

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 cancellation of large accounts, or intermittent power supply. Such conditions may also make it difficult to maintain our current level of revenues and margins, 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 and home use and WAN services because of price reduction pressure and the cancellation of large accounts, due, for example, to a severe price competition, a continued demand by corporate users to cut down costs or a tough competition regarding customer acquisition in a matured consumer market,
- a decrease in revenues from our outsourcing services if we fail to successfully differentiate our services from those of our competitors, or fail to provide our customers with competitive total network solutions, or if the service prices fall dramatically, due, for example, to severe price competition,
- a decrease in revenues from systems operation and maintenance if the number and the size of systems construction projects which contain continuous systems operation and maintenance work decrease, if we fail to successfully differentiate our technical skills from those of our competitors, if the average revenue per project decreases, if large accounts are cancelled or scaled-down or if service prices fall dramatically, due, for example, to price down pressure,
- an inability to achieve anticipated revenue growth for our cloud computing services in which we have been continuously investing in facilities such as data centers, servers and other equipments if we fail to successfully differentiate our services from those of our 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, if market prices for the services we provide fall dramatically, for example, due to severe price competition beyond expected levels, or if Japanese companies strongly stick to the current systems and fail to adopt cloud computing services to the extent currently anticipated,
- a decrease in systems construction revenues and lower margins if we fail to successfully differentiate our technical skills from those of our competitors, if corporate customers put off or stop placing orders with us, if the number of systems construction projects decreases, if the average revenues from each projects decreases, or if there are problems during the systems construction phase and such systems construction becomes unprofitable or incurs a loss,

- an inability to achieve anticipated revenue growth for our overseas business in which we have been adding overseas subsidiaries and facilities if we fail to build good relationships with our domestic customers who are increasing global transactions, if our domestic customers refrain from operating businesses overseas, if we fail to differentiate our services and solutions from those of our competitors, or if we fail to adequately control overseas subsidiaries and comply with necessary regulations,
- an increase in backbone costs due to increased volume of Internet traffic and tightened demands for leasing backbone lines, an increase in cloud computing-related costs due to increased demands, both actual and expected, for cloud computing services, and a decline in the profitability of network services and systems integration if, for example, we invest and contract more network capacity including service facilities than we actually require to serve our customers,
- an increase in expenses and investments for network and cloud computing infrastructure, research and development, back-office systems and other similar investments which we may be forced to make in the future in order to remain competitive, or an increase in expenses relating to the leasing of additional equipment and an increase in amortization and depreciation or loss in disposal,
- failure to control personnel and outsourcing costs if personnel and outsourcing costs increase, or we fail to manage personnel and outsourcing resource effectively or if we fail to raise enough revenue to cover personnel and outsourcing costs,
- an increase in operating costs and expenses, for example, outsourcing related costs and expenses due to a shortage of human resources in the market, or in electrical power costs due to the rise in electricity prices, or an increase in costs and expenses,
- an increase in SG&A expenses, such as advertising expenses and office rent related expenses, in conjunction with our expected, planned or continued business expansion,
- 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 shortage of power supply,
- the recording of an impairment loss related to any mergers and acquisitions on the current and the future intangible assets that are, respectively, subject to amortization such as customer relationships and not subject to amortization such as goodwill as a result of an impairment test,
- the recording of impairment losses on available-for-sale securities, nonmarketable equity securities and funds, as well as the decline in the value and trading volume of our holding available-for-sale securities from which we expect gains on sale, and
- a negative effect on our revenues and profits if newly established or 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 network services are major telecommunications carriers such as NTT Communications Corporation (“NTT Communications”) and KDDI Corporation (“KDDI”). Price competition for Internet connectivity services has been severe. For outsourcing services, price competition may also become severe due to the emergence of cloud computing service. 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 and the competitors listed above may put additional business resources into the cloud computing and outsourcing business which may lead to strong competition including price competition in the near future. If we fail to successfully differentiate our services and solutions from these competitors, we may not be able to secure the market share we expect or achieve expected future revenue and profit levels, or we may not recoup our expected 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 large 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,
- larger 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, 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 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 in order to achieve mid- to long-term growth. 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, 2011, 2012 and 2013 were ¥6.8 billion, ¥10.9 billion and ¥10.4 billion, respectively and ¥5.5 billion, ¥6.5 billion and ¥7.0 billion, respectively. For the fiscal year ending March 31, 2014, we expect that our capital expenditures will be higher compared to the previous fiscal year.

We are investing heavily in our cloud computing services and infrastructure. It is anticipated that the cloud computing services market in Japan should grow over the medium term. The revenue for our cloud computing services, which we started in April 2010, for the fiscal years ended March 31, 2011, 2012 and 2013 were approximately ¥0.6 billion, ¥3.1 billion, and ¥6.2 billion, respectively. Currently, most of our cloud computing customers are Japanese enterprise companies and for the fiscal year ended March 31, 2013, about 33% of our cloud revenue came from social networking game clients. The capital expenditures, including capitalized leases related to our cloud computing services for the fiscal years ended March 31, 2011, 2012 and 2013, were approximately ¥1.6 billion, ¥4.3 billion, and ¥2.3 billion, respectively. As we expand our cloud computing services capabilities in order to meet the increased demand, we will need to acquire more servers, network equipment and data center facilities. We plan to double the size of the Matsue Data Center Park by the latter half of the fiscal year ending March 31, 2014. We believe we can leverage our strong client base and the engineering skills of our staff to further expand our cloud computing related services, however, if the expansion of the cloud computing market does not proceed as 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 would 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. If our investment returns would not be realized in the middle to long term, the cloud facilities may become obsolete, which may adversely affect our financial conditions and results of operations.

We plan to increase our investment in the ATM operation business in part through 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 are enhancing our overseas business developments to fulfill the broad range of IT network needs of our Japanese clients operating abroad since the fiscal year ended March 31, 2012. The revenue of overseas business was approximately ¥3.6 billion for the fiscal year ended March 31, 2013. Although our overseas revenue portion is still very small, if we fail to attract customers for our overseas services, due, for example, to failure to provide the necessary and competitive service line-ups demanded by our customers or if we fail to successfully differentiate our services and solutions from those of our competitors, we may not be able to achieve our expected levels of revenues and profits. Additionally, we may encounter difficulty 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 regulation such as the U.S. Foreign Corrupt Practices Act, may harm our reputation and adversely affect our financial results and business operation.

Other than the above, we will continue to invest in new businesses and service developments to enhance our current businesses and services. However, there are no assurances as to whether we can achieve the returns or benefits from those business and service developments and this may adversely affect our financial conditions 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 28, 2013, we have 15 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 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 the 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, leases or additional equity investments 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 enjoy synergies with the investees and it may adversely affect our financial condition and results of operations.

IIJ-Global which became our 100% owned consolidated subsidiary on September 1, 2010 after we acquired its stock from AT&T Japan LLC ("AT&T Japan") for ¥9.2 billion, mainly provides Wide Area Network ("WAN") services to approximately 1,600 domestic corporate customers. WAN revenue decreased due to cancellations and requests for price reduction from existing clients while we continued to accumulate new orders. For the fiscal year ended March 31, 2012 and 2013, IIJ-Global had ¥26.1 billion and ¥25.4 billion in revenues respectively and ¥2.2 billion and ¥1.8 billion in operating income, respectively. If IIJ-Global cannot achieve our expected levels of revenues or manage costs and expenses in a timely and adequate manner, or if IIJ-Global incurs unexpected expenses, it may adversely affect our financial condition and results of operations. Intangible assets as of March 31, 2013 related to IIJ-Global was ¥5.0 billion and if IIJ-Global cannot achieve its future expected revenue and profit, we may have an 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 automated teller machines ("ATMs") and its related network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. As of May 15, 2013, 625 ATMs were placed in locations such as Japanese pinball shops. As of March 31, 2013, IIJ has invested a total of ¥2.6 billion in Trust Networks (79.5% share ownership), accounts receivable of ¥0.6 billion and subleases of ¥0.5 billion. The ATM operation business had ¥2.3 billion of revenues and ¥0.2 billion of operating income for the fiscal year ended March 31, 2013 and turned positive in operating income. If Trust Networks is not able to introduce ATMs in accordance with its plan, or does not record ATMs' withdrawing 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 conditions and results of operations. If the number of placed ATMs increases, our capital expenditures including capitalized leases may increase due to the leasing or purchasing of ATMs.

As of June 28, 2013, we have eight overseas subsidiaries including IIJ Europe Limited and IIJ America Inc. (“IIJ-A”). To enhance our overseas business, we injected additional capital into IIJ Europe Limited and IIJ-A in amounts of £1.4 million and \$6 million respectively for the fiscal year ended March 31, 2013. We are also lending £1.5 million and ¥0.6 billion to IIJ Europe Limited and IIJ-A, respectively, as of March 31, 2013. IIJ Europe Limited was formerly known as the U.K. subsidiary of IIJ Exlayer Europe.

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, 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 lack of 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 in turn have an adverse impact on our reputation, results of operations and financial condition.

Generally, systems construction projects are more difficult to be effectively controlled as they become larger in scale and if we fail to control costs such as personnel and outsourcing costs or to retain adequate personnel for the projects, or if we fail to calculate the necessary timeframe or the manpower to complete a project and the costs exceed the payment received from our customers, our results of operations and financial condition related to systems integration may be adversely affected.

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, 2013, the total balance of our intangible assets was approximately ¥10.8 billion, of which ¥6.1 billion was intangible assets not subject to amortization such as goodwill and ¥4.7 billion was intangible assets subject to amortization such as customer relationships. Intangible assets of IIJ-Global and IIJ Technology Inc., a former subsidiary of IIJ, were ¥5.0 billion and ¥4.6 billion, respectively, for the fiscal year ended March 31, 2013. 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 the 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 continued service from our engineering, research and development, and other personnel and as our business grows, we need to hire more of them. In particular, in order to continue to increase our revenues from outsourcing services and systems integration, we require more sales and engineering personnel. Also, we require consulting capability to enhance our solution provisioning. We are not sure that we will be able to retain or attract such personnel and control human resources costs adequately. Competition for qualified engineering, research and development personnel is intense in the IT service industry in Japan, and there are 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, human error, computer viruses and other similar events. Much of our computer and 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 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, 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 change, including the shift to new technology-based networks such as IPv6 and cloud computing,
- 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 Chairman, Chief Executive Officer and representative director of IIJ as well as IIJ's major subsidiaries. We rely in particular on his expertise in the operation of our businesses and on his relationships with the shareholders of IIJ, our business partners and our employees. In June 2013, we invited President, Chief Operating Officer and representative director, Mr. Eihiro Katsu, to enhance our business development. None of our executive officers, including Mr. Suzuki, is 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, client base, application layer technology and others, in the middle-term. We may continuously pursue mergers and acquisition transactions to scale up our business. The merger 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 merger 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 have adequate mergers and acquisition 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 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. We recorded net impairment losses of ¥20 million on available-for-sale equity securities in the fiscal year ended March 31, 2013. The carrying amount of nonmarketable equity securities was ¥2.1 billion, available-for-sale securities was ¥1.3 billion and funds was ¥0.3 billion as of March 31, 2013. We may acquire 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 29.9% of IIJ's outstanding voting shares as of March 31, 2013. As IIJ's largest shareholder, NTT may be able to exercise substantial influence over us. As of June 28, 2013, IIJ has one outside director, Mr. Takashi Hiroi, from NTT among IIJ's 13 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 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 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 Group, our largest provider of network infrastructure. For the fiscal year ended March 31, 2013, we have paid ¥10.4 billion for international and domestic backbone and local access line costs to NTT Group. 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.

We also depend on third-party suppliers of hardware components like routers that are used in our network. We purchase 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. 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 IIJ's common stock or securities convertible into IIJ's common stock, which may cause shareholders to incur substantial dilution.

IIJ may raise additional funds in the future to raise additional working capital, capital for investment, repayment of bank borrowings, and for other financial needs. If IIJ choose to raise such funds from the issuance of equity shares of IIJ's common stock or securities convertible into IIJ's common stock, existing shareholders may incur substantial dilution.