D. Risk Factors

You should carefully consider the following information, together with the other information contained in this annual report on Form 20-F, including our consolidated financial statements and the related notes, before making an investment decision. Any risks described below could result in a material adverse effect on our business, financial condition or results of operations.

We may not maintain our current level of revenues and profits or achieve our expected revenues and profits in the future.

Our business is principally conducted in Japan and most of our revenues are from customers operating in Japan. If the Japanese economy deteriorates and that results in significantly lower levels of network and systems related investment and expenditures, corporate customers may respond to such conditions by prioritizing low prices over quality, or we may experience severe price reduction pressure and/or cancellation of large accounts. Such conditions may also make it difficult to maintain our current level of revenues and profit, or achieve our expected revenues and profits, or payout our target dividends.

In addition to factors related to general economic conditions in Japan, we may not be able to maintain our current level of revenues and profits or achieve our expected levels of revenues and profits due to several other factors, including, but not limited to:

- a decrease in revenues from our Internet connectivity services for corporate, Wide Area Network (“WAN”) services, and outsourcing services if, for example, we fail to offer competitive services and solutions, if service prices fall dramatically, or if we experience cancellations especially in large accounts, due, for example, to severe price competition, continued demand by corporate users to cut costs, or a decrease in customers’ needs for network usage,

- a decrease or weaker than expected growth in our Internet connectivity services for home use revenues, due, for example, to tough competition regarding customer acquisition and service price, especially for our Long Term Evolution (“LTE”) Internet connectivity services for which we offer LTE SIM cards, or a failure to keep up with rapidly changing market trends and consumer requirements,

- a decrease or weaker than expected growth in our systems construction revenues and lower margins if, for example, we fail to successfully differentiate our technical skills from those of our competitors, if corporate customers put off placing orders with us, if we fail to hire adequate employees or outsourcing resources to complete system construction projects appropriately, if we have serious troubles or problems in certain systems construction projects which may become unprofitable or incur losses, especially for large-scale projects, or if we pursue unprofitable construction projects in order to, for example, gain greater business opportunities, and to acquire systems operation and maintenance profit in the future,

- a decrease or weaker than expected growth in our systems operation and maintenance revenue if, for example, the number and the size of systems construction projects which contain continuous systems operation and maintenance decrease or do not increase largely, or if our cloud computing services revenues do not grow as anticipated. Also, we may have cancellations or reductions in current systems operation and maintenance revenue due, for example, to severe price reduction requirements, especially for large-scale projects, customers’ intention to reduce or eliminate their systems, or if we have serious troubles or problems in the systems operation and maintenance phase,

- an inability to achieve anticipated revenue growth for our cloud computing services, in which we have been continuously investing in facilities such as some portion of our data centers, servers, storages, software and other equipment if, for example, we fail to successfully differentiate our services from those of our increasing number of competitors, if we have serious system troubles and interruptions with our cloud computing services that damage our credibility or cause customers to question the reliability of our services, or if market prices for the services fall dramatically due, for example, to severe price competition, or if we experience sudden cancellations of contracts and/or a sudden sales slump especially in large accounts, such as occurred in the fiscal year ended March 31, 2014, which contributed to our decision to lower our financial target for that year, or if Japanese companies strongly maintain their current systems and fail to adopt cloud computing services to the extent currently anticipated,

- an inability to achieve anticipated revenue growth for our overseas business, in which we have been newly investing in overseas subsidiaries, facilities and increasing staff, if, for example, we fail to offer competitive services and solutions, if our domestic customers reduce their overseas business and/or refrain from operating overseas business, if we fail to develop a customer base for our overseas business, if we fail to successfully work with local business partners, or if we fail to adequately control overseas subsidiaries and comply with necessary regulations, due, for example, to our lack of experience in operating overseas business, our limited brand recognition overseas,

- an unexpected level of increase in costs such as for our internet backbone, our Mobile Virtual Network Operator (“MVNO”) interconnection or our cloud computing services due, for example, to an increased traffic volume of Internet and mobile connectivity and an increase in demands for leasing such infrastructure, an unexpected level of increase in expenses and investments such as forresearch and development, back-office systems and other similar investments which we may be forced to make in the future in order to remain competitive, and an unexpected level of increase in amortization and depreciation, loss on disposal, or loss due to obsolescence,

- a decline in the profitability of network services and systems integration if, for example, we invest in and contract more network capacity including service facilities than we actually require to serve our customers,or if we experience an unexpected level of increase in electricity prices,

- an unexpected level of increase in personnel and outsourcing costs as well as operating costs and expenses if, for example, we fail to manage personnel and outsourcing resources effectively, if we fail to raise enough revenue to cover these costs and expenses, or if we experience a shortage of human resources in the market. As for our overall personnel costs, they are continuously increasing year over year as we acquire new employees in addition to the regular annual pay raise for existing employees

- an unexpected level of increase in SG&A expenses, such as personnel-related expenses, office rent-related expenses, sales commission expenses, and advertising expenses in conjunction with our expected, planned or continued business expansion,

- the recording of an impairment loss on current and future intangible assets, which are recognized in relation to any mergers and acquisitions, that are subject to amortization, such as customer relationships, and/or are not subject to amortization, such as goodwill, as a result of an impairment test,

- the recording of foreign exchange gain and/or loss such as for our U.S. dollars and British pounds denominated bank deposits, other overseas assets and liabilities related to our overseas business,

- the recording of impairment losses on available-for-sale securities, nonmarketable equity securities and funds,
- the decline in the value and trading volume of our holding of available-for-sale securities from which we expect gains on sale,
- a negative effect on our revenues and profits if our consolidated subsidiaries and/or equity method investees including newly established ones cannot achieve our expected levels of revenues or manage costs and expenses in a timely and adequate manner, and
- a negative effect on our credibility, corporate image, or revenues and profits if we are unable to provide our services without interruption to customers due, for example, to power supply shortage.

Please see Item 5, "Operating and Financial Review and Prospects" for more detailed information concerning our operations and other results.

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

The major competitors of our network services are major telecommunications carriers such as NTT Communications Corporation ("NTT Communications") and KDDI Corporation ("KDDI"). Price competition for Internet connectivity services, outsourcing services, and WAN services has been severe. This competition may adversely affect our revenues and profitability and may make it difficult for us to retain existing customers or attract new customers. The major competitors of our systems integration business are systems integrators, such as NEC Corporation, Fujitsu Limited, NTT Data Corporation and their affiliates. Our major competitors have the financial resources to reduce prices in an effort to gain market share. There is strong competition among systems integrators that may adversely affect our revenues and profitability. Even though the NTT Group, which is comprised of companies such as Nippon Telegraph and Telephone Corporation ("NTT") and NTT Communications, is IIJ's largest shareholder, we plan to continue to operate the Company separately and independently from the NTT Group, and will therefore continue to compete with the NTT Group.

It is anticipated that cloud computing services for corporations should become widely used in Japan in the medium term. In addition to the competitors listed above, global players such as Amazon.com, Inc. have been aggressively expanding their business and may put additional business resources into the cloud computing business which may lead to strong competition, including price competition, in Japan. If we fail to successfully differentiate our services and solutions from these competitors, we may not be able to achieve expected future revenue and profit levels, or we may not recoup our investments in cloud computing services, which may adversely affect our financial condition and results of operations.

We are enhancing our indirect sales channels with partnership programs, although currently our sales channels with respect to SMEs (Small and Medium Enterprises) and the consumer market are not as strong as those of our established and well recognized larger competitors.

Our competitors have advantages over us, including, but not limited to:

- substantially greater financial resources, more extensive and well-developed marketing and sales networks,
- a larger pool of technology human resources including application development engineers,
- higher brand recognition among consumers and corporate customers,
- larger customer bases, and

- more diversified operations which allow profits from some operations to support operations with lower profitability.

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

- sustain downward pricing pressure, including pressure on low-price Internet connectivity services offered to corporate customers, which are our target customers,

- develop, market and sell their services,

- adapt quickly to new and changing technologies,

- obtain new customers, and

- aggressively pursue mergers and acquisitions to enlarge their customer base and market share.

Our investment in our new business and service developments may not produce the returns we expect or may affect our results of operations and financial condition adversely.

We have been investing in new businesses and developing new services. Capital expenditures including capitalized leases and depreciation and amortization expenses for property and equipment are increasing along with our business expansion efforts. Capital expenditures including capitalized leases and depreciation and amortization expenses for property and equipment for the fiscal years ended March 31, 2012, 2013 and 2014 were ¥10.9 billion, ¥10.4 billion and ¥12.6 billion, respectively, and ¥6.5 billion, ¥7.0 billion and ¥8.4 billion, respectively. If our investment returns are not realized in the future, our investments may become obsolete, which may adversely affect our financial condition and results of operations.

We are investing heavily in our cloud computing services and infrastructure as the cloud computing services market in Japan is anticipated to grow over the medium term. Revenues for our cloud computing services for the fiscal years ended March 31, 2012, 2013 and 2014 were approximately ¥3.1 billion, ¥6.2 billion and ¥9.8 billion, respectively. Currently, most of our cloud computing customers are Japanese enterprise. The capital expenditures, including capitalized leases, related to our domestic cloud computing services for the fiscal years ended March 31, 2012, 2013 and 2014 were approximately ¥4.3 billion, ¥2.3 billion, and ¥3.7 billion, respectively. As we expand our cloud computing services capabilities in order to meet the increasing demand, we will need to acquire more servers, network equipment and data center facilities, as well as human resources. We have doubled the capacity of our container-based module type data center in Matsue in November 2013 to meet growing demands. We anticipate we can leverage our strong customer base and our engineering skills to further expand our cloud computing related services; however, if the expansion of the cloud computing market does not proceed as its expected pace or takes longer than expected, if we face troubles in providing cloud computing services which damage our credibility or lead customers to question the reliability of our services, if we fail in our marketing strategy and fail to introduce cloud service line-ups that are superior to our competitors and promote business enterprises’ cloud usage, if we invest more than customers demand, if severe price competition occurs, or if we should need more human resources and incur unexpected additional costs, we may not be able to achieve the returns or benefits we expect or we may need to increase the amount of our investments.

We plan to increase our investment in the bank automated teller machines (“ATM”) operation business by increasing the number of ATMs we place. If our ATM operation business does not proceed as planned, we may lose all or part of our investment in this business which may adversely affect our financial condition and results of operations. For more detailed risks pertaining to our ATM operation business, please refer to the risk described in “Our investments in our subsidiaries and equity method investees may not produce the returns we expect or may affect our results of operations and financial condition adversely.”

We have been enhancing our overseas business developments mainly to meet the range of IT network needs of our Japanese customers operating abroad since the fiscal year ended March 31, 2012. The revenue from our overseas business for the fiscal years ended March 31, 2013 and 2014 was approximately ¥3.6 billion and ¥4.1 billion, respectively. Although our overseas revenue is still small, if, for example, we fail to acquire enough qualified personnel, if we fail to offer competitive services and solutions, if we fail to develop customer base for our overseas business, or if we invest and contract more network capacity and service facilities than we actually need to serve our customers, due, for example, to our lack of experience in operating overseas business, our limited brand recognition overseas, and change in our domestic customers' overseas business expansion strategy and refrain from operating overseas business, we may not be able to achieve our expected levels of revenues and profits. Our overseas operating expenses and costs may increase due, for example, to commencement of cloud computing services, opening of new overseas subsidiaries, increasing employees, and investing in network facilities. Additionally, we may encounter difficulties in planning and managing operations due to unfavorable political or economic factors, such as cultural and religious conflicts, non-compliance with expected business conduct, local regulations and taxation laws, and a lack of adequate infrastructure. Moreover, changes in local regulations, policies, taxation laws, local regulations, business or investment permit approval requirements, foreign exchange controls, or the nationalization of assets or restrictions on the repatriation of returns from foreign investments in major markets and regions may affect our operating results. Also, a failure to maintain adequate controls to comply with regulations such as the U.S. Foreign Corrupt Practices Act may harm our reputation and adversary affect our financial results and business operation.

Other than the above, we will continue to invest in the development of new businesses and services to enhance our current businesses and services. However, there is no assurance that we can achieve the returns or benefits from the development of those businesses and services and this may adversely affect our financial condition and results of operations.

Our investments in our subsidiaries and equity method investees may not produce the returns we expect or may affect our results of operations and financial condition adversely.

In the past, we have invested in our group companies to expand our businesses and generate new businesses. As of June 30, 2014, we have 13 consolidated subsidiaries and six equity method investees. The financial performance of our consolidated subsidiaries directly affects our financial condition and results of operations and the financial performance of our equity method investees affects our financial condition and results of operations through our pro rata interest in our equity method investments. There can be no assurance that we will be able to maintain or enhance the value or the performance of such companies in which we have invested in or may invest in the future, or that we will achieve the returns or benefits from these investments. We may consider further reorganization of our group companies and there is no guarantee that we will be able to achieve the benefits that we expect from such reorganization. We may provide additional financial support in the form of loans, additional equity investments, guarantees, or leases in such companies. We may lose all or part of our investment relating to such companies if their value decreases as a result of their financial performance or if they go bankrupt. If our interests differ from those of other investors in entities over which we do not exercise control, we may not be able to realize synergies with the investees and it may adversely affect our financial condition and results of operations.

IIJ's substantial investment in Crosswave Communications Inc. ("Crosswave"), IIJ's former equity method investee, became worthless due to Crosswave's commencement of corporate reorganization proceedings. In August 2003, Crosswave filed a voluntary petition for the commencement of corporate reorganization proceedings in Japan, and as a result of IIJ's equity method net loss and an impairment loss taken in respect of IIJ's investment in Crosswave, our net loss for the fiscal year ended March 31, 2003 was ¥15.6 billion, the highest net loss that we have ever experienced.

IIJ Global Solutions Inc. (“IIJ-Global”), which became our 100% owned consolidated subsidiary on September 1, 2010 after acquiring its stock from AT&T Japan LLC (“AT&T Japan”) for ¥9.2 billion, mainly provides WAN services. For the fiscal years ended March 31, 2013 and 2014, IIJ-Global had ¥25.4 billion and ¥25.6 billion in revenues ,respectively, and ¥1.8 billion and ¥0.8 billion in operating income, respectively. The operating income of IIJ-Global decreased mainly because of price cut from certain large customers when renewing their multiple-year contracts. If IIJ-Global cannot achieve our expected levels of revenues and profits, manage costs and expenses in a timely and adequate manner or incurs unexpected expenses, it may adversely affect our financial condition and results of operations. Intangible assets as of March 31, 2014 related to IIJ-Global were ¥4.7 billion, and if IIJ-Global cannot achieve its future expected revenue and profit, we may incur a substantial impairment loss on intangible assets which may adversely affect our financial condition and results of operations. Related to this acquisition, IIJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd. (“IBM Japan”), IIJ-Global’s largest sales partner. This agreement, which establishes the basis for a procurement relationship between IIJ-Global and IBM Japan, contains an indemnification for IIJ-Global to perform services, functions, responsibilities and others actions in the same way as when the company was a part of AT&T Japan. Failure to perform in this manner may adversely affect our financial condition and results of operations. Furthermore, IIJ-Global and the Company may damage their relationship with IBM Japan, which may indirectly adversely affect our financial condition and results of operations.

Trust Networks Inc. (“Trust Networks”), IIJ's consolidated subsidiary which was established in July 2007, is in charge of the ATM operation business. Trust Networks operates ATMs and the related network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. As of May 15, 2014, 855 ATMs were placed in locations such as Japanese pinball shops (“pachinko parlors”). As of March 31, 2014, IIJ has invested a total of ¥2.6 billion in Trust Networks (79.5% share ownership). For the fiscal years ended March 31, 2013 and 2014, the ATM operation business had ¥2.3 billion and ¥2.8 billion in revenues, respectively, and ¥0.2 billion and ¥0.6 billion in operating income, respectively. If Trust Networks is not able to introduce ATMs in accordance with its plan, does not record ATM withdrawal transactions as anticipated or incurs unexpected additional costs, its business expansion may take longer than planned and it may not be able to achieve its future expected revenue and profit, which may adversely affect our financial condition and results of operations. If the number of serviced ATMs increases, our capital expenditures including capitalized leases may increase due to the leasing or purchasing of ATMs.

As of June 30, 2014, we have seven overseas subsidiaries including IIJ America Inc. (“IIJ-America”) and IIJ Europe Limited (“IIJ-Europe”). To enhance our overseas business, we have been managing our overseas subsidiaries for example by injecting additional capital into them. In April 2012, we acquired the stocks of Exlayer Global Inc., a holding company with five overseas subsidiaries in the systems integration industry for ¥0.3 billion and made it our consolidated subsidiary IIJ Exlayer Inc., which we absorbed in January 2014. We injected additional capital of ¥0.5 billion into IIJ-America and ¥0.2 billion into IIJ-Europe, which was formerly known as IIJ Exlayer Europe Limited, for the fiscal year ended March 31, 2013. Together with IIJ-Global, we injected a total of ¥0.1 billion additional capital into IIJ Global Solutions Singapore Pte. Ltd. (“IIJ-Global Singapore”) for the fiscal year ended March 31, 2013 and 2014. We injected additional capital of ¥0.4 billion into IIJ Global Solutions China Inc. (“IIJ-Global China”) for the fiscal year ended March 31, 2014. As of March 31, 2014, together with IIJ-Global, we are lending ¥0.2 billion, ¥0.4 billion, ¥0.2 billion, ¥0.1 billion, and ¥0.1 billion to IIJ-Europe, IIJ-America, IIJ-Global Singapore, IIJ-Global China and IIJ Global Solutions (Thailand) Co., Ltd (“IIJ-Global Thailand”), respectively.

If our systems integration revenues fluctuate or if we fail to execute our systems construction projects in a timely or satisfactory manner, our results of operations and financial condition may be adversely affected.

Systems construction revenues, a one-time revenue that is a part of systems integration revenues, have a tendency to fluctuate from time to time compared to monthly recurring revenues of network services and systems operation and maintenance due to the budget systems in Japan, of which many end in March. If corporate investments decrease, or if we fail to meet customer demands due to a lack of a sufficient number of qualified engineers to execute the projects in a professional manner, corporate customers may put off or stop placing orders with us and we may not be able to record systems construction revenues and operating profit as expected. If we fail to execute the projects as contracted, our recognition of revenues may be delayed or lost altogether, we could be held liable for damages or we could be sued, which could have an adverse impact on our reputation, results of operations and financial condition.

Generally, gross margin of systems construction is low compared to that of systems operation and maintenance, and gross margin for large scale systems construction projects may become even lower due, for example, to price competition in acquiring such construction projects. It is more difficult to effectively control systems construction projects as they become larger in scale, and we have seen an increase in the number of large scale systems construction projects in recent years. Our results of operations and financial condition related to systems integration may be adversely affected if, for example, we fail to control costs such as personnel and outsourcing costs or retain adequate personnel for projects, or if we fail to calculate the necessary timeframe or the manpower to complete a project and the costs exceed the payments received from our customers.

We may have an impairment loss as a result of an impairment test on the intangible assets that are recorded related to mergers and acquisitions.

As of March 31, 2014, the total balance of our intangible assets was approximately ¥10.3 billion, of which ¥6.1 billion was intangible assets not subject to amortization such as goodwill and ¥4.2 billion was intangible assets subject to amortization such as customer relationships. Intangible assets in relation to IIJ-Global and IIJ Technology Inc. (“IIJ-Tech”), former subsidiaries of IIJ, were ¥4.7 billion and ¥4.4 billion, respectively, as of March 31, 2014. The amount of our intangible assets may increase if we conduct mergers, acquisitions or investments in affiliates in the future. We conduct impairment testing of goodwill and indefinite-lived intangible assets annually on March 31 or more frequently if events or changes in circumstances indicate that an asset might be impaired. We conduct impairment testing of definite-lived intangible assets whenever events or changes in circumstances indicate that the assets might be impaired. If the business operations are adversely affected by factors such as significant adverse changes in their business climate and others, we may have an impairment loss as a result of an impairment test on intangible assets. The recognition of any impairment losses on intangible assets may result in material adverse effects on our financial condition and results of operations.

If we fail to attract and retain qualified personnel, we may not be able to achieve our expected business growth.

Our network, services, products and technologies are complex, and as a result, we depend heavily on the continued service of our engineering, research and development, and other personnel, and as our business grows, we need to hire more of such employees. In particular, in order to continue to increase our revenues from outsourcing services and systems integration, we require more sales and engineering personnel. We are not sure whether we will be able to retain or attract such personnel and control human resources costs adequately. Competition for hiring qualified engineering, research and development personnel is intense in the IT service industry in Japan, and there is a limited number of personnel with the necessary knowledge and experience we require. None of our employees are bound by any employment or noncompetition agreement. The realization of any or all of these risks may result in a failure to achieve our expected business growth.

Our business may be adversely affected if our network suffers interruptions, errors or delays.

Interruptions, errors or delays with respect to our backbone network or service facilities may be caused by human errors or natural factors, many of which are beyond our control, including, but not limited to, damage from fire, earthquakes or other natural disasters, power loss, sabotage, computer hackers, cyber attack, human error, computer viruses and other similar events. Much of our computer, networking equipment and the lines that make up our backbone network are concentrated in a few locations that are in earthquake-prone areas. Any disruption, outages, delays or other difficulties experienced by any of our technological and information systems and networks could result in a decrease in new or existing accounts, loss or exposure of confidential information, reduction in revenues and profits, costly repairs or upgrades, reputational damage and decreased consumer and corporate customer confidence in our business, any or all of which could have a material adverse effect on our business, financial condition and results of operations.

Should we experience further unforeseeable incidents such as the disruption of social infrastructure or power shortages and other impacts due to inoperable or damaged nuclear power plants, our backbone network and service facilities could fail and, as a result, we may suffer direct and indirect damages, which may adversely affect our financial conditions and results of operations.

If we fail to keep and manage our confidential customer information, we could be subject to lawsuits, incur expenses associated with our security systems or suffer damage to our reputation.

We keep and manage confidential information and trade secrets obtained from our customers. We exercise much care in protecting the confidentiality of such obtained information and take steps to ensure the security of our network, in accordance with the Personalized Information Protection Law protecting personal information that came into effect in April 2005 and the requirements set by the Ministry of Internal Affairs and Communications (“MIC”), and the Ministry of Economy, Trade and Industry. However, our network, like all Information Technology systems, is vulnerable to external attack from computer viruses, hackers, cyber attack, or other such sources. In addition, despite internal controls, misconduct by an employee could result in the improper use or disclosure of confidential information. If any material leak of such information were to occur, we could be subject to lawsuits for damages from our customers, incur expenses associated with repairing or upgrading our security systems and suffer damages to our reputation that could result in a severe decline in new customers as well as an increase in service cancellations. As our consumer mobile business grows, we are dealing with an increasing number of consumers. Our corporate image and credibility could be negatively impacted, if, for example, we or our sales partners fail to comply with related laws such as consumer-protection laws, or if we fail to securely protect our consumers’ individual information. Such failure could ultimately result in an adverse effect on our business, financial condition and result of operations.

Business 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 usage increases, as traffic patterns change, as the volume of information transferred increases, and as the need for our cloud computing-related service increases, we will need to increase expenditures for our network and other facilities, including data center facilities in the future, 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 adequately, the quality of our services could deteriorate and our business may suffer. If data center facilities do not meet our expectations, the quality of our service could deteriorate and our business may suffer. We may also need to increase office rent expenditures along with our business expansion. If we are unable to prepare our network and other facilities in a timely manner to meet our customers’ demand or our business expansion, we may miss growth opportunities or may be obliged to bear higher costs to prepare our network and other facilities.

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 but not limited to:

· rapid technological changes, including the shift to new technology-based networks such as IPv6, cloud computing and Software Defined Network ("SDN"),

· frequent new product and service introductions,

· continually changing customer requirements, and

· evolving industry standards.

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.

We depend on our executive officers, and if we lose the service of our executive officers, our business and our relationships with our customers, major shareholders of IIJ and other IIJ Group companies and our employees could suffer.

Our future success depends on the continued service of our executive officers, particularly Mr. Koichi Suzuki, who is a founder, Chairman, Chief Executive Officer and representative director of IIJ as well as some of IIJ's major subsidiaries, and Mr. Eijiro Katsu, who has been President, Chief Operating Officer and representative director since June 2013. We rely in particular on their expertise in the operation of our businesses and on their relationships with the shareholders of IIJ, our customers, our business partners and our employees. None of our executive officers, including Mr. Suzuki and Mr. Katsu, are bound by an employment or noncompetition agreement.

We may continuously pursue mergers and acquisitions transactions which may not be effective.

We recognize that it is important for us to have more business resources such as, but not limited to, human resources, customer base, application layer technology and others, in the medium-term. We may continuously pursue mergers and acquisitions transactions to scale up our business. The mergers and acquisitions transactions may not always be on good terms and conditions, or bear the results we expect, or have synergistic effect, and we may incur a large loss of goodwill. We may also exhaust time and our resources through mergers and acquisitions.

As a result, those transactions may strain our financial resources and may adversely affect our financial conditions and results of operations or we will not be able to have enough business resources to scale up due to a failure to engage in adequate mergers and acquisitions transactions.

Fluctuations in the stock prices of companies or losses on companies in which we have invested may adversely affect our financial condition.

We have invested in non-affiliated companies in order to further expand our business relationships with those companies. We have also invested in available-for-sale equity securities and in funds which invest mainly in unlisted stocks. While we recorded no impairment losses on available-for-sale equity securities for the fiscal year ended March 31, 2014, we may record an impairment loss in the future. The carrying amount of available-for-sale securities was ¥3.8 billion, nonmarketable equity securities was ¥2.5 billion, and funds was ¥0.1 billion as of March 31, 2014. We may invest in additional securities of non-affiliated companies or additional funds. However, these securities or funds can be impaired significantly due to changes in the financial condition of non-affiliated companies, general economic conditions in Japan or fluctuations in the Japanese stock markets. Fluctuations in the fair value of these securities or funds in which we have invested may affect our financial results. In addition, should we choose to sell all or a portion of these securities or funds, it is not certain that we will be able to do so on favorable terms.

NTT, IIJ's largest shareholder, could exercise substantial influence over us in a manner which may not necessarily be in our interest or that of our other shareholders.

NTT and its affiliates owned 26.4% of IIJ's outstanding voting shares as of March 31, 2014. As IIJ's largest shareholder, NTT may be able to exercise substantial influence over us. As of June 30, 2014, IIJ has one outside director, Mr. Takashi Hiroi, from NTT among IIJ's 12 directors. While we intend to conduct our day-to-day operations independently from NTT and its affiliate companies and believe that NTT also plans for us to operate independently, NTT may decide to exercise substantial influence over us in a manner which could impair our ability to operate independently. Furthermore, NTT may take actions that are in its best interest, which may not be in our interest or that of our other shareholders.

We rely greatly on other telecommunications carriers and other suppliers, and could be affected by disruptions in service or delays in the delivery of their products and services.

We rely on telecommunications carriers such as NTT Communications and KDDI for a significant portion of our network backbone, Nippon Telegraph and Telephone East Corporation (“NTT East”), Nippon Telegraph Telephone West Corporation (“NTT West”) and KDDI for local access lines for our customers and NTT DoCoMo, Inc. (“NTT Docomo”) for mobile connectivity as a MVNO. We procure significant portions of our network backbone and data center facilities pursuant to operating lease agreements with NTT Group, our largest provider of network infrastructure. For the fiscal year ended March 31, 2014, we have paid ¥11.1 billion for international and domestic backbone, local access line and mobile connectivity to NTT Group. We are subject to potential disruptions in these telecommunications services and, in the event of such disruption, we may have no means of replacing these services, on a timely basis or at all.

We also depend on third-party suppliers of hardware components such as routers, servers, software that are used in our network. We purchase certain components from limited sources, typically from Cisco Systems, Inc. (“Cisco”), Juniper Networks, Inc. (“Juniper”), Hewlett-Packard Company, IBM Japan, NEC, Fujitsu and VMware Inc. 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, may delay our ability to expand the capacity and scope 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.

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 MIC. We operate pursuant to licenses and approvals that have been granted by the MIC.

Our licenses have an unlimited duration, but are subject to revocation by the MIC if we violate any 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.

Existing and future governmental regulation may substantially affect the way in which we conduct our business. These regulations may increase the cost of doing business or may restrict the way in which we offer products and services. We cannot predict future regulatory changes which may affect our business. Any changes in laws, such as those described above, or regulations or MIC 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."

We may be named as defendants in litigation, 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 would have a significant financial impact on us, but we cannot be certain that we will not be named as a defendant in a future lawsuit. Any judgment against us in such a lawsuit, or in any future legal proceeding, could have an adverse effect on our business, financial condition and results of operations.

In the event that we need to raise capital, we may issue additional shares of IIJ's common stock or securities convertible into IIJ's common stock, which may cause shareholders to incur substantial dilution.

IIJ issued 4,700,000 new shares of IIJ's common stock by way of a public offering in July 2013 and 700,000 new shares by way of a third-party allotment in connection with a secondary offering of shares by way of an over-allotment in August 2013. With this equity finance and the current stable cash flow, we assume that we have enough working capital for the moment. For future strategic M&A transactions and/or large scale business investments, we may choose to raise additional funds from the issuance of equity shares of IIJ's common stock or securities convertible into IIJ's common stock, in which case existing shareholders may incur substantial dilution.

Prior to the above public offering, IIJ issued 2,500,000 new shares of IIJ's common stock along with IIJ's listing on the Mothers market of the Tokyo Stock Exchange in December 2005. On May 11, 2007, IIJ issued 435,600 shares of common stock to make IIJ's two consolidated subsidiaries wholly-owned through share exchanges. The above figures are retroactively adjusted to reflect the 1:5 stock split in October 2005 and the 1:200 stock split in October 2012.