.8% from FY2005.
- IIJ surpassed its annual target for revenues, operating income and net income that it announced on February 8, 2007.

**Highlights of Fourth Quarter FY2006 Results**

- Revenue totaled JPY 17,023 million (\$144.8 million), an increase of 5.5% from 4Q05.
- Operating income was JPY 1,144 million (\$9.7 million), an increase of 18.4% from 4Q05.
- Net income was JPY 1,151 million (\$9.8 million), a decrease of 40.7% from 4Q05. The decrease is mainly due to an impairment loss on unlisted equity securities.

**Financial Targets for FY2007<sup>2</sup>**

- IIJ targets revenues of JPY 69 billion, operating income of JPY 4.6 billion, income before income tax expense (benefit)<sup>3</sup> of JPY 5.1 billion and net income of JPY 5.6 billion for the fiscal year ending March 31, 2008 ("FY2007").
- IIJ targets the cash dividend of JPY 1,500 per share of common stock for FY2007.

**Overview of 4<sup>th</sup> Quarter and Full FY2006 Financial Results and Business Outlook<sup>2</sup>**

"We are pleased to announce that we had another record year in FY2006," said Koichi Suzuki, President and CEO of IIJ. "We recorded the highest level of revenue in our history of JPY 57.1 billion, and an increase in operating income of 45.2% from the previous year, which amounted to JPY 3.5 billion, surpassing our previously announced target. We believe that the favorable results show our corporate customers increased utilization of Internet Protocol in their business. More corporate customers are shifting to higher speeds for Internet connectivity services and demand outsourcing services. We have been involved in larger-scaled systems integration projects and more network integration projects. In

<sup>1</sup> Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 4Q06 and full FY2006 results, translations of Japanese yen amounts into U.S. dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 117.56 = US\$1.00.

<sup>2</sup> This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2007 revenues and operating and net income that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include, but are not limited to, the factors noted at the end of this release and to the risk factors and other information included in IIJ's annual report on Form 20-F, filed with the SEC on July 11, 2006, as well as other filings and documents furnished to the Securities and Exchange Commission. IIJ plans to keep this press release publicly available on its Web site ([www.ij.ad.jp](http://www.ij.ad.jp)), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 1Q07 earnings release, presently scheduled for release in August 2007.

<sup>3</sup> In this document, income before income tax expense (benefit) represents income from operations before income tax expense (benefit), minority interests and equity in net income (loss) of equity method investees in IIJ's consolidated financial statements.

order to take advantage of this trend, we have developed new outsourcing services such as "IJJ Secure MX Services" to provide comprehensive e-mail security, and have been actively involved in new pilot projects, such as the download of high quality video content to establish a new content distribution platform."

"We were engaged in many business developments to contribute to our middle and long-term future growth in FY2006," continued Suzuki. "We will acquire hi-ho, Inc. from Panasonic Network Services Inc. in June 2007 to expand our Internet business for personal users. We made our two consolidated subsidiaries, IJJ Technology Inc. and Net Care, Inc., 100% owned in order to provide our total solutions effectively. We also established Net Chart Japan Inc. to provide network construction and GDX Japan, K.K. to offer a safe e-mail environment."

"As for capital issues, in August 2006, our accumulated deficit in our non-consolidated financial statements was eliminated by capital reduction and we plan to pay a dividend of JPY 1,500 per share of common stock for FY2006. Our listing in Japan was transferred to the first section of the Tokyo Stock Exchange in December 2006. We believe the favorable business environment will continue. We have established target revenues of JPY 69 billion, operating income of JPY 4.6 billion, income before income tax expense (benefit) of JPY 5.1 billion and net income of JPY 5.6 billion in FY2007."

#### 4<sup>th</sup> Quarter FY2006 Financial Results

##### Operating Results Summary

(JPY in millions)

	4Q06	4Q05	YoY % change
<b>Total Revenues</b>	<b>17,023</b>	16,133	5.5%
<b>Total Costs</b>	<b>13,658</b>	13,373	2.1%
<b>SG&amp;A Expenses and R&amp;D</b>	<b>2,221</b>	1,794	23.8%
<b>Operating Income</b>	<b>1,144</b>	966	18.4%
<b>Income before Income Tax Expense</b>	<b>1,301</b>	2,267	(42.6%)
<b>Net Income</b>	<b>1,151</b>	1,941	(40.7%)

#### Revenues

Revenues in 4Q06 totaled JPY 17,023 million, an increase of 5.5% from JPY 16,133 million in 4Q05.

##### Revenues

(JPY in millions)

	4Q06	4Q05	YoY % change
<b>Total Revenues:</b>	<b>17,023</b>	16,133	5.5%
<b>Connectivity and Value-added Services</b>	<b>6,233</b>	5,849	6.6%
<b>Systems Integration</b>	<b>10,181</b>	9,242	10.2%
<b>Equipment Sales</b>	<b>609</b>	1,042	(41.5%)

**Connectivity and Value-added Services ("VAS") revenues** were JPY 6,233 million in 4Q06, an increase of 6.6% compared to 4Q05. The increase was mainly due to an increase in revenues from value-added services related to an increase in demands for outsourcing services and an increase in revenues from connectivity services related to an increase in demand for higher speeds for IP Services and contracts for broadband services.

**SI revenues** increased 10.2% to JPY 10,181 million in 4Q06 compared to 4Q05. The increase was due to an increase in monthly recurring revenues from network operation and maintenance and an increase in one-time revenues from network design, construction and consultation.

**Equipment sales revenues** were JPY 609 million in 4Q06, a decrease of 41.5% compared to 4Q05.

#### Cost and expense

Cost of revenues was JPY 13,658 million in 4Q06, an increase of 2.1% compared to 4Q05.

## Cost of Revenues

(JPY in millions)

	4Q06	4Q05	YoY % change
<b>Cost of Revenues:</b>	<b>13,658</b>	13,373	2.1%
<b>Connectivity and Value-added Services</b>	<b>5,148</b>	5,091	1.1%
<b>Systems Integration</b>	<b>8,016</b>	7,381	8.6%
<b>Equipment Sales</b>	<b>494</b>	901	(45.2%)

**Cost of Connectivity and VAS revenues** was JPY 5,148 million in 4Q06, an increase of 1.1% compared to 4Q05.

**Cost of SI revenues** was JPY 8,016 million in 4Q06, an increase of 8.6% compared to 4Q05. The increase was mainly due to an increase in revenues from systems integration projects.

**Cost of Equipment Sales revenues** was JPY 494 million in 4Q06, a decrease of 45.2% compared to 4Q05. The decrease was mainly due to a decrease in revenues from equipment sales.

**Sales and marketing expenses** were JPY 896 million in 4Q06, an increase of 18.3% compared to 4Q05. The increase was mainly due to an increase in personnel expenses and advertising expenses along with business expansion.

**General and administrative expenses** were JPY 1,270 million in 4Q06, an increase of 27.6% compared to 4Q05. The increase was mainly due to a provision for retirement benefits for directors of JPY 200 million, in addition to an increase in personnel expenses resulting from business expansion.

### Operating income

Operating income was JPY 1,144 million in 4Q06, an increase of 18.4% compared to 4Q05. The increase was mainly due to the increase in revenues from relatively higher-margin value-added services and systems integration.

### Other income and others

Other income in 4Q06 was JPY 157 million, a decrease of 87.9% from JPY 1,301 million in 4Q05. The decrease is mainly due to an impairment loss of JPY 1,363 million on unlisted securities, including JPY 1,043 million on the securities of IPMobile Incorporated. The gain from the sale of available-for-sale securities in 4Q06 was JPY 1,549 million.

Income tax expense in 4Q06 was JPY 63 million, compared to income tax expense of JPY 148 million in 4Q05. Minority interests in earnings of subsidiaries in 4Q06 was JPY 38 million. Equity in net loss of equity method investees in 4Q06 was JPY 49 million.

**Net income** was JPY 1,151 million in 4Q06, a decrease of 40.7% compared to 4Q05.

## 4<sup>th</sup> Quarter FY2006 Business Review

### Analysis by Service

#### **Connectivity and Value-added Services**

For dedicated access services, the number of contracts increased by 3,171 to 17,720 compared to 4Q05. Total contracted bandwidth increased by 128.6 Gbps to 323.5 Gbps compared to 4Q05.

Dedicated access service revenues were JPY 2,786 million, an increase of 7.0% compared to 4Q05. Revenues from broadband services increased by 13.2% compared to 4Q05, mainly due to the expansion of broadband utilization in the corporate internal network. Revenues from IP Services, the services mainly used for corporate headquarters and data centers also increased by 8.0%, mainly due to the shift of IJ's corporate customers to higher speeds.

Dial-up access service revenues were JPY 599 million in 4Q06, a decrease of 7.2% compared to 4Q05, mainly due to a decrease in revenues from services for individual customers and OEM services.

VAS revenues were JPY 1,907 million in 4Q06, an increase of 8.7% compared to 4Q05. The increase was mainly due to an increase in revenues from Internet VPN related services, e-mail related services and security services.

Other revenues were JPY 941 million in 4Q06, an increase of 11.2% compared to 4Q05.

As a result, revenues from Internet connectivity and value-added services in 4Q06 were JPY 6,233 million, an increase of 6.6% compared to 4Q05. The gross margin for Internet connectivity and value-added services in 4Q06 was JPY 1,085 million, an increase of 43.1% compared to 4Q05. The gross margin ratio in 4Q06 was 17.4%, compared to 13.0% in 4Q05.

#### Number of Contracts for Connectivity Services

	4Q06	4Q05	YoY Change
<b>Dedicated Access Service Contracts</b>	<b>17,720</b>	14,549	3,171
IP Service (Low Bandwidth: 64kbps-768kbps)	64	85	(21)
IP Service (Medium Bandwidth: 1Mbps-99Mbps)	687	654	33
IP Service (High Bandwidth: 100Mbps-)	224	157	67
IIJ T1 Standard and IIJ Economy	45	109	(64)
IIJ Data Center Connectivity Service	282	247	35
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	16,418	13,297	3,121
<b>Dial-up Access Service Contracts</b>	<b>533,963</b>	630,483	(96,520)
Dial-up Access Services, under IIJ Brand	57,480	62,176	(4,696)
Dial-up Access Services, OEM <sup>4</sup>	476,483	568,307	(91,824)
<b>Total Contracted Bandwidth</b>	<b>323.5Gbps</b>	194.9Gbps	128.6Gbps

#### Connectivity and VAS Revenue Breakdown and Cost

(JPY in millions)

	4Q06	4Q05	YoY % Change
<b>Connectivity Service Revenues</b>	<b>3,385</b>	3,248	4.2%
Dedicated Access Service Revenues	2,786	2,603	7.0%
IP Service <sup>5</sup>	2,176	2,016	8.0%
IIJ T1 Standard and IIJ Economy	38	82	(53.6%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	572	505	13.2%
Dial-up Access Service Revenues	599	645	(7.2%)
Under IIJ Brand	397	413	(3.9%)
OEM	202	232	(12.9%)
<b>VAS Revenues</b>	<b>1,907</b>	1,755	8.7%
<b>Other Revenues</b>	<b>941</b>	846	11.2%
<b>Total Connectivity and VAS Revenues</b>	<b>6,233</b>	5,849	6.6%
<b>Cost of Connectivity and VAS</b>	<b>5,148</b>	5,091	1.1%
Backbone Cost (included in the cost of Connectivity and VAS)	880	923	(4.6%)
<b>Connectivity and VAS Gross Margin Ratio</b>	<b>17.4%</b>	13.0%	—

#### Systems Integration

Revenue from systems integration was JPY 10,181 million in 4Q06, an increase of 10.2% compared to 4Q05. The increase was mainly due to an increase of 26.5% in monthly recurring revenues from outsourced operations compared to 4Q05 and an increase of 2.4% in one-time revenues from systems integration. The gross margin for systems integration in 4Q06 was JPY 2,165 million and the gross margin ratio in 4Q06 was 21.3%, compared to 20.1% in 4Q05.

#### Systems Integration Revenue Breakdown and Cost

(JPY in millions)

	4Q06	4Q05	YoY % Change
<b>Systems Integration Revenues</b>	<b>10,181</b>	9,242	10.2%
Systems Integration	6,406	6,258	2.4%
Outsourced Operation	3,775	2,984	26.5%
<b>Cost of Systems Integration</b>	<b>8,016</b>	7,381	8.6%
<b>Systems Integration Gross Margin Ratio</b>	<b>21.3%</b>	20.1%	—

<sup>4</sup> OEM services provided to other service providers.

<sup>5</sup> IP Service revenues includes revenues from Data Center Connectivity Service.

## Equipment Sales

Revenue from equipment sales was JPY 609 million in 4Q06. The gross margin ratio for equipment sales in 4Q06 was 18.9%, compared to 13.5% in 4Q05.

### Equipment Sales Revenue and Cost

(JPY in millions)

	4Q06	4Q05	YoY % Change
Equipment Sales Revenues	609	1,042	(41.5%)
Cost of Equipment Sales	494	901	(45.2%)
Equipment Sales Gross Margin Ratio	18.9%	13.5%	—

## Other Financial Statistics

### Other Financial Statistics

(JPY in millions)

	4Q06	4Q05	YoY % change
Adjusted EBITDA <sup>6</sup>	2,137	2,091	2.2%
CAPEX, including capital leases <sup>7</sup>	1,224	1,737	(29.5%)
Depreciation and amortization	993	1,125	(11.7%)

## Reconciliation of Non-GAAP Financial Measures

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

### Adjusted EBITDA

(JPY in millions)

	4Q06	4Q05
Adjusted EBITDA	2,137	2,091
Depreciation and Amortization	(993)	(1,125)
Operating Income	1,144	966
Other Income	157	1,301
Income Tax Expense	63	148
Minority Interests in Earnings of Subsidiaries	(38)	(111)
Equity in Net Loss of Equity Method Investees	(49)	(67)
Net Income	1,151	1,941

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

### CAPEX

(JPY in millions)

	4Q06	4Q05
CAPEX, including capital leases	1,224	1,737
Acquisition of Assets by Entering into Capital Leases	923	1,534
Purchase of Property and Equipment	301	203

<sup>6</sup> Please refer to the Reconciliation of Non-GAAP Financial Measures below.

<sup>7</sup> Please refer to the Reconciliation of Non-GAAP Financial Measures below.

## Target

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IJ's target for the financial results for the fiscal year ending March 31, 2008 is as follows:

(JPY in millions)

Revenues	Operating Income	Income before Income Tax Expense (Benefit)	Net Income
69,000	4,600	5,100	5,600

IJ targets a cash dividend of JPY 1,500 per share of common stock for the fiscal year ending March 31, 2008.

## Presentation

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On May 16, 2007, IJ will post a presentation of its results on its website. For details, please access the following URL: <http://www.ij.ad.jp/en/IR/>

## About Internet Initiative Japan Inc.

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Founded in 1992, Internet Initiative Japan Inc. (IJ, 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. IJ 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 FY2007 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

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

(As of March 31, 2007 and March 31, 2006)

	As of March 31, 2007			As of March 31, 2006	
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash	115,299	13,554,544		13,727,021	
Accounts receivable, net of allowance for doubtful accounts of JPY 32,489 thousand and JPY 23,411 thousand at March 31, 2007 and March 31, 2006, respectively	82,305	9,675,725		11,962,304	
Short-term investment	103	12,093		—	
Inventories	9,451	1,111,086		851,857	
Prepaid expenses	8,959	1,053,270		1,031,325	
Other current assets, net of allowance for doubtful accounts of JPY 4,570 thousand and JPY 33,250 thousand at March 31, 2007 and March 31, 2006, respectively	7,916	930,571		214,121	
Total current assets	224,033	26,337,289	55.2	27,786,628	54.8
<b>INVESTMENTS IN AND ADVANCES TO EQUITY METHOD</b>					
INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand at March 31, 2007 and March 31, 2006, respectively	7,302	858,490	1.8	1,162,971	2.3
<b>OTHER INVESTMENTS</b>	24,173	2,841,741	6.0	8,020,705	15.8
<b>PROPERTY AND EQUIPMENT—Net</b>	83,637	9,832,396	20.6	10,299,496	20.3
<b>INTANGIBLE ASSETS—Net</b>	24,472	2,876,894	6.0	632,594	1.2
<b>GUARANTEE DEPOSITS</b>	14,343	1,686,141	3.5	1,549,653	3.1
<b>OTHER ASSETS, net of allowance for doubtful accounts of JPY 69,050 thousand and JPY 40,980 thousand at March 31, 2007 and March 31, 2006, respectively</b>	27,731	3,260,053	6.9	1,252,942	2.5
<b>TOTAL</b>	<b>405,691</b>	<b>47,693,004</b>	<b>100.0</b>	<b>50,704,989</b>	<b>100.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Short-term borrowings	51,463	6,050,000		4,555,000	
Long-term borrowings—current portion	2,467	290,000		1,989,963	
Payable under securities loan agreement	—	—		999,600	
Capital lease obligations—current portion	25,121	2,953,173		3,003,914	
Accounts payable	72,004	8,464,835		10,107,942	
Accrued expenses	7,633	897,355		540,027	
Accrued retirement and pension costs	72	8,428		—	
Other current liabilities	21,004	2,469,058		1,702,208	
Total current liabilities	179,762	21,132,849	44.3	22,898,654	45.2
<b>LONG-TERM BORROWINGS</b>	—	—	—	290,000	0.6
<b>CAPITAL LEASE OBLIGATIONS—Noncurrent</b>	36,733	4,318,309	9.1	4,980,659	9.8
<b>ACCRUED RETIREMENT AND PENSION COSTS</b>	6,380	750,042	1.5	223,332	0.4
<b>OTHER NONCURRENT LIABILITIES</b>	4,803	564,618	1.2	827,086	1.6
Total Liabilities	227,678	26,765,818	56.1	29,219,731	57.6
<b>MINORITY INTEREST</b>	6,934	815,182	1.7	1,263,320	2.5
<b>COMMITMENTS AND CONTINGENCIES</b>	—	—	—	—	—
<b>SHAREHOLDERS' EQUITY:</b>					
Common-stock					
—authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2007 and March 31, 2006	143,194	16,833,847	35.3	16,833,847	33.2
Additional paid-in capital	226,261	26,599,217	55.8	26,599,217	52.5
Accumulated deficit	(206,454)	(24,270,769)	(50.9)	(29,680,482)	(58.5)
Accumulated other comprehensive income	8,078	949,709	2.0	6,553,594	12.9
Treasury stock—777 shares held by an equity method investee at March 31, 2006	—	—	—	(84,238)	(0.2)
Total shareholders' equity	171,079	20,112,004	42.2	20,221,938	39.9
<b>TOTAL</b>	<b>405,691</b>	<b>47,693,004</b>	<b>100.0</b>	<b>50,704,989</b>	<b>100.0</b>

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

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

(For the three months ended March 31, 2007 and March 31, 2006)

	Three Months Ended March 31, 2007			Three Months Ended March 31, 2006	
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues
<b>REVENUES:</b>					
Connectivity and value-added services:					
Dedicated access	23,701	2,786,285		2,603,384	
Dial-up access	5,095	598,933		645,103	
Value-added services	16,223	1,907,196		1,754,548	
Other	8,004	940,932		846,130	
Total	53,023	6,233,346		5,849,165	
Systems integration	86,601	10,180,819		9,241,995	
Equipment sales	5,182	609,277		1,042,275	
Total revenues	144,806	17,023,442	100.0	16,133,435	100.0
<b>COST AND EXPENSES:</b>					
Cost of connectivity and value-added services	43,795	5,148,513		5,091,179	
Cost of systems integration	68,183	8,015,544		7,381,061	
Cost of equipment sales	4,203	494,168		901,212	
Total cost	116,181	13,658,225	80.2	13,373,452	82.9
Sales and marketing	7,621	895,910	5.3	757,245	4.7
General and administrative	10,802	1,269,946	7.5	995,301	6.2
Research and development	470	55,296	0.3	40,973	0.2
Total cost and expenses	135,074	15,879,377	93.3	15,166,971	94.0
<b>OPERATING INCOME</b>	9,732	1,144,065	6.7	966,464	6.0
<b>OTHER INCOME:</b>					
Interest income	101	11,855		3,430	
Interest expense	(792)	(93,078)		(113,199)	
Foreign exchange gains (losses)	(0)	(43)		157	
Gain on other investments—net	1,592	187,154		1,312,682	
Other—net	435	51,228		97,697	
Other income— net	1,336	157,116	0.9	1,300,767	8.0
<b>INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE, MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES</b>	11,068	1,301,181	7.6	2,267,231	14.0
<b>INCOME TAX EXPENSE</b>	538	63,244	0.4	147,900	0.9
<b>MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES</b>	(320)	(37,684)	(0.2)	(111,084)	(0.7)
<b>EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES</b>	(420)	(49,389)	(0.3)	(66,842)	(0.4)
<b>NET INCOME</b>	9,790	1,150,864	6.7	1,941,405	12.0
<b>BASIC WEIGHTED-AVERAGE NUMBER OF SHARES</b>			204,000	203,989	
<b>DILUTED WEIGHTED-AVERAGE NUMBER OF SHARES</b>			204,419	204,490	
<b>BASIC WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS</b>			81,600,000	81,595,702	
<b>DILUTED WEIGHTED-AVERAGE NUMBER OF ADS EQUIVALENTS</b>			81,767,600	81,796,102	
<b>BASIC NET INCOME PER SHARE</b>	47.98		5,641	9,517	
<b>DILUTED NET INCOME PER SHARE</b>	47.89		5,630	9,494	
<b>BASIC NET INCOME PER ADS EQUIVALENT</b>	0.12		14.10	23.8	
<b>DILUTED NET INCOME PER ADS EQUIVALENT</b>	0.12		14.07	23.7	

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

2) IJ 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 FY2005. IJ issued 12,500 new shares of common stock for public offering when it listed on the Mothers market of TSE in December 2005.



Internet Initiative Japan Inc.  
Quarterly Condensed Consolidated Statements of Cash Flows (Unaudited)  
(For the three months ended March 31, 2007 and March 31, 2006)

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen
<b>OPERATING ACTIVITIES:</b>			
Net income	9,790	1,150,864	1,941,405
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,450	993,433	1,125,294
Provision for doubtful accounts and advances	104	12,207	11,183
Gains on other investments—net	(1,592)	(187,155)	(1,312,682)
Foreign exchange losses	2	291	6,079
Equity in net loss of equity method investees	420	49,389	66,842
Minority interests in earnings of subsidiaries	321	37,684	111,084
Deferred income tax benefit	(2,309)	(271,410)	(249,767)
Others	2,010	236,317	169,582
Changes in operating assets and liabilities:			
Increase in accounts receivable	(12,664)	(1,488,766)	(5,257,241)
Increase in inventories, prepaid expenses and other current and noncurrent assets	(5,313)	(624,654)	(98,462)
Increase in accounts payable	19,178	2,254,522	5,791,434
Increase in accrued expenses, other current and noncurrent liabilities	5,639	662,913	306,163
Net cash provided by operating activities	24,036	2,825,635	2,610,914
<b>INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(2,565)	(301,539)	(202,665)
Purchase of short-term and other investments	(4,413)	(518,796)	(93,233)
Proceeds from sales of other investments	16,054	1,887,339	1,361,578
Investment in an equity method investee	—	—	(750,000)
Proceeds from sales of investment in an equity method investee	1,581	185,900	—
Purchase of subsidiary stock from minority shareholders	(25,946)	(3,050,205)	—
Refund (payment) of guarantee deposits—net	(859)	(101,015)	550,606
Other	(155)	(18,277)	(32,204)
Net cash provided by (used in) investing activities	(16,303)	(1,916,593)	834,082
<b>FINANCING ACTIVITIES:</b>			
Proceeds from issuance of short-term borrowings with initial maturities over three months	14,461	1,700,000	—
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(17,101)	(2,010,363)	(1,109,377)
Proceeds from securities loan agreement	—	—	999,600
Repayments of securities loan agreement	(4,777)	(561,600)	(1,128,960)
Principal payments under capital leases	(5,837)	(686,262)	(792,558)
Net increase in short-term borrowings	425	50,000	(615,216)
Proceed from issuance of subsidiary stock	1,656	194,679	—
Net cash used in financing activities	(11,173)	(1,313,546)	(2,646,511)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	33	3,938	8,044
NET INCREASE (DECREASE) IN CASH	(3,407)	(400,566)	806,529
CASH, BEGINNING OF EACH PERIOD	118,706	13,955,110	12,920,492
CASH, END OF EACH PERIOD	115,299	13,554,544	13,727,021

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

Note: The following information is to disclose IJJ's consolidated financial results (unaudited) for the fiscal year ended March 31, 2007 in the form defined by the Tokyo Stock Exchange.

**Consolidated Financial Results for the Fiscal Year Ended March 31, 2007**  
**[Under accounting principles generally accepted in the United States ("U.S. GAAP")]**

May 15, 2007

Company name: Internet Initiative Japan Inc.

Exchange listed: Tokyo Stock Exchange—First Section

Stock code number: 3774

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

Representative: Koichi Suzuki, President and Representative Director

Contact: Akihisa Watai, Director and CFO

TEL: (+81-3) 5259-6500

General shareholder's meeting: scheduled on June 26, 2007 Payment of dividend: scheduled on June 27, 2007

Filing of an annual report (*Yuka-shoken-hokokusho*) to the regulatory organization in Japan: scheduled on June 27, 2007

(Amounts less than one million yen are rounded)

**1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2007**  
**(April 1, 2006 through March 31, 2007)**

(1) Consolidated Results of Operations

(% shown are YoY change)

	Total Revenues		Operating Income		Income before Income Tax Expense (Benefit)		Net Income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal Year Ended March 31, 2007	57,055	14.5	3,500	45.2	5,049	(6.1)	5,410	13.8
Fiscal Year Ended March 31, 2006	49,813	19.4	2,411	93.3	5,379	70.8	4,754	63.6

	Basic Net Income per Share	Diluted Net Income per Share	Net Income to Total Shareholders' Equity	Income before Income Tax Expense to Total Assets	Operating Margin Ratio
	Yen	Yen	%	%	%
Fiscal Year Ended March 31, 2007	26,519	26,487	26.8	10.3	6.1
Fiscal Year Ended March 31, 2006	24,301	24,258	29.9	12.2	4.8

(Reference) Equity in net loss of equity method investee for the fiscal year ended March 31, 2007 and 2006 was JPY 210 million and JPY 14 million, respectively.

(Note) The figures used in this document for "Income before Income Tax Expense (Benefit)" are of "Income from operations before income tax expense (benefit), minority interests and equity in net income (loss) of equity method investees".

(2) Consolidated Financial Position

	Total Assets	Total Shareholders' Equity	Equity-to-Assets Ratio	Total Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal Year Ended March 31, 2007	47,693	20,112	42.2	98,592
Fiscal Year Ended March 31, 2006	50,705	20,222	39.9	99,132

(Note) Total shareholders' equity, equity-to-assets ratio and total shareholders' equity per share are calculated and presented in accordance with US GAAP.

(3) Consolidated Cash Flows

	Net Cash Provided by Operating Activities	Net Cash Provided by (Used in) 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
Fiscal Year Ended March 31, 2007	7,402	(3,014)	(4,560)	13,555
Fiscal Year Ended March 31, 2006	6,559	1,805	39	13,727

## 2. Dividends

	Dividend per Share			Total cash dividends for the year	Payout Ratio (consolidated)	Ratio of Dividends to Shareholder's Equity (consolidated)
	Interim	Year-end	Total			
	Yen	Yen	Yen	Millions of Yen	%	%
Fiscal Year Ended March 31, 2006	-	-	0.00	-	-	-
Fiscal Year Ended March 31, 2007	-	1,500.00	1,500.00	306	5.7	1.5
Fiscal Year Ended March 31, 2008 (Target)	750.00	750.00	1,500.00		5.5	

## 3. Target of Consolidated Financial Results for the Fiscal Year Ending March 31, 2008

(April 1, 2007 through March 31, 2008) (% shown is YoY change for Fiscal Year and Interim Period, respectively)

	Total Revenues		Operating Income		Income before Income Tax Expense		Net Income		Basic Net Income per Share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Interim Period Ending September 30, 2007	30,200	14.2	1,800	31.3	1,800	(16.1)	1,400	(50.9)	6,780
Year Ending March 31, 2008	69,000	20.9	4,600	31.4	5,100	1.0	5,600	3.5	27,122

(Note) Basic net income per share is calculated using the number of shares of common stock of IJ as of May 15, 2007. IJ has issued 2,178 shares of common stock of IJ, effective May 11, 2007 to make the two consolidated subsidiaries, IJ Technology Inc. and Net Care, Inc. a 100% owned subsidiary through share exchanges. After this exchange, the number of shares of common stock of IJ as of May 15, 2007 is 206,478 shares.

## 4. Others

(1) Change of Condition in Consolidated Subsidiaries during the Fiscal Year Ended March 31, 2007: None  
(Change of Condition in Specific Consolidated Subsidiaries with the Change of Scope of Consolidation)

(2) Changes of Significant Accounting and Reporting Policies for Consolidated Financial Statements

- 1) Changes caused by revision of accounting standards: Yes
- 2) Others: None

(3) The Number of Shares Outstanding (Shares of Common Stock)

- 1) The number of shares outstanding :
 

For the fiscal year ended March 31, 2007	204,300 shares	
(inclusive of treasury stock)	For the fiscal year ended March 31, 2006	204,300 shares
- 2) The number of treasury stock:
 

For the fiscal year ended March 31, 2007	0 shares
For the fiscal year ended March 31, 2006	777 shares
- 3) The weighted average number of shares outstanding:
 

For the fiscal year ended March 31, 2007	195,613 shares
For the fiscal year ended March 31, 2006	203,992 shares

(Note) The numbers of treasury stock for the fiscal year ended March 31, 2006 are the number of shares owned by IJ's equity method investee multiplied by IJ's ownership in the equity method investee.

### Forward-looking statements for the target of operation and other notes

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 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.

**Consolidated Financial Statements (Unaudited)**  
**(From April 1, 2006 through March 31, 2007)**

(1) Consolidated Balance Sheets

	As of March 31, 2007			As of March 31, 2006		Change
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen
ASSETS						
CURRENT ASSETS:						
Cash	115,299	13,554,544		13,727,021		(172,477)
Accounts receivable, net of allowance for doubtful accounts of JPY 32,489 thousand and JPY 23,411 thousand at March 31, 2007 and March 31, 2006, respectively	82,305	9,675,725		11,962,304		(2,286,579)
Short term investment	103	12,093		—		12,093
Inventories	9,451	1,111,086		851,857		259,229
Prepaid expenses	8,959	1,053,270		1,031,325		21,945
Other current assets, net of allowance for doubtful accounts of JPY 4,570 thousand and JPY 33,250 thousand at March 31, 2007 and March 31, 2006, respectively	7,916	930,571		214,121		716,450
Total current assets	224,033	26,337,289	55.2	27,786,628	54.8	(1,449,339)
INVESTMENTS IN AND ADVANCES TO EQUITY METHOD INVESTEES, net of loan loss valuation allowance of JPY 16,701 thousand at March 31, 2007 and March 31, 2006.	7,302	858,490	1.8	1,162,971	2.3	(304,481)
OTHER INVESTMENTS	24,173	2,841,741	6.0	8,020,705	15.8	(5,178,964)
PROPERTY AND EQUIPMENT—Net	83,637	9,832,396	20.6	10,299,496	20.3	(467,100)
INTANGIBLE ASSETS—Net	24,472	2,876,894	6.0	632,594	1.2	2,244,300
GUARANTEE DEPOSITS	14,343	1,686,141	3.5	1,549,653	3.1	136,488
OTHER ASSETS, net of allowance for doubtful accounts of JPY 69,050 thousand and JPY 40,980 thousand at March 31, 2007 and March 31, 2006, respectively	27,731	3,260,053	6.9	1,252,942	2.5	2,007,111
TOTAL	405,691	47,693,004	100.0	50,704,989	100.0	(3,011,985)

	As of March 31, 2007			As of March 31, 2006		Change
	Thousands of U.S. Dollars	Thousands of Yen	%	Thousands of Yen	%	Thousands of Yen
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES:						
Short-term borrowings	51,463	6,050,000		4,555,000		1,495,000
Long-term borrowings—current portion	2,467	290,000		1,989,963		(1,699,963)
Payable under securities loan agreement	—	—		999,600		(999,600)
Capital lease obligations—current portion	25,121	2,953,173		3,003,914		(50,741)
Accounts payable	72,004	8,464,835		10,107,942		(1,643,107)
Accrued expenses	7,633	897,355		540,027		357,328
Accrued retirement and pension costs	72	8,428		—		8,428
Other current liabilities	21,003	2,469,058		1,702,208		766,850
Total current liabilities	179,762	21,132,849	44.3	22,898,654	45.2	(1,765,805)
LONG-TERM BORROWINGS	—	—	—	290,000	0.6	(290,000)
CAPITAL LEASE OBLIGATIONS—Noncurrent	36,733	4,318,309	9.1	4,980,659	9.8	(662,350)
ACCRUED RETIREMENT AND PENSION COSTS	6,380	750,042	1.5	223,332	0.4	526,710
OTHER NONCURRENT LIABILITIES	4,803	564,618	1.2	827,086	1.6	(262,468)
Total Liabilities	227,678	26,765,818	56.1	29,219,731	57.6	(2,453,913)
MINORITY INTEREST	6,934	815,182	1.7	1,263,320	2.5	(448,138)
COMMITMENTS AND CONTINGENCIES	—	—	—	—	—	—
SHAREHOLDERS' EQUITY:						
Common-stock—authorized, 377,600 shares; issued and outstanding, 204,300 shares at March 31, 2007 and March 31, 2006	143,194	16,833,847	35.3	16,833,847	33.2	0
Additional paid-in capital	226,261	26,599,217	55.8	26,599,217	52.5	0
Accumulated deficit	(206,454)	(24,270,769)	(50.9)	(29,680,482)	(58.5)	5,409,713
Accumulated other comprehensive income	8,078	949,709	2.0	6,553,594	12.9	(5,603,885)
Treasury stock—777 shares held by an equity method investee at March 31, 2006	—	—	—	(84,238)	(0.2)	84,238
Total shareholders' equity	171,079	20,112,004	42.2	20,221,938	39.9	(109,934)
TOTAL	405,691	47,693,004	100.0	50,704,989	100.0	(3,011,985)

(Note)

The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

## (2) Consolidated Statements of Income

	Fiscal Year Ended March 31, 2007			Fiscal Year Ended March 31, 2006		Change Thousands of Yen
	Thousands of U.S. Dollars	Thousands of Yen	% of total revenues	Thousands of Yen	% of total revenues	
REVENUES:						
Connectivity and value-added services:						
Dedicated access	91,797	10,791,703		10,625,268		166,435
Dial-up access	20,554	2,416,307		2,673,808		(257,501)
Value-added services	63,079	7,415,533		6,249,891		1,165,642
Other	31,725	3,729,633		3,673,872		55,761
Total	207,155	24,353,176		23,222,839		1,130,337
Systems integration	259,672	30,527,081		23,504,537		7,022,544
Equipment sales	18,496	2,174,324		3,085,208		(910,884)
Total revenues	485,323	57,054,581	100.0	49,812,584	100.0	7,241,997
COST AND EXPENSES:						
Cost of connectivity and value-added services	174,765	20,545,358		20,077,990		467,368
Cost of systems integration	200,145	23,529,045		18,120,418		5,408,627
Cost of equipment sales	16,104	1,893,216		2,818,036		(924,820)
Total cost	391,014	45,967,619	80.6	41,016,444	82.4	4,951,175
Sales and marketing	29,251	3,438,725	6.0	3,079,526	6.2	359,199
General and administrative	33,776	3,970,692	7.0	3,147,315	6.3	823,377
Research and development	1,508	177,273	0.3	158,155	0.3	19,118
Total cost and expenses	455,549	53,554,309	93.9	47,401,440	95.2	6,152,869
OPERATING INCOME	29,774	3,500,272	6.1	2,411,144	4.8	1,089,128
OTHER INCOME:						
Interest income	196	23,037		13,099		9,938
Interest expense	(3,381)	(397,439)		(437,364)		39,925
Foreign exchange gains (losses)	(3)	(297)		3,470		(3,767)
Gain on other investments—net	15,877	1,866,510		3,197,690		(1,331,180)
Other—net	482	56,605		190,520		(133,915)
Other income—net	13,171	1,548,416	2.7	2,967,415	6.0	(1,418,999)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT), MINORITY INTERESTS AND EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	42,945	5,048,688	8.8	5,378,559	10.8	(329,871)
INCOME TAX EXPENSE (BENEFIT)	(6,839)	(803,943)	(1.4)	257,360	0.5	(1,061,303)
MINORITY INTERESTS IN EARNINGS OF SUBSIDIARIES	(1,979)	(232,719)	(0.4)	(353,883)	(0.7)	121,164
EQUITY IN NET LOSS OF EQUITY METHOD INVESTEES	(1,788)	(210,199)	(0.3)	(13,746)	(0.1)	(196,453)
NET INCOME	46,017	5,409,713	9.5	4,753,570	9.5	656,143

	Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006
	U.S. Dollars	Yen	Yen
BASIC WEIGHTED- AVERAGE NUMBER OF SHARES		203,992	195,613
DILUTED WEIGHTED- AVERAGE NUMBER OF SHARES		204,244	195,955
BASIC NET INCOME PER SHARE	226	26,519	24,301
DILUTED NET INCOME PER SHARE	225	26,487	24,258

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

2) IJ 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 FY2005.

## (3) Consolidated Statements of Shareholders' Equity

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

(Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6,553,594	(84,238)	20,221,938
Net income				5,409,713			5,409,713
Other comprehensive loss, net of tax					(5,492,154)		(5,492,154)
Total comprehensive loss							(82,441)
Adjustment to initially apply SFAS158, net of tax					(111,731)		(111,731)
Decrease of common stock due to exclusion of an equity method investee						84,238	84,238
BALANCE, MARCH 31, 2007	204,300	16,833,847	26,599,217	(24,270,769)	949,709	0	20,112,004

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

(Unit: Thousands of U.S. Dollars)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2006	204,300	143,194	226,261	(252,471)	55,747	(717)	172,014
Net income				46,017			46,017
Other comprehensive loss, net of tax					(46,718)		(46,718)
Total comprehensive loss							(701)
Adjustment to initially apply SFAS158, net of tax					(951)		(951)
Decrease of common stock due to exclusion of an equity method investee						717	717
BALANCE, MARCH 31, 2007	204,300	143,194	226,261	(206,454)	8,078	0	171,079

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.

Consolidated statements of shareholders' equity for the fiscal year ended March 31, 2006



(Unit: Thousands of Yen)

	Shares of Common Stock Outstanding (Including Treasury Stock) (Shares)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total
BALANCE, APRIL 1, 2005	191,800	13,765,372	23,637,628	(34,434,052)	8,690,125	(44,000)	11,615,073
Net income				4,753,570			4,753,570
Other comprehensive loss, net of tax					(2,136,531)		(2,136,531)
Total comprehensive income							2,617,039
Issuance of common stock, net of issuance cost	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, MARCH 31, 2006	204,300	16,833,847	26,599,217	(29,680,482)	6,553,594	(84,238)	20,221,938

## (4) Condensed Consolidated Statements of Cash Flows

	Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006	Change
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
<b>OPERATING ACTIVITIES:</b>				
Net income	46,017	5,409,713	4,753,570	656,143
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	35,965	4,228,048	4,209,037	19,011
Provision for (reversal of) doubtful accounts and advances	104	12,232	(12,009)	24,241
Gains on other investments—net	(15,877)	(1,866,510)	(3,197,690)	1,331,180
Foreign exchange losses (gains)	19	2,226	(7,825)	10,051
Equity in net loss of equity method investees	1,788	210,199	13,746	196,453
Minority interests in earnings of subsidiaries	1,979	232,719	353,883	(121,164)
Deferred income tax benefit	(12,714)	(1,494,685)	(230,841)	(1,263,844)
Others	4,542	534,035	215,480	318,555
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	20,212	2,376,126	(4,460,173)	6,836,299
Increase in inventories, prepaid expenses and other current and noncurrent assets	(10,505)	(1,235,003)	(1,390,398)	155,395
Decrease (increase) in accounts payable	(15,932)	(1,872,969)	4,975,623	(6,848,592)
Increase in accrued expenses, other current and noncurrent liabilities	7,361	865,376	1,336,421	(471,045)
Net cash provided by operating activities	62,959	7,401,507	6,558,824	842,683
<b>INVESTING ACTIVITIES:</b>				
Purchase of property and equipment	(10,955)	(1,287,906)	(919,366)	(368,540)
Purchase of short-term and other investments	(22,091)	(2,597,020)	(674,569)	(1,922,451)
Investment in an equity method investee	—	—	(750,000)	750,000
Proceeds from sales of investment in an equity method investee	1,581	185,900	—	185,900
Purchase of subsidiary stock from minority shareholders	(26,180)	(3,077,764)	(192,142)	(2,885,622)
Proceeds from sales and redemption of short-term and other investments	33,977	3,994,361	3,613,239	381,122
Acquisition of a newly controlled company, net of cash acquired	—	—	229,457	(229,457)
Acquisition of businesses	(636)	(74,751)	—	(74,751)
Refund (payment) of guarantee deposits —net	(1,007)	(118,411)	506,795	(625,206)
Other	(324)	(38,020)	(8,564)	(29,456)
Net cash provided by (used in) investing activities	(25,635)	(3,013,611)	1,804,850	(4,818,461)

	Fiscal Year Ended March 31, 2007		Fiscal Year Ended March 31, 2006	Change
	Thousands of U.S. Dollars	Thousands of Yen	Thousands of Yen	Thousands of Yen
<b>FINANCING ACTIVITIES:</b>				
Proceeds from issuance of short-term borrowings with initial maturities over three months and long-term borrowings	89,316	10,500,000	1,000,000	9,500,000
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(64,988)	(7,639,963)	(2,986,056)	(4,653,907)
Proceeds from securities loan agreement	8,997	1,057,680	4,897,040	(3,839,360)
Repayments of securities loan agreement	(17,500)	(2,057,280)	(5,626,960)	3,569,680
Principal payments under capital leases	(27,729)	(3,259,875)	(3,105,519)	(154,356)
Net decrease in short-term borrowings	(28,538)	(3,355,000)	(169,633)	(3,185,367)
Proceeds from issuance of subsidiary stock to minority shareholders	1,656	194,679	—	194,679
Proceeds from issuance of common stock, net of issuance cost	—	—	6,030,064	(6,030,064)
Net cash provided by (used in) financing activities	(38,786)	(4,559,759)	38,936	(4,598,695)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(5)	(614)	37,934	(38,548)
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,467)	(172,477)	8,440,544	(8,613,021)
<b>CASH, BEGINNING OF EACH PERIOD</b>	116,766	13,727,021	5,286,477	8,440,544
<b>CASH, END OF EACH PERIOD</b>	115,299	13,554,544	13,727,021	(172,477)
<b>ADDITIONAL CASH FLOW INFORMATION:</b>				
Interest paid	3,262	383,461	426,692	(43,231)
Income taxes paid	2,959	347,826	148,101	199,725
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>				
Acquisition of assets by entering into capital leases	22,667	2,664,706	3,842,952	(1,178,246)
Exchange of common stock investment due to merger:				
Market value of common shares acquired	—	—	7,390	(7,390)
Cost of investment	—	—	2,584	(2,584)
Acquisition of business and a company:				
Assets acquired	2,010	236,307	843,485	(607,178)
Cash paid	(636)	(74,751)	(733,589)	658,838
Liabilities assumed	1,374	161,556	109,896	51,660

(Note)

1) The U.S. dollar amounts represent translations of yen amounts at the rate of JPY 117.56, 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 March 30, 2007.