Exchange rates

Fluctuations in exchange rates between the Japanese yen and U.S. dollar and other currencies will affect the U.S. dollar and other currency equivalent of the yen price of our shares and the U.S. dollar amounts received on conversion of any cash dividends, which in turn will affect the U.S. dollar price of the ADSs. We have translated some Japanese yen amounts presented in this annual report into U.S. dollars solely for your convenience. Unless otherwise noted, the rate used for the translations was ¥118.07 per $1.00 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 31, 2003, the date of our most recent balance sheet contained in this annual report. The noon buying rate on September 25, 2003 was ¥118.86 per $1.00. Translations do not imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

Fiscal year ended March 31,	High	Low	Average [1]	Period-end
1999	¥147.14	¥108.83	¥128.10	¥118.43
2000	124.45	101.53	110.02	102.73
2001	125.54	104.19	111.65	125.54
2002	134.77	115.89	125.64	132.70
2003	133.40	115.71	121.10	118.07
Calendar year 2003				
March	¥121.42	¥116.47	¥118.69	¥118.07
April	120.55	118.25	119.90	119.07
May	119.50	115.94	117.26	119.50
June	119.87	117.46	118.33	119.87
July	119.87	117.46	118.39	118.63
August	120.55	117.24	118.66	120.42
September (through September 25, 2003)	117.41	111.65	115.37	118.86

(1) For fiscal years, calculated from the average of the exchange rates on the last day of each month during the period. For calendar year months, calculated based on the average of daily exchange rates.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition or results of operations could be adversely affected. In that event, the trading price of our securities could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

We have experienced both operating losses and net losses in recent years and may not be able to achieve or sustain profitability in the near future.

We incurred an operating loss of ¥1.7 billion and a net loss of ¥16.5 billion for the year ended March 31, 2003. We have incurred operating losses and net losses in each of the past five fiscal years, with the exception of operating income turning slightly positive for the year ended March 31, 2002. Primarily as result of our equity in net loss from Crosswave and an impairment loss taken in respect of our investment in Crosswave as a result of Crosswave's financial condition, net loss for the year ended March 31, 2003 was the highest net loss we have ever experienced. As a result, our accumulated deficit at March 31, 2003 was ¥34.7 billion.

We expect to incur a net loss for the year ending March 31, 2004, reflecting, among other things, the recognition of impairment loss on loans and accounts receivable outstanding from Crosswave. Net losses and operating losses may continue into the foreseeable future. If we are unable to decrease our net losses or achieve net income, we may be forced to seek external sources of financing to maintain our operations, which we may not be able to obtain on favorable terms if at all.

We may continue to incur losses in the future due to a number of factors, including:

- Our revenues may be adversely affected by price reductions caused by severe competition or by our failure to retain and/or attract customers;
- Further deterioration or a lack of improvement in the Japanese economy could significantly curtail interest in our services in Japan, which, because of our dependence on the Japanese market, could negatively impact our revenue;
- We may need to make future costly investments in network infrastructure, research and development and other investments which would further hurt our profitability;
- Our cost of revenues may adversely affect our financial results if we contract for more backbone capacity than we need or if we are unable to reduce our leased line costs as we intend;
- Increased expenses resulting from our leasing of additional equipment may adversely affect our overall cost structure;
- Revenues and margins from our growing systems integration business and Internet data center business, which have historically been seasonally stronger toward the end of our second and fourth fiscal quarters as companies in Japan typically make large investments in or around September and March before they close their semiannual and annual budgetary cycles, might not grow and/or be profitable as expected;
- Because of strong competition in the retail Internet Service Provider, or ISP, market, we may lose ISP customers;
- As a result of Crosswave’s corporate reorganization,
  - we may lose revenues to the extent that existing or potential customers switch to other services providers;
  - we may incur substantial costs to replace or supplement Crosswave as a service provider in the event that Crosswave’s service becomes partly or wholly unavailable to us;
  - it may become more difficult to market our service offerings as total network solutions; and
  - we expect to recognize an additional ¥1.7 billion in further losses from our loans to Crosswave and approximately ¥0.4 billion losses from our accounts receivable from Crosswave during the fiscal year ending March 31, 2004.

Please see Item 5., “Operating and Financial Review and Prospects” for more detailed information concerning our losses and other results.

We may not be able to compete effectively, especially against established competitors, which have greater financial, marketing and other resources.

Our major competitors in the Internet access business and Internet data center business are major telecommunications carriers like NTT Communications, KDDI, Japan Telecom, PoweredCom and their affiliates. In the systems integration business, our major competitors are large hardware vendors like IBM, NEC and Hitachi and systems integrators like NTT Data. Our major competitors have the financial resources to reduce prices in an effort to gain market share or exert financial pressure on competitors like us. Even though NTT and NTT Communications recently purchased shares in our company resulting in the NTT Group becoming our largest shareholder, we plan to continue to operate our company separately and independent from the NTT Group, and thus continue to compete with the NTT Group. Our competitors have advantages over us including:

- substantially greater financial resources,
- more extensive and well-developed marketing and sales networks,
- higher brand recognition among consumers,
- larger customer bases, and
- more diversified operations which allow profits from some operations to offset operations with lower profitability, such as the network services for which we are competitors.

With these advantages, our competitors may be better able to:

- sustain downward pricing pressure, including pressure on lower-priced Internet access services offered to small- and medium-sized companies and to larger corporations which are our primary target markets,
- develop, market and sell their services,
- adapt quickly to new and changing technologies, and
- obtain new customers.

In addition, if telecommunications carriers replace their existing switches and equipment with more advanced switches and equipment, this may increase their ability to use their extensive networks for Internet and data transmission, further negatively affecting our ability to compete.

We may not be able to sufficiently maintain existing customers or acquire new customers to sustain or increase our systems integration revenues in the face of fierce competition.

A significant portion of our expected future revenue depends on our ability to maintain our existing customers and acquire new customers for our systems integration business. Our existing systems integration customer base may not be large enough to provide us with a continuing high level of dependable revenues, as the addition or cancellation of a single project can result in significant fluctuations in revenues. Margins in the systems integration business also tend to be more favorable for the provision of additional services to existing customers than for the initial provision of services to new customers. Competition in the systems integration business in Japan has greatly intensified, with competitors expanding their sales forces and offering more attractive products. We may not be able to attract as many new customers as we need to maintain profitable systems integration operations due to factors such as increased competition, negative publicity related to Crosswave’s corporate reorganization which may cause customers to seek service providers which they believe are more stable, and weak economic conditions in Japan which may cause companies to reduce their investments in technology. Price competition may also hurt our profitability. If we are unable to maintain our current systems integration customer base and acquire new systems integration customers and contracts or if price competition becomes more severe, our revenues may be lower, and the profitability of our systems integration business and our results of operations and financial condition could be materially adversely affected.

We may not be able to retain and acquire customers for our data centers.

In the field of Internet data center services, competition from other data center operators may attract customers away from us or make it more difficult for us to attract new customers. Other companies in the data center business such as NTT Communications, KDDI, PoweredCom and Japan Telecom may become strong competitors of ours, and if they are successful in the market we could lose customers and it could become difficult for us to attract new customers. Furthermore, once customers leave us and choose another service provider, it may be difficult for us to reacquire those customers in the future.

In order to improve our competitiveness in the provision of total network solutions, we started operations at two large-scale Internet data centers built and owned by Crosswave in Saitama and Yokohama in early 2003. If we are unable to attract new customers to these centers, we will not be able to achieve the revenues initially anticipated, which could have an adverse effect on our future revenues and results of operations. In addition, due to Crosswave’s reorganization proceedings, we may not be able to continue to use the Saitama and Yokohama data centers in the future on favorable terms or at all, which could seriously impair our ability to attract new customers and to provide high-quality services to existing customers, both of which would have a negative impact on our financial condition and results of operations.

We are currently highly dependent on Crosswave’s network and data centers and any disruption in our ability to use Crosswave’s network and data centers as a result of its corporate reorganization proceedings or otherwise could adversely affect our results of operations.

We procure significant portions of our network backbone and data centers from Crosswave. We also procure rack space and other essential elements of our Internet data center services from Crosswave. As of March 2003, approximately 80% of our domestic backbone and 45% of our international backbone by cost was attributable to Crosswave. Crosswave’s data centers and backbone are important network components in many of our systems integration projects. In addition, we rely heavily on the Crosswave network in order to market and provide “total network solutions” to our customers.

Crosswave is undergoing corporate reorganization proceedings in Japan. If as a result of its corporate reorganization or otherwise we were to lose all or some of our ability to use Crosswave’s network, our business may be severely negatively impacted as our ability to provide total network solutions may be limited. If we are unable to continue to use Crosswave’s network, we would be forced to switch to an alternative network provider, but this could require substantial lead time. Although some amount of redundancy is built into our network through contracting with other providers, stoppage of all or some of our key operations could inconvenience our customers through a slowdown in network traffic or a reduction in network redundancy, all of which might cause customers to consider using an alternative service provider. Furthermore, if we are unable to use or are limited in our use of Crosswave’s data centers, or if we are forced to incur additional costs above normal rental fees in order to ensure that the data centers are kept open and running, our business operations and financial condition may be severely negatively affected. Crosswave may also require significant additional funding to strengthen its network buildout, but may choose not to do so.

In addition, as a result of Crosswave’s corporate reorganization proceedings, if Crosswave is taken over by a third party that is not inclined to work with us, we may be unable to maintain our business relationship to the same extent as at present, or at all, and may be forced to find another suitable Type I provider to work with, which may be difficult, time consuming and costly. Also, Crosswave or any third party potential acquiror of Crosswave may request that we undertake certain activities because we are the largest customer of Crosswave and the company most dependent on Crosswave’s continuity of network services. For example, we may be requested to enter into a long-term commitment to use Crosswave’s services. While we cannot be forced to enter into an agreement that is not in our best interest, we may have to accept some unfavorable terms in order to continue to avail ourselves of Crosswave’s services.

Crosswave's reorganization may make it increasingly difficult to acquire new customers or retain existing ones.

Crosswave's commencement of reorganization proceedings may create concerns among current and potential customers as to our ability to maintain the reliability and quality of our services. Cancellations by existing customers may increase in the future as a result of Crosswave's reorganization or other factors. Crosswave's reorganization may also make it difficult for us to acquire new customers. We have marketed ourselves to our customers as a provider of "total solutions", important components of which are Crosswave's services, network and data centers. While we plan to continue to use Crosswave's network and data centers following Crosswave's reorganization, we may not be able to do so on reasonable terms or at all. If we are unable to do so we would need to find alternative providers and this may have a negative effect on our ability to continue to provide quality services. Loss of large and important customers would have a serious adverse effect on our results of operations, our financial position and our ability to continue to offer our services.

We have substantial indebtedness and, due to Crosswave's commencement of corporate reorganization proceedings and concerns as to our own financial condition and business prospects, may find it increasingly difficult or expensive to obtain future financing.

At March 31, 2003, we had significant indebtedness of ¥31.6 billion, a working capital deficiency of ¥3.1 billion and shareholders' capital deficiency of ¥10.0 billion. Our total liabilities exceeded our total assets by ¥9.1 billion at March 31, 2003. At March 31, 2003, we had ¥3.6 billion in cash. We depend substantially on obtaining financing from banks, the capital markets, strategic investors and other sources to provide us with sufficient capital to fund our losses and invest in the growth of our business.

Much of our current debt and our affiliated companies' current debt financing has been provided by the same Japanese banks which provided Crosswave with much of its debt financing. We are dependent on continued good relations with these and other banks in Japan to meet our current and future financing needs. However, as a result of Crosswave's corporate reorganization and due to increasing pressure from the Japanese government and Japanese bank regulatory institutions on Japanese banks to improve the quality of their loan portfolios, Japanese banks, including those with which we have traditionally had good relations, may be increasingly reluctant to lend us money, or may only do so on less favorable terms. Japanese banks with which we do business have already required us to provide collateral for our borrowings, and we may be required to offer large amounts of additional collateral to secure additional needed financing. The continued operations of our business may be dependent on obtaining future financing and therefore any reluctance on the part of banks to provide such needed financing could have a serious negative impact on our financial condition.

In light of Crosswave's commencement of corporate reorganization proceedings and concerns as to our own financial condition and business prospects, it may also be difficult for us to raise money from the capital markets or from strategic investors. In June 2003, we raised approximately ¥1.4 billion in a private placement of our equity securities which we have allocated for use as working capital. In addition, we recently received net proceeds of approximately ¥12.0 billion in connection with a private placement of our equity securities in September 2003, which we plan to use to repay our outstanding 1.75% convertible notes due March 31, 2005 in the aggregate principal amount of ¥15 billion. We may be unable to raise further funds for working capital and other financial needs from investors in future issuances of securities on terms favorable to us, or at all.

Increased difficulties or expenses in obtaining future financing may prevent us from raising additional capital. If we are unable to do so, our financial condition may become weaker and we may have to substantially curtail our operations.

We may experience increased difficulty in negotiating lease contracts as a result of Crosswave's corporate reorganization and concerns as to our own financial condition and business prospects.

Our provision of comprehensive Internet access and network solutions to our customers depends substantially upon our ability to lease important components such as routers, servers, network machines, high-capacity, high-speed digital transmission lines, software and other items needed to perform our operations. As a result of Crosswave's reorganization and concerns as to our own financial condition and business prospects, one or more component leasing companies may decide to cease doing business with us and our affiliated companies, or only continue to do so on less favorable terms. For example, we may be required to pay for leased goods and services in advance or provide substantial additional cash deposits. If we are unable to lease necessary components on favorable terms, we may be required to purchase the components ourselves, which could add substantially to our operating costs. If we are unable to continue to lease important components for our Internet network, or are only able to do so on less favorable terms, our business operations and financial condition may suffer, and we may have to curtail some of our service offerings.

We depend on our ability to attract and retain qualified personnel.

If we fail to attract and retain qualified personnel, our business may be adversely affected. Because our network, services, products and technologies are complex, we depend on the continued service of our existing engineering and other personnel and will need to hire additional engineers and research and development personnel. Competition for qualified engineers, research and development personnel and employees in the telecommunications service industry in Japan is intense and there are a limited number of persons with the necessary knowledge and experience. In addition, we may find it difficult to hire and retain key personnel in the future due to uncertainty regarding our company as a result of the Crosswave corporate reorganization and its impact on our financial condition and business prospects.

We depend on our executive officers and their reputation, and if we lose the service of our executive officers or their reputations are damaged, our business and relationship with customers, our major shareholders and those of other IIJ Group companies and employees could suffer.

Our future success depends on the continued service of our executive officers, particularly Mr. Koichi Suzuki, who is our President and CEO and as well as the president and CEO of most of the other IIJ group companies. We rely on his expertise in the operation of our businesses and on his relationships with our shareholders, the shareholders of the IIJ group companies, our business partners and employees. None of our officers or employees, including Mr. Suzuki, is bound by an employment or noncompetition agreement.

Some of our current key personnel, including Mr. Suzuki, were previously also members of Crosswave's management. Mr. Suzuki was President and representative director of Crosswave. As a result, any perception that Crosswave's commencement of corporate reorganization proceedings reflected poor management could have a negative impact on the image of IIJ's management and IIJ. If we are unable to retain the service of our executive officers, or their reputations are damaged, it could have a negative impact on the company and its relationship with its shareholders, business partners and employees and as result our financial condition and results of operations.

Our business may be adversely affected if we fail to maintain the reliability and security of our network.

The reliability of our network could be affected by damage from fire, earthquakes and other natural disasters, as well as from power loss, telecommunications failures and similar events. Much of our computer and networking equipment and the lines that make up our network backbones are concentrated in a few locations that are in earthquake-prone areas. Computer viruses and interruptions in service as a result of the accidental or intentional actions of Internet users and others may also prevent us from providing service to our customers. In addition, the reliability of our network could be seriously damaged as a result of Crosswave's corporate reorganization. During any period in which we are unable to provide service to our customers, we may be required to forgo the right to payment for service, potentially causing us to lose substantial amounts of revenue. Any problems that cause interruptions in the services we provide could have a material adverse effect on our business, financial condition and results of operations.

In addition to our dependence on Crosswave, we rely greatly on other telecommunications providers and other suppliers, and could be affected by disruptions in service or delays in the delivery of their products and services.

In addition to Crosswave, we rely on other telecommunications carriers such as NTT Communications, KDDI and Japan Telecom for a significant portion of our network backbone and regional NTT companies and electric power companies and their affiliates for local access lines for our customers. We are subject to potential disruptions in these telecommunications services and may have no means of replacing these services, on a timely basis or at all, in the event of any such disruption.

In the Asia-Pacific region and for the operation of the A-Bone by Asia Internet Holding, we depend on telecommunications carriers in various countries including lesser-developed countries whose quality of service may not be stable or who are more susceptible to economic or political instability where they conduct business.

We also depend on third-party suppliers of hardware components like routers that are used in our network. We acquire some components from only one or two sources, typically Cisco Systems and Lucent Technologies. A failure by one of our suppliers to deliver quality products on a timely basis, or the inability to develop alternative sources if and as required, could delay our ability to expand the capacity and reach of our network.

Any problems experienced by our telecommunications carriers and other suppliers could have a material adverse effect on our business, financial condition and results of operations.

If we fail to keep up with the rapid technological changes in our industry, our services may become obsolete and we may lose customers.

Our markets are characterized by:

- rapid technological change,
- frequent new product and service introductions,
- changes in customer requirements, and
- evolving industry standards.

The introduction of services using new technologies, such as the transition from version four of Internet Protocol, or IP, to version six of IP, and the emergence of new industry standards could render our existing services obsolete.

If we fail to obtain access to new or important technologies or to develop and introduce new services and enhancements that are compatible with changing industry technologies and standards and customer requirements, we may lose customers.

Our pursuit of necessary technological advances may require substantial time and expense. Many of our competitors have greater financial and other resources than we do and, therefore, may be better able to meet the time and expense demands of achieving technological advances. Additionally, this may allow our competitors to respond more quickly to new and emerging technologies and standards or invest more heavily in upgrading or replacing equipment to take advantage of new technologies and standards.

Rapid growth and a rapidly changing operating environment may strain our limited resources.

We have limited operational, administrative and financial resources, which could be inadequate to sustain the growth we want to achieve. As the number of our customers and their Internet use increases, as traffic patterns change and as the volume of information transferred increases, we will need to increase expenditures for our network and other facilities in order to adapt our services and to maintain and improve the quality of our services. If we are unable to manage our growth and expansion, the quality of our services could deteriorate and our business may suffer.

If we fail to execute our systems integration projects in a timely or satisfactory manner or if we fail to manage customer data at our Internet data centers in a professional manner we could be sued and our reputation could suffer.

A significant portion of our future revenue depends on systems integration projects which we, in cooperation with IIJ Technology, Net Care and IIJ Media Communications, have been contracted to perform. We may not be able to perform our responsibilities under these contracts to the satisfaction of our customers, or at all, if we lack a sufficient number of qualified engineers, lack sufficient task-management capabilities for software-development vendors or lack adequate management of customer's data at our Internet data centers. If we do not execute these services/projects as contracted or fail to manage customer data at our Internet data centers in a professional manner, our receipt of revenues may be delayed or lost altogether and we could be sued by our counterparties, which could in turn have an impact on our reputation, results of operation and financial condition.

Regulatory matters and new legislation could impact our ability to conduct our business.

The licensing, construction and operation of telecommunications systems and services in Japan are subject to regulation and supervision by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, or MPHPT. We operate pursuant to licenses and approvals that have been granted by the MPHPT. Our licenses are issued under the Telecommunications Business Law to provide telecommunications services through networks owned by other companies, such as Crosswave, which makes us a Type II Carrier. In contrast, Type I Carriers, such as NTT Communications or Crosswave, own or have long-term leases for the networks through which they offer telecommunication services.

Our Type II license has an unlimited duration. However, this license is subject to revocation by the MPHPT if we violate telecommunications laws and regulations in a manner that is deemed to harm the public interest, if we or any of our directors are sentenced to a fine or any more severe penalty under the telecommunications laws, if we employ a director who was previously sentenced to a fine or more severe penalty thereunder or if we have had a license revoked in the past. We believe our licenses and approvals are in good standing and we expect to be able to continue to fulfill the terms of our licenses and approvals to the satisfaction of the MPHPT. However, there can be no assurance that we will be able to do so.

Existing and future governmental regulation may substantially affect the way in which we conduct business. These regulations may increase the cost of doing business or may restrict the way in which we offer products and services. The Telecommunications Business Law was considerably amended in July 2003. The amendment, which becomes effective in 2004, includes the elimination of the classification of Type I Carriers and Type II Carriers. We cannot be certain how this will affect us, but anticipate it may lead to increased competition. Furthermore, we cannot predict the future regulatory framework changes of our business. Any changes in laws, such as those described above, or regulations or MPHPT policy affecting our business activities and those of our competitors could adversely affect our financial condition or results of operations. For more information, see Item 4., "Business Overview — Regulation of the Telecommunications Industry in Japan".

NTT, our largest shareholder, could exercise its influence over us in a manner that may not be in the interests of our other shareholders.

NTT and its affiliates currently own 31.6% of our outstanding shares. In addition, we have agreed in a subscription agreement with NTT to allow NTT to nominate up to three persons as either directors or statutory auditors of us, subject to approval by our shareholders at a shareholders meeting. Under the subscription agreement, NTT also has preemptive rights to subscribe to its pro rata portion of any future issuances of shares by us in order to maintain its shareholding percentage in the event of future issuances. As a result, NTT may be able to exercise substantial influence over us. In addition, as part of the subscription agreement, we agreed to collaborate with NTT in various businesses. While we intend to conduct our day-to-day operations independent of NTT and its subsidiaries and group companies and believe that NTT similarly plans for us to operate independently, NTT may decide to exercise its substantial influence over us in a manner which could impair our ability to operate independently. Furthermore, NTT could take actions that are in its best interests, which may not be in the interests of our other shareholders.

There are risks associated with our international business.

By operating our network internationally, we expose ourselves to the risks of international markets and to other risks that do not exist or are less significant in Japan. One of the components of our strategy is to continue to expand our network reach through our network between the United States and Japan to maintain our network quality. In addition, we have invested in a data center business in Korea and one in the Philippines. Our international business operations continue to require management attention and financial resources, both of which are in limited supply. We face significant exposure to risks in connection with our international operations, including:

- the impact of economic conditions outside Japan,
- unexpected changes in or delays resulting from regulatory requirements,
- the rate of the development of the Internet industry in countries in Asia,
- political and economic instability, and
- potential unsatisfactory financial returns from the data center businesses in which we have invested in South Korea and the Philippines.

These factors could adversely affect our future international expansion and, consequently, our business, financial condition and results of operations.

Our investments in affiliated and non-affiliated telecommunications and technology companies may not produce the returns we expect and may require additional funding.

As part of our business strategy and for maintaining various strategic business relations, in the past years we have invested in a number of companies, including Crosswave Communications Inc. There can be no assurance that we will be able to maintain or enhance the value or performance of such companies in which we have invested or may invest in the future, or that we will achieve the returns or benefits sought from these investments. Our substantial investment in Crosswave, for example, has become worthless due to Crosswave’s financial condition and commencement of corporate reorganization proceedings. In addition, telecommunications companies and other technology companies have experienced a variety of negative developments in recent years, including increased competition and significant volatility in share prices, and have experienced financial difficulties. To the extent that these investments are accounted for by the equity method and to the extent that the investee companies have net losses, our financial results will be adversely affected by our pro rata portion of these losses. Furthermore, we may lose all or part of our investment in these companies if their stock prices decline or these companies go bankrupt.

We invested in affiliated companies, such as IIJ Technology and Net Care, to expand the service offerings available to our customers. If our affiliated companies need additional financing or are in a difficult financial condition, we may need to provide additional financial support in the form of loans to or additional equity investments in these affiliated companies to enhance or maintain our business synergies with these affiliated companies.

In addition, we invest in other non-affiliated companies, such as Monex, Inc., an online securities company, in order to further our business relationships with such companies. Other investments on our balance sheet, which includes among other items, investments in such companies were recorded at a book value of ¥3.0 billion at March 31, 2003. This book value could change significantly as a result of poor economic conditions in Japan or a faltering Japanese stock market. Fluctuations in stock price of companies in which we have invested will have an adverse effect on our financial results.

We could be named as defendants in litigation, including in connection with Crosswave's corporate reorganization, which could have an adverse impact on our business, financial condition and results of operations.

We are involved in normal claims and other legal proceedings in the ordinary course of our business. We believe that there are no cases currently pending which will have a significant financial impact on us. To our knowledge, no litigation relating to Crosswave in which we are a defendant has been brought but we cannot be certain that we will not be named in a future lawsuit. Any judgment against us in such a lawsuit could have an adverse impact on our business, financial condition and results of operations.

In the likely event we need to raise capital, we may have to sell additional shares of our common stock or securities convertible into our common stock which may cause shareholders to incur substantial dilution.

In June and September, 2003, we completed private placements of an aggregate of 15,880 shares of our common stock to investors in Japan in order to raise funds for working capital and repayment of convertible notes. It is likely that we will raise additional funds in the future to ensure that we maintain an adequate level of working capital and for other financial needs. If we choose to raise such funds from the issuance of equity shares of our common stock or securities convertible into our common stock, existing shareholders may incur substantial dilution.