B. Capitalization and Indebtedness.

Not required.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

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 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 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 or does not improve, and it results in significantly lower levels of network-related investment, especially in network systems construction which may have significant influence on our corporate customers' investment, or if corporate customers respond to conditions by prioritizing low price over quality, it may become difficult to maintain our current level of revenues or achieve our expected revenues and profits.

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 because of lower unit prices per bandwidth and cancellation of large accounts, due, for example, to severe price competition,
- lower revenue growth and lower margins in our growing value-added services and systems integration, if we fail to successfully differentiate our services from those of our competitors, or experience a significant decrease in systems integration revenues from period to period due to the cancellation of one or more large projects or changes in the number of projects resulting from a seasonal fluctuation in the systems integration business in Japan,
- an increase in backbone costs due to increased volume of Internet traffic and demand for leasing backbone lines, or a decline in the profitability of connectivity services if we contract for more capacity than we actually require to serve our customers,
- an increase in expenses for network infrastructure, research and development and other similar investments which we may be forced to make in the future in order to remain competitive, or increased expenses relating to the leasing of additional equipment,
- an increase in personnel and outsourcing costs, especially in our systems integration, if personnel and outsourcing costs increase, or we fail to manage outsourcing projects effectively or fail to cover outsourcing costs by raising enough revenues from outsourced projects,
- an increase in SG&A costs, such as personnel expenses, advertising expenses and office rent expenses, in conjunction with our expected or planned or continued business expansion,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill that are recorded related to any mergers and acquisitions,
- a decline in the value and trading volume of our holding of available-for-sale securities from which we expect gains on sale or impairment losses on stocks of companies,
- an increase of equity in net loss of equity method investees affected by an increase in net losses of our equity method investees,
- the amount and timing of the recognition of deferred tax benefits or expenses resulting from a release or an increase of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and other factors, and
- a negative effect on our revenues and profits if newly established consolidated subsidiaries cannot achieve our expected levels of revenues or manage costs and expenses in a timely and adequate manner.

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 connectivity and value-added services are major telecommunications carriers like NTT Communications Corporation ("NTT Communications") and KDDI Corporation ("KDDI"). Price competition for Internet connectivity services is still severe. For value-added services, price competition may also increase. 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 like IBM Japan, 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 Nippon Telegraph and Telephone Corporation ("NTT") and NTT Communications, is our largest shareholder, we plan to continue to operate our company separately and independently from the NTT Group, and will therefore continue to compete with the NTT Group.

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

- 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 support operations with lower profitability, such as network services, for which we are a competitor.

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 investments in our subsidiaries and affiliated companies 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 25, 2008, we have ten consolidated subsidiaries and four equity method investees. The financial performance of our consolidated subsidiaries affects our financial condition and results of operations directly and the financial performance of our equity method investees affects our financial condition and results of operations to the extent of our pro rata portion of our equity-method investments. 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 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, guarantees or additional equity investments in such companies. We may lose all or part of our investment in 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 enjoy synergies with the investees and it may adversely affect our financial condition and results of operations.

In May 2007, we made our two subsidiaries, IIJ Technology Inc. ("IIJ-Tech") and Net Care, Inc. ("Net Care"), wholly-owned by purchasing shares from their minority shareholders, which cost us ¥5,025 million in cash and share exchanges with the issuance of 2,178 new shares. In June 2007, we acquired 100% of the equity of hi-ho for ¥1,230 million in cash from Panasonic Network Services Inc. ("PNS") to take over PNS's Internet service business for home users and its solution business for corporate customers.

It is possible that the new subsidiaries and affiliated companies could adversely affect our results of operations and financial condition, because they may record losses in their early stages of business. In April 2007, we invested ¥300 million in GDX Japan Inc. ("GDX") to acquire 51% of its equity and GDX became our consolidated subsidiary. GDX is a joint venture established with GDX Network, Inc. which is a company in the United States, to provide a message exchange network service in Japan. In July 2007, we invested ¥235 million in Taihei Computer Co., Ltd ("TCC") to acquire 45% of the equity of TCC, which manages customer loyalty reward program systems. TCC became our equity method investee. From July 2007 through October 2007, we invested ¥500 million in Trust Networks Inc. ("Trust Networks"), which plans to provide operations of networks for automated teller machines ("ATMs"). We owned 60.2% of the equity of Trust Networks as of June 25, 2008 and Trust Networks is our consolidated subsidiary. In April 2008, we invested ¥130 million in and established On-Demand Solutions Incorporated ("On-Demand Solutions") as our wholly-owned subsidiary to provide print-on-demand and related services. In June 2008, we invested ¥100 million in and established "IIJ Innovation Institute Inc." ("IIJ-II") as our wholly-owned subsidiary, which plans to start a business incubation center for technology development and commercialization of the Internet.

Our substantial investment in Crosswave Communications Inc. ("Crosswave"), our 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 our equity method net loss and an impairment loss taken in respect of our 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. In February 2006, we invested ¥750 million in Internet Revolution Inc. ("i-revo"), a joint venture that we established with Konami Corporation, and i-revo is our equity method investee. After the investment through the fiscal year ended March 31, 2008, we recorded total equity in net loss of i-revo of ¥669 million.

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

A large portion of our future revenue depends on systems integration projects which we, in cooperation with IIJ-Tech, IIJ Financial Systems Inc. ("IIJ-FS") and Net Care, have been contracted to perform. Compared to monthly recurring revenues from connectivity and value-added services and systems operation and maintenance, one-time revenues from systems construction tend to fluctuate from time to time. If corporate customers put off or quit placing orders because of the deterioration of the Japanese economy and a decrease in corporate investment, we may not be able to record systems construction revenues and operating profit as expected, or we may need to defer recording of such revenues or operating profit.

Along with the recent growth of our systems integration business, some of our systems integration projects have been larger in scale and need more time until they are completed. Generally, systems integration projects are more difficult to be effectively controlled as they become larger in scale. If we fail to control costs such as personnel and outsourcing costs or to retain adequate personnel for the projects, or if we need more personnel than expected to handle problems and we cannot collect this cost from our customers, our results of operations and financial condition related to systems integration may be adversely affected.

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 fail to manage customer data adequately. If we do not execute these services and projects as contracted or fail to manage customer data 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 adverse impact on our reputation, results of operations and financial condition.

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

As of March 31, 2008, the total balance of our intangible assets was approximately ¥5.9 billion, including non-amortized intangible assets of ¥4.3 billion related to IIJ-Tech, non-amortized intangible assets of ¥0.4 billion and amortized intangible assets of ¥0.2 billion related to hi-ho, non-amortized intangible assets of ¥0.3 billion related to Net Care and ¥0.3 billion related to IIJ-FS. If the business operations of our subsidiaries are adversely affected by factors such as a significant adverse change in their business climate and others, we may have an impairment loss as a result of an impairment test on non-amortized intangible assets such as goodwill. The realization of any impairment losses on non-amortized 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. As our business grows, we need to hire additional engineering, research and development, and other personnel. In particular, in order to continue to increase our revenues from value-added services and systems integration, we require more sales and engineering personnel to achieve our expectations. We are not sure that we will be able to retain or attract such personnel and control human resources costs adequately. Competition for qualified engineers, research and development personnel and employees in the telecommunications service industry in Japan is intense, and there is a limited number of persons with the necessary knowledge and experience. 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 network may be caused by a number of man made 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, human error, computer viruses and other 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. Any disruption, outages, or 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 confidence in our business, any or all of which could have a material adverse effect on our business, financial condition 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 care in protecting the confidentiality of such information and take steps to ensure the security of our network, in accordance with the 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 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. The realization of these or similar risks may have a material 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 and as the volume of information transferred increases, we will need to increase expenditures for our network and other facilities, including data center 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 adequately, the quality of our services 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:

- rapid technological change, including the shift to new technology-based networks such as IPv6,
- 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, particularly Mr. Koichi Suzuki, 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 our president, chief executive officer and representative director, as well as chairman, president and representative director of our major subsidiaries. We rely in particular 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 our employees. None of our executive officers, including Mr. Suzuki, is bound by an employment or noncompetition agreement.

The amounts and timing of recognition of deferred tax benefits or expenses related to tax operating loss carryforwards may adversely affect our financial results.

As of March 31, 2008, IIJ had tax operating loss carryforwards of ¥13.9 billion. The loss carryforwards are available to offset future taxable income and will expire as shown in Note 10 to our consolidated financial statements. We recorded ¥1.7 billion of deferred tax benefits resulting from a release of valuation allowances against deferred income tax assets related to tax operating loss carryforwards for the fiscal year ended March 31, 2008. A large portion of tax operating loss carryforwards will expire in the period ending March 31, 2011. Along with the realization of deferred income tax assets as a result of recording taxable income, we expect to record more deferred tax expenses than deferred tax benefits. The amounts and timing of recognition of the deferred tax benefits or expenses may adversely affect our financial condition and results of operations.

Fluctuations in the stock prices of companies or impairment losses on stocks of companies in which we have invested may significantly influence our financial condition.

We have invested in non-affiliated companies in order to further our business relationships with these companies and for trading purposes. We recorded gross realized gains from the sale of available-for-sale securities of ¥3.2 billion for the fiscal year ended March 31, 2007 and ¥0.2 billion for the fiscal year ended March 31, 2008, and the book value of our remaining available-for-sale securities was ¥1.3 billion on March 31, 2007 and ¥0.8 billion on March 31, 2008. We may acquire additional securities of non-affiliated companies. However, the book value can change 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 stock prices of companies in which we have invested may have a significant effect on our financial results. As a result, we may not be able to achieve our expected gains on the sale of available-for-sale securities. In addition, should we choose to sell all or a portion of these shares, it is not certain that we will be able to do so on favorable terms. Furthermore, we may have an impairment loss on stocks of companies in which we have invested. We recorded an impairment loss of ¥0.3 billion on available-for-sale and nonmarketable equity securities for the fiscal year ended March 31, 2008 and ¥1.4 billion for the fiscal year ended March 31, 2007.

NTT, our 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 29.4% of our outstanding shares as of March 31, 2008. As our largest shareholder, NTT may be able to exercise substantial influence over us. As of June 30, 2008, we had one outside director, Mr. Takashi Hiroi, from NTT among our 14 directors. While we intend to conduct our day-to-day operations independently of NTT and its group 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 interests, which may not be in our interest or that of 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 and Nippon Telegraph and Telephone East Corporation (“NTT East”) and Nippon Telegraph Telephone West Corporation (“NTT West”) and KDDI for local access lines for our customers. We procure significant portions of our network backbone and data center facilities pursuant to operating lease agreements with NTT Communications, our largest provider of network infrastructure. For the fiscal year ended March 31, 2008, 69.6% in costs for our domestic network backbone was for NTT Communications. For us to provide broadband mobile data communications as a Mobile Virtual Network Operator (“MVNO”), we depend on mobile network operators. 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.

In the Asia-Pacific region, we depend on telecommunications carriers in various countries including less-developed countries whose quality of service may not be stable or who are more susceptible to economic or political instability.

We also depend on third-party suppliers of hardware components like routers that are used in our network. We acquire certain components from limited sources, typically from Cisco Systems, Inc. (“Cisco”) and Juniper Networks, Inc. (“Juniper Networks”). 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. As a result of the amendment in April 2004 of the Telecommunication Business Law and deregulation including elimination of the regulatory distinction between carriers providing telecommunications services through networks owned by other telecommunication carriers and carriers which own or have long-term leases for the networks through which they offer telecommunication services, competition may increase. Recently, the MIC has been considering adapting laws and regulations to control actions that hurt public order over the Internet. Furthermore, 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 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 we need to raise capital, we may issue additional shares of our common stock or securities convertible into our common stock, which may cause shareholders to incur substantial dilution.

We may raise additional funds in the future to raise additional working capital and for other financial needs. We issued 12,500 new shares of our common stock along with our listing on the Mothers market of the Tokyo Stock Exchange in December 2005, after conducting a 1 to 5 split of our shares of common stock in October 2005. On May 11, 2007, we issued 2,178 shares of common stock to make our two consolidated subsidiaries wholly-owned through share exchanges. 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.