

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2010
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
OR
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____
Commission file number: 0-30204

Kabushiki Kaisha Internet Initiative
(Exact Name of Registrant as Specified in Its Charter)

Internet Initiative Japan Inc.
(Translation of Registrant's Name Into English)

Japan
(Jurisdiction of Incorporation or Organization)

Jinbocho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
(Address of Principal Executive Offices)

Yuko Kazama, +81-3-5259-6500, +81-3-5205-6395,
Jinbocho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
(Name, Telephone, Facsimile number and Address of Company Contact Person)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock

Name of Each Exchange On Which Registered
The NASDAQ Stock Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2010, 206,478 shares of common stock were outstanding, including 13,289 shares represented by an aggregate of 5,315,600 American Depositary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note—Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Cautionary Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements about us and our industry that are based on our current expectations, assumptions, estimates and projections. These forward-looking statements are subject to various risks and uncertainties. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of our operations and our financial condition, and state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those contained in or suggested by any forward-looking statement. We cannot provide any assurance that our expectations, projections, anticipated estimates or other information expressed in these forward-looking statements will turn out to be correct. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Important risks and factors that could cause our actual results to differ materially from our forward-looking statements are generally provided in Item 3.D. "Risk Factors" and elsewhere in this annual report on Form 20-F and include, without limitation:

- that we may not be able to achieve or sustain profitability in the near future,
- that we may not be able to compete effectively against competitors which have greater financial, marketing and other resources, and
- that our investments in our subsidiaries and affiliated companies may not produce the returns that we expect or may adversely affect our results of operations and financial condition.

As used in this annual report, references to "IIJ" to Internet Initiative Japan Inc. and references to "the Company", "the Group", "we", "our", "our group" and "us" are to Internet Initiative Japan Inc. and its subsidiaries except as the context otherwise requires.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data.

You should read the selected consolidated financial data below together with Item 5. "Operating and Financial Review and Prospects", of this annual report on Form 20-F and our consolidated financial statements and the notes to our consolidated financial statements beginning on page F-1. The consolidated statement of income data and per share and American Depositary Shares ("ADS") data below for the fiscal years ended March 31, 2006, 2007, 2008, 2009 and 2010, the consolidated balance sheet data below as of March 31, 2006, 2007, 2008, 2009 and 2010 and consolidated statements of cash flows for the fiscal years ended March 31, 2006, 2007, 2008, 2009 and 2010 under operating data below are derived from our audited financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and audited by Deloitte Touche Tohmatsu LLC, an independent registered public accounting firm.

As of and for the fiscal year ended March 31,

	2006	2007	2008	2009	2010	2010
	(millions of yen, except per share and ADS data)					(thousands of U.S. dollars, except per share and ADS data ⁽¹⁾)
Statement of Income Data:						
REVENUES:						
Connectivity and outsourcing services:						
Connectivity services (corporate use)	¥ 11,179	¥ 11,239	¥ 12,149	¥ 13,142	¥ 13,847	\$ 148,256
Connectivity services (home use)	2,120	1,969	5,430	6,538	6,854	73,386
Outsourcing services	9,924	11,145	13,724	15,396	16,271	174,210
Total	23,223	24,353	31,303	35,076	36,972	395,852
Systems integration:						
Systems construction	12,296	16,660	18,021	14,658	11,354	121,559
Systems operation and maintenance	11,209	13,867	15,993	18,989	18,717	200,396
Total	23,505	30,527	34,014	33,647	30,071	321,955
Equipment sales	3,085	2,175	1,514	985	756	8,100
ATM operation business	-	-	4	23	207	2,213
Total revenues	49,813	57,055	66,835	69,731	68,006	728,120
COST AND EXPENSES:						
Cost of connectivity and outsourcing services	20,078	20,545	26,040	29,318	30,533	326,914
Cost of systems integration	18,120	23,529	25,526	25,543	21,904	234,515
Cost of equipment sales	2,818	1,894	1,300	863	649	6,952
Cost of ATM operation business	-	-	17	422	964	10,320
Total cost	41,016	45,968	52,883	56,146	54,050	578,701
Sales and marketing	3,080	3,439	4,329	4,631	5,405	57,870
General and administrative	3,147	3,971	4,624	5,622	4,826	51,670
Research and development	159	177	240	415	313	3,352
Total cost and expenses	47,402	53,555	62,076	66,814	64,594	691,593
OPERATING INCOME	2,411	3,500	4,759	2,917	3,412	36,527
OTHER INCOME (EXPENSES):						
Interest income	13	23	63	45	29	307
Interest expense	(437)	(397)	(438)	(408)	(306)	(3,279)
Other — net	3,392	1,923	(22)	(520)	(276)	(2,944)
Other income (expenses) — net	2,968	1,549	(397)	(883)	(553)	(5,916)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES						
INCOME TAX EXPENSE (BENEFIT)	5,379	5,049	4,362	2,034	2,859	30,611
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	257	(804)	(861)	1,002	1,132	12,121
NET INCOME ⁽²⁾	(14)	(210)	(143)	35	159	1,707
LESS: NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS ⁽²⁾	5,108	5,643	5,080	1,067	1,886	20,197
NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC ⁽²⁾	¥ 4,754	¥ 5,410	¥ 5,177	¥ 1,419	¥ 2,234	\$ 23,920

As of and for the fiscal year ended March 31,

	2006	2007	2008	2009	2010	2010	
	(millions of yen, except per share and ADS data)						(thousands of U.S. dollars, except per share and ADS data ⁽¹⁾)
Per Share and ADS Data ⁽³⁾:							
Basic net income attributable to IIJ per share	¥ 24,301	¥ 26,519	¥ 25,100	¥ 6,918	¥ 11,030	\$ 118	
Diluted net income attributable to IIJ per share	24,258	26,487	25,072	6,917	11,030	118	
Basic net income attributable to IIJ per ADS equivalent	60.75	66.30	62.75	17.29	27.58	0.30	
Diluted net income attributable to IIJ per ADS equivalent	60.75	66.22	62.68	17.29	27.58	0.30	
Cash dividends declared per share:							
Japanese Yen	-	¥ 1,500	¥ 1,750	¥ 2,000	¥ 2,250		
U.S. Dollars	-	\$ 12.76	\$ 17.53	\$ 20.17	\$ 24.09		
Basic weighted average number of shares	195,613	203,992	206,240	205,165	202,544		
Diluted weighted average number of shares	195,955	204,244	206,465	205,195	202,544		
Basic weighted average number of ADS equivalents (thousands)	78,245	81,597	82,496	82,066	81,018		
Diluted weighted average number of ADS equivalents (thousands)	78,382	81,698	82,586	82,078	81,018		
Balance Sheet Data:							
Cash and cash equivalents	¥ 13,727	¥ 13,555	¥ 11,471	¥ 10,188	¥ 8,764	\$ 93,838	
Total assets	50,705	47,693	55,703	52,301	51,115	547,275	
Short-term borrowings	4,555	6,050	9,150	7,350	4,450	47,644	
Current portion of long-term borrowings, including capital lease obligations	4,994	3,243	3,456	3,272	2,730	29,226	
Long-term borrowings, including capital lease obligations	5,271	4,318	4,738	4,866	3,658	39,161	
Common stock	16,834	16,834	16,834	16,834	16,834	180,234	
Total IIJ shareholders' equity	20,222	20,112	24,981	25,169	27,320	292,501	
Operating Data:							
Capital expenditures, including capitalized leases ⁽⁴⁾	¥ 4,762	¥ 3,953	¥ 6,078	¥ 7,006	¥ 5,584	\$ 59,783	
Operating margin ratio ⁽⁵⁾	4.8 %	6.1 %	7.1 %	4.2 %	5.0 %		
Net cash provided by (used in):							
Operating activities	¥ 6,559	¥ 7,402	¥ 4,538	¥ 8,631	¥ 9,621	\$ 103,010	
Investing activities	1,805	(3,014)	(5,444)	(3,328)	(3,788)	(40,554)	
Financing activities	39	(4,560)	(1,152)	(6,573)	(7,238)	(77,494)	

(1) The U.S. dollar amounts represent translation of yen amounts at the rate of ¥93.40 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2010.

(2) The Company adopted the new guidance on noncontrolling interests under ASC 810 on April 1, 2009. ASC810 requires noncontrolling interest held by parties other than the parent be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. ASC810 also requires changes in parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for as equity transactions. Upon the adoption of ASC810, "Net income" in the consolidated statements of income now includes net income attributable to noncontrolling interests, which was previously referred to as "Minority interests" and deducted.

(3) IIJ conducted a 1 to 5 stock split effective on October 11, 2005. The per share data is calculated based on the assumption that the stock split was made at the beginning of the fiscal year ended March 31, 2006.

(4) Further information regarding capital expenditures, including capitalized leases and a reconciliation to the most directly comparable U.S. GAAP financial measure can be found in the following page.

(5) Operating income as a percentage of total revenues.

Reconciliations of the Disclosed Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures

Capital expenditures

We define capital expenditures as purchases of property and equipment plus acquisition of assets by entering into capital leases. We have included the information concerning capital expenditures because our management monitors our capital expenditure budgets and believes that it is useful to investors to know the trends of our capital expenditures and analyze and compare companies on the basis of such investments. Capital expenditures, as we have defined it, may not be comparable to similarly titled measures used by other companies.

The following table summarizes the reconciliation of capital expenditures to purchases of property and equipment and acquisition of assets by entering into capital leases as reported in our consolidated statements of cash flows prepared and presented in accordance with U.S. GAAP.

	For the fiscal year ended March 31,				
	2006	2007	2008	2009	2010
	(millions of yen)				
Capital expenditures:					
Acquisition of assets by entering into capital leases	¥ 3,843	¥ 2,665	¥ 4,222	¥ 4,015	¥ 2,330
Purchases of property and equipment	919	1,288	1,856	2,991	3,254
Total capital expenditures	¥ 4,762	¥ 3,953	¥ 6,078	¥ 7,006	¥ 5,584

Exchange Rates

Fluctuations in exchange rates between the Japanese yen and the U.S. dollar and other currencies will affect the U.S. dollar and other currency equivalent of the yen price of IJ shares and the U.S. dollar amounts received on conversion of any cash dividends, which in turn will affect the U.S. dollar price of IJ ADSs. We have translated some Japanese yen amounts presented in this annual report into U.S. dollars solely for your convenience. Unless otherwise noted, the rate used for the translations was ¥93.40 per U.S. \$1.00, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2010, the date of our most recent consolidated balance sheet contained in this annual report. Translations do not imply that the yen amounts actually represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

The following table presents the noon buying rates for Japanese yen per U.S. \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal year ended March 31, ⁽¹⁾	High	Low	Average ⁽²⁾	Period-end
2006	¥ 120.93	¥ 104.41	¥ 113.67	¥ 117.48
2007	121.81	110.07	116.55	117.56
2008	124.09	96.88	113.61	99.85
2009	110.48	87.80	100.85	99.15
2010	100.71	86.38	92.51	93.40
Calendar year 2010				
January	¥ 93.31	¥ 89.41	¥ 91.10	¥ 90.38
February	91.94	88.84	90.14	88.84
March	93.40	88.43	90.72	93.40
April	94.51	92.03	93.45	94.24
May	94.68	89.89	91.97	90.81
June	92.33	88.39	90.81	88.49
July	88.59	86.40	87.50	86.43
August	86.42	84.10	85.37	84.10
September (through September 24, 2010)	85.77	83.75	84.35	84.24

(1) For December 2008 and prior periods, the exchange rate refers to the noon buying rate as reported by the Federal Reserve Bank of New York. For January 2009 and later periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board.

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

The noon buying rate on September 24, 2010 was ¥84.24 per \$1.00.

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 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 or does not improve, and it results in significantly lower levels of network-related investment and expenditures, and corporate customers respond to conditions by prioritizing low prices over quality, or we experience cancellation of large accounts, it may become difficult to maintain our current level of revenues and margins or achieve our expected revenues and profits, particularly in systems integration, 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 connectivity services because of lower unit prices per bandwidth and cancellation of large accounts, due, for example, to severe price competition or a decrease in volume charge revenue due to the decrease in volume of Internet traffic,
- a decrease in revenues from our outsourcing services if we fail to successfully differentiate our services from those of our competitors, if the service prices falls dramatically, due, for example, to severe price competition, or if we fail to provide our customers with competitive total network solutions,
- a decrease in revenues from systems operation and maintenance if we fail to successfully differentiate our technical skills from those of our competitors, if the average revenue per project decreases or if there are cancellation or scale-down of large accounts, due, for example, to severe cost down requirement,
- a decrease in systems construction revenues and lower margins if we fail to successfully differentiate our services 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 for each projects decreases, or if there are trouble or problems during the systems construction phase and that systems construction becomes unprofitable or incurs a loss,
- an increase in backbone costs due to increased volume of Internet traffic and tightened demands 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 and investments for network 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, especially in our systems integration, if personnel and outsourcing costs increase, or we fail to manage personnel and outsourcing resource 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 related 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-amortizing intangible assets such as goodwill that are recorded related to any mergers and acquisitions,
- the recording of an impairment loss on amortized intangible assets such as customer relationships that are recorded in connection with 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,
- impairment losses on available-for-sale securities, nonmarketable equity securities and funds,
- 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 temporary differences, 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 outsourcing services are major telecommunications carriers such as NTT Communications Corporation (“NTT Communications”) and KDDI Corporation (“KDDI”). Price competition for Internet connectivity services is still severe. For outsourcing services, price competition may also increase 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 Nippon Telegraph and Telephone Corporation (“NTT”) and NTT Communications, is IJ’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.

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 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 September 17, 2010, we have eight 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 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.

On September 1, 2010, IJ made IJ Global Solutions Inc. ("IJ-Global") (Changed its trade name from *Communications Services KK* to IJ-Global on September 1, 2010) its 100% owned consolidated subsidiary by acquiring its stock from AT&T Japan LLC ("AT&T Japan"). IJ-Global mainly succeeded the domestic network outsourcing service business such as the Wide Area Network ("WAN") services which are mainly provided to approximately 1,600 domestic corporate customers. The acquisition price of IJ-Global was ¥9.2 billion, and to meet the funding for this acquisition, we borrowed an additional ¥9.0 billion in short-term borrowings from Japanese banks, which will end in August 2011. IJ may need to raise funds, all or part, in the future, and to refinance, IJ may choose to raise such funds from the issuance of equity shares of IJ's common stock or securities convertible into IJ's common stock. Because IJ-Global is a newly established company, and because the business that it has succeeded is done by company split, there can be no assurance that the business operations will go as planned and IJ-Global may not be able to achieve expected revenues and income. If IJ-Global cannot achieve our expected levels of revenues or manage costs and expenses in a timely and adequate manner, or if IJ-Global incurs unexpected expenses, it may adversely affect our financial condition and results of operations. Intangible assets estimated of around ¥6 billion will be recorded from this acquisition and if IJ-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, IJ-Global entered into a Solutions Engagement Agreement with IBM Japan Ltd. ("IBM Japan"), IJ-Global's largest sales partner. This agreement, which contains indemnification, establishes the basis for a procurement relationship between IJ-Global and IBM Japan, for IJ-Global to perform services, functions, responsibilities and others in a way that were being performed by AT&T Japan. In relation, IJ also executed a guarantee letter with IBM Japan to guarantee such indemnification. In case we need to pay for any damages, it may adversely affect our financial condition and results of operations and in addition, IJ-Global and the Company may damage their relationships between IBM Japan, which may indirectly adversely affect our financial condition and results of operations.

Trust Networks Inc. ("Trust Networks"), IJ's consolidated subsidiary which was established in July 2007, operates automated teller machines ("ATMs") and its network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. During the fiscal year ended March 31, 2009, Trust Networks completed its field test and as of August 2010, 140 ATMs are placed in places such as Japanese pinball shops. As of today, IJ has invested a total of ¥1.8 billion in Trust Networks (74.2% share ownership). The ATM operation business, which is conducted by Trust Networks, is still in the course of its business start up and for the fiscal year ended March 31, 2010, it had ¥0.2 billion of revenues and ¥1.0 billion of operating loss. If Trust Networks is not able to introduce ATMs in accordance with its plan, or does not record ATMs' withdrawing transactions as anticipated or incur unexpected additional costs, its business start up may take longer than planned and its losses would widen and it may not be able to achieve its future expected revenue and profit or it may become difficult to continue its business or it may become short on funds, which may adversely affect our financial conditions and results of operations. If Trust Networks becomes short on funds, there is no assurance that Trust Networks can secure funds necessary to continue its business operations. We may lose all or part of our investment related to Trust Networks if the value decreases as a result of its financial performance or if it goes bankrupt. If Trust Networks fails to secure lease arrangements for its ATMs, it would require additional cash to operate its business or IJ may need to guarantee the lease for Trust Networks. If the placement of ATMs increases, our capital expenditures including capitalized leases may increase due to the leasing or purchasing of ATMs.

IJ's substantial investment in Crosswave Communications Inc. ("Crosswave"), IJ'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 IJ's equity method net loss and an impairment loss taken in respect of IJ'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. In February 2006, IJ invested ¥0.8 billion in Internet Revolution Inc. ("i-revo"), a joint venture that IJ established with Konami Corporation, and i-revo is IJ's equity method investee. As of fiscal year ended March 31, 2010, we recorded accumulated net loss of ¥0.7 billion in i-revo.

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 from connectivity and outsourcing services and systems operation and maintenance due to the budget systems in Japan, of which many ends in March. If corporate investments decrease or if we fail to meet customer demands due to lack of sufficient number of qualified engineers or lack of sufficient task-management capabilities 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, 2010, the total balance of our intangible assets was approximately ¥5.5 billion, of which ¥2.8 billion was intangible assets not subject to amortization such as ¥1.7 billion related to IJ-Technology Inc. ("IJ-Tech"). Intangible assets subject to amortization as of March 31, 2010 related to IJ-Tech and hi-ho were ¥2.4 billion and ¥0.1 billion, respectively. We also expect to record an estimated amount of around ¥6 billion intangible assets related to IJ-Global. The amount of our intangible assets may increase if we conduct mergers, acquisitions or investments in affiliates in the future. We conduct an impairment test by each of our reporting unit and if the business operations for each of our reporting unit 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 such as goodwill. The realization 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 from 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 outsourcing 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 engineering, research and development personnel is intense in the telecommunications 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 network 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 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 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.

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, as the volume of information transferred increases, and as the needs for the new cloud computing 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:

- 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 IJ and other IJ 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 IJ's president, chief executive officer and representative director, as well as the president and chief executive officer and representative director of IJ's 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 IJ 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, 2010, we had tax operating loss carryforwards related to consolidated corporate tax of ¥5.2 billion. The loss carryforwards are available to offset future taxable income and a large portion of consolidated tax operating loss carryforwards will expire in the period ending March 31, 2011 (see Note 10 to our consolidated financial statements). We recorded ¥0.8 billion of deferred tax expenses for the fiscal year ended March 31, 2010. As of March 31, 2010, we had deferred tax asset (current) of ¥1.6 billion and deferred tax asset (noncurrent) of ¥0.7 billion, respectively, which will result in deferred tax expense in the future. If there are changes in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years, a release or an increase of valuation allowance against deferred tax assets related to tax operating loss carryforwards and other temporary differences would result in the decrease or increase in deferred tax expense which may 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 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 ¥0.3 billion on nonmarketable and available-for-sale equity securities in the fiscal year ended March 31, 2010. The carrying amount of available-for-sale securities was ¥0.9 billion, nonmarketable equity securities was ¥1.4 billion and funds was ¥0.3 billion as of March 31, 2010, respectively. We may acquire additional securities of non-affiliated companies. However, the carrying amount 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 value of securities in which we have invested may affect our financial results. 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.

NTT, IJ'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 30.0% of IJ's outstanding voting shares as of March 31, 2010. As IJ's largest shareholder, NTT may be able to exercise substantial influence over us. As of September 17, 2010, IJ had one outside director, Mr. Takashi Hiroi, from NTT among IJ's 12 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, 2010, 68.6% 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.

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 IJJ's common stock or securities convertible into IJJ's common stock, which may cause shareholders to incur substantial dilution.

IJJ may raise additional funds in the future to raise additional working capital, repayment of bank borrowings, and for other financial needs. IJJ issued 12,500 new shares of IJJ's common stock along with IJJ's 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, IJJ issued 2,178 shares of common stock to make IJJ's two consolidated subsidiaries wholly-owned through share exchanges. If IJJ choose to raise such funds from the issuance of equity shares of IJJ's common stock or securities convertible into IJJ's common stock, existing shareholders may incur substantial dilution.

Item 4. Information on the Company.

A. History and Development of the Company.

IIJ is incorporated in Japan as a joint stock corporation under the name Internet Initiative Japan Inc. IIJ was incorporated in December 1992 and operates under the laws of Japan.

IIJ began its operations in July 1993, making IIJ one of the first commercial providers in Japan to offer Internet connectivity services. In February 1994, IIJ acquired a Type II Telecommunications license, which enables IIJ to operate IIJ's own international backbone networks. The main services that IIJ and the Group offer are Internet connectivity services, outsourcing services, systems integration and equipment sales. The Group offers its services and solutions directly to its customers and also works closely together as a Group in providing total network solutions to its customers. IIJ introduced its new cloud computing service, "IIJ GIO", in November 2009. In addition, the Group entered the ATM operation business through our consolidated subsidiary, Trust Networks, which we established in July 2007.

For descriptions and the history of the Group, see "Our Group Companies" in Item 4.B.

IIJ became a public company in August 1999 with IIJ's initial public offering of ADSs on the Nasdaq National Market. On December 2, 2005, IIJ listed on the Mothers market of the Tokyo Stock Exchange ("TSE"). In connection with the listing, IIJ issued 12,500 new shares of common stock for an amount of ¥6.0 billion. As IIJ conducted a 1 to 5 split of IIJ's shares of common stock on October 11, 2005, the total number of IIJ's issued shares of common stock increased to 204,300. On December 14, 2006, IIJ moved to the First Section of the TSE for IIJ's listing in Japan, without the issuance of new shares. On May 11, 2007, IIJ made IIJ-Tech and Net Care our 100% owned consolidated subsidiaries through share exchanges. In regard to this, IIJ issued 2,178 new shares of common stock and as a result, the total number of IIJ's issued shares of common stock increased to 206,478. On April 1, 2010, IIJ merged its 100% owned consolidated subsidiaries, IIJ-Tech and IIJ-FS.

On September 1, 2010, IIJ made IIJ-Global its 100% owned consolidated subsidiary by acquiring the stock of IIJ-Global from AT&T Japan. IIJ-Global succeeded mainly the domestic network outsourcing service business such as the WAN services, which are mainly provided to approximately 1,600 domestic corporate customers. The acquisition price of IIJ-Global was ¥9.2 billion and was purchased using mainly short-term bank borrowings. We expect this acquisition to strengthen the ability of IIJ and its group companies to provide WAN services and enhance cross selling of our services to IIJ-Global.

IIJ's head office is located at Jinbo-cho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan, and IIJ's telephone number at that location is (813) 5259-6500. IIJ's agent in the United States is IIJ America Inc. ("IIJ-A"), located at 55 East 59th Street, Suite 18C New York, NY 10022 and the telephone number at that location is (212) 440-8080. IIJ has a web site that you may access at <http://www.iij.ad.jp/en/>. Information contained on IIJ's web site does not constitute part of this annual report on Form 20-F.

For a discussion of capital expenditures and divestitures currently in progress and those for the past three years, see "Capital Expenditures" in Item 4.B.

B. Business Overview.

The Group offers a comprehensive range of Internet connectivity services, outsourcing services, systems integration and equipment sales to our customers mainly in Japan. We believe our services provide efficient and reliable solutions to our customers on one of the most advanced and reliable Internet networks available in Japan. Our services are based upon high-quality networking technology tailored to meet specific needs and demands of our customers.

We offer, together with other companies or independently, a variety of services to our customers, mainly corporate and governmental organizations, as total network solutions through a single source. Our primary services are our connectivity services, outsourcing services, systems integration and equipment sales. Our connectivity services includes full-spec IP service with bandwidth ranging from 64 kbps up to over 1 Gbps, low-cost broadband services such as optical and/or ADSL lines which are mainly used to connect branch offices, and mobile access services. Our outsourcing services include security-related outsourcing services that protect our customer network systems from unauthorized access and secure remote connections to internal networks, network-related outsourcing services such as router rental and Virtual Private Network ("VPN"), server-related outsourcing services such as web server hosting and e-mail security service, data center-related outsourcing services and cloud computing service, "IIJ GIO". Our systems integration includes systems construction and systems operation and maintenance. Systems construction are tailored to meet each of our customers' requirements, which include consulting, project planning, systems design and development of network systems, and sales of equipment and software purchased from third parties. Systems operation and maintenance revenues include system related maintenance, monitoring and other operating services. We aim to be the leading supplier of total network solutions in Japan.

In addition, we entered the ATM operation business through our consolidated subsidiary, Trust Networks, which was established in July 2007. Trust Networks operates ATMs and its network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. As of August 2010, Trust Networks has placed 140 ATMs.

Starting from the fiscal year ended March 31, 2009 onwards, we have disclosed revenues and costs for the ATM operation business because the amount of losses related to their business has become materially large.

Currently, we have two business segments: Network services and systems integration business and ATM operation business. Network services and systems integration business is comprised of: connectivity and outsourcing services, systems integration and equipment sales.

The table below provides a breakdown of the total revenues and percentage by services among our services over the past three fiscal years. Most of our revenues are generated in Japan and are denominated in Japanese yen.

	For the fiscal year ended March 31, (millions of yen except for percentage data)					
	2008		2009		2010	
Connectivity services	¥ 17,579	26.3%	¥ 19,680	28.2%	¥ 20,701	30.5%
Outsourcing services	13,724	20.5%	15,396	22.1%	16,271	23.9%
Systems construction	18,021	27.0%	14,658	21.0%	11,354	16.7%
Systems operation and maintenance	15,993	23.9%	18,989	27.3%	18,717	27.5%
Equipment sales	1,514	2.3%	985	1.4%	756	1.1%
ATM operation business	4	0.0%	23	0.0%	207	0.3%
Total revenues:	¥ 66,835	100.0%	¥ 69,731	100.0%	¥ 68,006	100.0%

Connectivity Services

We offer two categories of Internet connectivity services: connectivity services for corporate use and connectivity services for home use. Connectivity services for corporate use are based mainly on dedicated local-line connections provided by telecommunications carriers between our backbone and customers. Connectivity services for home use mainly require customers to connect to our points of presence ("POPs") through the publicly-switched telephone network or variety of broadband access services, such as ADSL and optical lines. The last-one mile access such as dedicated access, ADSL, fiber optic, Ethernet, mobile and others are provided by large telecommunications carriers such as NTT East and West, NTT DoCoMo, Inc. ("NTT Docomo") and others.

Starting from fiscal year ended March 31, 2008, we have launched a broadband mobile data communication service as MVNO. Such new service provides inexpensive high-speed, high-capacity last-one mile access, and we will continue to introduce new variations to our Internet connectivity service to accommodate such developments.

The following table shows the number of our connectivity service contracts as of the dates indicated:

	As of March 31,				
	2006	2007	2008	2009	2010
Connectivity services (corporate use):					
IP Service (<99 Mbps)	739	751	855	938	926
IP Service (100 Mbps – 999 Mbps)	117	161	201	225	254
IP Service (1 Gbps –)	40	63	70	94	125
IIJ Data Center Connectivity Service	247	282	288	298	315
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	13,297	16,418	23,539	26,023	28,663
IIJ Mobile Service ⁽¹⁾	-	-	1,018	19,698	32,315
Others	1,760	1,618	1,984	1,526	1,400
Total connectivity service (corporate use) contracts	16,200	19,293	27,955	48,802	63,998
Connectivity services (home use):					
Under IIJ Brand	60,525	55,907	51,051	46,901	46,900
hi-ho	-	-	189,700	179,786	168,223
OEM ⁽²⁾	568,307	476,483	232,515	216,725	185,544
Total connectivity service (home use) contracts	628,832	532,390	473,266	443,412	400,667

- (1) IIJ Mobile Service is the number of total contracts of mobile data communication services for corporate use.
(2) OEM services provided to other service providers.

Connectivity Services for Corporate Use

Our lineup of connectivity services for corporate use includes: IP Service, IJ Data Center Connectivity Service, IJ FiberAccess/F and IJ DSL/F (Broadband Services), dial-up services and IJ Mobile service.

- **IP Service and IJ Data Center Connectivity Service.** Our IP Service and Data Center Connectivity Service is a full-scale, high-speed access service that connects the customer's network to our backbone with dedicated access lines. The services are used mainly for corporate headquarters or data centers, where reliable network service is indispensable. The customer chooses the level of service it needs based upon its bandwidth requirements. As of September 17, 2010, we offer service at speeds ranging from 64 kbps to 10 Gbps.

We believe that as business customers continue to increase their use of the Internet as their business tool and increasingly rely on the Internet, our Internet connectivity service will continue to be the foundation of our total network solutions offerings.

Subscribers pay a monthly fee for the leased local access line from the customer's location to one of our POPs. The amount of this fee varies depending on the carrier, the distance between the customer's site and our POPs and its contracted bandwidth. We collect the local access fee from the customer and pay the amount to the carrier. While we prepare and arrange the leased access lines on behalf of customers under our name, the usage fee collected from the customer and paid to the carriers is recorded gross in our consolidated financial statements.

For our IP Service, we offer Service Level Agreements ("SLA") to our customers to better define the quality of services our customers receive. We were the first ISP in Japan to introduce this type of agreement. We are able to offer these SLA due to our high quality and reliable network. Our SLA provides customers with credit against the amount invoiced for the services if our service quality fails to meet the prescribed standards. Subscribers to our IP Service receive technical support 24 hours a day and seven days a week. We guarantee the performance of the following elements under our SLA:

- 100% availability of our network,
 - the maximum average latency, or time necessary to transmit a signal, between designated POPs, and
 - prompt notification of outage or disruption.
- **IJ FiberAccess/F and IJ DSL/F (Broadband Services).** IJ FiberAccess/F and IJ DSL/F are broadband Internet connectivity services that uses "FLET'S" services for fiber optic access and ADSL access provided by NTT East and West and others allowing service on a best-efforts basis. The services are used mainly to connect branch offices and headquarters. We support this service by providing guarantees of latency rates under SLA.
 - **IJ Mobile Service.** This service, launched in January 2008, provides wireless broadband Internet connectivity exclusively for corporate customers as a MVNO. We use the wireless networks of NTT DoCoMo and EMOBILE Ltd. for mobile access network.
 - **Dial-up Access Services.** We offer a variety of dial-up access services for corporate use. Our dial-up services allow employees that are out of the office or frequent travelers, to access the Internet or their own internal networks through one of our POPs or through our roaming access points. When accessing their internal network, for security purposes, it is usually accessed using the VPN function that is provided by our outsourcing services or systems integration. Our main dial-up access services are our IJ Dial-up Advanced, Enterprise Dial-up IP Service and IJ Dial-up Standard.
 - **Other Internet connectivity services.** We offer, other than the services mentioned above, IJ ISDN/F and IJ Line Management/F service, which the former provides dedicated Internet access for ISDN lines and the latter the procurement of "FLET'S" services on behalf of customers.

Connectivity Services for Home Use

We offer connectivity services for home use such as IJ4U, IJmio, and hi-ho. IJmio has a variety of Internet connectivity services, such as IJmio DSL/DF Service, IJmio FiberAccess/DF Service, IJmio DSL/SF Service, IJmio FiberAccess/DC Service, IJmio FiberAccess/SF Service and IJmio MobileAccess Service, depending on the type of local access. Connectivity services for home use under the hi-ho brand, which we acquired in June 2007, are similar to IJ4U. We also offer OEM services for other network operators. In December 2008, IJmio and hi-ho introduced wireless broadband Internet connectivity service.

Outsourcing Services

Our customers are increasingly seeking additional network-related services, in addition to Internet connectivity. We provide our customers with a broad range of outsourcing services such as security-related, network-related, server-related and data center-related outsourcing services. Additionally, from November 2009, we have launched our cloud computing service, "IJ GIO".

We believe that business customers will increasingly rely on outsourcing services for costs reduction, improve productivity and to rely on the outside expertise for a reliable network-related operation. Therefore, we will continue our efforts on improving our services with new features and enhancing the line-ups by creating new services with our Internet expertise on a timely manner.

Our outsourcing services include:

- **Security-related outsourcing services.** We offer services that protect customers' internal network systems from unauthorized access and secure remote connections to the internal networks such as, IJ DDoS Solution Service, IJ Security Scan Service, IJ Managed IPS Service, IJ Managed Firewall Service and IJ Secure Remote Access. We were the first ISP in Japan to provide firewall services, which we introduced in 1994.
- **Network-related outsourcing services.** We offer Internet-VPN and router rental services such as, IJ Internet-LAN Service, IJ SMFsx Service, IJ Managed VPN PRO Service, SEIL Rental Service and Managed Router Service. IJ SMFsx Service is based on the patent technology, the SEIL Management Framework ("SMF") which enables centralized management of network-configuration, administration and maintenance, reducing both configuration and maintenance time and costs for large-scale network construction.
- **Server-related outsourcing services.** We offer services such as web hosting, e-mail hosting, document storage and streaming services. Currently, the main service line-ups are, IJ Secure MX Service, IJ Secure Web Gateway Service, IJ Document Exchange Service, IJ Download Site Service, IJ URL Filtering Service, IJ DNS Service and Streaming Service.
- **Data center-related services.** We offer, IJ data center facility services and management and monitoring services. Our Internet data center facility services are co-location services which allow companies to house their servers and routers off-site on our premises. Our Internet data center facilities are leased from third parties such as NTT Communications and are equipped with robust security systems, 24-hours-a-day non-stop power supplies and fire extinguishing systems, and have earthquake-resistant construction and high-speed Internet connectivity with IJ backbones. We also offer basic monitoring and maintenance services for the equipment. This service enhances reliability because we provide 24-hours-a-day monitoring and have specialized maintenance personnel and facilities. We offer management and monitoring services tailored to our customers' requirements.
- **Cloud computing services.** We provide our customers with a broad range of cloud computing services such as component service and platform service that are connected directly through IJ's high-volume backbone network and application service. For component service, we provide servers and necessary features to construct a cost efficient and asset less network system over the Internet. Platform services include "IJ GIO Hosting Package Service" and "IJ GIO Storage". Application services include "IJ Invito Mobile", "IJ GIO Cyboze Galoon SaaS", "IJ GIO remote office" and "IJ GIO CRM Service".
- **Other services.** Other than the above, we offer WAN service, customer support and help desk solutions, IP Phone service and other services.

Systems Integration

Our systems integration consists of systems construction and systems operation and maintenance. Systems construction are tailored to meet each of our customers' requirements, which include consulting, project planning, systems design and development of network systems. Our systems construction mainly focuses on Internet business systems and Intranet and Extranet corporate information systems. We have built a strong record in various business fields.

Examples of systems construction are:

- connecting over a hundred locations such as gas stations, bank branches and retail shops via Internet-VPN, transmission of data over the Internet with an encryption feature and our proprietary SEIL Series routers and SMF,
- construction of large scale e-mail servers or systems to detect or delete e-mails with viruses or spam or record all e-mails incoming to and outgoing from customers,
- online brokerage systems for securities firms,
- construction of websites for online businesses, re-construction of overall corporate network systems suited to increased traffic data,
- construction of voice over IP systems to transmit voice among customer branch offices over the Internet,
- construction of wireless local area networks ("LAN"), and
- consultation on corporate network security.

In the planning phase of a systems construction project, we form special project management teams for the project. We analyze and design the customer's network and systems with three engineering focuses: reliability, flexibility and extendibility.

In the construction phase, we procure equipment such as servers and manage application development and software programming tasks which are, depending on the size of the project, outsourced to third parties. Systems constructions are generally provided together with our connectivity and outsourcing services.

In the operation phase, by utilizing data center facilities directly linked to our network, we provide a range of outsourcing services, which take maximum advantage of the Internet system, network operation and management know-how of the IJ Group companies. Rather than simply looking after the customer's servers and equipments, we take care of the customer's entire computing environment, as well as custom-designed monitoring systems and provide around-the-clock operation and management services. These outsourcing services enable customers to free themselves from the burden of operating the network systems, which demands professional operation and maintenance to ensure prompt and flexible responses to unexpected system problems.

We also provide our customers with basic, easy-to-order systems integration, which we refer to as IBPS, including provision of network resources such as network equipment, data storage systems, network monitoring and systems operation management, on demand and on a monthly basis, therefore enabling our customers to launch their internal network system securely and cost effectively.

Equipment Sales

In addition to the connectivity and outsourcing services and systems integration, we sell third-party equipment to meet the one-stop needs of our customers together with our in-house developed router, the "SEIL Series".

SEIL Series. Our high-end in-house developed router, the "SEIL Series" was first released in October 2001. As of September 17, 2010, there are SEIL/B1 and SEIL/X. With the SMF feature, which provides auto-configuration features, it enables customers to create a VPN network by simply connecting the network into SEIL WAN interface.

ATM Operation Business

The ATM operation business is conducted by our consolidated subsidiary, Trust Networks which operates ATMs and its network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. As of August 2010, 140 ATMs were placed in places such as Japanese pinball shops.

Network

Our network is one of our most important assets. We have developed and currently operate a high-capacity network that has been designed to provide reliable, high-speed, high-quality Internet connectivity services. The Internet network that we have created extends throughout Japan and to the United States.

We are able to achieve and maintain high speeds through our advanced network architecture, routing technology and load balancing that optimize traffic on our multiple Internet connections.

The primary components of our network are:

- our backbone, which includes leased lines and network equipment, such as advanced Internet routers,
- POPs in major metropolitan areas in Japan,
- Internet data centers, and
- a network operations center (“NOC”).

Backbone

Leased lines

Our network is anchored by our extensive Internet backbone that extends throughout Japan and to the United States. We use our expertise in developing and operating our network to organize and connect these leased lines to form a backbone that has substantial transmission capacity. As of August 2010, the total capacity between Japan and the United States was 76.8Gbps.

The physical lines that comprise our backbone are an assembly of numerous physical lines that are procured from various carriers. The lines which we lease are high-capacity, high-speed digital transmission lines. The topology of the backbone network, in principal, is a mesh topology with redundancy, therefore the connection is secured and IJ’s service will not be interrupted even if either one of the numerous physical lines fails.

The table below lists the total number of contracts comprising IJ’s backbone network as of March 2010. Each contract represents one physical line. The largest contract accounts for only approximately 5% of the total contracted amount.

Total Number of Contracts Comprising IJ’s Backbone Network

	<u>As of March 31, 2010</u>
Number of Contracts comprising the IJ’s backbone network	
NTT	82
KDDI	32
Others	20
Total	<u>134</u>

Carriers such as NTT, KDDI and Softbank are regulated under Article 6 of the Telecommunications Business Law of Japan, pursuant to which any telecommunications carrier shall not discriminate unfairly in providing telecommunications services. Further, such telecommunications carriers are regulated to provide their services under agreements whose terms and conditions, including prices, are submitted to and approved by the MIC.

If IJ is unable to renew any of its contracts with either the companies listed above, IJ can continue with its business by procuring additional physical line services from other telecommunications carriers that offers the best terms or charges in the ordinary course of business. There are over 10 additional telecommunications carriers that we can procure physical lines from. A majority of the contracts that comprise IJ’s backbone network are a one-year renewable contracts and IJ can renew or upgrade its existing contracts or replace them with other telecommunications carrier services if they can be replaced with better terms in the ordinary course of business.

Accordingly, IJ is not substantially dependent on a particular contract with either NTT or KDDI nor is the amount of a particular contract substantially large. Further, IJ is neither substantially dependent on certain arrangement or relationship with a particular carrier or carriers because IJ has the ability to replace its existing contracts with others under fair terms.

The table below shows our backbone cost.

Backbone Cost

	For the fiscal year ended March 31,				
	2006	2007	2008	2009	2010
Backbone cost (thousand yen)	¥3,516,322	¥3,515,934	¥3,469,717	¥3,692,286	¥3,698,901

Network equipment

We use advanced equipment in our network. Our primary routers in our network are Cisco and Juniper Networks routers. The size of our routers varies depending on the number of customers and volume of traffic served by our POPs. At each POP we connect our dedicated line and dial-up access routers to Cisco backbone routers which then transmit and receive information throughout our network. We primarily lease our network equipment under capital lease arrangements.

Points of Presence.

POPs are the main points at which our customers connect to our backbone. We provide Internet connectivity from our POPs to commercial and residential customers through leased lines and dial-up connections over local exchange facilities. As of September 17, 2010, we operate nine primary POPs for dedicated access and one universal POP for nationwide dial-up access in Japan. The universal POP can be accessed from anywhere in Japan with the minimum local telephone charge.

Many of our POPs are located in the same facilities where other major carriers and ISPs have their POPs, in facilities of various carriers in Japan like NTT Communications and KDDI. We mainly lease the physical space. We maintain our routers and other networking equipment at these POPs. Our POPs are in, or in close proximity to, the same buildings in which the switches and routers of these carriers and ISPs are located enabling quick and easy interconnection of our equipment with theirs.

Internet Data Centers.

As of September 17, 2010, we operate 14 Internet data centers in Japan which we use to offer our outsourcing data center services, five in Tokyo, two in Yokohama, and one each in Saitama, Osaka, Sapporo, Sendai, Nagoya, Kyoto and Fukuoka. These data centers are specifically designed for application hosting, co-location services and high capacity access to our networks. These data centers are mainly leased from NTT Communications, ITOCHU Techno-Solutions Corporation, and KDDI.

These data centers have 24-hours-a-day, seven-days-a-week operations and security and are equipped with uninterruptible power supplies and backup generators, anti-seismic damage precautions, fire suppression equipment and other features to optimize our ability to offer high-quality services through these data centers.

Additionally, on May 14, 2010, we announced the construction of a module type eco data center. This data center is specifically designed for the use of our cloud computing service "IJ GIO". The construction of this data center began in August 2010 and is scheduled to be in full operation in April 2011. This module type eco data center uses outside-air-cooling, the first in Japan, and can be expanded along with the rise in demands of IJ GIO as the construction time are short. The construction cost for the first five modules is expected to be approximately ¥1.1 billion.

Network operations center and technical and customer support.

Our NOC in Tokyo operates 24 hours a day and seven days a week. From our NOC, we monitor the status of our network, the traffic on the network, the network equipment and components and many other aspects of our network including our customers' dedicated access lines leased from carriers. From our NOC, we monitor our networks to ensure that we meet our commitments under our SLA.

Our Group Companies

We offer our services directly and with our group companies. As of September 17, 2010, we had eight consolidated subsidiaries and four equity method investees, which all, except for IJ-A and i-Heart Inc. ("i-Heart"), are incorporated under the laws of Japan. IJ-A is incorporated under the laws of the state of California and the United States of America, and i-Heart is incorporated under the laws of Republic of Korea. The financial results of our consolidated subsidiaries shown in this section are prepared under generally accepted accounting principles in Japan, except for IJ-A. Our group companies work closely together in providing total network solutions to our customers. We collaborate on the development of various services and products and market our services and products together as a group. However, our group companies specialize in different aspects of the Internet and networking. Our customers' main point of contact is IJ itself. We then draw upon the resources and special capabilities of the group companies to offer total Internet solutions.

The ATM operation business is conducted by Trust Networks.

The table below sets out our group companies, including our subsidiaries and equity method investees and our direct ownership of each of them as of September 17, 2010:

Company Name	Jurisdiction of Incorporation	Proportion of ownership and voting interest
Consolidated Subsidiaries:		
Net Care, Inc.	Japan	100.0%
Net Chart Japan Inc.	Japan	100.0%
hi-ho Inc.	Japan	100.0%
IJ Innovation Institute Inc.	Japan	100.0%
IJ Global Solutions Inc.	Japan	100.0%
Trust Networks Inc.	Japan	74.2%
GDX Japan Inc.	Japan	62.3%
IJ America Inc.	U.S.A.	100.0%
Equity method investees:		
Taihei Computer Co., Ltd.	Japan	45.0%
Internet Multifeed Co.	Japan	32.0%
Internet Revolution Inc.	Japan	30.0%
i-Heart Inc.	Republic of Korea	28.6%

On September 30, 2009, On-Demand Solutions Incorporated was dissolved. On April 1, 2010, IJ-Tech and IJ-FS were merged into IJ.

On September 1, 2010, IJ acquired IJ-Global, a subsidiary of AT&T Japan through stock acquisition and make it our 100% owned consolidated subsidiary. The acquisition price was ¥9.2 billion. IJ-Global is incorporated under the laws of Japan.

Net Care, Inc.

Net Care provides a broad array of support services, from monitoring and troubleshooting to network operations, Data Center operations and an end-user help desk.

In May 2007, IJ made Net Care a wholly-owned subsidiary through a share exchange. Before the share exchange, IJ's ownership in Net Care increased to 92.5% as of April 2007 through the purchase of Net Care shares from Net Care's minority shareholders.

Net Care had revenues of ¥4.1 billion and operating income of ¥0.2 billion for the fiscal year ended March 31, 2010. As of March 2010, Net Care had 319 employees, nine of whom were seconded from IJ.

Net Chart Japan Inc.

Net Chart Japan Inc. ("NCJ") was established in August 2006 as a company wholly-owned by IJ. NCJ commenced its business operations after it succeeded the business operations of Net Chart Japan Corporation in October 2006. NCJ provides network construction services that are mainly related to Local Area Networks, such as installation and configuration of equipment, wiring following network installation, and installation and operation support for applications.

NCJ had revenues of ¥1.4 billion and operating income of ¥27 million for the fiscal year ended March 31, 2010. As of March 31, 2010, NCJ had 44 employees.

hi-ho Inc.

hi-ho is a company wholly-owned by IJJ. In June 2007, IJJ acquired 100% of the equity of hi-ho from Panasonic Network Services Inc. ("PNS") to take over PNS's Internet service business for personal users and its solution business for corporate customers. A portion of the solution business for corporate customers was transferred to IJJ-Tech in April 2008. IJJ had additionally invested ¥0.3 billion as of March 2009.

hi-ho had revenues of ¥5.4 billion and operating income of ¥0.2 billion for the fiscal year ended March 31, 2010. As of March 31, 2010, hi-ho had 25 employees, 10 of whom were seconded from IJJ.

IJJ Innovation Institute Inc.

In June 2008, IJJ invested ¥100 million in and established IJJ Innovation Institute Inc. ("IJJ-II") as our wholly-owned consolidated subsidiary, which engages in research and development of Internet-related basic technology development and its business incubation. Additional ¥50 million was invested as of March 2009. On July 1, 2009, IJJ Research Laboratory, one of the research department of IJJ, was transferred into IJJ-II to strengthen the Group research and development by reclassifying the Group research and development organization.

IJJ-Global Solutions Inc.

On September 1, 2010, IJJ acquired 100% of the equity of IJJ-Global from AT&T Japan at the amount of ¥9.2 billion. IJJ-Global is incorporated under the laws of Japan. IJJ-Global provides mainly the domestic network outsourcing service business such as the WAN services which are mainly provided to approximately 1,600 domestic corporate customers.

As of September 17, 2010, IJJ-Global has 268 employees, eight of whom were second from us.

Trust Networks Inc.

Trust Networks was established in July 2007 and IJJ has invested a total of ¥1.8 billion in Trust Networks as of September 17, 2010 (74.2% ownership).

Trust Networks operates ATMs and its network systems and receives a commission for each bank withdrawal transaction when a customer uses its serviced ATMs. During the fiscal year ended March 31, 2009, Trust Networks completed its field test of ATMs operations and as of August 2010, 140 ATMs are placed.

Trust Networks recorded revenue of ¥207 million and operating loss of ¥1,024 million for the fiscal year ended March 31, 2010. As of March 31, 2010, Trust Networks had 10 employees, six of whom were seconded from us.

GDX Japan Inc.

In April 2007, IJJ and GDX Network, Inc., a company incorporated in the United States, established a joint venture company, GDX, to provide a message exchange network service in Japan. As of September 17, 2010, IJJ has invested a total of ¥450 million in GDX (62.3% ownership).

GDX recorded revenue of ¥42 million and operating loss of ¥114 million for the fiscal year ended March 31, 2010.

IJJ America Inc.

IJJ-A is a U.S.-based ISP, catering mostly to U.S.-based operations of Japanese companies.

Reflecting the fact that IJJ-Tech, IJJ-A's minority shareholder with 8.7% ownership, became wholly-owned by us on May 11, 2007, IJJ-A became our wholly-owned consolidated subsidiary.

IJJ-A had revenues of \$13 million and operating income of \$0.1 million for the fiscal year ended December 31, 2009. As of March 31, 2010, IJJ-A had 21 employees, five of whom were seconded from IJJ.

Taihei Computer Co., Ltd.

In July 2007, IJJ invested ¥235 million in Taihei Computer Co., Ltd. ("TCC"), one of the subsidiaries of Hirata Corporation, which manages customer loyalty reward program systems. As a result of this investment, TCC became our equity method investee with a 45.0% ownership.

Internet Multifeed Co.

Internet Multifeed Co. ("Multifeed") provides the location and facilities for directly connecting high-speed Internet backbones with content servers to make distribution on the Internet more efficient. Its technology was developed jointly with the NTT Group. Multifeed operates an IX (Internet eXchange — where major ISPs exchange network traffic) named JPNAP. We account Multifeed as an equity method investee with a 32.0% ownership. IJJ's ownership in Multifeed increased from 31.0% to 32.0% as of September 2009 through the purchase of Multifeed shares from Multifeed minority shareholders.

Internet Revolution Inc.

In February 2006, IJJ and Konami Corporation established a joint venture company, i-revo, to operate comprehensive sites. IJJ invested ¥750 million in i-revo. We account i-revo as an equity method investee with a 30.0% ownership.

i-Heart Inc.

In May 2000, we entered into the i-Heart joint venture with South Korean companies with a total investment by us of ¥89 million. i-Heart is our equity method investee with a 28.6% ownership.

Capital Expenditures

The table below shows our capital expenditures, which we define as amounts paid for purchases of property and equipment plus acquisition of assets by entering into capital leases, for the last three years.

	For the fiscal year ended March 31,		
	2008	2009	2010
	(millions of yen)		
Capital expenditures, including capitalized leases ⁽¹⁾	¥ 6,078	¥ 7,006	¥ 5,584

(1) Further information regarding capital expenditures, including capitalized leases and a reconciliation to the most directly comparable U.S. GAAP financial measure, can be found in Item 3.A., "Selected Financial Data— Reconciliations of the Disclosed Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures".

Most of our capital expenditures relate to the expansion and improvement of our existing network, including the installation of the routers and servers necessary to offer services on our network, software and back-office systems.

We believe that our expected capital expenditures, including capitalized leases, for the fiscal year ending March 31, 2011 related to our network services and systems integration business will be higher than the amount for the fiscal year ended March 31, 2010. There will be capital expenditures for network equipment and software which are related to the usual expansion and improvement of our existing network which we estimate to be not larger than the amount for the previous fiscal year. In addition, there will be capital expenditures for the construction of the module type eco data center of approximately ¥1.1 billion. Capital expenditures related to our ATM operation business for the fiscal year ending March 31, 2011 is also expected to increase compared to the previous fiscal year, if the ATM operations' business starts up in accordance with its business plan. Capital expenditure related to ATM operation business will increase in accordance with the number of ATMs placed. In total, we expect that our capital expenditures, including capitalized leases, for the fiscal year ending March 31, 2011 to increase from the amount from the previous fiscal year.

We recorded losses on disposal of property and equipment of ¥72 million, ¥443 million and ¥639 million for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. The losses for the fiscal year ended March 31, 2008 was mainly due to disposal of software such as for back-office systems, and network equipment related to the closing of a network operation center. The losses for the fiscal year ended March 31, 2009 and 2010 increased as there was disposal of network equipment and software such as for back office systems.

Seasonality

See Item 5.D., "Trend Information — Factors Affecting Our Future Financial Results — Systems integration revenues, including related equipment sales revenues".

Sales and Marketing

Our sales headquarter is in Tokyo. In addition, we have ten branch or sales offices in Osaka, Nagoya, Fukuoka, Sapporo, Sendai, Toyama, Hiroshima, Yokohama, Toyota and Okinawa in order to cover the major metropolitan areas in which the majority of large Japanese companies operate. As of March 31, 2010, we had 297 people working in sales and marketing.

In April 2010, IJ-Tech and IJ-FS were merged into IJ to strengthen its business in the upcoming cloud computing market and the sales and marketing organization were reorganized. As of April 2010, IJ organized its sales personnel into Business Unit and Marketing Division.

The Business Unit is divided into seven divisions:

- Enterprise business division 1, 2 and 3 focus on its total network solutions and work with large corporate clients, including manufacturers, retail companies and telecommunication carriers.
- Financial Systems Business Division focuses on its total network solutions and work with financial institutions.
- Government, Public & Educational Organization Business Unit focuses on total network solutions and works with governmental institutions, and universities and other schools.
- Regional Division focuses on developing and strengthening partnerships with customers in areas other than the *Kanto-area*. Sales personnel in the branch or sales offices are here in this division.
- Business unit management division focuses on management and controlling the above six division. It is responsible for the planning and management on the sales figures, processes and other information.

The Marketing Division is divided into four departments:

- Product Marketing Department, Market Development Department, GIO Marketing Department and Planning Department. It mainly sets the tariff pricing for each of IJ's services, makes and conducts promotion plans on its products and services as well as strengthening partnerships with sales agents such as systems integrators to expand our marketing reach.

Customers

We had approximately 6,500 business and other institutional customers and approximately 400,000 individuals, which includes individuals subscribing to OEM services, as of March 31, 2010. Our main customers continue to be major corporations, including ISPs.

On September 1, 2010, IJ made IJ-Global IJ's 100% owned consolidated subsidiary. IJ-Global has approximately 1,600 business and other institutional customers and around 300 customers are overlapped with our customers.

Research and Development

Research and Development Organization

Our research and development are conducted by IJ-II and other departments of IJ.

IJ Innovation Institute. IJ established IJ-II in June 2008 as a wholly-owned subsidiary, which engages in research and development of Internet-related basic technology development and its business incubation. In July 2009, IJ Research Laboratory, which was established as a research organization of IJ in April 1998 to engage in new basic network technologies, was transferred into IJ-II to reorganize and strengthen the Group's research and development capabilities. IJ-II is currently participating in various research and development activities in cooperation with organizations from the private and academic sectors to promote the deployment and implementation of IPv6. It is also engaged in the research and development activities related to e-mail technologies and network traffic analysis.

Other Departments of IJ. Other departments, such as the Service Business Department, Network Service Department and SEIL Business Unit play an important role in the research and development of technologies to be applied to our services and solutions, collect information, evaluate new technology and conduct business expansion.

Research and Development Strategy

Our primary research and development objective is to continue to develop innovative services, applications and products that will meet the current and future demands of our customers and to continue to be at the forefront of the Internet industry in Japan. Many of our engineers are regularly engaged in the research and development activities related to the development of new services, applications and products. These engineers have continued to develop innovative services, applications and products, many of which have set the standard for the Internet industry in Japan. They also work very closely with our sales and marketing personnel and technical engineers to ensure that the innovative services, applications and products will meet the demands of our customers.

Our second research and development objective is to continue participating in or otherwise closely monitor new products, developments and initiatives of manufacturers and standards-setting and research groups. We have also engaged in the research and development of new Internet-related basic technology since 1998. In addition, IJJ-II engages in business incubation. Through these efforts, we seek to ensure that we have timely and effective access to new technologies, and that we implement these technologies effectively.

In furtherance of these objectives, our research and development efforts currently are focused on a variety of projects, including:

- continued improvement of our SEIL router and SMF, systems which we developed specifically to be integrated into IJJ's network-related services,
- research and development of the latest e-mail implementation technologies and spam countermeasures,
- research and development of IPv6-based mobile communications technology,
- research relating to the methodology of configuration of routers and other servers,
- research relating to the technology for next generation IP networks,
- research relating to the behavior of Internet routing systems,
- research of the Internet traffic monitoring and management,
- research and development of the Distributed and Parallel Processing Platform for very large data sets,
- research and development of the basic technologies for cloud computing,
- research and development of the outside-air-cooled container unit data center,
- research and analysis of the characteristics of the captured malware and spam mails, and,
- development relating to proprietary video distribution server software specifically designed for digital television.

Our research and development expenses averaged less than 1.0% of total revenues for the past three consecutive years. For the fiscal years ended March 31, 2008, 2009 and 2010, our research and development expenses were ¥240 million, ¥415 million and ¥313 million, respectively, most of which was personnel expense. The level of research and development expenditures is low in relation to our total costs primarily because we do not engage in extensive research and development of new technologies and products that require large investments. Rather, as noted above, we are intensively engaged in research and development related to our ongoing business. We focus on monitoring developments in the industry and in developing new and innovative services and applications by utilizing and enhancing existing technologies and products.

Because the rate of change in technology relevant to our business is so rapid, we believe that the sophistication and experience of our research and development personnel is an important part of our success.

Proprietary Rights

Although we believe that our success is more dependent upon our technical, marketing and customer service expertise than our proprietary rights, we rely on a combination of trademark and contractual restrictions to establish and protect our technology.

Licenses

For us to provide certain services to our customers, we have, as a licensee, entered into license agreements with other suppliers, such as Check Point Software Technologies Ltd., Trend Micro Incorporated, RSA Security Inc., NRI Secure Technologies, Ltd., McAfee, Inc. and Adobe Systems Software Ireland Limited.

We have purchased licenses from the companies in accordance with customer demands for our services.

Trademarks

We have applied for trademark registrations of our corporate name, "Internet Initiative Japan Inc." and certain other corporate and product names in Japan, the United States and certain European countries. As of August 2010, 56 registrations had been granted, with three pending application.

Patents

We have applied for patent registrations in relation to our technology in Japan and the United States. As of August 2010, eight registrations had been granted, with seven pending applications. The latest acquired patent is for a system to enable a function for implementing providing of a service desired by an end user to be automatically generated in a network connecting appliance, in addition to the function of centralized network management system, SMF.

Legal Proceedings

We are involved in normal claims and other legal proceedings in the ordinary course of business. Except as noted below, we are not involved in any litigation or other legal proceedings that, if determined adversely to us, we believe would individually or in the aggregate have a material adverse effect on us or our operations.

In December 2001, a class action complaint alleging violations of the federal securities laws was filed against the Company, naming the Company, certain of its officers and directors as defendants, and underwriters of the Company's initial public offering. Similar complaints have been filed against over 300 other issuers that have had initial public offerings since 1998 and such actions have been included in a single coordinated proceeding in the Southern District of New York. An amended complaint was filed on April 24, 2002 alleging, among other things, that the underwriters of the Company's initial public offering violated the securities laws (i) by failing to disclose in the offering's registration statement certain alleged compensation arrangements entered into with the underwriters' clients, such as undisclosed commissions or tie in agreements to purchase stock in the after market, and (ii) by engaging in manipulative practices to artificially inflate the price of the Company's stock in the after market subsequent to the initial public offering. On July 15, 2002, the Company joined in an 'omnibus' motion to dismiss the amended complaint filed by the issuers and individuals named in the various coordinated cases. On February 19, 2003, the Court granted the Company's motion to dismiss the claims against it under Rule 10b-5 promulgated under the Exchange Act due to the insufficiency of the allegations against the Company. The motions to dismiss the claims under Section 11 of the Securities Act were denied for virtually all of the defendants in the consolidated cases, including the Company. In June 2003, the Company conditionally approved a proposed partial settlement with the plaintiffs in this matter. In June 2004, a stipulation of partial settlement was submitted to the court for preliminary approval. While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The District Court directed that the litigation proceed with a number of "focus cases" rather than all of the 310 cases that had been consolidated. The Company's case is not one of these focus cases.

On October 13, 2004, the District Court certified the focus cases as class actions in the ongoing litigation. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the District Court's class certification decision. On April 6, 2007, the Second Circuit denied the plaintiffs' petition for rehearing, and on May 18, 2007, the Second Circuit denied the plaintiffs' petition for rehearing en banc. In light of the Second Circuit opinion, liaison counsel for all issuer defendants, including the Company, informed the District Court that the settlement could not be approved, because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the District Court entered an order terminating the proposed settlement. On August 14, 2007, the plaintiffs filed their second consolidated amended complaints against the six focus cases and on September 27, 2007, again moved for class certification. On November 12, 2007, certain of the defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the District Court denied the motions to dismiss except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. The motion for class certification was withdrawn without prejudice on October 10, 2008. On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants and underwriter defendants was submitted to the District Court for preliminary approval. The District Court granted the plaintiffs' motion for preliminary approval, and preliminarily certified the settlement, classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. On October 6, 2009, the District Court entered an opinion granting final approval to the settlement and directing that the Clerk of the Court close the cases. Notice of appeal of the opinion granting final approval has been filed. There can be no assurance that this proposed settlement will be approved and implemented in its current form, or at all. Due to the inherent uncertainties of litigation and because the settlement remains subject to appeal, the ultimate outcome of the matter is uncertain.

Regulation of the Telecommunications Industry in Japan

The MIC regulates the Japanese telecommunications industry. Telecommunications carriers, including us, are regulated by the MIC primarily under the Telecommunications Business Law.

The Telecommunications Business Law

The Telecommunications Business Law, which became effective in 1985, was established for the purpose of privatization and deregulation in the telecommunications business. After several amendments, the Telecommunications Business Law was considerably amended in July 2003, and the amended Telecommunications Business Law became effective as of April 2004. The summary of the regulations under the current Telecommunications Business Law is as follows:

The Telecommunications Business Law applies to the telecommunications business, except for the telecommunications business exempt under the Telecommunications Business Law ("Exempted Business")⁽¹⁾. The term "telecommunications business" is defined under the Telecommunications Business Law as the business providing telecommunications services in order to meet the demand of others⁽²⁾. The term "telecommunications services" is defined under the Telecommunications Business Law as intermediating communications of others through the use of telecommunications facilities, or any other acts of providing telecommunications facilities for the use of communications of others. Our business falls within the definition of telecommunications business, not Exempted Business, and therefore is subject to the Telecommunications Business Law.

- (1) The Exempted Business is the business related to facilities supplying broadcast services, wire radio broadcasting, wire broadcast telephone services, wire television broadcasting services, or the acceptance of applications for the use of the cable television broadcasting facility.
- (2) The "telecommunications business" is defined as:
 - (i) the telecommunications business which exclusively provides telecommunications services to a single person (except one being a telecommunications carrier);
 - (ii) the telecommunications business which provides telecommunications services with telecommunications facilities, a part of which is to be established on the same premises (including the areas regarded as the same premises) or in the same building where any other part there of is also to be established, or with telecommunications facilities which are below the standards stipulated in the ministerial ordinance of the MIC; and
 - (iii) the telecommunications business installing no telecommunications circuit facilities which provides telecommunications services other than the telecommunications services which intermediate communications of others by using telecommunications facilities;

Provided that the provisions of Article 3 and Article 4 of the Telecommunications Business Law apply to communications being handled by a person who operates the telecommunications business listed above.

Start-up of Services

· Registration

Registration with the Minister of the MIC is required for a telecommunications business which meets the following two requirements established by the ministerial ordinance of the MIC: (i) areas of installation of terminal-related transmission facilities are limited to a single municipality (city, town or village) and (ii) areas of installation of relay-related transmission facilities are limited to a single prefecture.

· Notification

Notification to the MIC is required for a telecommunications business for which the requirement of the registration does not apply. Our business is subject to this notification requirement⁽¹⁾.

The Supplementary Provisions to the Telecommunications Business Law provide that the person who, at the time of the enforcement of the provisions of Article 2 of the current Telecommunications Business Law, is actually operating a Type II telecommunications business with registration under Article 24 paragraph (1) of the old Telecommunications Business Law shall be deemed to be a person who has submitted the notification of Article 16 paragraph (1) of the current Telecommunications Business Law on the day of enforcement of the current Telecommunications Business Law. We were actually operating a Type II telecommunications business at the time of the enforcement of the provisions of Article 2 of the current Telecommunications Business Law with registration under Article 24 paragraph (1) of the old Telecommunications Business Law, and therefore are deemed to have submitted the notification of Article 16 paragraph (1) of the current Telecommunications Business Law on the day of enforcement. In addition, the Supplementary Provisions to the Telecommunications Business Law Implementation Rules provide that the person who, at the time of enforcement of the Telecommunications Business Law Implementation Rules (i.e., April 1, 2004), is actually operating a Type II telecommunications business with registration under Article 24 paragraph (1) of the old Telecommunications Business Law, must submit a report prepared in the form of the notification of Article 16 paragraph (1) of the current Telecommunications Business Law to the Minister of the MIC without delay after the day of enforcement of the Telecommunications Business Law Implementation Rules. We filed this report to the Minister of the MIC in April 2004.

Terms and Conditions of Provision of Services and Charge

- Our business is unregulated, in general, as IJ does not fall under either Basic Telecommunications Services or Designated Telecommunications Services described below.
- Prior notification to the Minister of the MIC is required for Basic Telecommunications Services (universal services specified by the ministerial ordinance of the MIC, i.e., analog or public fixed telephone services, analog or public remote island telephone services, and analog or public emergency call telephone services). Providing these telecommunications services other than pursuant to the terms and conditions and charges notified to the Minister of the MIC is prohibited. Provided that the charges may be discounted or waived pursuant to the exception criteria provided under the ministerial ordinance of the MIC (i.e., an emergency call for the safety of ships and airplanes, an emergency call for the safety of personal life and property in case of natural disaster, calls to police agencies regarding crimes, and calls to the fire brigade ("Emergency Exception"))
- Prior notification to the Minister of the MIC is required for Designated Telecommunications Services (i.e., services provided through Category I Designated Telecommunications Facilities and which meet the criteria provided by the ministerial ordinance of the MIC as the services for which the guarantee of the terms and conditions and charges are necessary for the protection of users, such as the basic fee). "Category I Designated Telecommunications Facilities" are the facilities which meet the criteria specified by the ministerial ordinance of the MIC as being the fixed telecommunications facilities used for the services which are offered to a substantial percentage of users in a given area, and which are currently only the facilities of NTT East and NTT West. Providing these telecommunications services other than pursuant to the terms and conditions and charges notified to the Minister of the MIC is prohibited, unless the telecommunications carrier and the user agree otherwise, provided that the charges may be discounted or waived in Emergency Cases, for emergency calls for injured persons in a ship, and for use by a police agency, fire brigade and broadcasting companies.
- The Minister of the MIC at least once a year notifies the telecommunications carrier providing the Specific Designated Telecommunications Services specified by the ministerial ordinance of the MIC (i.e., Designated Telecommunications Services other than voice services, except for telephone and general digital services and data transmission services) the price cap regarding such services. The telecommunications carriers will be required to obtain approval from the Minister of the MIC if a proposed change in charges exceeds the price cap.

Articles of Interconnection Agreements

- Our business is unregulated, in general, as IJ does not fall under either Category I Designated Telecommunications Facilities or Category II Designated Telecommunications Facilities described below.
- Approval from the Minister of the MIC required for Category I Designated Telecommunications Facilities.
- Prior notification to the Minister of the MIC required for Category II Designated Telecommunications Facilities (i.e., the facilities which meet the criteria provided by the ministerial ordinance of the MIC as being the mobile telecommunications facilities used for the services which are offered to a substantial percentage of users in a given area, and which are currently NTT DoCoMo, Okinawa Cellular and KDDI).

Telecommunications Facilities of Carriers

- A telecommunications carrier that installs telecommunications circuit facilities must maintain its telecommunications facilities (except telecommunications facilities stipulated in the ministerial ordinance of the MIC as those having a minor influence on the users' benefit in the cases of damage or failure thereof) in conformity with the technical standards provided in the ministerial ordinance of the MIC. Such telecommunications carriers shall confirm that its telecommunications facilities are in compliance with the technical standards specified in the ministerial ordinance of the MIC.
- A telecommunications carrier that provides Basic Telecommunications Services must maintain its telecommunications facilities for provision of Basic Telecommunications Services in conformity with the technical standards provided in the ministerial ordinance of the MIC.
- Telecommunications carriers that install telecommunications circuit facilities or provide Basic Telecommunications Services must establish their own administrative rules in accordance with the ministerial ordinance of the MIC in order to secure the reliable and stable provision of telecommunications services. These administrative rules must regulate the operation and manipulation of telecommunications facilities and the safeguarding, inspecting and testing regarding the construction, maintenance and administration of telecommunications facilities, etc. as provided for by the ministerial ordinance of the MIC. Such administrative rules must be submitted to the Minister of the MIC prior to the commencement of operations, and changes must be submitted to the Minister of the MIC once after they are implemented without delay.

Order to Improve Business Activities

- The Minister of the MIC may, if it is deemed that business activities of a telecommunications carrier fall under inappropriate cases set forth in the Telecommunications Business Law, insofar as it is necessary to ensure the users' benefit or the public interest, order the telecommunications carrier to take actions to improve operations methods or other measures.

Right of Way Privilege for Authorized Carriers

- A telecommunications carrier which is engaged, or intends to engage, in the telecommunications business by installing telecommunications circuit facilities and which wishes to have the privileged use of land or other public utilities for circuit facilities deployment, must obtain the authorization on the entire or a part of the relevant telecommunications business by the Minister of the MIC.

Merger, Business Transfer or Divestiture of Carriers

- Post facto notification to the Minister of the MIC without delay is required.

Business Suspension, Abolition or Dissolution of Carriers

- Post facto notification to the Minister of the MIC without delay is required. Prior announcement of withdrawals to service users is required in accordance with ministerial ordinances of the MIC.

Foreign Capital Participation

- Prior notification is required under the Foreign Exchange and Foreign Trade Law for the acquisition of shares of telecommunications carriers to which registration for start-up services is applicable. This is not applicable to purchasers of ADSs. The one-third foreign ownership restriction is applicable only to NTT East and NTT West.

C. Organizational Structure.

The information required by this item is in "Our Group Companies" above.

D. Property, Plants and Equipment.

Property and equipment recorded on our consolidated balance sheet as of March 31, 2009 and March 31, 2010 consisted of the following:

	As of March 31		
	2009	2010	2010
	(millions of yen)		(thousand of U.S. dollars)
Data Communications equipment	¥ 1,010	¥ 1,310	\$ 14,023
Office and other equipment	1,190	1,496	16,017
Leasehold improvements	1,011	1,060	11,348
Purchased software	9,459	11,208	120,006
Assets under capital leases, primarily data communications equipment	16,947	15,549	166,480
Total	29,617	30,623	327,874
Less accumulated depreciation and amortization	(16,444)	(17,653)	(189,007)
Property and equipment- net	¥ 13,173	¥ 12,970	\$ 138,867

Our fixed assets consist mainly of (i) data communications equipment necessary to offer services on our network, such as routers and servers and which are mainly acquired under capital leases and (ii) software, such as those for back-office systems and others. Most of our property and equipment are located in Japan. While we lease some floor space in office buildings in Japan and the United States under operating leases, we do not own any land, buildings or facilities such as factories. The above-mentioned property and equipment consist of many relatively small assets and therefore, we believe that we did not have material fixed assets as of March 31, 2010. Other than the above assets recorded on our consolidated balance sheet, we use operating lease assets such as backbone lines, office premises and network operation centers. There are no known environmental issues that may affect our utilization of our property and equipment.

Please also see “— Network” above and Note 6 “Property and Equipment” and Note 8 “Leases” to our consolidated financial statements included in this annual report on Form-20F.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects.

A. Operating Results.

You should read the following discussion of our financial condition and results of operations together with Item 3.A. of this annual report on Form 20-F and our consolidated financial statements and the notes to those financial statements beginning on page F-1 of this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of factors including but not limited to those in Item 3.D. of this annual report on Form 20-F.

Overview

The Group is a provider of a comprehensive range of Internet connectivity services and network solution services in Japan. IJ was founded in December 1992 and began offering Internet connectivity services commercially in July 1993. IJ was one of the first commercial ISPs in Japan and have expanded the Group business to outsourcing services and systems integration along with the expansion of usage of the Internet by customers.

Our primary sources of revenue are connectivity services, outsourcing services, systems integration and equipment sales. Connectivity services consist of connectivity services for corporate use and connectivity services for home use. For outsourcing services, we provide services such as network security services, mail and web server hosting services, managed router services, Internet data center services and cloud computing services. For systems integration, we provide systems construction such as consulting, project planning, systems design and development of network systems to meet each of our customers' requirements and systems operation and maintenance. For equipment sales, we provide equipment as part of our provision of total network.

In connection with the IT service market surrounding our Group, systems integration in particular, has suffered due to the drop in Japanese IT investments. Compared to the previous fiscal year, while connectivity and outsourcing service revenue slightly increased, systems integration revenues heavily decreased resulting in the slight decrease in total revenues for the fiscal year ended March 31, 2010. Because the Japanese economic situation affects our revenue, our future revenue growth, particularly systems integration revenue, may increase or decrease depending on the Japanese economy. In connection with our outsourcing services, we believe the trend to outsource customer network system is expected to increase. To seize such opportunity to further enhance our business in the future, we target to focus on maximizing our superiority in internet related technology to develop advanced, highly value added and reliable total network solutions for corporate users and governmental organizations in Japan.

On September 1, 2010 IJ made IJ-Global its 100% owned consolidated subsidiary by acquiring the stock of IJ-Global from AT&T Japan. IJ-Global succeeded mainly the domestic network outsourcing service business such as the WAN services, which are mainly provided to approximately 1,600 domestic corporate customers. The acquisition price was ¥9.2 billion and was purchased using mainly short-term bank borrowings.

We entered into the ATM operation business through our consolidated subsidiary, Trust Networks, which was established in July 2007. Trust Networks operates ATMs and its network systems to provide ATM service and receives a commission for each bank withdrawal transaction when a customer uses their ATMs. As of August 2010, 140 ATMs are placed in places such as Japanese pinball shops.

Currently, we have two business segments: Network services and systems integration business and ATM operation business. Network services and systems integration business is comprised of: Connectivity and outsourcing services, Systems integration and Equipment sales.

For the fiscal year ended March 31, 2010, net revenues of network services and systems integration business and ATM operation business before elimination of intersegment revenues were ¥67.8 billion and ¥0.2 billion, respectively. Our consolidated net revenue for the fiscal year ended March 31, 2010 was ¥68.0 billion.

Substantially all of our revenues are from customers in Japan, and we are the main point of contact for customers for the various services we provide.

We refer to our subsidiaries and certain affiliates as our group companies, and we have invested heavily in and exercise significant influence over these companies. For the fiscal year ended March 31, 2010, we consolidated the results of operations of nine subsidiaries included among our group companies ¾ IJ-Tech, IJ-A, Net Care, IJ-FS, NCJ, hi-ho, Trust Networks, GDY and IJ-II. We account for our investments in the affiliated companies by the equity method. For descriptions and the history of our group companies, see "Our Group Companies" in Item 4.B.

For a discussion of factors affecting our future financial results, see "Item 5.D. Trend Information".

Results of Operations

As an aid to understanding our operating results, the following tables show items from our statement of income for the periods indicated in millions of yen (or thousands of U.S. dollars) and as a percentage of total revenues. For further discussion about segment reporting, please see "Segment Information" later in this section.

	Fiscal year ended March 31,										
	2008		2009		2010						
	(millions of yen except for percentage data)										
								(thousands of U.S. dollars ⁽¹⁾)			
REVENUES:											
Connectivity and outsourcing services:											
Connectivity services (corporate use)	¥	12,149	18.2%	¥	13,142	18.8%	¥	13,847	20.4%	\$	148,256
Connectivity services (home use)		5,430	8.1		6,538	9.4		6,854	10.1		73,386
Outsourcing services		13,724	20.5		15,396	22.1		16,271	23.9		174,210
Total		31,303	46.8		35,076	50.3		36,972	54.4		395,852
Systems integration:											
Systems construction		18,021	27.0		14,658	21.0		11,354	16.7		121,559
Systems operation and maintenance		15,993	23.9		18,989	27.3		18,717	27.5		200,396
Total		34,014	50.9		33,647	48.3		30,071	44.2		321,955
Equipment sales		1,514	2.3		985	1.4		756	1.1		8,100
ATM operation business		4	0.0		23	0.0		207	0.3		2,213
Total revenues		66,835	100.0		69,731	100.0		68,006	100.0		728,120
COST AND EXPENSES:											
Cost of connectivity and outsourcing services:											
Backbone cost		3,470	5.2		3,692	5.3		3,699	5.4		39,603
Local access line cost		7,102	10.6		8,113	11.6		8,266	12.2		88,502
Other connectivity cost		370	0.6		473	0.7		544	0.8		5,824
Depreciation and amortization		2,928	4.4		3,468	5.0		3,303	4.9		35,365
Other		12,170	18.2		13,572	19.5		14,721	21.6		157,620
Total cost of connectivity and outsourcing services		26,040	39.0		29,318	42.1		30,533	44.9		326,914
Cost of systems integration:											
Cost of equipment sales related to systems integration		4,409	6.6		4,931	7.0		3,586	5.3		38,393
Other		21,117	31.6		20,612	29.6		18,318	26.9		196,122
Total cost of systems integration		25,526	38.2		25,543	36.6		21,904	32.2		234,515
Cost of equipment sales		1,300	1.9		863	1.2		649	1.0		6,952
Cost of ATM operation business		17	0.0		422	0.6		964	1.4		10,320
Total cost		52,883	79.1		56,146	80.5		54,050	79.5		578,701
Sales and marketing		4,329	6.5		4,631	6.6		5,405	7.9		57,870
General and administrative		4,624	6.9		5,622	8.1		4,826	7.1		51,670
Research and development		240	0.4		415	0.6		313	0.5		3,352
Total cost and expenses		62,076	92.9		66,814	95.8		64,594	95.0		691,593
OPERATING INCOME		4,759	7.1		2,917	4.2		3,412	5.0		36,527
OTHER INCOME (EXPENSES):											
Interest income		63	0.1		45	0.1		29	0.0		307
Interest expense		(438)	(0.6)		(408)	(0.6)		(306)	(0.4)		(3,279)
Foreign exchange gains (losses)		2	0.0		(29)	(0.0)		(0)	(0.0)		(4)
Net gains on sales of other investments		218	0.3		16	0.0		49	0.1		530
Losses on write-down of other investments		(289)	(0.4)		(524)	(0.8)		(343)	(0.5)		(3,670)
Other — net		47	0.0		17	0.0		18	0.0		200
Other income (expenses) — net		(397)	(0.6)		(883)	(1.3)		(553)	(0.8)		(5,916)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES											
		4,362	6.5%		2,034	2.9		2,859	4.2		30,611
INCOME TAX EXPENSE (BENEFIT) EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES											
		(861)	(1.3)		1,002	1.4		1,132	1.7		12,121
NET INCOME											
		5,080	7.6		1,067	1.5		1,886	2.8		20,197
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS											
		97	0.1		352	0.5		348	0.5		3,723
NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC											
	¥	5,177	7.7%	¥	1,419	2.0%	¥	2,234	3.3%	\$	23,920

(1) The U.S. dollar amounts represent translation of yen amounts at the rate of ¥93.40 which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York prevailing as of March 31, 2010.

Year Ended March 31, 2010 Compared to the Year Ended March 31, 2009

Total revenues

Our total revenues were ¥68.0 billion for the fiscal year ended March 31, 2010, a decrease of 2.5% compared to ¥69.7 billion for the previous fiscal year. The decrease was primarily due to the decrease in systems integration revenues.

Connectivity and outsourcing services revenues. Revenues from connectivity services and outsourcing services, which comprise our connectivity services for corporate use, connectivity services for home use, outsourcing services increased by 5.4% to ¥37.0 billion for the fiscal year ended March 31, 2010 from ¥35.1 billion for the previous fiscal year.

- *Connectivity services for corporate use.* Revenues for connectivity service for corporate use depend on the increase in the number of contracts for connectivity services and the increase in customers' bandwidth usage. For the fiscal year ended March 31, 2010, while there was price pressure for connectivity services, revenues increased by 5.4% to ¥13.8 billion from ¥13.1 billion for the previous fiscal year as a result of the increase in total contracts and contracted bandwidth. In particular, IJ Mobile service increased by 120.9% to ¥1.4 billion for the fiscal year ended March 31, 2010 from ¥0.6 billion for the previous fiscal year. For IP services, while over 1Gbps IP reached 125 contracts at the end of fiscal year ended March 2010 driven by demands for higher bandwidth especially among content business operators and ISPs, IP connectivity service revenues slightly decreased by 0.7% to ¥9.2 billion from ¥9.3 billion for the previous fiscal year. Broadband services increased by 1.8% to ¥2.9 billion for the fiscal year ended March 31, 2010. Although we do not expect prices of connectivity services to increase significantly in the fiscal year ending March 31, 2011 due to continued competition, we believe that customer demand for higher bandwidth and the increase in the number of contracts will continue contributing to revenue growth as the use of broadband by corporate customers expands. We will also focus on acquiring new customers as well as increase the use bandwidth of existing customers by maintain the quality of our services to differentiate them from those of our competitors.
- *Connectivity services for home use.* Revenues for connectivity services for home use depend on the size of our customer base and pricing. For the fiscal year ended March 31, 2010, revenues increased by 4.8% to ¥6.9 billion from ¥6.5 billion for the previous fiscal year. Revenues from hi-ho increased by 5.7% compared to the previous fiscal year, driven by the shift from ADSL to optical line services which charges higher monthly fees. Mobile data communication service also contributed to revenue growth. Revenues from IJ brand and OEM also steadily increased.
- *Outsourcing services.* For outsourcing services, we are currently offering security-related, network-related, server-related and data center-related outsourcing services, such as firewall service, email service and web hosting services mainly toward our internet connectivity customer base. Our revenues depend on our ability to cross-sell the existing outsourcing services, add new features to existing outsourcing services and introduce new services. During the fiscal year ended March 31, 2010, IJ expanded features of major selling services such as the "IJ SMX service", "Secure Web Gateway Service" and "IJ Direct Access Solution" and also introduced the new cloud computing service "IJ GIO". For the fiscal year ended March 31, 2010, our outsourcing services revenues increased by 5.7% to ¥16.3 billion from ¥15.4 billion for the previous fiscal year as a result of steady growth from each service line-up. We believe that corporate customers will increasingly rely on the expanding range of our outsourcing services to enhance their productivity and to reduce costs. As a result, we expect our revenue from outsourcing services to continue to grow. Further, while we focus on increasing revenues from existing customers, we will also make efforts to attract new customers by maintaining the quality of our services to differentiate them from those of our competitors.

Systems integration revenues. Generally speaking, while Japanese customers, especially blue-chip companies, use ready-made network services to build their network system, they also require customization to meet their individual needs. To meet such needs, IJ believes that it is important for us to provide systems construction together with outsourcing services as a total network solution provider. As a result, we have been focusing on providing systems construction to our corporate customers. The systems construction, which we provide with our IP expertise, is mainly IP-related network construction such as VPN network and IP-based server system construction such as web server and email server systems. Systems construction can be largely affected by the economic situation, as corporations would presumably reduce their IT-related investments unless such investments are deemed critical. For the fiscal year ended March 31, 2010, our revenues from systems integration, which include equipment sales related to systems integration, decreased by 10.6% to ¥30.1 billion from ¥33.6 billion for the previous fiscal year. The decrease was due to a decrease in systems construction revenues of 22.5% for the fiscal year ended March 31, 2010 compared to the previous fiscal year and systems operation and maintenance decreased by 1.4% to ¥18.7 billion for the fiscal year ended March 31, 2010 compared to the previous fiscal year. Systems construction revenues were significantly affected by the weak Japanese economy, as it was in the previous fiscal year, many large projects were yet delayed or postponed. Systems operation and maintenance revenues decreased due to pressure for cost reduction from large accounts and the decrease in number of new engagements for systems construction. The order backlog for systems integration and equipment sales as of March 31, 2010 was ¥13.6 billion, a decrease of 8.8% compared to March 31, 2009. The order backlog for systems construction including equipment sales as of March 31, 2010 increased by 10.5% to ¥3.2 billion while the order backlog for systems operation and maintenance decreased by 13.4% to ¥10.4 billion, respectively, compared to March 31, 2009.

For the fiscal year ending March 31, 2011, it is difficult for us to expect a full recovery in IT-related investments from Japanese corporate customers, which as a result, may have an adverse effect on our systems integration revenue growth and future operations. We expect one-time revenues from systems construction to continue to be strongly affected by the Japanese economic situation and also by seasonal fluctuations in the fiscal year. There may also be cancellations or scale-down of large contracts from certain clients. The primary seasonal variations in systems construction revenues relate to budgetary cycles of Japanese companies which mostly end in March. Systems construction revenues can also fluctuate significantly in accordance with the absence or addition of a single large order, and are accordingly difficult to forecast. However, for the mid-to long term, we believe demand for these IT-related investments from Japanese companies to increase as it is indispensable for Japanese companies to facilitate the use of new IP technology to increase their competitiveness against their competitors. IP technology is also available to reduce their network-related costs. We anticipate Japanese companies to increase the use of IT-related investments for their network systems when the general economic situation and the business results of the particular Japanese companies recover.

Equipment sales revenues. For equipment sales, we sell third-party equipment to meet the one-stop needs of our customers. For the fiscal year ended March 31, 2010, our equipment sales decreased by 23.2% to ¥0.8 billion from ¥1.0 billion for the previous fiscal year.

ATM Operation Business revenues. Our revenues from the ATM operation business were ¥0.2 billion for the fiscal year ended March 31, 2010 compared to ¥23 million for the previous fiscal year. The revenue of ATM operation business increased as the number of serviced ATMs has increased to 136 ATMs as of March 31, 2010 from 10 ATMs as of March 31, 2009. Trust Networks receives a commission for each bank withdrawal transaction when customers use their serviced ATMs.

Total cost of revenues

Our total cost of revenues decreased by 3.7% to ¥54.1 billion for the fiscal year ended March 31, 2010 from ¥56.1 billion for the previous fiscal year. The decrease was mainly due to the decrease in cost of systems integration.

Cost of connectivity and outsourcing services revenues. Our cost of connectivity and outsourcing services revenues increased by 4.1% to ¥30.5 billion for the fiscal year ended March 31, 2010 from ¥29.3 billion for the previous fiscal year. The increase was largely due to the increase in outsourcing related costs, network operation related costs and personnel related costs. Backbone costs for the fiscal year ended March 31, 2010 was ¥3.7 billion, nearly the same as the previous fiscal year. The gross margin ratio in connectivity and outsourcing services revenues, which is the ratio of (1) the amount obtained by subtracting cost of connectivity and outsourcing services revenues from connectivity and outsourcing services revenues to (2) connectivity and outsourcing services revenues, increased to 17.4% for the fiscal year ended March 31, 2010 from 16.4% for the previous fiscal year.

Cost of systems integration revenues. Our cost of systems integration revenues decreased by 14.2% to ¥21.9 billion for the fiscal year ended March 31, 2010 from ¥25.5 billion for the previous fiscal year. Outsourcing related costs largely decreased as a result of reduction of full-time outsourcing personnel. Purchasing costs also decreased along with the decrease in systems construction revenues. The gross margin ratio in systems integration revenues, which is the ratio of (1) the amount obtained by subtracting cost of systems integration revenues from systems integration revenues to (2) systems integration revenues, increased to 27.2% for the fiscal year ended March 31, 2010 from 24.1% for the previous fiscal year.

Cost of equipment sales. Our cost of equipment sales decreased by 24.8% to ¥0.6 billion for the fiscal year ended March 31, 2010 from ¥0.9 billion for the previous fiscal year. The decrease is primary due to the decrease in equipment sales revenues. The gross margin ratio, which is the ratio of (1) the amount obtained by subtracting cost of equipment sales from equipment sales revenues to (2) equipment sales revenues, increased to 14.2% for the fiscal year ended March 31, 2010 from 12.3% for the previous fiscal year.

Cost of ATM Operation Business. The cost of the ATM operation business was ¥964 million for the fiscal year ended March 31, 2010 compared to ¥422 million for the previous fiscal year. Gross margin was a loss of ¥757 million for the fiscal year ended March 31, 2010 compared to a loss of ¥399 million for the previous fiscal year. The cost of ATM operation business increased as Trust Networks increased the number of ATMs. As of March 31, 2010, 136 ATMs were in place.

Total costs and expenses

Total costs and expenses, which include total cost of revenues, sales and marketing expenses, general and administrative expenses and research and development expenses, decreased by 3.3% to ¥64.6 billion for the fiscal year ended March 31, 2010 from ¥66.8 billion for the previous fiscal year. While cost of connectivity and outsourcing services and ATM operation business and sales and marketing expenses increased along with the increase in revenues, the decrease in systems integration costs and general and administrative expenses resulted in the decrease in total costs and expenses. Costs of systems integration decreased as outsourcing related costs largely decreased as a result of reduction of full-time outsourcing personnel, and purchasing costs decreased along with the decrease in systems construction revenue.

Sales and marketing. Sales and marketing expenses increased by 16.7% to ¥5.4 billion for the fiscal year ended March 31, 2010 from ¥4.6 billion for the previous fiscal year. The increase was mainly due to the increase in personnel related expenses of ¥0.4 billion and depreciation related to the new back-office system which began its operation from November 2010.

General and administrative. General and administrative expenses decreased by 14.2% to ¥4.8 billion for the fiscal year ended March 31, 2010 from ¥5.6 billion for the previous fiscal year. The decrease was largely due to the decrease in outsourcing related expenses and general expenses as a result of tight cost control.

Research and development. Research and development expenses decreased by 24.6% to ¥313 million for the fiscal year ended March 31, 2010 from ¥415 million for the previous fiscal year.

Operating income

As a result of the foregoing factor, operating income increased by 16.9% to ¥3.4 billion for the fiscal year ended March 31, 2010 from ¥2.9 billion for the previous fiscal year. While operating loss related to the ATM operation business increased, gross margin for connectivity and outsourcing service increased and general and administrative expenses decreased.

Other income (expenses)-net

Other expenses-net of ¥0.6 billion was recorded for the fiscal year ended March 31, 2010, compared to net other expense of ¥0.9 billion for the previous fiscal year as impairment losses on equity securities and interest expense decreased compared to fiscal year ended March 31, 2009.

Interest income. Interest income was ¥29 million for the fiscal year ended March 31, 2010, compared to ¥45 million for the previous fiscal year. The decrease mainly resulted from the drop in the interest rate in Japan.

Interest expense. Interest expense, comprised of interest expense in respect of bank borrowings and capital lease obligations, amounted to ¥306 million for the fiscal year ended March 31, 2010 compared to ¥408 million for the previous fiscal year. The decrease was mainly resulted from the drop in the interest rate in Japan due to the decrease in acquisition of assets by entering into capital leases and the decrease in bank borrowings.

Foreign exchange losses. Foreign exchange losses amounted to ¥0.4 million for the fiscal year ended March 31, 2010 compared to losses of ¥29 million for the previous fiscal year.

Net gains on sales of other investments. For the fiscal year ended March 31, 2010, we recorded net gains on sales of other investments of ¥50 million, which resulted from the sale of available-for-sale securities, compared to net gains of ¥16 million for the previous fiscal year.

Impairment of other investments. For the fiscal year ended March 31, 2010, we recorded losses on write-down of other investments of ¥343 million from nonmarketable, available-for-sale securities and others compared to losses of ¥524 million for the previous fiscal year.

Other-net. For the fiscal year ended March 31, 2010, we recorded other income of ¥19 million, most of which is dividend income, compared to income of ¥17 million, most of which is also dividend income, for the previous fiscal year.

Income from operations before income tax expense and equity in net income of equity method investees

We recorded income from operations before income tax expense and equity in net income of equity method investees of ¥2.9 billion for the fiscal year ended March 31, 2010 compared to income from operations before income tax expense and equity in net income of equity method investees of ¥2.0 billion for the previous fiscal year. The increase primarily reflects the increase in operating income and the decrease in net impairment loss on equity securities.

Income tax expense

For the fiscal year ended March 31, 2010, we recorded an income tax expense of ¥1.1 billion compared to income tax expense of ¥1.0 billion for the previous fiscal year.

As of March 31, 2010, the valuation allowance for deferred tax assets which has been provided, related principally to operating loss carryforwards and net loss on other investment, at amounts which are not considered more likely than not to be realized. The net changes in the valuation allowance for deferred tax assets were a decrease of ¥453 million for the year ended March 31, 2010. The decrease in valuation allowance was mainly due to as follows:

- The release of valuation allowance of ¥213 million based on the increase in the expected future taxable income.
- The decrease in valuation allowance of ¥99 million resulted from the increase in unrealized gains on available-for-sale-securities.

Equity in net income of equity method investees

Equity in net income of equity method investees was ¥159 million for the fiscal year ended March 31, 2010 compared to equity in net income of ¥35 million for the previous fiscal year. This increase was mainly due to the decrease in net loss recorded in i-revo.

Net loss attributable to noncontrolling interests

Net loss attributable to noncontrolling interests was ¥348 million for the fiscal year ended March 31, 2010 compared to ¥352 million for the previous fiscal year, both relate to GDX and Trust Networks.

Net income attributable to IJ

Net income attributable to IJ for the fiscal year ended March 31, 2010 was ¥2.2 billion compared to ¥1.4 billion for the previous fiscal year. The increase primarily reflects the increase in operating income by ¥0.5 billion compared to the previous year, decrease in impairment losses on equity securities by ¥0.2 billion compared to the previous fiscal year and decrease in interest expense by ¥0.1 billion compared to the previous fiscal year.

Year Ended March 31, 2009 Compared to the Year Ended March 31, 2008

Total revenues

Our total revenues increased 4.3% to ¥69.7 billion for the fiscal year ended March 31, 2009 from ¥66.8 billion for the previous fiscal year. These increases were primarily due to an increase in monthly recurring revenues from connectivity and outsourcing services and systems operation and maintenance of systems integration revenues.

Connectivity and outsourcing services revenues. Revenues from connectivity services and outsourcing services, which comprise our connectivity services for corporate use, connectivity services for home use, outsourcing services increased by 12.1% to ¥35.1 billion for the fiscal year ended March 31, 2009 from ¥31.3 billion for the previous fiscal year.

- *Connectivity services for corporate use.* Revenues from connectivity services for corporate use increased by 8.2% to ¥13.1 billion for the fiscal year ended March 31, 2009 from ¥12.1 billion for the previous fiscal year. IP service revenues, the service mainly used for corporate headquarters and data centers, increased by 2.8% for the fiscal year ended March 31, 2009 compared to the previous year and broadband services increased by 8.7% for the fiscal year ended March 31, 2009 as a result of steady demands for network expansion and the shift to higher bandwidths. Contracts of over 1 Gbps increased to 94 contracts compared to 70 contracts at the end of March 2008, especially among content business operators and ISPs. IJ Mobile service, a mobile data communication services for corporate use are performing well, contributing to revenue growth.
- *Connectivity services for home use.* Despite the decrease in revenues from IJ4U and OEM, revenues from connectivity services for home use increased by 20.4% to ¥6.5 billion for the fiscal year ended March 31, 2009 from ¥5.4 billion for the previous fiscal year. This significant increase was mainly due to additional revenues incurred by hi-ho, which we acquired in June 2007, of ¥5.0 billion (12 months) for the fiscal year ended March 31, 2009 compared to ¥3.8 billion for the fiscal year ended March 31, 2008 (10 months).
- *Outsourcing services.* Our outsourcing services revenues increased by 12.2% to ¥15.4 billion for the fiscal year ended March 31, 2009 from ¥13.7 billion for the previous fiscal year. This increase was mainly due to a steady increase in revenues from services such as security-related and e-mail related outsourcing services for anti-spam protection, data center services and network related solutions. The steady increase in outsourcing services revenues was affected by an increase in demand for outsourcing services by corporate customers.

Systems integration revenues. Our revenues from systems integration, which include equipment sales related to systems integration, decreased by 1.1% to ¥33.6 billion for the fiscal year ended March 31, 2009 from ¥34.0 billion for the previous fiscal year. The decrease was due to a decrease in systems construction revenues of 18.7% for the fiscal year ended March 31, 2009 compared to the previous fiscal year, offsetting the increase in recurring revenues from systems operation and maintenance of 18.7% for the fiscal year ended March 31, 2009 compared to the previous fiscal year. Systems construction revenues were significantly affected by the weak Japanese economy, resulting in many large projects getting delayed or postponed. The order backlog for systems integration and equipment sales as of March 31, 2009 was ¥14.9 billion, a decrease of 6.5% compared to March 31, 2008. The order backlog for systems construction including equipment sales as of March 31, 2009 decreased by 39.9% to ¥2.9 billion and the order backlog for systems operation and maintenance increased by 7.7% to ¥12.0 billion compared to the amount as of March 31, 2008, respectively.

Equipment sales revenues. Our equipment sales decreased by 35.0% to ¥1.0 billion for the fiscal year ended March 31, 2009 from ¥1.5 billion for the previous fiscal year. Equipment sales revenues has been decreasing year by year because we have been focusing on providing systems construction that have higher margin to our corporate customers instead of providing equipment sales which has a relatively lower margin.

ATM Operation Business revenues. Our revenues from the ATM operation business were ¥23 million for the fiscal year ended March 31, 2009 compared to ¥4 million for the previous fiscal year. The ATM operation business is conducted by our consolidated subsidiary, Trust Networks which operates ATMs and its network systems to provide ATMs service. It receives commission for each bank withdrawal transaction when customers use their serviced ATMs. During the fiscal year ended March 31, 2009, Trust Networks completed its field test of 10 ATMs operations.

Total cost of revenues

Our total cost of revenues increased by 6.2% to ¥56.1 billion for the fiscal year ended March 31, 2009 from ¥52.9 billion for the previous fiscal year. The increase was mainly due to the cost of connectivity and outsourcing services revenues and the additional cost related to ATM operation business.

Cost of connectivity and outsourcing services revenues. The cost of connectivity and outsourcing services revenues increased by 12.6% to ¥29.3 billion for the fiscal year ended March 31, 2009 from ¥26.0 billion for the previous fiscal year. The increase was largely due to the increase in network operation related costs including upgrade of large backbone routers which comes once in every four to five years and the additional costs incurred by hi-ho of ¥4.5 billion (12 months) for the fiscal year ended March 31, 2009 compared to ¥4.0 billion for the fiscal year ended March 31, 2008 (10 months). Backbone costs for the fiscal year ended March 31, 2009 increased by 6.4% to ¥3.7 billion from ¥3.5 billion for the previous fiscal year. Local access line costs for the fiscal year ended March 31, 2009 increased by 14.2% to ¥8.1 billion from ¥7.1 billion for the previous fiscal year. Additionally, costs related to GDX and ODS, newly established subsidiaries to engage in new business developments, were ¥162 million for the fiscal year ended March 31, 2009 and ¥26 million for the previous fiscal year. The gross margin ratio in connectivity and outsourcing services revenues, which is the ratio of (1) the amount obtained by subtracting cost of connectivity and outsourcing services revenues from connectivity and outsourcing services revenues to (2) connectivity and outsourcing services revenues, decreased to 16.4% for the fiscal year ended March 31, 2009 from 16.8% for the previous fiscal year.

Cost of systems integration revenues. The cost of systems integration revenues were ¥25.5 billion for the fiscal year ended March 31, 2009, nearly the same amount as the previous fiscal year. While purchasing costs largely decreased along with the decrease in systems construction revenues, outsourcing and personnel related and network operation related costs increased compared to the previous fiscal year. The gross margin ratio in systems integration revenues, which is the ratio of (1) the amount obtained by subtracting cost of systems integration revenues from systems integration revenues to (2) systems integration revenues, decreased to 24.1% for the fiscal year ended March 31, 2009 from 25.0% for the previous fiscal year.

Cost of equipment sales. Our cost of equipment sales decreased by 33.6% to ¥0.9 billion for the fiscal year ended March 31, 2009 from ¥1.3 billion for the previous fiscal year. The decrease is primary due to the decrease in equipment sales revenues. The gross margin ratio, which is the ratio of (1) the amount obtained by subtracting cost of equipment sales revenues from equipment sales revenues to (2) equipment sales revenues, decreased to 12.3% for the fiscal year ended March 31, 2009 from 14.2% for the previous fiscal year.

Cost of ATM Operation Business. The cost of the ATM operation business was ¥422 million for the fiscal year ended March 31, 2009 compared to ¥17 million for the previous fiscal year. Gross margin was a loss of ¥399 million for the fiscal year ended March 31, 2009 compared to ¥13 million for the previous fiscal year. The cost of ATM operation business increased as Trust Networks placed 10 ATMs as a testing phase during the fiscal year ended March 31, 2009.

Total costs and expenses

Total costs and expenses, which include total cost of revenues, sales and marketing expenses, general and administrative expenses and research and development expenses, increased by 7.6% to ¥66.8 billion for the fiscal year ended March 31, 2009 from ¥62.1 billion for the previous fiscal year. The increase in total costs and expenses was primarily a result of an increase in the cost of connectivity and outsourcing services, including the additional costs related to hi-ho services, the new subsidiaries: GDX and ODS, the additional costs related to ATM operation business, and the increase in sales and marketing expenses, general and administrative expenses and research and development expenses including expenses related to new subsidiaries such as IJ-II.

Sales and marketing. Sales and marketing expenses increased by 7.0% to ¥4.6 billion for the fiscal year ended March 31, 2009 from ¥4.3 billion for the previous fiscal year. The increase was mainly due to the increase in personnel related expenses of ¥0.4 billion and the additional expenses related to hi-ho of 12 months.

General and administrative. General and administrative expenses increased by 21.6% to ¥5.6 billion for the fiscal year ended March 31, 2009 from ¥4.6 billion for the previous fiscal year. The increase was mainly due to the increase in expenses related to four new subsidiaries and personnel related expenses. There were also losses of ¥0.4 billion in the fourth quarter of the fiscal year including disposal of property and equipment for our services and disposal of software such as for back-office systems.

Research and development. Research and development expenses increased by 72.7% to ¥415 million for the fiscal year ended March 31, 2009 from ¥240 million for the previous fiscal year. The increase was primary due to an increase in personnel expenses related to research and development. IJ established IJ-II in June 2008 which engages in research and development of Internet-related basic technology development.

Operating income

As a result of the foregoing factor, operating income decreased by 38.7% to ¥2.9 billion for the fiscal year ended March 31, 2009 from ¥4.8 billion for the previous fiscal year as gross margin for systems construction decreased while there were operating losses for four new subsidiaries of ¥1.3 billion including the loss from Trust Networks of ¥0.7 billion.

Other income (expenses)-net

Other expenses-net of ¥0.9 billion was recorded for the fiscal year ended March 31, 2009, compared to net other expense of ¥0.4 billion for the previous fiscal year. There were net impairment losses of ¥0.5 billion on nonmarketable and available-for-sale equity securities.

Interest income. Interest income was ¥45 million for the fiscal year ended March 31, 2009, compared to ¥63 million for the previous fiscal year. The decrease mainly resulted from the drop in the interest rate in Japan.

Interest expense. Interest expense, comprised of interest expense in respect of bank borrowings and capital lease obligations, amounted to ¥408 million for the fiscal year ended March 31, 2009 compared to ¥438 million for the previous fiscal year. The decrease was mainly due to the decrease in bank borrowings.

Foreign exchange gains (losses). Foreign exchange losses amounted to ¥29 million for the fiscal year ended March 31, 2009 compared to gains of ¥1 million for the previous fiscal year.

Net gains on sales of other investments. For the fiscal year ended March 31, 2009, we recorded net gains on sales of other investments of ¥16 million, which resulted from the sale of certain nonmarketable and available-for-sale security, compared to net gains of ¥218 million for the previous fiscal year.

Impairment of other investments. For the fiscal year ended March 31, 2009, we recorded impairment of other investments of ¥524 million from nonmarketable, available-for-sale securities and others compared to losses of ¥289 million for the previous fiscal year.

Other-net. For the fiscal year ended March 31, 2009, we recorded other income of ¥17 million, most of which is dividend income, compared to income of ¥47 million, most of which is also dividend income, for the previous fiscal year.

Income from operations before income tax expense (benefit) and equity in net income (loss) of equity method investees

We recorded income from operations before income tax expense and equity in net income of equity method investees of ¥2.0 billion for the fiscal year ended March 31, 2009 compared to income from operations before income tax benefit and equity in net loss of equity method investees of ¥4.4 billion for the previous fiscal year. The decrease primarily reflects the decrease in operating income and the increase in net impairment loss on equity securities.

Income tax expense (benefit)

For the fiscal year ended March 31, 2009, we recorded an income tax expense of ¥1.0 billion compared to income tax benefit of ¥0.9 billion for the previous fiscal year. The income tax expense for the fiscal year ended March 31, 2009 was mainly due to deferred tax expenses of ¥0.6 billion whereas there was deferred tax benefit of ¥1.7 billion for the previous fiscal year, resulting from the release of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and other temporary differences. We started the consolidated tax declaration for the fiscal year ended March 31, 2009.

As of March 31, 2009, the valuation allowance for deferred tax assets which has been provided, related principally to operating loss carryforwards and net loss on other investment, at amounts which are not considered more likely than not to be realized. The net changes in the valuation allowance for deferred tax assets were an increase of ¥58 million. The increase in valuation allowance was mainly due to as follows:

- The increase in valuation allowance of ¥67 million resulted from the decrease in unrealized gains on available-for-securities.

Equity in net income (loss) of equity method investees

Equity in net income of equity method investees was ¥35 million for the fiscal year ended March 31, 2009 compared to equity in net losses of ¥143 million for the previous fiscal year. While equity in net income of equity method investees was recorded in Multifeed, equity in net loss of equity method investees was mainly recorded in i-revo.

Net loss attributable to noncontrolling interests

For the fiscal year ended March 31, 2009, net loss attributable to noncontrolling interests was ¥352 million compared to net loss attributable to noncontrolling interests of ¥97 million for the previous fiscal year, mainly related to GDX and Trust Networks.

Net income attributable to IJ

Net income attributable to IJ for the fiscal year ended March 31, 2009 was ¥1.4 billion compared with ¥5.2 billion for the previous fiscal year. The decrease primarily reflects the decrease in operating income of ¥1.8 billion compared to the previous year affected by the decrease in gross margin from systems construction, impairment losses on nonmarketable and available-for-sale equity securities of ¥0.5 billion compared to net gains of ¥0.2 billion for the previous fiscal year and income tax expense of ¥1.0 billion compared to recording of an income tax benefit of ¥0.9 billion for the previous fiscal year. There were also additional operating losses related to four new subsidiaries of ¥1.3 billion for the fiscal year ended March 31, 2009 compared to ¥0.2 billion for the previous fiscal year.

Segment Reporting

From the fiscal year ended March 31, 2009 onwards, we have disclosed revenues and costs for the ATM operation business because the amount of losses related to this business is material.

Currently, we have two business segments: Network services and systems integration business and ATM operation business. Network services and systems integration business is comprised of: Connectivity and outsourcing services, Systems integration and Equipment sales.

The following tables present net revenues and operating income (loss) for fiscal years 2008, 2009 and 2010 by segment.

Business Segment Summary:

	For the fiscal year ended March 31,			
	2008	2009	2010	2010
	(millions of yen)			(thousands of U.S. dollars)
Net revenues:				
Network service and systems integration business	¥ 66,831	¥ 69,961	¥ 68,228	\$ 730,495
ATM operation business	4	23	207	2,213
Elimination	-	253	429	4,588
Total	66,835	69,731	68,006	728,120
Operating income (loss):				
Network service and systems integration business	4,854	3,663	4,435	47,486
ATM operation business	(89)	(705)	(1,001)	(10,719)
Elimination	6	41	22	240
Total	¥ 4,759	¥ 2,917	¥ 3,412	\$ 36,527

Year Ended March 31, 2010 Compared to the Year Ended March 31, 2009

Network services and Systems Integration Business

Net revenues from our network services and systems integration business, before elimination of intersegment revenues, decrease by 2.5% to ¥68.2 billion for the fiscal year ended March 31, 2010 compared to ¥70.0 billion for the previous fiscal year. The decrease in revenues was primarily due to the decrease in systems integration revenues. Operating expense of our network services and systems integration business for the fiscal year ended March 31, 2010 decrease to ¥63.8 billion compared to ¥66.3 billion for the previous fiscal year mainly due to the decrease in costs of systems integration revenues and decrease in general and administrative expenses. As a result, operating income of our network services and systems integration business for the fiscal year ended March 31, 2010 increased to ¥4.4 billion compared to ¥3.7 billion for the previous fiscal year.

ATM Operation Business

Net revenues from our ATM operation business, before elimination of intersegment revenues, increased by ¥183 million to ¥207 million for the fiscal year ended March 31, 2010 compared to ¥23 million for the previous fiscal year. Operating expense of our ATM operation business for the fiscal year ended March 31, 2010 was ¥1.2 billion compared to ¥0.7 billion for the previous fiscal year. As of March 31, 2010, 136 ATMs were in place. As a result, operating loss of our ATM operation business for the fiscal year ended March 31, 2010 increased to ¥1.0 billion compared to ¥0.7 billion for the previous fiscal year.

Year Ended March 31, 2009 Compared to the Year Ended March 31, 2008

Network services and Systems Integration Business

Net revenues from our Network services and systems integration business, before elimination of intersegment revenues, increased by 4.7% to ¥70.0 billion for the fiscal year ended March 31, 2009 compared to ¥66.8 billion for the previous fiscal year. The increase in revenues was primarily due to the continuous increase in revenues from our monthly recurring services; connectivity and outsourcing services and systems operation and maintenance. Operating expense of our network services and systems integration business for the fiscal year ended March 31, 2009 increased to ¥66.3 billion compared to ¥62.0 billion for the previous fiscal year mainly due to the increase in costs of connectivity and outsourcing services revenues. As a result, operating income of our network services and systems integration business for the fiscal year ended March 31, 2009 decreased to ¥3.7 billion compared to ¥4.9 billion for the previous fiscal year.

ATM Operation Business

Net revenues from our ATM operation business, before elimination of intersegment revenues, increased by ¥19 million to ¥23 million for the fiscal year ended March 31, 2009 compared to ¥4 million for the previous fiscal year. Operating expense of our ATM operation business for the fiscal year ended March 31, 2009 was ¥728 million compared to ¥93 million for the previous fiscal year. During the fiscal year ended March 31, 2009, Trust Networks completed its field test of 10 ATMs operations. As a result, operating loss of our ATM operation business for the fiscal year ended March 31, 2009 increased to ¥705 million compared to ¥89 million for the previous fiscal year.

Application of Critical Accounting Policies

In reviewing our financial statements, you should consider the sensitivity of our reported financial condition and results of operations to changes in the conditions and assumptions underlying the estimates and judgments made by our management in applying critical accounting policies.

The preparation of financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. Actual results may differ from these estimates, judgments and assumptions. Note 1 to our consolidated financial statements includes a summary of the significant accounting policies used in the preparation of our financial statements. Certain accounting policies are particularly critical because of their significance to our reported results and because of the possibility that future events may differ significantly from the conditions and assumptions underlying the estimates used and judgments made by our management in preparing our financial statements.

The Company has discussed the development and selection of critical accounting policies and estimates with our Board of Directors, and the Board of Directors has reviewed the disclosure relating to these, which are included in this "Operating and Financial Review and Prospects." For all of these policies, we caution that future events rarely develop exactly as forecast, and even the best estimates may require adjustment.

Revenue recognition

Revenues from connectivity services consist principally of connectivity services for corporate use and home use. Connectivity services for corporate use represent dedicated Internet access type services, such as IP service and Data Center Connectivity service, broadband Internet connectivity services that uses fiber optic access and ADSL access, such as IJ FiberAccess/F Service and IJ DSL/F Service and wireless broadband Internet connectivity services, that is IJ Mobile Service. Connectivity services for home use are provided under IJ brand such as IJ4U and IJmio, hi-ho brand and others, and consist of dial-up services, optical based or ADSL based broadband services and wireless broadband internet connectivity services. The term of these contracts is one year for connectivity services for corporate use and generally one month or one year for connectivity services for home use. All these services are billed and recognized monthly on a straight-line basis.

Outsourcing services revenues consist principally of sales of various Internet access-related services such as security related services, network related services, server-related services, data center related services, wide-area Ethernet services and call-center services. The terms of these services are generally for one year and revenues are recognized on a straight-line basis during the service period.

Initial set up fees received in connection with connectivity services and outsourcing services are deferred and recognized over the estimated average period of the subscription for each service.

Systems integration services arrangements can be divided into two major categories; (1) those in which the Company resells third-party off-the-shelf software and (2) those in which the Company does not resell or license any software products. The following describes those arrangements and their accounting in more detail:

(a) System Integration Services Arrangements That Include Software

System integration services involve the construction of a customer's internet network system and provide related maintenance, monitoring and other operating services. These arrangements generally include the following deliverables:

- System Construction Services – include all or some of the following elements depending on arrangements to meet each of our customers' requirements: consulting, project planning, system design, and development of network systems. These services will also include the installation of the software as well as configuration and installation of the hardware.
- Software – the Company resell to our customer third-party software such as, Oracle or Windows, which is installed by us during the system development process. These software products are developed by the third-party software vendors and are often sold by those vendors without hardware or other services.
- Hardware – the Company also resell third-party hardware, primarily servers, switches and routers, which the Company install during the system development process. The hardware is generic hardware that is often sold by third party manufacturers and resellers without any software. That is, the functionality of the hardware is not dependent on the software.
- Monitoring and Operating Service – the Company monitor our customer's network activity and internet connectivity to detect and report problems. The Company also provide constant data backup services.
- Hardware Maintenance Service – the Company repair or replace any malfunctioning parts of the hardware.

The system construction services are generally delivered over a three-month period. All hardware and software are delivered and installed during this period. Customers are required to pay a specified fixed fee that is not payable until after the system has been completed and accepted by our customers.

Monitoring, operating and hardware maintenance services generally commence once our customers have accepted the system and generally are included for one to five years. Our contracts include a stated annual fee for these services.

The software, system construction services and monitoring and operating services are subject to the scope of Accounting Standards Codification ("ASC") Topic 985-605. ASC Topic 605-10-S99 applies to the sale of the hardware equipment and ASC605-20-25 applies to the hardware maintenance services.

Deliverables not subject to ASC Topic 985-605 should be separated from those subject to ASC Topic 985-605 using the principles in ASC Topic 605-25.

Revenue allocated to the hardware and hardware maintenance is recognized based on the guidance in ASC Topic 605-20-25-3. Revenue related to the hardware maintenance services is recognized on a straight-line basis over the contract period. Revenue related to the hardware is not recognized until customer acceptance is received because title to the hardware does not transfer to our customers until formal acceptance is received.

Revenue allocated to the software, system construction services and monitoring and operating services is accounted for under ASC Topic 985-605. The Company has been able to establish vendor-specific objective evidence (VSOE) of fair value of the monitoring and operating services based on separate renewals of these services that are consistently priced within a narrow range. Additionally, these services are not essential to the functionality of the hardware and software system and are described in our arrangements such that the total price of the arrangement would be expected to vary as a result of the inclusion or exclusion of the services (ASC Topic 985-605-25-78). As a result the Company allocates revenue to such services based on VSOE and recognizes the revenue on a straight-line basis over the contract period. The Company allocates the residual amount to the software and system construction services.

The revenue allocated to the software and system construction services is accounted using contract accounting as required by ASC Topic 985-605-25-77. System construction service revenues, which basically completed within three months, are recognized based on the completed-contract method because the Company is unable to bill customers and the title of constructed network systems is not transferred to customer unless customers are satisfied with and accept the completed systems.

(b) System Integration Arrangements That Do Not Include Software

The Company also enter into system integration services arrangements in which the Company does not resell third-party off-the-shelf software. These arrangements generally include all the deliverables listed above under "System Integration Services Arrangements That Include Software", except for the software deliverable. The Company evaluated these arrangements under ASC Topic 605-25 to determine the separate units of accounting.

Consistent with system integration arrangements that include software, the hardware maintenance services and operating and monitoring services qualify as separate units of accounting. Revenue allocated to these services is recognized on a straight-line basis over the contract period. System construction service revenues, which basically completed within three months, are recognized based on the completed-contract method because the Company is unable to bill customers and the title of constructed network systems is not transferred to customer unless customers are satisfied with and accept the completed systems.

The company evaluates the criteria outlined in ASC Topic 605-45, "Principal Agent Considerations" in determining whether it is appropriate to record the gross amount of revenues and related costs or the net amount earned in reporting Equipment sales. The Company records the gross amounts billed to its customers based on the following acts: (i) it is primary obligor in these transactions, (ii) it has latitude in establishing prices and selecting suppliers, and (iii) it is involved in the determination of the service specifications.

Equipment sales are recognized when equipment is delivered and accepted by the customer. Title to equipment passes when equipment is accepted by the customer.

ATM operation business revenues are mainly comprised of commission fees charged when customers withdraw their deposits from ATMs. The commission fees are recognized when the fees are charged to customers.

Useful lives of property and equipment

Property and equipment, net recorded on our balance sheet was ¥13.0 billion at March 31, 2010, representing 25.4% of our total assets. The values of our property and equipment, including purchased software and property and equipment under capital leases, are recorded in our financial statements at acquisition cost, and are principally depreciated or amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Our depreciation and amortization expenses for property and equipment for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥4.7 billion, ¥5.2 billion and ¥4.9 billion, respectively.

We estimate the useful lives of property and equipment in order to determine the amount of depreciation and amortization expense to be recorded in each fiscal year. We determine the useful lives of our assets at the time the assets are acquired and base our determinations on expected use, experience with similar assets, established laws and regulations as well as taking into account anticipated technological or other changes. Estimated useful lives at March 31, 2010, were as follows:

Item	Useful Lives
Data communications, office and other equipment	2 to 15 years
Leasehold improvements	3 to 15 years
Purchased software	5 years
Capitalized leases	4 to 7 years

If technological or other changes were to occur more rapidly or in a different form than anticipated or new laws or regulations are enacted or the intended use changes, the useful lives assigned to these assets may need to be shortened, or we may need to sell or write off the assets, resulting in recognition of increased depreciation and amortization or losses in future periods. Our losses on disposal of property and equipment for the fiscal years ended March 31, 2008, 2009 and 2010 were ¥72 million, ¥443 million and ¥639 million, respectively. The losses for the fiscal year ended March 31, 2008 were mainly due to disposal of software such as for back-office systems, and network equipment related to the closing of a network operation center. The losses for the fiscal year ended March 31, 2009 and 2010 increased as there were disposal of network equipment and software such as for back-office systems.

A one-year change in the useful life of these assets would have increased or decreased depreciation expense by approximately ¥1.9 billion and ¥1.2 billion, respectively.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized. When properties are retired or otherwise disposed of, the property and related accumulated depreciation accounts are relieved of the applicable amounts and any differences are included in operating cost and expenses.

Useful lives of intangible assets

Goodwill and intangible assets that are deemed to have indefinite useful lives are not amortized, but are subject to impairment testing. Impairment testing is performed annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs annual impairment tests on March 31. Intangible assets with finite useful lives, consisting of customer relationships and licenses, are amortized using the straight-line method over the estimated useful lives, which range from 3 to 25 years for customer relationships and 5 years for licenses.

Impairment of long-lived assets

Long-lived assets consist principally of property and equipment, including those items leased under capital leases and non-amortized intangible assets. We perform an impairment review for our long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. This analysis is separate from our analysis of the useful lives of our assets, but it is affected by some similar factors. Factors that we consider important which could trigger an impairment review include, but are not limited to, the impact of the following trends or conditions:

- significant decline in the market value of an asset,
- current period operating cash flow loss,
- introduction of competing technologies or services,
- significant underperformance of expected or historical cash flows,
- significant or continuing decline in subscribers,
- changes in the manner or use of an asset,
- disruptions in the use of network equipment under capital lease arrangements, and
- other negative industry or economic trends.

When we determine that the carrying amount of specific assets may not be recoverable based on the existence or occurrence of one or more of the above or other factors, we estimate the future cash inflows and outflows expected to be generated by the assets over their expected useful lives. We estimate the sum of expected undiscounted future cash flows based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. If the sum of the expected undiscounted future net cash flows is less than the carrying value of the assets, we record an impairment loss based on the fair values of the assets. Such fair values may be based on established markets, independent appraisals and valuations or discounted cash flows. If actual market and operating conditions under which assets are used are less favorable or shorter than those projected by management, resulting in reduced cash flows, additional impairment charges for assets not previously written-off may be required.

Allowance for doubtful accounts and uncollectible contractual prepayments

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. At March 31, 2009 and 2010, we maintained allowances for doubtful accounts of ¥123 million and ¥146 million, respectively. Management specifically analyzes accounts and loans receivable including historical bad debts, customer concentrations, customer credit-worthiness and current economic trends when evaluating the adequacy of the allowances for doubtful accounts. If the financial condition of our customers or debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Deferred tax assets

To date, our deferred tax assets have been offset by a valuation allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. As of March 31, 2010, we had tax operating loss carryforwards related to consolidated corporate tax of ¥5.2 billion. The tax operating loss carryforwards are available to offset future taxable income and will expire as shown in Note 10 of our consolidated financial statements. Deferred tax expense for the fiscal year ended March 31, 2010 was ¥0.8 billion. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if there are changes in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years, a release or an increase of valuation allowance against deferred income tax assets related to tax operating loss carryforwards and other temporary differences would result in the decrease or increase in deferred tax expense.

Valuation of investments

We have investments in securities, and the valuation of such investments, requires us to make judgments using information that is generally uncertain at the time, such as assumptions regarding future financial conditions and cash flows. As of March 31, 2010, we had investments in securities accounted for based on the cost-method in the amount of ¥2.6 billion. We routinely assess the impairment of our investments by considering whether any decline in value is other-than-temporary. The factors we consider are:

- the length of time and the extent to which the market value has been less than cost,
- the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment, and
- our intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. If a decline in value occurs and is deemed to be other-than-temporary, an impairment loss will be recorded to write-down the carrying value of the investment to fair value. If, after taking into account these considerations, the decline is judged to be other than temporary, the cost basis of the individual security is written down to a new cost basis and the amount of the write-down is accounted for as a realized loss.

Our unrealized loss on investments in marketable equity securities relates to Japanese companies (eight issuers) in various industries. The unrealized losses on these securities were due principally to a temporary decline in the stock market. The fair value of each investment is between 9.4% and 18.0%, less than its cost except for certain investments with unrealized loss of ¥46 million as of March 31, 2010, of which the fair value has recovered to its cost after April 1, 2010. The duration of the unrealized loss position was less than 14 months. The Company evaluated the near-term prospects of the issuer and the analyst reports in relation to the severity and duration of impairment. Based on that evaluation and the Company's ability and intent to hold the investment for a reasonable period of time sufficient for a recovery of fair value, the Company does not consider the investment to be other-than-temporarily impaired at March 31, 2010.

Losses on impairment of investments in certain marketable and nonmarketable equity securities, included in other income (expenses), were recognized to reflect the decline in value considered to be other than temporary, which were ¥103 million and ¥185 million, respectively, for the year ended March 31, 2008 and ¥164 million and ¥360 million, respectively, for the year ended March 31, 2009, and ¥20 million and ¥323 million, respectively, for the year ended March 31, 2010.

In addition to investments in securities, we also have investments in equities and loans for which we have significant influence over the investee's operations and financial policies and are accounted for by the equity method. For other than temporary declines in the value of such investments below the carrying amount, the investment is reduced to fair value and an impairment loss is recognized.

Pension benefits costs

Employee pension benefit costs and obligations are dependent on certain assumptions including discount rate, retirement rate and rate of increase in compensation levels, which are based upon current statistical data, as well as expected long-term rate of return on plan assets and other factors. Specifically, the discount rate and expected long-term rate of return on assets are two critical assumptions in the determination of periodic pension cost and pension liabilities. Assumptions are evaluated at least annually and when events occur or circumstances change which could have a significant effect on these critical assumptions. In accordance with U.S. GAAP, actual results that differ from the assumptions are accumulated and amortized over future periods. Therefore, actual results generally affect recognized expenses and the recorded obligations for pensions in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect our pension obligations and future expenses.

We used a discount rate of 1.8% for the pension plan as of March 31, 2010. The discount rate was determined by using the market yield of Japanese Government Bonds with a term matched against the average remaining service period of employees.

We used an expected long-term rate of return on pension plan assets of 1.6% as of March 31, 2010. To determine the expected long-term rate of return on pension plan assets, we consider a combination of historical returns and prospective return assumptions derived from pension trust funds' managing company. The actual return on pension plan for the year ended March 31, 2010 was 7.9%.

The following table illustrates the sensitivity to a change in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for our pension plan as of March 31, 2010.

Change in Assumption	Pre-Tax PBO	Pension Expense (millions of yen)	Equity (Net of Tax)
50 basis point increase/decrease in discount rate	(179)/199	- (*)	- (*)
50 basis point increase/decrease in expected return on assets	-	(6)/6	-/(4)

(*) It is not available because of curtailment and settlement.

New Accounting Guidance

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No.157 (codified in ASC820) ("SFAS 157")," which partially delays the effective date of SFAS 157 for one year for certain nonfinancial assets and liabilities and removes certain leasing transactions from its scope. The Company adopted SFAS 157 in the first quarter of fiscal year beginning April 1, 2008 for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This adoption did not have a material effect on the Company's financial position or results of operations. The Company adopted SFAS 157 in the first quarter of fiscal year beginning April 1, 2009 for all nonfinancial assets and liabilities. This adoption did not have a material effect upon the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (codified in ASC Topic 805, "Business Combinations"). The Statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning on or after December 15, 2008 and was adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (codified in ASC Topic 805). This FSP amends the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the adoption of this FSP did not have an effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (codified in ASC Topic 810, "Consolidation") ("SFAS No.160"). This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and was adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. In accordance with the new guidance on noncontrolling interests, the Company revised all previous references to "minority interests" in the consolidated financial statements to "noncontrolling interests," and made the following changes:

- (1) Consolidated Balance Sheets now present "Noncontrolling interests" as a component of "Total equity." "Noncontrolling interests" is equivalent to the previously reported "Minority Interest." "Total Internet Initiative Japan Inc. shareholders' equity" is equivalent to the previously reported "Total shareholders' equity."
- (2) Consolidated Statements of Income now present "Net income," which includes "Net loss attributable to noncontrolling interests" and "Net income attributable to Internet Initiative Japan Inc."
- (3) Consolidated Statements of Shareholder' Equity now include a section for "Noncontrolling interests."
- (4) Consolidated Statements of Cash Flows now begin with "Net Income" instead of "Net Income Attributable to Internet Initiative Japan Inc."

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (codified in ASC Topic 715, "Compensation – Retirement Benefits"). This FSP requires additional disclosure about plan assets including investment allocation, fair value of major categories of plan assets, development of fair value measurements, and concentrations of risk. This FSP is effective for fiscal years ending after December 15, 2009. The Company adopted this guidance in this fiscal year ended March 31, 2010. The required disclosures are included in Note 11.

In April 2009, the FASB issued FSP No. FAS 115-2 and No. FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (codified in ASC Topic 320, "Investments – Debt and Equity Securities"). This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP is effective for fiscal years ending after June 15, 2009 and early adoption is permitted. The Company adopted this FSP in the first quarter of fiscal year beginning April 1, 2009. The adoption of this FSP did not have a material impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (codified in ASC Topic 820, "Fair Value Measurements and Disclosures"). This FSP provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009 and adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. The adoption of this FSP did not have a material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (codified in ASC Topic 855, "Subsequent Events"). This guidance established the principles and requirements for evaluating and reporting subsequent events, including the period subject to evaluation for subsequent events, the circumstances requiring recognition of subsequent events in the financial statements, and the required disclosures. This Statement is effective for fiscal years ending after June 15, 2009 and was adopted by the company in the first quarter beginning April 1, 2009. The adoption of this Statement did not have a material effect on the Company's financial position or results of operations.

In September 2009, the FASB issued ASU 2009-12, "Fair Value Measurements and Disclosures" (codified in ASC Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which provided guidance within ASC Topic 820 on measuring the fair value of certain alternative investments in entities that calculate net asset values. The company adopted this ASU in the third quarter of fiscal year beginning April 1, 2009. The adoption of this ASU did not have a material effect on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-02, "Consolidation: Accounting and Reporting for Decreases in Ownership of a Subsidiary", which clarifies the decrease-in-ownership provisions of ASC Topic 810-10 and guidance applicability. ASU 2010-02 is effective for the beginning of fiscal period that the company adopted SFAS No.160, which is the first quarter beginning April 1, 2009 for the Company. The adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, "Amendments to Certain Recognition and Disclosure Requirements," which amends ASC 855 to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. This ASU is effective upon the issuance of the ASU, and was adopted by the Company. The adoption of this Statement did not have an effect on the Company's financial position or results of operations.

In October 2009, the FASB issued ASU 2009-13, "Revenue Recognition: Multiple-Deliverable Revenue Arrangements," which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting the guidance.

In October 2009, the FASB issued ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements," which provides a guidance of accounting for revenue arrangements that contain tangible products and software. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting the guidance.

In December 2009, the FASB issued ASU 2009-16, "Transfers and Servicing: Accounting for Transfers of Financial Assets." This ASU is intended to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. This ASU is effective for the first annual reporting period after November 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In December 2009, the FASB issued ASU 2009-17, "Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which amended the consolidation guidance applicable to variable interest entities and required additional disclosures concerning an enterprise's continuing involvement with variable interest entities. This ASU is effective for the first annual reporting period after November 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements," which adds disclosure requirements about transfers in and out of Levels 1 and 2 and separate disclosures about activity relating to Level 3 measurements and clarifies input and valuation techniques. This ASU is effective for the annual reporting period beginning after December 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In April 2010, the FASB issued ASU 2010-17, "Revenue Recognition – Milestone Method", which establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. This ASU is effective on prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

B. Liquidity and Capital Resources.

Liquidity and Capital Requirements

Our principal capital and liquidity needs in recent years have been for capital expenditures for the development, expansion and maintenance of our network infrastructure, lease payments, payment of principal and interest on outstanding borrowings, investments in group companies and, other working capital.

Capital expenditures. Our capital expenditures relate primarily to the development, expansion and maintenance of our network, including the installation of the routers and servers necessary to offer services on our network, software and back-office system. The table below shows our capital expenditures, which we define as amounts paid for purchases of property and equipment plus acquisition of assets by entering into capital leases, for the last three years. Capital expenditures, including capital leases for the fiscal year ended March 31, 2010 were lower than the previous year because the additional investments for upgrade in backbone routers, which is necessary once every four to five years, occurred in the fiscal year ended March 31, 2009.

	For the fiscal year ended March 31,		
	2008	2009	2010
	(millions of yen)		
Capital expenditures, including capitalized leases ⁽¹⁾	¥ 6,078	¥ 7,006	¥ 5,584

(1) Further information regarding capital expenditures, including capitalized leases and a reconciliation to the most directly comparable U.S. GAAP financial measure, can be found in Item 3.A., "Selected Financial Data—Reconciliation of the Disclosed Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures".

We believe that our expected capital expenditures, including capitalized leases, for the fiscal year ending March 31, 2011 related to our network services and systems integration business will be higher than the amount for the fiscal year ended March 31, 2010. There will be capital expenditures for network equipment and software which are related to the usual expansion and improvement of our existing network which we estimate to be not larger than the amount for the previous fiscal year. In addition, there will be capital expenditures for the construction of the module type eco data center of approximately ¥1.1 billion. Capital expenditures related to our ATM operation business for the fiscal year ending March 31, 2011 are also expected to increase compared to the previous fiscal year, if the ATM operations' business starts up in accordance with its business plan. Capital expenditure related to our ATM operation business will increase in accordance with the number of ATMs placed. In total, we expect that our capital expenditures, including capitalized leases, for the fiscal year ending March 31, 2011 to increase from the amount from the previous fiscal year.

We recorded a loss on disposal of property and equipment of ¥72 million, ¥443 million and ¥639 million for the fiscal years ended March 31, 2008, 2009 and 2010, respectively. The losses for the fiscal year ended March 31, 2008 was mainly due to disposal of software such as for back-office systems, and network equipment related to the closing of a network operation center. The losses for the fiscal year ended March 31, 2009 and 2010 increased as there was a disposal of network equipment and software such as for back-office systems.

Lease payments. We have operating lease agreements with telecommunications carriers and others for the use of connectivity lines, including our domestic and international backbone as well as local access lines that customers use to connect to IJ's network. The leases for our domestic backbone are generally non-cancelable for a minimum one-year lease period. The leases for our international backbone connectivity for mainly three-year lease period are substantially non-cancelable. We also lease office premises, for which refundable lease deposits are capitalized as guarantee deposits, certain office equipment under non-cancelable operating leases, and its network operation centers under non cancelable operating leases which expire on various dates through the year 2017. If the ATM operation business starts up in accordance with its plan, additional lease payments for ATMs are expected.

Lease expenses related to backbone lines for the fiscal years ended March 31, 2008, 2009 and 2010, amounted to ¥3.5 billion, ¥3.7 billion and ¥3.7 billion, respectively. Lease expenses for local access lines for the fiscal years ended March 31, 2008, 2009 and 2010, which are only attributable to dedicated access revenues, amounted to ¥5.0 billion, ¥5.3 billion and ¥5.5 billion, respectively. Other lease expenses for the fiscal years ended March 31, 2008, 2009 and 2010, amounted to ¥6.2 billion, ¥7.2 billion and ¥8.2 billion, respectively.

We conduct our connectivity and other services by using data communications and other equipment leased under capital lease arrangements. On December 1, 2009, the Company sold ATM equipments procured from a third party vendor, which amounted to ¥178 million, to the leasing company and concurrently entered into a capital lease arrangement to lease the whole equipment back at ¥41 million per year through November 30, 2014. The fair values of the assets at the execution of the capital lease agreements and accumulated depreciation amounted to ¥16.9 billion and ¥9.2 billion at March 31, 2009, respectively and ¥15.5 billion and ¥9.6 billion at March 31, 2010, respectively.

As of March 31, 2010, future lease payments under non-cancelable operating leases, including the aforementioned non-cancelable connectivity lease agreements (but excluding dedicated access lines which we charge outright to customers), and capital leases were as follows:

	Payment due by period				
		(millions of yen)			
	Total contractual amount	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Connectivity lines operating leases	¥ 1,451	¥ 1,179	¥ 266	¥ 6	-
Other operating leases	5,983	2,085	2,339	855	704
Capital leases	6,678	2,889	3,267	518	4
Total minimum lease payments ⁽¹⁾	¥ 14,112	¥ 6,153	¥ 5,872	¥ 1,379	¥ 708

(1) See Note 8 "Leases" to our consolidated financial statements included in this annual report.

Payments of principal and interest on outstanding borrowings. We require cash for payments of interest and principal on our outstanding borrowings.

Short-term borrowings. As of March 31, 2010, our short-term borrowings consisted of bank overdrafts was ¥4.5 billion. The weighted average interest rate of our short-term borrowings was 0.905%. Our short-term borrowings as of March 31, 2010 decreased by ¥2.9 billion (net), compared to the balance as of March 31, 2009, due to repayments. Our unused balance under our bank overdraft agreements, uncommitted, was ¥15.2 billion in short-term borrowings as of March 31, 2010.

Long-term borrowings. As of March 31, 2010, we had no outstanding long-term borrowings.

Collateral for borrowings. Substantially all of our short-term and long-term borrowings are made under agreements which, as is customary in Japan, provide that under certain conditions the banks may require us to provide collateral or guarantees with respect to the borrowings. We did not provide banks with any collateral for outstanding loans as of March 31, 2009 and 2010. Our primary banking relationships are with Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, and Mitsubishi UFJ Trust and Banking Corporation. The banks are also shareholders and customers of ours.

Investments in current and former group companies. In the past, we have made substantial investments in current and former group companies. We may need to provide additional investment in our group companies to enhance or maintain our business synergy with our affiliated companies in the future. See Item 4.B., "Our Group Companies" for information on investment in equity method investees.

Working capital needs. Our principal working capital requirements are for operating lease payments for our domestic and international backbone and local access lines. We also require working capital requirements for personnel expenses, office rents and other operating expenses.

Capital Resources

We seek to manage our capital resources and liquidity to provide adequate funds for current and future financial obligations. We have traditionally met our capital and liquidity requirements through cash flows from operating activities, long-term and short-term borrowings from financial institutions, capital leases and issuances of equity securities. At March 31, 2010, we had cash and cash equivalents of ¥8.8 billion.

We made IJ-Global our 100% consolidated subsidiary on September 1, 2010 by acquiring the stock of IJ-Global from AT&T Japan for ¥9.2 billion. To meet the funding for this acquisition, we borrowed an additional ¥9.0 billion in short-term borrowings from Japanese banks, which will end in August 2011.

Short-term and long-term Borrowings. Short-term and long-term borrowings provide us with an important source for maintaining adequate level of working capital, acquisition of fixed assets and investments. We plan to continue to refinance our short-term borrowings or use the unused balance outstanding of ¥10.2 billion, uncommitted, as of September 17, 2010 under the bank overdraft agreement for maintaining adequate level of working capital, acquisition of fixed assets and investments. See — Payments of principal and interest on outstanding borrowings.

Cash flows from operating activities. We generated ¥9.6 billion by operating activities for the year ended March 31, 2010. See — Cash Flows.

Capital Leases. Capital leases also provide us with an important source of financing. See Note 8 "Lease" to our consolidated financial statements included in this annual report on Form 20-F.

Cash Flows

We had cash and cash equivalents of ¥8.8 billion at March 31, 2010 compared to ¥10.2 billion at March 31, 2009.

The following table presents information about our cash flows during the fiscal years ended March 31, 2008, 2009 and 2010:

	Fiscal year ended March 31,		
	2008	2009	2010
	(millions of yen)		
Net cash provided by operating activities	¥ 4,538	¥ 8,631	¥ 9,621
Net cash used in investing activities	(5,444)	(3,328)	(3,788)
Net cash used in financing activities	(1,152)	(6,573)	(7,238)
Effect of exchange rate changes on cash and cash equivalents	(26)	(13)	(19)
Net decrease in cash and cash equivalents	(2,084)	(1,283)	(1,424)
Cash and cash equivalents at beginning of the year	13,555	11,471	10,188
Cash and cash equivalents at end of the year	¥ 11,471	¥ 10,188	¥ 8,764

Year Ended March 31, 2010 as Compared to the Year Ended March 31, 2009

Net cash provided by operating activities for the fiscal year ended March 31, 2010 was ¥9.6 billion, an increase of ¥1.0 billion from ¥8.6 billion for the previous fiscal year. Net cash provided by operating activities for the fiscal year ended March 31, 2010 mainly reflected the increase of ¥0.8 billion in net income from continuing operations adjusted for non-cash income and expenses, compared to the previous fiscal year, mainly due to the increase in operating income before depreciation and amortization as a result of the increase in gross margin from connectivity and outsourcing service and the decrease in general and administrative expenses. There was also an increase in loss on disposal of property and equipment of ¥0.2 billion and a decrease in impairment of other investments of ¥0.2 billion. In addition, the changes in operating assets and liabilities for the fiscal year ended March 31, 2010 resulted in a positive impact of ¥0.2 billion compared to the previous fiscal year mainly due to the increase in account receivables, decrease in inventories and prepaid expenses and increase in accounts payable.

One of the main reasons mentioned regarding the changes in operating assets and liabilities was the increase in account receivable. In general, connectivity and outsourcing services we provide are recurring revenues and are billed on a monthly basis and collected the following month. Therefore, cash flow related to recurring revenues will increase in accordance with the increase in revenues. On the other hand, systems construction is a one-time revenue and is billed when the constructed network systems are delivered and accepted by the customer and collected the following month or later, depending on the terms of the particular contract. Therefore, there will be a large volatility on cash flow depending on the number and the size of the projects. Further, because many Japanese companies have fiscal years ending in March and a budget system that acts in concert, many systems construction projects, especially if the size of the systems construction project is large, are likely to be completed in March. As a result, account receivables tend to accumulate at the end of the fiscal year, in relation to systems construction revenues.

Our account receivables decreased compared to the previous year due to the fact that systems construction revenues decreased by 22.5%.

Net cash used in investing activities for the fiscal year ended March 31, 2010 was ¥3.8 billion, an increase of ¥0.5 billion from ¥3.3 billion for the previous fiscal year. Net cash used in investing activities for the fiscal year ended March 31, 2010 increased mainly reflecting the increase in purchases of other investments of ¥0.7 billion, increase in purchase of property and equipment of ¥0.3 billion, decrease in purchase of available-for-sale securities of ¥0.1 billion, increase in proceeds from sales of property and equipment of ¥0.2 billion and increase in proceeds from sales of available-for-sale securities of ¥0.1 billion.

Net cash used in financing activities for the fiscal year ended March 31, 2010 was ¥7.2 billion, an increase of ¥0.7 billion, from ¥6.6 billion for the previous fiscal year. Net cash used in financing activities for the fiscal year ended March 31, 2010 mainly reflected an increase in net repayments of ¥1.0 billion in short-term borrowings and an increase in principal payment under capital leases of ¥0.1 billion. No acquisition of treasury stock for the fiscal year ended March 31, 2010 resulted in a positive effect on cash flows from financing activities compared to the previous fiscal year.

Year Ended March 31, 2009 as Compared to the Year Ended March 31, 2008

Net cash provided by operating activities for the fiscal year ended March 31, 2009 was ¥8.6 billion, an increase of ¥4.1 billion from ¥4.5 billion for the previous fiscal year. Net cash provided by operating activities for the fiscal year ended March 31, 2009 mainly reflected the decrease of ¥0.4 billion in net income from continuing operations adjusted for non-cash income and expenses, compared to the previous fiscal year, mainly due to the decrease in operating income before depreciation and amortization as a result of the decrease in gross margin from systems integration and operating loss related to 4 new subsidiaries. There were also an increase in expenses of deferred income tax of ¥2.3 billion, increase in depreciation and amortization of ¥0.7 billion, and increase in loss on disposal of property and equipment of ¥0.3 billion. In addition, the changes in operating assets and liabilities for the fiscal year ended March 31, 2009 resulted in a positive impact of ¥4.5 billion compared to the previous fiscal year mainly due to the decrease in account receivables, decrease in inventories and prepaid expenses and the decrease in accounts payable related to systems integration project on cash flows from operating activities.

Net cash used in investing activities for the fiscal year ended March 31, 2009 was ¥3.3 billion, a decrease of ¥2.1 billion from ¥5.4 billion for the previous fiscal year. Net cash used in investing activities for the fiscal year ended March 31, 2009 decreased mainly reflecting the absence in payment for purchase of subsidiary stock from minority shareholders of ¥2.0 billion and the absence in payment of ¥0.8 billion for acquisition of a newly controlled company, net of cash acquired. Payment for the purchase of property and equipment increased by ¥1.1 billion compared to the previous fiscal year and the decrease in proceeds from sales of available-for-sale securities had negative effect on cash flows from investing activities.

Net cash used in financing activities for the fiscal year ended March 31, 2009 was ¥6.6 billion, an increase of ¥5.4 billion, from ¥1.2 billion for the previous fiscal year. Net cash used in financing activities for the fiscal year ended March 31, 2009 mainly reflected an increase in net repayments of ¥4.6 billion in short-term borrowings and an increase in principal payment under capital leases of ¥0.4 billion. Also, payments for acquisition of treasury stock of ¥0.4 billion in comparison with no acquisition of treasury stock in the previous fiscal year resulted in a negative effect on cash flows from financing activities compared to the previous fiscal year.

Contingencies

We did not have any material contingent liabilities as of March 31, 2010.

C. Research and Development, Patents and Licenses, etc.

See the information in Item 4.B., "Business Overview — Research and Development."

D. Trend Information.

Factors Affecting Our Future Financial Results

We expect that the following are the most significant factors likely to affect our financial results and those of our consolidated subsidiaries. You should also consult Item 3.D. "Risk Factors" and the other portions of this annual report on Form 20-F for additional factors affecting our financial results.

In addition, on September 1, 2010, we made IJ-Global our 100% owned consolidated subsidiary by acquiring the stock of IJ-Global from AT&T Japan for ¥9.2 billion. IJ-Global succeeded mainly the domestic network outsourcing service business such as the WAN services, which are mainly provided to approximately 1,600 domestic corporate customers. We expect to record additional revenue, costs and expenses and net income in connection with this acquisition.

Revenues

We have two business segments: Network services and systems integration business and ATM operation business. Network services and systems integration business is comprised of: Connectivity and outsourcing services, Systems integration and Equipment sales.

Connectivity and outsourcing services revenues

Connectivity and outsourcing services revenues consist of our revenues from connectivity services for corporate use, our revenues from connectivity services for home use and our revenues from outsourcing services revenues. Our connectivity and outsourcing services revenues accounted for 54.4% of our revenues for the fiscal year ended March 31, 2010, 50.3% for the fiscal year ended March 31, 2009, and 46.8% of our revenues for the fiscal year ended March 31, 2008. As our connectivity services customers are more likely to use our outsourcing services or systems integration services as their network needs develop, connectivity services are also important for the growth of our outsourcing services or systems integration business.

Connectivity services for corporate use

Our revenues from connectivity services for corporate use accounted for 20.4% of our total revenues for the fiscal year ended March 31, 2010, 18.8% for the fiscal year ended March 31, 2009, and 18.2% for the fiscal year ended March 31, 2008. Revenues from connectivity services for corporate use depend on the size of our customer base, the average contracted bandwidth and unit price of our services. The market for connectivity services for corporate users is generally following three trends:

- *Increased contracted bandwidth.* Total contracted bandwidth for connectivity services for corporate user increased to 650.4 Gbps for the fiscal year ended March 31, 2010 from 530.5 Gbps for the previous fiscal year. The number of IP Service contracts for the bandwidth over 100Mbps increased to 379 for the fiscal year ended March 31, 2010 from 319 for the previous fiscal year. This increase is mainly due to an increase in customers' demand for higher bandwidth for their Internet connectivity. The total contracted bandwidth for connectivity services for corporate users are calculated by adding the contracted bandwidth for the each of the following service: IP Service, IJ Data Center Connectivity Service and Broadband Services. The average monthly revenues per contract for IP Services were approximately ¥0.6 million at the end of March 2010, compared to the revenues per contract of ¥0.6 million at the end of March 2009. Though we do not expect revenue per contract to grow in the fiscal year ending March 31, 2011 due to continuing competition, we believe that customer demand for higher bandwidth will continue as the use of broadband by corporate customers expands, and we will try to acquire new customers and increase the bandwidth of existing customers as well as maintain the quality of our services to differentiate them from those of our competitors.
- *Increased demands for broadband services.* Demand for broadband services such as IJ FiberAccess/F, IJ DSL/F and IJ DSL/A are increasing steadily as the services are used more often to connect corporate branches and remote offices. The services uses ADSL lines at maximum 47 Mbps speed or optical lines at maximum 10 Mbps, 100 Mbps or 1Gbps as access lines. The number of contracts for IJ FiberAccess/F and IJ DSL/F increased to 28,663 for the fiscal year ended March 31, 2010 from 26,023 for the previous fiscal year. We also expect that it will also contribute to the increase of outsourcing services and systems integration revenues as usage and implementation of these connectivity services will increase the demand for outsourcing services such as security services and network systems integration.
- *Increased demands for Mobile Data Communications services.* Demand for our mobile data communications service, IJ Mobile Service, which is provided under MVNO is increasing rapidly after the introduction in January 2008. The number of contracts for IJ Mobile Service increased to 32,315 for the fiscal year ended March 31, 2010 from 19,698 for the previous fiscal year. Corporate customers who are highly security conscious are looking for data communication services with high security features such as VPN access and private access. We also expect that it will also contribute to the increase of outsourcing services and systems integration revenues as usage and implementation of these connectivity services will increase the demand for outsourcing services such as security services and network systems integration.

Connectivity services for home use

Our revenues from connectivity services for home use accounted for 10.1% of our total revenues for the fiscal year ended March 31, 2010, 9.4% for the fiscal year ended March 31, 2009, and 8.1% for the fiscal year ended March 31, 2008. Revenues from connectivity services for home user depend on the size of our customer base and pricing. The size of our customer base depends primarily on the popularity of services under the hi-ho brand name, our OEM services, and the attractiveness of our service offerings which is measured primarily by the quality of service provided to subscribers and our ability to attract new customers by offering remote access solutions in combination with various access and security services.

Although we also market some services under the IJ brand name, due to our limited brand name recognition among consumers not familiar with the Internet and our limited marketing budget, a primary focus of our efforts to increase our revenues from individual consumers is our range of OEM services and services under the hi-ho brand name. For example of OEM services, Excite Japan Co., Ltd. markets and sells Internet connectivity services to individual customers under their own names but provides such services through our Internet network infrastructure.

While the number of contracts for connectivity services for home use decreased to 400,667 as of March 31, 2010 compared to 443,412 as of March 31, 2009, users are shifting from dial-up and ADSL services to optical line services which charges higher monthly fees. Additionally, from December 2008, high-speed mobile data communications service for home use was introduced under hi-ho and the IJ brand which also contributed to revenue growth.

Outsourcing Services

Our revenues from outsourcing services accounted for 23.9% of our total revenues for the fiscal year ended March 31, 2010, 22.1% for the fiscal year ended March 31, 2009, and 20.5% of our revenues for the fiscal year ended March 31, 2008. Outsourcing services consist of network-related services, server-related services, security-related services and data center-related facility services and operation and management services. For the fiscal year ended March 31, 2010, outsourcing services revenues increased to ¥16.3 billion from ¥15.4 billion for the fiscal year ended March 31, 2009 and from ¥13.7 billion for the fiscal year ended March 31, 2008. The increase is primarily due to the increasing demands for these services from our corporate connectivity customers.

The growth of these services is primarily due to the increase in demand for security services, data center services and network outsourcing services such as e-mail security services, data center operations, VPN services for customers' internal networks and customer support. We expect that corporate customers will continue to increase their use of the Internet as a business tool and will increasingly rely on an expanding range of outsourcing services to enhance productivity, reduce costs and improve service reliability. Additionally, in November 2009, we launched our new cloud computing service "IJ GIO" which is expected to contribute to revenue growth in the near future. As a result, we expect our revenue from outsourcing services will continue to grow.

Systems integration revenues, including related equipment sales revenues

Our systems integration revenue consists of systems construction and systems operation and maintenance.

Systems construction, which is a one-time revenue, accounted for 16.7% of our total revenues for the fiscal year ended March 31, 2010, 21.0% for the fiscal year ended March 31, 2009, and 27.0% for the fiscal year ended March 31, 2008. Systems construction revenues, including related equipment sales revenues for the fiscal year ended March 31, 2010 decreased by 22.5% from the previous fiscal year heavily affected by the lack of IT investment. Systems construction revenues were significantly affected by the weak Japanese economy, as it was in the previous fiscal year, and as a result, many large projects were delayed or postponed or scaled-down.

Systems operation and maintenance, which are monthly recurring revenues, accounted for 27.5% of our total revenues for the fiscal year ended March 31, 2010, 27.2% for the fiscal year ended March 31, 2009, and 23.9% for the fiscal year ended March 31, 2008. Systems operation and maintenance revenues decreased affected by the cost reduction and scale-down pressure from large accounts and by the decrease in the number of new engagements for systems construction.

For the fiscal year ending March 31, 2011, it is difficult for us to expect a full recovery in IT-related investments from Japanese corporate customers, which as a result, may have an adverse effect on our systems integration revenue growth and future operations. We expect one-time revenues from systems construction to continue to be strongly affected by the Japanese economic situation and also by seasonal fluctuations in the fiscal year. The primary seasonal variations in systems construction revenues relate to budgetary cycles of Japanese companies which generally end in March. Systems construction revenues can also fluctuate significantly in accordance with the absence or addition of a single large order, and are accordingly difficult to forecast. However, for the mid-to long term, we believe demand for these IT-related investments from Japanese companies will increase as it is indispensable for Japanese companies to facilitate the use of new IP technology to increase their competitiveness against their competitors. IP technology is also available to reduce their network-related costs. We anticipate that Japanese companies will increase the use of IT-related investments for their network systems when the general economic situation and the business results of the particular Japanese companies recover.

Equipment sales revenues

Our equipment sales revenues consist primarily of sales of networking and other related equipment as requested by our customers, other than that provided in connection with our systems integration services. Our equipment sales revenues accounted for 1.1% of our total revenues for the fiscal year ended March 31, 2010, 1.4% for the fiscal year ended March 31, 2009, and 2.3% for the fiscal year ended March 31, 2008. Our equipment sales revenues can fluctuate significantly, in accordance with the absence or addition of a single large order, and are accordingly difficult to forecast.

ATM Operation Business revenues

ATM operation business revenues consist primarily of commissions for each withdrawing transaction with the use of ATMs. ATMs commission collected from each withdrawal are aggregated every month and recognized as ATM operation revenues. Our ATM operation business is currently in the stage of business startup and there are risks of not able to introduce ATMs along with its plan or will not record ATM withdrawal transaction as anticipated, and we may not be able to achieve the expected revenue.

As of March 31, 2010, Trust Networks operated 136 ATMs. Revenue from our ATM operation business was ¥207 million for the fiscal year ended March 31, 2010 and as of August 2010, 140 ATMs are placed.

Additional factors affecting revenues

A number of other factors may affect demand for our services and in turn our revenues, including overall increases in business usage of Internet and network solutions and our range of service offerings.

- *Increase in business usage.* Our revenues will be affected by the extent and speed with which businesses in Japan exploit the Internet and network solutions to their full potential, including, for example, electronic transactions between businesses and expanding the range of devices that access the Internet. Such services require high-quality and high-capacity connectivity services for both businesses and individuals. Such services also require provision of total network solutions including various Internet connectivity services, systems integration and other outsourcing services which we believe we are well positioned to provide. The degree of business usage will also depend upon a variety of factors including:
 - technological advances, reliability of security systems and users' familiarity with and confidence in new technologies,
 - the rate at which Japanese companies in certain industries significantly increases their Internet usage, and
 - corporate budgets for information technologies, including Internet-related items.
- *Range of service offerings.* To increase our revenues from business users, we provide a wide variety of services and are introducing new services. For Internet connectivity services, we added mobile access service. Additionally, we introduced security options for the mobile service which are accounted in outsourcing service revenues. We have also opened a new Internet data centers to strengthen our multi-site data center solutions. In November 2009, we launched our new cloud computing service "IJ GIO". We believe these steps will allow us to sell a greater variety of services to our high-end corporate users and to capture a greater amount of the current growth and demand. However, we will still be strongly dependent on Japanese companies and their Information Technology budgets. The weak Japanese economy is also expected to continue to affect our overall revenues, especially with respect to systems construction revenues. We expect Internet usage to continue to grow rapidly in Japan and that businesses will continue to diversify their uses of the Internet. Our ability to offer a broad range of services to meet our customers' demands will significantly influence our future revenues.
- *Synergies between connectivity services, outsourcing services and systems integration.* Most of our systems integration customers become Internet connectivity service customers as well, and we expect these relationships to continue. As part of our systems integration business, we offer solution services for corporate information network systems, consulting, project planning, system design and systems/operation outsourcing or Internet VPN solution services which combines the FLET'S Internet connectivity services with the SEIL, adopted by customers who have multiple locations, such as branches, offices and factories. The number of contracts concerning these services is steadily increasing and we seek to enlarge these network integration services with relatively high gross margin services. The ability to introduce a wide range of services, including solutions necessary to build corporate information network systems, like disaster recovery services and Internet VPN, Voice over IP ("VoIP"), SEIL, private mobile access solutions, SEIL/SMF and wireless LAN service, is an important competitive factor.
- *Synergies between group companies.* The group works together as a team to provide network solutions to our customers, mainly corporate and governmental organizations. We expect to realize group synergy with IJ-Global, a new subsidiary which became IJ's 100% owned consolidated subsidiary on September 1, 2010, by providing our network solution to the acquired customers through this acquisition, by providing WAN services to our client bases. Although how the revenue from this business will be accounted for is yet uncertain, we expect to expand the scale of our business through this acquisition.

Costs and expenses

Costs and expenses include cost of connectivity and outsourcing services revenues, cost of systems integration revenues, cost of equipment sales revenues, cost of ATM operation business revenues, sales and marketing expenses, general and administrative expenses and research and development expenses.

Cost of connectivity and outsourcing services revenues

Our primary cost of connectivity and outsourcing services revenues is the leasing fees that we pay for the leased lines which comprise our network and for the dedicated local access lines that our subscribers use to connect with our network. Other primary components of our costs are depreciation and amortization of capital leases for network equipment, personnel and other costs for technical and customer support staff and network operation center related costs. Most of our network equipment is leased rather than purchased to take advantage of the financing provided by a capital lease arrangement.

We have made continuous investments in the past years in developing and expanding our network. However, along with the increase in revenues, our costs have slightly increased. For the fiscal year ended March 31, 2010, our leased line and other connectivity costs were ¥12.5 billion or 33.8% of our connectivity and outsourcing services revenues. For the previous fiscal year, these costs were ¥12.3 billion or 35.0% of our connectivity and outsourcing services revenues.

- *Backbone cost.* Backbone cost for the fiscal year ended March 31, 2010 was ¥3.7 billion, almost the same as the fiscal year ended March 31, 2009. We do not expect that our backbone cost will increase significantly as compared with recent fiscal years.
- *Dedicated local access line costs.* We collect dedicated local access line fees from subscribers and pay these fees over to the carriers. Dedicated local access line costs for the fiscal year ended March 31, 2010 were ¥8.3 billion, increased by 1.9%, compared to the cost for the fiscal year ended March 31, 2009. This increase was mainly resulted from the increase in connectivity and outsourcing service revenues. Other connectivity costs were ¥0.5 billion for the fiscal year ended March 31, 2010, nearly the same as the previous fiscal year.

Depreciation and amortization cost related to connectivity and outsourcing service revenues decreased to ¥3.3 billion for the fiscal year ended March 31, 2010 from ¥3.5 billion for the fiscal year ended March 31, 2009. Total capital expenditures for the fiscal year ended March 31, 2010 decrease to ¥5.6 billion from ¥7.0 billion for the fiscal year ended March 31, 2009. We do not expect that the depreciation and amortization will change significantly compared with recent fiscal years.

Costs of systems integration revenues and equipment sales

The cost of our systems integration revenues and equipment sales consists of purchasing costs, personnel-related costs, outsourcing-related costs and network operation-related costs and other costs. Purchasing costs increases or decreases in tandem with systems integration revenues and equipment sales revenues. Personnel and outsourcing-related costs are mainly costs of engineering staff. Network operation-related costs are costs such as depreciation and amortization of capital leases for system-related equipments. The main determinant of whether our gross margin will increase or decrease depends on whether we can secure profit for each systems integration project, whether we are able to adequately control the man-hour for each systems integration project as initially estimated and whether we are able to achieve enough revenue that covers our total costs. For the fiscal year ending March 31, 2011, we will continue to focus on controlling personnel and outsourcing costs adequately with the assumption that systems construction revenue will not increase much due to the weak Japanese economy.

Costs of ATM Operation Business

Our cost of ATM operation business consists primarily of systems related cost including up front system development and outsourcing related costs. During the fourth quarter of fiscal year ended March 31, 2010, the ATM operation business recorded approximately ¥0.3 billion in cost and we expect that this level in cost will continue quarter by quarter in the fiscal year ending March 31, 2011. In addition, if the ATM operation business start up in accordance with its plan, additional capital expenditures including capitalized lease related to the placement of ATMs in places such as Japanese pinball shops, operation and maintenance fees and other costs will increase.

Sales and marketing

Our sales and marketing expenses consist primarily of costs related to personnel, sales activities, marketing activities, general advertising expenses and written-off accounts receivable. Our sales and marketing expenses will increase to the extent that we expand our operations and increase our sales and marketing activities. We expect sales and marketing expenses to slightly increase in the fiscal year ending March 31, 2011 in accordance with our business growth. We also expect sales and marketing expenses relating to IJJ-Global to increase.

General and administrative

Our general and administrative expenses include primarily expenses associated with our management, accounting, finance and administrative functions, including personnel expenses. Our general and administrative expenses will increase to the extent that we grow our business and add new graduates. We expect general and administrative expenses to slightly increase in the fiscal year ending March 31, 2011 in accordance with our business growth. However, we plan to keep tight control over the number of outsourcing personnel and hiring of personnel other than new graduates. We also expect general and administrative expenses relating to IJJ-Global to increase.

Research and development

Our research and development expenses include primarily expenses associated with personnel expenses related to research and development activities. Our research and development expenses will increase to the extent that we expand our research and development activities. We expect the research and development expenses will increase for the fiscal year ending March 31, 2011 as we focus on strengthening our research and development organizations.

Other income (expenses)

Our other income and expenses include interest income and expenses and other primary items such as foreign exchange gains or losses, gains on sales of other investments and impairment losses on write-downs of other investments in certain marketable and nonmarketable equity securities.

- *Interest expense.* Most of our interest expense is from bank borrowing and capital leases. Interest income and interest expenses are also affected by the fluctuation of market interest rates and our total amount of outstanding borrowings. If we increase capital leases or borrowings in order to finance further development of our backbone, data centers and for other investments, interest expenses will increase. As we increased short-term bank borrowings relating to the acquisition of IJJ-Global from AT&T Japan on September 1, 2010, interest expenses will increase.
- *Impairment of other investments.* We hold other investments comprised of available-for-sale securities, nonmarketable equity securities and funds. The book values of other investments are affected by the fluctuation in the market price or the decrease in fair values of nonmarketable investments and funds. If a decrease below cost in the market price or fair value of an investment is judged to be other than temporary, we will have impairment losses on other investments.

Income Tax Expense (Benefit)

Our income tax expense (benefit) is affected by deferred tax assets related to tax operating loss carryforwards. We recorded deferred tax expense of ¥0.8 billion for the fiscal year ended March 31, 2010 and deferred tax expense of ¥0.6 billion for the fiscal year ended March 31, 2009. As of March 31, 2010, we had deferred tax asset (current) of ¥1.6 billion and deferred tax asset (noncurrent) of ¥0.7 billion, respectively, which will result in deferred tax expense in the future.

E. Off-Balance Sheet Arrangements.

We do not have any off-balance sheet arrangements as is defined for purposes of Item 5.E. of Form 20-F.

F. Tabular Disclosure of Contractual Obligations.

The following table shows our material contractual payment obligations under our agreements as of March 31, 2010:

Contractual Obligations	Payments due by period (in millions of yen)				
	Total	less than 1 year	1-3 years	3-5 years	more than 5 years
Capital lease obligations	6,678	2,889	3,267	518	4
Operating lease obligations	7,434	3,264	2,605	861	704
Total (1) (2) (3) (4)	¥ 14,112	¥ 6,153	¥ 5,872	¥ 1,379	¥ 708

(1) In addition to the above;

- We plan to contribute ¥101 million to our defined benefit pension plan in the fiscal year ending March 31, 2011.
 - In May 2006, in January 2007 and in January 2008, IJ made agreements (three agreements in total) to invest in funds which invest mainly in unlisted stocks with an investment advisory company. IJ committed to provide up to \$5 million for each fund (\$15 million in total) at its request in several future years. IJ has provided a total of ¥650 million (\$6,959 thousand) to them as of March 31, 2010. (Please refer to Note 15 to our consolidated financial statements).
- (2) The table above does not include short term borrowings. For short term borrowings, see Item 5.B “Liquidity and Capital Resource” and Note 9 “Borrowings” to our consolidated financial statements included in this annual report on Form-20F.
- (3) The table above does not include obligations for interest payments on debt, as such payments are not material. For interest payments regarding capital lease, see Note 8 “Lease” to our consolidated financial statements included in this annual report on Form 20-F.
- (4) The table above does not include an unrecognized tax benefit of ¥9 million. For unrecognized tax benefit, see Note 10 “Income Taxes” to our consolidated financial statements included in this annual report on Form 20-F.

G. Safe Harbor.

This annual report contains forward-looking statements about us and our industry that are based on our current expectations, assumptions, estimates and projections. These forward-looking statements are subject to various risks and uncertainties. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of our operations and our financial condition, and state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those contained in or suggested by any forward-looking statement. We cannot provide any assurance that our expectations, projections, anticipated estimates or other information expressed in these forward-looking statements will turn out to be correct. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Important risks and factors that could cause our actual results to differ materially from our forward-looking statements are generally provided in Item 3.D. “Risk Factors” and elsewhere in this annual report on Form 20-F and include, without limitation:

- that we may not be able to achieve or sustain profitability in the near future,
- that we may not be able to compete effectively against competitors which have greater financial, marketing and other resources, and
- that our investments in our subsidiaries and affiliated companies may not produce the returns that we expect or may adversely affect our results of operations and financial condition.

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management.

The Company's Board of Directors consists of 12 directors, including four outside directors. The Company's Board of Company Auditors consists of four company auditors, three of whom are outside company auditors, including an attorney from a Japanese law firm and a certified public accountant. Separately, the Company has an internal auditing office consisting of two members, including a general manager.

Additionally, we introduced an executive officer system in 2010 with the aim to further enhance our corporate governance by separating its decision making, supervisory function and business execution function.

The following table provides information about our directors and company auditors as of September 17, 2010:

Name	Position	Date of birth	Current term expires	Initial appointment date	Numbers of Shares Owned ⁽¹⁾	Percentage of Shares Owned ⁽¹⁾
Koichi Suzuki	President, Chief Executive Officer and Representative Director	Sep. 3, 1946	June 2011	Dec. 1992	12,893	6.24%
Senji Yamamoto	Executive Vice President	Apr. 14, 1946	June 2012	June 2006	80	0.04%
Hideshi Hojo	Senior Managing Director	Dec. 22, 1957	June 2011	June 2000	108	0.05%
Takeshi Kikuchi	Senior Managing Director	Apr. 27, 1959	June 2012	June 2010	292	0.14%
Hitoshi Imafuku	Senior Managing Director	Apr. 2, 1957	June 2011	June 2009	2	0.00%
Takamichi Miyoshi	Managing Director	May 5, 1963	June 2012	June 2002	393	0.19%
Akihisa Watai	Managing Director, Chief Financial Officer and Chief Accounting Officer	Sep. 30, 1965	June 2012	June 2004	52	0.03%
Yasuro Tanahashi	Director	Jan. 4, 1941	June 2012	June 2004	0	—
Takashi Hiroi	Director	Feb. 13, 1963	June 2012	June 2004	0	—
Junnosuke Furukawa	Director	Dec. 5, 1935	June 2011	June 2005	0	—
Shingo Oda	Director	Nov. 8, 1944	June 2012	June 2008	0	—
Yoshifumi Nishikawa	Director	Aug. 3, 1938	June 2012	June 2005	0	—
Kazuhiro Ohira	Company Auditor	Dec. 26, 1957	June 2012	June 2010	0	—
Shunichi Kozasa	Company Auditor	Jan. 11, 1949	June 2013	June 2010	100	0.05%
Masaki Okada	Company Auditor	Jan. 9, 1959	June 2012	June 2004	0	—
Masaaki Koizumi	Company Auditor	Oct. 4, 1964	June 2012	June 2004	0	—

(1) The number of IJ shares owned as of September 17, 2010.

Koichi Suzuki has been our president and representative director since April 1994, and has approximately 30 years of experience in the computer and communications industries. In addition, Mr. Suzuki is chairman of hi-ho, and president of Net Care, Multifeed and GDX. He also serves as chairman of IJ-A, and a director of IJ-Global, i-Heart, TCC and IJ-II. From December 1992 to April 1994, Mr. Suzuki was a director of IJ. Prior to joining us, Mr. Suzuki was employed at Japan Management Association where he served as a general manager.

Senji Yamamoto has served as a director of IJ since June 2006 and as Executive Vice President since April 2010. Mr. Yamamoto also serves as chairman and representative director of IJ-Global since September 1, 2010. Mr. Yamamoto was vice chairman and representative director of IJ-Tech, and president and representative director of IJ-FS from June 2006 to March 2010. From June 2000 to October 2005, Mr. Yamamoto was president and CEO of Sony Communication Network Corporation (Currently So-net Entertainment Corporation).

Hideshi Hojo has served as senior managing director of IJ since June 2006 and as division director of Enterprise Business Division 1 since April 2010. Mr. Hojo is also a director of IJ-Global, Net Care, i-revo and NCJ. From February 1998 to June 2000, Mr. Hojo acted as general manager of the Sales Division, from June 2000 to June 2002 as a director, from June 2002 to August 2003 as managing director and division director of the Sales & Marketing Department, and from August 2003 to March 2010 as division director of the Sales Department. Mr. Hojo joined us in 1996. Prior to joining us, Mr. Hojo had 16 years of experience in the field of sales working for the Itochu Group.

Takeshi Kikuchi was appointed as senior managing director of IJ in June 2010 and is serving as division director of Enterprise Business Division 2. Mr. Kikuchi joined Itochu Corporation in April 1983 and was temporarily transferred to IJ from April 1996. In July 1999, Mr. Kikuchi joined IJ-Tech permanently and was president of IJ-Tech from October 2005 to March 2010.

Hitoshi Imafuku was appointed as senior managing director of IJ in June 2009. Mr. Imafuku joined us in 2009 and is serving as division director of Regional Division. Mr. Imafuku joined NTT in April 1980 and prior to joining us, he worked as General Manager of NTT West Kagoshima Branch from July 2006.

Takamichi Miyoshi was appointed as managing director of IJ in June 2010. Mr. Miyoshi is also a director of Multifeed. Mr. Miyoshi joined us in April 1993. From October 1994, Mr. Miyoshi acted as general manager of the Network Operations and Systems Administration Division.

Akihisa Watai was appointed as managing director of IJ and division director of Finance and Planning Division in June 2010 and has served as chief financial officer and chief accounting officer since June 2004. Mr. Watai is a director of NCJ and Trust Networks, and a company auditor of i-revo, IJ-Global, TCC and IJ-II. From June 2004 to March 2010, Mr. Watai has served as director of IJ. Mr. Watai joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation) in April 1989 and was temporarily transferred to IJ from August 1996. In February 2000, Mr. Watai joined IJ permanently and has been general manager of the Finance Division since April 2004.

Yasuro Tanahashi has served as an outside director of IJ since June 2004. Mr. Tanahashi has served as an advisor of NS Solutions Corporation, an affiliated company of Nippon Steel Corporation from June 2007 to June 2009. Mr. Tanahashi had been president and representative director of NS Solutions Corporation since April 2000 and had been chairman of NS Solutions Corporation since April 2003.

Takashi Hiroi has served as an outside director of IJ since June 2004. Mr. Hiroi joined NTT in April 1986 and has been serving as General Manager of Business Planning Division of NTT since July 2009.

Junnosuke Furukawa has served as an outside director of IJ since June 2005. Mr. Furukawa had been an advisor of The Furukawa Electric Co., Ltd. Mr. Furukawa was a director, member of the board and senior advisor of The Furukawa Electric Co., Ltd. from June 2004 to May 2005. From June 1995, Mr. Furukawa was president and CEO of The Furukawa Electric Co., Ltd. and from June 2003, Mr. Furukawa was chairman and CEO of The Furukawa Electric Co., Ltd.

Shingo Oda has served as an outside director of IJ since June 2008. From May 2005 to November 2007, Mr. Oda was president and representative director of Hewlett-Packard Japan, Ltd. From February 2002, Mr. Oda was vice president and representative director of Hewlett-Packard Japan, Ltd.

Hirofumi Nishikawa was appointed as director of IJ in June 2010 and has been an Advisor to Sumitomo Mitsui Financial Group, Inc. since October 2009. Mr. Nishikawa served as outside director of IJ from June 2005 to September 2007. Mr. Nishikawa was president and Chief Executive Officer of Japan Post Corporation (currently Japan Post Holdings Co., Ltd.) from January 2006 to September 2009. Mr. Nishikawa joined the Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation) in April 1961 and was President of Sumitomo Mitsui Financial Group, Inc. from December 2002 to May 2005. Currently, Mr. Nishikawa is serving as Honorary Advisor of Sumitomo Mitsui Financial Group, Inc.

Kazuhiro Ohira has been appointed as company auditor of IJ in June 2010. Mr. Ohira is a company auditor of Trust Networks, NCJ and IJ-Global. Mr. Ohira was General Manager of International Business Management Dept. of Dai-ichi Life Insurance Company, Ltd.

Shunichi Kozasa was appointed as company auditor of IJ in June 2010. Mr. Kozasa is a company auditor of Net Care and hi-ho. Mr. Kozasa joined IJ as the head of our regional office in Osaka in April 1998 and has served as Director of the Company from June 1999 to June 2002. Prior to joining us, Mr. Kozasa worked at NTT for over 20 years, most recently as a general manager of the corporate sales division.

Masaki Okada has been an outside company auditor of IJ since June 2004. Mr. Okada is admitted to the Dai-ni Tokyo Bar Association and joined Ishii Law Office in April 1988. Mr. Okada has been a partner in Ishii Law Office since April 1997.

Masaaki Koizumi has been an outside company auditor of IJ since June 2004. Mr. Koizumi is a Japanese Certified Public Accountant and joined Eiwa & Co. (Currently Azsa & Co.) in October 1987. Mr. Koizumi retired from Azsa & Co. in September 2003 and established Koizumi CPA Office in October 2003.

The following table provides information about our executive officers as of September 17, 2010:

Name	Position	Responsibility
Tsutomu Yoshihara	Senior Executive Officer	Chief Information Officer
Chiaki Furuya	Senior Executive Officer	Senior Executive Officer of Administrative Division
Masayoshi Tobita	Executive Managing Officer	Executive Managing Officer of Administrative Division Operation Management Department
Kazuhiro Tokita	Executive Managing Officer	Executive Managing Officer of Financial Systems Business Division
Junichi Shimagami	Executive Managing Officer	Executive Managing Officer of Service Division
Kiyoshi Ishida	Executive Officer	Executive Officer of SEIL Business Unit
Yasumitsu Iizuka	Executive Officer	Executive Officer of Government, Public & Educational Organization Business Division
Kokichi Matsumoto	Executive Officer	Executive Officer of Marketing Division

B. Compensation.

The aggregate compensation to the IJ's directors and company auditors during the fiscal year ended March 31, 2010 was as follows:

Breakdown of Compensation (in millions of yen)

Position	Total Compensation	Base Salary	Liability for Retirement Benefit	Others	Number of Persons
Directors*	¥225	¥200	¥24	¥1	11
Company Auditors**	4	4	-	-	1
Outside Directors/ Outside Company Auditors	31	30	1	0	6

(1) Starting with its annual securities report for the year ended March 31, 2010 filed with the Ministry of Finance, a Japanese listed company is required to disclose the individual compensation of any director, executive officer or corporate auditor if it is ¥100 million or more. For fiscal 2010, there were no director, executive officer or corporate auditor received compensation of over ¥100 million.

(2) Upper limits on compensation for directors and company auditors are determined at a general meeting of shareholders of the Company. Within the upper limit approved by the shareholders' meeting, the Board of Directors will resolve the amount of compensation for each director and the Board of Company Auditors will determine the amount of compensation for each company auditor, respectively

* Excluding Outside Directors

** Excluding Outside Company Auditors

For the fiscal year ended March 31, 2010, the aggregate compensation we paid or accrued for all of our executive officers, directors and company auditors was approximately ¥542 million. We established a retirement plan for full-time directors in March 2007. We recorded a liability for retirement benefits for standing directors and company auditors of ¥213 million, which would be required if they retire as of March 31, 2010. The liability for retirement benefits of ¥42 million recognized for the fiscal year ended March 31, 2010 is included in the aggregate amount of compensation shown above. For a description of our stock option and warrant issuances to directors and employees, see Item 6.E.

C. Board Practices.

In accordance with the Corporation Law of Japan and our Articles of Incorporation, our directors are elected at a general meeting of shareholders and our Board of Directors consists of minimum of 3 and maximum of 14 directors. While the normal term of office of a director is two years, a director may serve any number of consecutive terms. We do not have audit or remuneration committees, as is the standard practice in Japan. We do not have any service contracts with any of our directors providing for benefits upon termination of their employment.

We have a Board of Company Auditors as well as an accounting auditor who is an independent certified public accountant. In accordance with the Corporation Law of Japan and our Articles of Incorporation, our Board of Company Auditors consists of minimum of three company auditors, of whom at least half must be from outside of the company, and company auditors are elected at a general meeting of shareholders. Currently, three of our four company auditors are outside company auditors. While the normal term of office of a company auditor is four years, a company auditor may serve any number of consecutive terms. Our company auditors are under a statutory duty to supervise the execution of duties by the directors, to investigate proposals and documents to be submitted by the Board of Directors to the general meetings of shareholders and report their opinions thereon to the shareholders, if necessary. They are required to attend meetings of the Board of Directors and to express their opinions if necessary, but they are not entitled to vote. Each of our company auditors also have a statutory duty to audit business reports and examine the audit report on our financial statements prepared by our accounting auditor, and provide a report thereon to the entire Board of Company Auditors, which must, in turn, submit its audit report to the Board of Directors and/or the general meetings of shareholders. The Board of Company Auditors will also determine matters relating to the duties of company auditors, such as audit policy and methods of investigation of our affairs.

Following the requirements of the Company Law of Japan, we require a director to obtain the approval of the Board of Directors in order for such director to accept a transfer of a product or any other asset of IJ, to transfer a product or any other asset of such director to IJ, to receive a loan from IJ, or to effect any other transaction with IJ, for himself or a third party.

If we issue common shares or other shares, stock acquisition rights or bonds with stock acquisition rights under the Company Law of Japan, it is necessary for the Board of Directors to determine the conditions of issuance. Additionally, if the company issues such securities to persons other than shareholders (in case of common shares or other shares) at a specially favorable issue price or (in case of stock acquisition rights or bonds with stock acquisition rights) on specially favorable conditions, even when there are provisions related thereto in the Articles of Incorporation, some matters related to such issuance shall be resolved by special resolution of the shareholders' meeting.

The rights of ADR holders, including their rights relating to corporate governance practices, are provided in the deposit agreement which is an exhibit to this annual report.

LIMITATION OF LIABILITIES OF SOME OUTSIDE DIRECTORS AND AUDITORS

We have entered into an agreement with four of our outside directors, Mr. Junnosuke Furukawa, Mr. Yasuro Tanahashi, Mr. Takashi Hiroi and Mr. Shingo Oda, and two of our outside company auditors, Mr. Masaki Okada and Mr. Masaaki Koizumi that limits their liabilities to us for damages suffered by us due to their acts taken in good faith and without gross negligence, amounting to ¥10 million or the aggregate of the amounts set forth in Article 427 paragraph 1 of the Corporation Law of Japan, whichever is higher. For further discussion, see Item 10.C. Material Contracts and Exhibit 4.5 of this annual report.

D. Employees.

As of March 31, 2010, we had 1,687 employees, including employees of our consolidated subsidiaries, and we had 1,602 employees as of March 31, 2009 and 1,373 employees as of March 31, 2008. The following table shows the breakdown of the employees by main category of activity.

	For the fiscal year ended March 31,		
	2008	2009	2010
	(number of employees)		
Engineering	941	1,075	1,136
Sales	245	298	297
Administration	187	229	254

Except for the 21 employees in the United States employed by our subsidiary, IJ-A, all of our employees work in Japan. We have never experienced any labor disputes and consider our labor relations to be good. To our knowledge, none of our employees is a member of any union.

E. Share Ownership.

The information on share ownership required by this item is in Item 6.A. "Directors and Senior Management" above.

Stock Option Plan

- *June 2001 Stock Option Plan.* In June 2001, we implemented a stock option plan under which 395 options to acquire a total of 1,975 shares or 790,000 ADS equivalents, or approximately 1.8% of total outstanding shares on that date, were granted to 44 directors and employees on August 2, 2001. The option exercise price for the shares was determined by setting the price 5% above the 30-days average of the closing market prices beginning 45 days prior to the date of the grant which was ¥403,661 per share and has been adjusted to ¥334,448 as a result of issuances of common shares. The options became fully vested on June 28, 2003 and are exercisable for eight years from that date.
- *April 2000 Stock Option Plan.* In April 2000, we implemented a stock option plan under which our directors and employees were granted 295 options to acquire a total of 1,475 shares or 590,000 ADS equivalents, or approximately 1.2% of total outstanding shares on that date. The options were granted to 34 directors and employees on May 31, 2000. The option exercise price was determined by setting the price at 5% above the 30-day moving average of closing market prices beginning 45 days prior to the date of grant, which was ¥2,611,112 per share and has been subsequently adjusted to ¥2,163,418 as a result of issuances of common shares. The options expired in April 2010, which were exercisable for eight years from April 8, 2002, the date on which the options became fully vested.

We conducted a 1 to 5 stock split effective on October 11, 2005. The numbers of shares and the option exercise prices for the two stock option plans above are calculated based on the assumption that the stock split was made at the time of implementation. For the two stock option plans above, we had 515 unexercised options outstanding to acquire a total of 2,575 shares of common stock or 1,030,000 ADS equivalents.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan was implemented in December 1995 and was amended on April 1, 2010 in connection with the merger of the two consolidated subsidiaries, IJ-TECH and IJ-FS. The Plan was also amended in connection with the introduction of the Executive Officer System. The employee stockholding association provides designated employees with the opportunity to purchase shares at market value. Shares are basically held in the name of the employee stock purchase program until employees leave the association, due to resignation or retirement. The representative of the employee shareholders' association exercises voting rights in accordance with the instructions of each employee shareholder. As of March 31, 2010, the association holds 2,035 shares of common stock, or 1.0% of our outstanding shares.

Director Stock Purchase Plan

The Director Stock Purchase Plan was implemented in November 2007. On April 1, 2010, the plan was amended in connection with the introduction of the Executive Officer System. The plan provides designated directors and executive officers of IJ and its wholly-owned subsidiaries with the opportunity to purchase IJ common shares at market value, every month, with a fixed amount of their own money through a designated security broker.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders.

The following table shows information regarding beneficial ownership of our common stock as of March 31, 2010 by each shareholder known by us to own beneficially more than 5% of our common stock and all directors and executive officers as a group. We are not required by Japanese law to disclose beneficial ownership of our common stock. As explained in "Reporting Requirements of Shareholders—Report of Substantial Shareholdings" in Item 10.B. of this annual report on Form 20-F, any person who becomes, beneficially and solely or jointly, a holder of more than 5% of our outstanding common stock must file a report with the relevant local finance bureau of the Ministry of Finance. The information in this table is based upon our shareholders of record and reports filed with the Financial Services Agency and SEC.

	Outstanding Voting Shares as of March 31, 2010 ⁽³⁾	
	Number	Percentage
Nippon Telegraph and Telephone Corporation and affiliates ⁽¹⁾	60,675	30.0%
Koichi Suzuki	12,873	6.4
Itochu Corporation	10,430	5.1
Directors and executive officers as a group ⁽²⁾	13,663	6.7

(1) Includes NTT, which owns 50,475 shares, or 24.9% of our outstanding voting shares and 24.4% of our total issued shares, and NTT Communications, which owns 10,200 shares, or 5.0% of our outstanding voting shares and 4.9% of our total issued shares.

(2) Includes Koichi Suzuki's holdings which are also separately set forth above. No other director or executive officer except for Koichi Suzuki is a beneficial owner of more than 5%.

(3) As of March 31, 2010, the Company held 3,934 shares of the Company as treasury stock.

Our major shareholders have the same voting rights as other holders of our common stock.

According to our register of shareholders, as of March 31, 2010, there were 4,488 holders of common stock of record worldwide. As of March 31, 2010, The Bank of New York Mellon, depository for our ADSs, held 6.4% of the outstanding common stock on that date. According to The Bank of New York Mellon, as of March 31, 2010, there were 21 ADR holders of record with addresses in the United States. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the United States might not fully show the number of beneficial owners in the United States. Of the 206,478 shares of common stock outstanding as of March 31, 2010, 13,289 shares were held in the form of 5,315,600 ADSs.

On June 25, 2010, the Board of Directors of IJ resolved to sell 140 shares of IJ's shares, held as treasury stock, at market price partly in exchange of the retirement allowance to 11 Retired Directors and officers of IJ, IJ-Tech and IJ-FS, as an incentive for them to contribute to the Company's mid to long term business growth. The 11 Directors and officers of IJ, IJ-Tech and IJ-FS whom received this allocation are those 1) who have retired from the positions of Director of IJ at the 18th Ordinary Meeting of Shareholders of IJ, 2) those who were Directors of IJ-Tech and IJ-FS which were merged into IJ on April 1, 2010, and 3) those whom will continue to execute the duties and operations of the Company. As of September 17, 2010, the Company held 3,794 shares of the Company as treasury stock.

B. Related Party Transactions.

NTT-affiliated Companies. From April 1, 2009 through March 31, 2010, we have paid ¥7.2 billion for international and domestic backbone and local access line costs to NTT-affiliated companies such as NTT Communications, NTT East and NTT and NTT West. In addition, we paid ¥3.8 billion for co-location costs and telecommunication expenses to NTT Communications, NTT East and NTT West and paid ¥0.3 billion for other costs, mainly outsourcing costs to NTT Communications, NTT East and NTT West. We received payments of ¥0.9 billion for OEM services, Internet connectivity services and operation fees for data centers from NTT Communications, NTT East and NTT West. On an ongoing basis in the ordinary course of business, we pay NTT-affiliated companies for international and domestic backbone and local access line costs and for co-location costs and telecommunications expenses and receive payments from NTT-affiliated companies for OEM services, Internet connectivity services and operating fees for data centers. We do not have any outstanding loans between NTT and its affiliated companies and us.

Transactions with equity method affiliates. In the ordinary course of business, we have various sales, purchase and other transactions with companies which are owned 20% to 50% by us and are accounted for by the equity method. Account balances and transactions with such 20% to 50% owned companies as of and for the fiscal year ended March 31, 2010 are presented as follows:

	<u>millions of yen</u>
Accounts receivable	¥ 68
Accounts payable	25
Revenues	676
Costs and expenses	261

As of March 31, 2010, we had loans to an equity method investee of which the carrying amount, net of valuation allowance was ¥35 million.

Except as described above, since March 31, 2005, there has been no transaction with or loan between us or any of our subsidiaries and:

- any enterprise that directly or indirectly controls, is controlled by, or is in common control with us or any of our subsidiaries,
- any director, officer, company auditor or family member of any of the preceding or any enterprise over which such person directly or indirectly is able to exercise significant influence,
- any individual shareholder directly or indirectly having significant influence over us or any of our subsidiaries or a family member of such individual or any enterprise over which such person directly or indirectly is able to exercise significant influence, or their respective family members or enterprises over which they exercise significant influence, or
- any unconsolidated enterprise in which we have a significant influence or which has a significant influence over us.

Transactions with Outside Directors and Auditors. On June 27, 2008, we entered into an agreement on limited liability with our outside company auditors, Mr. Masaki Okada and Mr. Masaaki Koizumi, on June 26, 2009, we entered into an agreement on limited liability with Mr. Junnosuke Furukawa, our outside director and on June 25, 2010, we entered into additional agreements on limited liability with Mr. Yasuro Tanahashi, Mr. Takashi Hiroi and Mr. Shingo Oda, our outside directors, pursuant to which their liability for damages sustained by us as a result of their actions is limited to an aggregate of ¥10 million. For further discussion, see Item 10.C. Material Contracts and Exhibit 4.5 of this annual report.

C. Interests of Experts and Counsel.

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information.

Financial Statements

The consolidated financial statements required by this item begin on page F-1.

Legal or Arbitration Proceedings

The information on legal or arbitration proceedings required by this item is in Item 4.B.

Dividend Policy

Our basic dividend policy is that we pay dividends to our shareholders continuously and in a stable manner while considering the need to have retained earnings for the enhancement of financial position, medium and long-term business expansion and new business development. Under Japanese law, a company is required to have retained earnings, without accumulated deficit, in order to be able to conduct certain types of capital-related transactions such as payments of dividends in general. The ordinary general meeting of shareholders held in June 2006 approved the elimination of accumulated deficit through the reduction of additional-paid in capital and common stock in our non-consolidated financial statements under generally accepted accounting principles in Japan. In November 2009, IIF's board of directors resolved to pay an interim cash dividend to shareholders of record at September 30, 2009 of ¥1,000 per share of common stock. On June 25, 2010, the ordinary general meeting of shareholders approved the payment of year-end cash dividend to shareholders of record at March 31, 2010 of ¥1,250 per share of common stock.

B. Significant Changes.

Except as otherwise disclosed in this annual report on Form 20-F, there has been no significant change in our financial condition since March 31, 2010, the date of our last audited financial statements.

Item 9. The Offer and Listing.**A. Offer and Listing Details.**

ADSs representing our common stock have been quoted on the Nasdaq market since August 4, 1999 under the symbol "IJJ" and were transferred from the Nasdaq Global Market to the Nasdaq Global Select Market on June 11, 2007. The current ADS/share ratio is 400 ADSs per 1 share of our common stock. Our shares of common stock have been quoted on the Mothers market of the TSE since December 2, 2005 under the stock code number "3774" and were transferred to the First Section of the TSE on December 14, 2006.

The following table shows, for the periods indicated, the high and low price of our ADSs and shares of common stock on the TSE for the periods indicated:

Fiscal year ended/ending March 31,	Nasdaq ⁽¹⁾ (per ADS)		TSE ⁽¹⁾⁽²⁾ (per share of common stock)	
	High	Low	High	Low
2006	\$ 14.88	\$ 3.04	¥ 584,000	¥ 409,000
2007	10.65	6.41	517,000	296,000
2008	11.00	6.21	490,000	270,000
2009	9.72	1.80	428,000	71,800
First Quarter	9.72	7.80	428,000	315,000
Second Quarter	9.40	3.97	417,000	176,100
Third Quarter	5.38	1.82	251,900	71,800
Fourth Quarter	3.43	1.80	107,800	77,900
2010	6.33	2.50	246,400	99,500
First Quarter	4.40	2.50	169,000	99,500
Second Quarter	6.33	3.65	246,400	137,800
Third Quarter	6.26	4.48	233,900	162,600
Fourth Quarter	5.84	4.09	219,500	150,700
2011				
First Quarter	7.66	5.13	288,900	194,100
Month				
March 2010	5.84	4.84	219,500	171,000
April 2010	6.43	5.13	244,000	195,700
May 2010	6.46	5.45	259,300	194,100
June 2010	7.66	5.43	288,900	198,700
July 2010	8.37	6.70	292,000	235,000
August 2010	7.43	5.90	258,500	202,000
September 2010 ⁽³⁾	6.82	6.14	234,700	206,700

(1) Price data are based on prices throughout the sessions for each corresponding period at each stock exchange.

(2) Our shares of common stock had been quoted on the Mothers market of the TSE since December 2, 2005 and were transferred to the First Section of the TSE on December 14, 2006.

(3) The high and low prices of our ADSs and shares of common stock were the prices quoted during the period, from August 1, 2010 to September 27, 2010.

B. Plan of Distribution.

Not applicable.

C. Markets.

ADSs representing our common stock have been quoted on the Nasdaq market since August 4, 1999 under the symbol "IJJ" and on June 11, 2007 were transferred from the Nasdaq Global Market to the Nasdaq Global Select Market. Our shares of common stock have been quoted on the Mothers market of the TSE since December 2, 2005 under the stock code number "3774" and were transferred to the First Section of the TSE on December 14, 2006.

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the issue.

Not applicable.

Item 10. Additional Information.

A. Share Capital.

Not required.

B. Memorandum and Articles of Association.

Organization

IIJ is a joint stock corporation (kabushiki kaisha) incorporated in Japan under the Corporation Law. It is registered in the Commercial Register (shogyo tokibo) maintained by the Tokyo Legal Affairs Bureau and several other registry offices of the Ministry of Justice.

Objects and Purposes in Our Articles of Incorporation

Article 2 of our Articles of Incorporation states our objects and purposes:

- Telecommunications business under the Telecommunications Business Law,
- Processing, mediation and provision of information and contents by using telecommunications networks,
- Agency for the management business such as the management of networks and the management of information and telecommunications systems,
- Planning, consulting service, development, operation and maintenance of or for information and telecommunications systems,
- Development, sales, lease and maintenance of computer software,
- Development, sales, lease and maintenance of telecommunications machinery and equipment,
- Telecommunications construction,
- Agency for non-life insurance,
- Research, study, education and training related to the foregoing, and
- Any and all businesses incidental or related to the foregoing.

Provisions Regarding Our Directors

There is no provision in our Articles of Incorporation as to a director's power to vote on a proposal, arrangement or contract in which the director is materially interested, but the Corporation Law of Japan provides that such director is required to refrain from voting on such matters at the Board of Director's meetings.

The Corporation Law of Japan provides that compensation for directors is determined at a general meeting of shareholders of a company. Within the upper limit approved by the shareholders' meeting, the Board of Directors will determine the amount of compensation for each director. The Board of Directors may, by its resolution, leave such decision to the president's discretion.

The Corporation Law of Japan provides that a significant loan from third party by a company should be approved by the Board of Directors. Our regulations of the Board of Directors have adopted this policy.

There is no mandatory retirement age for directors under the Corporation Law of Japan or our Articles of Incorporation.

There is no requirement concerning the number of shares one individual must hold in order to qualify him or her as a director under the Corporation Law of Japan or our Articles of Incorporation.

Rights of Shareholders of our Common Stock

We have issued only one class of shares, our common stock. Rights of holders of shares of our common stock have under the Corporation Law of Japan and our Articles of Incorporation include:

- the right to receive dividends when the payment of dividends has been approved at a shareholders' meeting, with this right lapsing three full years after the due date for payment according to a provision in our Articles of Incorporation,
- the right to receive interim dividends as provided for in our Articles of Incorporation, with this right lapsing three full years after the due date for payment according to a provision in our Articles of Incorporation,
- the right to vote at a shareholders' meeting (cumulative voting is not allowed under our Articles of Incorporation),
- the right to receive surplus in the event of liquidation, and
- the right to require us to purchase shares subject to certain requirements under the Corporation Law of Japan when a shareholder opposes certain resolutions including (i) the transfer of all or material part of the business, (ii) an amendment of the Articles of Incorporation to establish a restriction on share transfer, (iii) a share exchange or share transfer to establish a holding company, (iv) company split or (v) merger, all of which must in principle, be approved by a Special Resolution of Shareholders' meeting.

Under the Corporation Law of Japan, a company is permitted to make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the Distributable Amount provided for under the Corporation Law of Japan and the Ordinance of the Ministry of Justice as of the effective date of such distribution of surplus.

The amount of surplus at any given time shall be the amount of a company's assets and the book value of company's treasury stock after subtracting and adding the amounts of the items provided for under the Corporation Law of Japan and the applicable Ordinance of the Ministry of Justice.

A shareholder is generally entitled to one vote per one unit of our shares at a shareholders' meeting. In general, under the Corporation Law of Japan and our Articles of Incorporation, a shareholders' meeting may adopt a resolution by a majority of the voting rights represented at the meeting. The Corporation Law of Japan and our Articles of Incorporation require a quorum for the election of directors and company auditors of not less than one-third of the total number of voting rights held by all shareholders who can exercise their voting rights. A corporate shareholder, having more than one-quarter of its voting rights directly or indirectly held by us, does not have voting rights. We have no voting rights with respect to our own common stock. Shareholders may exercise their voting rights through proxies, provided that a shareholder may appoint only one shareholder who has a voting right as its proxy. Our Board of Directors may entitle our shareholders to cast their votes in writing. Our Board of Directors may also entitle our shareholders to cast their votes by electrical devices.

While the Corporation Law of Japan, in general, requires a quorum of the majority of voting rights and approval of two-thirds of the voting rights presented at the meeting of any material corporate actions, it allows a company to reduce the quorum for such Special Resolutions by its Articles of Incorporation to not less than one-third of the total number of voting rights held by all shareholders who can exercise their voting rights. We adopted a quorum of not less than one-third of the total number of voting rights in our Articles of Incorporation for Special Resolutions for material corporate actions, such as:

- a reduction of the stated capital, (except when a company reduces the stated capital within certain amount provided for under the Corporation Law of Japan concurrently with a share issue),
- amendment of our Articles of Incorporation (except amendments that the Board of Directors are authorized to make under the Corporation Law of Japan),
- establishment of a 100% parent-subsidiary relationship through a share exchange or share transfer requiring shareholders' approval,
- a dissolution, merger or consolidation requiring shareholders' approval,
- a company split requiring shareholders' approval,
- a transfer of the whole or an important part of our business,
- the taking over of the whole of the business of any other corporation requiring shareholders' approval, and
- issuance of new shares at a specially favorable price, or issuance of stock acquisition rights or bonds with stock acquisition rights with specially favorable conditions to persons other than shareholders.

The Corporation Law of Japan provides additional specific rights for shareholders owning a substantial number of voting rights.

Shareholders holding 10% or more of the total number of voting rights of all shareholders (or our total outstanding shares) have the right to apply to a court of competent jurisdiction, or competent court, for:

- dissolution, and
- commencement of reorganization proceedings as provided for in the Company Reorganization Law of Japan.

Shareholders who have held 3% or more of the total number of voting rights of all shareholders (or our total outstanding shares) for six months or more have certain rights under the Corporation law of Japan which includes the rights to:

- demand the convening of a general meeting of shareholders,
- apply to a competent court for removal of a director or company auditor,
- apply to a competent court for removal of a liquidator, and
- apply to a competent court for an order to inspect our business and assets in a special liquidation proceeding.

Shareholders holding 3% or more of the total number of voting rights of all shareholders (or our total outstanding shares) have certain rights under the Corporation Law of Japan which include the rights to:

- examine our accounting books and documents and make copies of them, and
- apply to a competent court for appointment of an inspector to inspect our operation or financial condition.

Shareholders who have held 1% or more of the total number of voting rights of all shareholders for six months or more have the right to apply to a competent court for appointment of an inspector to review the correctness of the convocation and voting procedures of a general meeting of shareholders.

Shareholders who have held 1% or more of the total number of voting rights of all shareholders or 300 voting rights for six months or more have the right to demand that certain matters be made objects and added to the agenda items at a general meeting of shareholders.

Shareholders who have held any number of shares for six months or more have the right to demand that we take certain actions under the Corporation Law of Japan which include the rights to demand:

- the institution of an action to enforce the liability of one of our directors or company auditors,
- the institution of an action to recover from a recipient the benefit of a proprietary nature given in relation to the exercise of the right of a shareholder, and
- a director on our behalf for the cessation of an illegal or ultra vires action.

There is no provision under the Corporation Law of Japan or our Articles of Incorporation which forces shareholders to make additional contributions when requested by us.

Under the Corporation Law of Japan, in order to change the rights of shareholders which are stipulated and defined in our Articles of Incorporation, we must amend our Articles of Incorporation. Amendments must, in principle, be approved by a Special Resolution of shareholders.

Annual general meetings and extraordinary general meetings of shareholders are convened by a representative director based on the determination of our Board of Directors. A shareholder having held 3% or more of our total outstanding shares for six months or more is entitled to demand the directors to convene a shareholders' meeting under the Corporation Law of Japan. Under our Articles of Incorporation, shareholders of record as of March 31 of each year have the right to attend the annual general meeting of our shareholders. We may, by prescribing a Record Date, determine the shareholders who are stated or recorded in the shareholder registry on the Record Date as the shareholders entitled to extraordinary general meetings of our shareholders, and in this case, we are required to make a public notice of Record Date at least two weeks prior to the Record Date. A convocation notice will be sent to these shareholders at least two weeks prior to the date of the shareholders' meeting.

Acquisition of Own Shares

Under applicable laws of Japan, we may acquire our own shares:

- (i) through market transactions on a stock exchange on which our shares are listed or by way of tender offer (in either case pursuant to a resolution of the Board of Directors as currently authorized by our Articles of Incorporation);
- (ii) from a specific shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders); or
- (iii) from any of our subsidiaries (pursuant to a resolution of the Board of Directors).

In case acquisition is made by way of (ii) above, any other shareholder may request within a certain period of time provided under the applicable Ordinance of the Ministry of Justice before a general meeting of shareholders that we also purchase our shares held by the requesting shareholder, unless the purchase price or any other consideration to be delivered in exchange for the acquisition of one of our shares does not exceed the market price of one of our shares calculated by the method prescribed in the applicable Ordinance of the Ministry of Justice.

Any acquisition by us of our own shares must satisfy certain other requirements, including that the total amount of the acquisition price may not exceed the Distributable Amount, as described above.

We may hold the shares which we acquired by way of (i) through (iii) above, and may cancel such shares by a resolution of the Board of Directors. We may also dispose of such shares subject to a resolution of the Board of Directors and subject also to other requirements applicable to the issuance of shares under the Corporation Law of Japan.

Restrictions on Holders of our Common Stock

There is no restriction on non-resident or foreign shareholders on the holding of our shares or on the exercise of voting rights, except for filing requirements with respect to an acquisition of shares by Non-resident of Japan under The Foreign Exchange and Foreign Trade Act of Japan and related rules and regulations, as explained in Item 10.D (Exchange Controls). However, pursuant to a provision of our share handling regulations, a shareholder who does not have an address or residence in Japan is required to file its temporary address to receive notices in Japan or that of a standing proxy having any address or residence in Japan with our transfer agent.

There is no provision in our Articles of Incorporation that would have the effect of delaying, deferring or preventing a change in control that would operate only with respect to a merger, acquisition or corporate restructuring involving us.

There is no provision in our Articles of Incorporation or other subordinated rules regarding the ownership threshold, above which shareholder ownership must be disclosed. Pursuant to the Financial Instruments and Exchange Law of Japan and its related regulations, a shareholder who has become, solely or jointly, a holder more than 5% of the total issued shares in a company that is listed on any stock exchange in Japan is required to file a report with the Finance Bureau of the Ministry of Finance, and, with certain exceptions, a similar report must also be filed in respect of any subsequent change of 1% or more in the holding or of any change in material matters set forth in any previously filed report.

There is no provision in our Articles of Incorporation governing changes in the capital more stringent than is required by law.

For a description of rights of holders of ADSs, please see the "Description of American Depositary Receipts" section in our F-1 Registration Statement (File No. 333-10584), declared effective on August 3, 1999, as amended, hereby incorporated by reference.

C. Material Contracts.

The following are summaries of our material contracts, other than those we entered into in the ordinary course of business.

Stock Purchase Agreement. We entered into a Stock Purchase Agreement on June 1, 2010, between IJ and AT&T Japan. On September 1, 2010, IJ made IJ-Global its 100% owned consolidated subsidiary by acquiring the stock of IJ-Global from AT&T Japan. IJ-Global succeeded mainly the domestic network outsourcing service business such as the WAN services which are mainly provided to approximately 1,600 domestic corporate customers. The acquisition price was ¥9.2 billion, and was purchased using mainly short-term bank borrowings. The Stock Purchase Agreement is filed as Exhibit 4.6 of this annual report.

Solutions Engagement Agreement. IJ Global entered into a Solutions Engagement Agreement on June 1, 2010, between IBM Japan Ltd. The Solutions Engagement Agreement, which contains indemnification, establishes the basis for a procurement relationship between IJ-Global and IBM Japan, the largest sales partner of IJ-Global. IJ-Global will provide and perform services, functions, responsibilities and others in a way that were being provided and performed by AT&T Japan. This agreement will remain in effect until terminated. The Solutions Engagement Agreement is filed as Exhibit 4.7 of this annual report.

Guarantee Letter Related to The Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK. We entered into a Guarantee Letter Related to The Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK on June 1, 2010, with IBM Japan Ltd. In this Agreement, we guarantee the indemnification mentioned in the Solutions Engagement Agreement for one year. The Guarantee Letter Related to The Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK is filed as Exhibit 4.8 of this annual report.

Limitation of Liability Agreements, dated June 27, 2008, June 26, 2009 and June 25, 2010, between Internet Initiative Japan Inc. and outside directors and outside company auditors. We entered into a Limitation of Liability Agreement with Mr. Masaki Okada and Mr. Masaaki Koizumi as our outside company auditors on June 27, 2008, with Mr. Junnosuke Furukawa as our outside director on June 26, 2009, and with Mr. Yasuro Tanahashi, Mr. Takashi Hiroi and Mr. Shingo Oda as our outside directors on June 25, 2010, respectively, under which we limit the liability of outside directors in accordance to the rules defined in Article 427 of the Corporation Law of Japan. Under the terms of the agreements on limited liability, the liability of outside directors and auditors for damages sustained by us as a result of their actions is limited to an aggregate of ¥10 million. The agreements on limited liability are automatically renewed if the outside directors and auditors are re-elected and terminate when the outside directors and auditors subject to the agreements on limited liability become a director, executive officer or employee of the Company. The full English translation of the Agreement on Limited Liability is filed as Exhibit 4.5 of this annual report.

D. Exchange Controls.

The Foreign Exchange and Foreign Trade Act of Japan, as amended and the cabinet orders and ministerial ordinances thereunder (the "Foreign Exchange Regulations"), regulate certain transactions involving a "Non-resident of Japan" or a "Foreign Investor," including the issuance of securities by a resident of Japan outside of Japan, transfer of securities between a resident of Japan and a Non-resident of Japan, "inward direct investment" by a Foreign Investor, and a payment from Japan to a foreign country or by a resident of Japan to a Non-resident of Japan.

"Non-residents of Japan" is defined as individuals who are not resident in Japan and corporations whose principal offices are located outside of Japan. Generally, branches and other offices of Japanese corporations which are located outside of Japan are regarded as Non-residents of Japan, but branches and other offices of non-resident corporations which are located within Japan are regarded as residents of Japan.

"Foreign Investors" is defined as:

- individuals who are Non-residents of Japan;
- corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and
- corporations (i) of which 50% or more of their voting rights are held by individuals who are Non-residents of Japan and/or corporations which are organized under the laws of foreign countries or whose principal offices are located outside of Japan or (ii) a majority of whose officers, or officers having the power of representation, are individuals who are Non-residents of Japan.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, shares held by Non-residents of Japan may in general be converted into any foreign currency and repatriated abroad.

Under the Foreign Exchange Regulations, in general, a Non-resident of Japan who acquires shares from a resident of Japan is not subject to any prior filing requirement, although the Foreign Exchange Law empowers the Minister of Finance of Japan to require prior approval for any such acquisition in certain limited circumstances. While such prior approval is not required in general, in the case where a resident of Japan transfers shares of a Japanese company for consideration exceeding ¥100 million to a non-resident of Japan, the resident of Japan that transfers the shares is required to report the transfer to the Minister of Finance of Japan within 20 days from the date of the transfer, unless the transfer is made through a bank, securities company or financial futures trader licensed under Japanese law.

If a Foreign Investor acquires our shares and, together with parties who have a special relationship with that foreign investor, holds 10% or more of our issued shares as a result of such acquisition, the Foreign Investor must, with certain limited exceptions, file a report of such acquisition with the Minister of Finance and any other competent Minister within 15 days from and including the date of such acquisition. In certain limited circumstances, however, a prior notification of such acquisition must be filed with the Minister of Finance and any other competent Minister, who may modify or prohibit the proposed acquisition.

E. Taxation.

Japanese Taxation

The following is a discussion summarizing material Japanese tax consequences to an owner of shares or ADSs who is a non-resident of Japan or a non-Japanese corporation without a permanent establishment in Japan to which the relevant income is attributable. The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as at the date hereof. These statements are subject to changes in the applicable Japanese laws or double taxation conventions occurring after that date. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor. Potential investors should satisfy themselves as to:

- the overall tax consequences of the acquisition, ownership and disposition of shares or ADSs, including specifically the tax consequences under Japanese law,
- the laws of the jurisdiction of which they are resident, and
- any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

For purposes of the Treaty and Japanese tax law, U.S. holders of ADRs will be treated as the owners of the shares underlying the ADSs evidenced by the ADRs.

Generally, a non-resident individual of Japan or a non-Japanese corporation as a holder of shares or ADSs is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits, in general, are not subject to Japanese income tax.

In the absence of any applicable tax treaty, convention or agreement reducing the maximum rate of withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident individual of Japan or a non-Japanese corporation is 20%. With respect to dividends paid on listed shares issued by Japanese Corporation (such as our shares) to non-resident individual of Japan or a non-Japanese corporation, the aforementioned 20% withholding tax rate is reduced to (i) 7% for dividends to be paid by December 31, 2011, and (ii) 15% for dividends to be paid thereafter, except for dividends paid to any individual shareholder who holds 5% or more of the issued shares of a company. As of date of this annual report, Japan has entered into income tax treaties, conventions or agreements, whereby the above-mentioned withholding tax rate is reduced, in most cases to 15% or 10% for portfolio investors (15% under the income tax treaties with, among other countries, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, and Switzerland, and 10% under the income tax treaties with Australia, France, the U.K. and the United States).

Under the Convention between the Government of Japan and the Government of the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "Convention"), the maximum rate of Japanese withholding tax that may be imposed on dividends paid by a Japanese corporation to a U.S. holder that does not have a permanent establishment in Japan is limited to 10% for most qualified portfolio investors and 5% if the beneficial owner is a qualified company that owns, directly or indirectly, on the date on which entitlement to the dividend is determined, at least 10% (but not more than 50%) of the voting stock of the Japanese corporation. The Convention provides that no Japanese tax will be imposed on dividends paid to qualified pension fund that is a United States resident, if such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.

Under Japanese tax law, the maximum rate applicable under the tax treaties conventions or agreements shall be applicable, subject to completion of below-described application procedures, except when such maximum rate is higher than the Japanese statutory rate.

Non-resident holders who are entitled to a reduced rate of Japanese withholding tax on payment of dividends by IJ must submit the required form in advance through IJ to the relevant tax authority before payment of dividends. The required form is the Application Form for Income Tax Convention regarding Relief from Japanese Income Tax on Dividends. A standing proxy for non-resident holders may provide such application service. With respect to ADSs, the reduced rate is applicable if The Bank of New York Mellon, as depositary, or its agent submits in duplicate two Application Forms for Income Tax Convention (one is Form 4 subtitled "Extension of Time for Withholding of Tax on Dividends with respect to Foreign Depository Receipt" to the payer of dividends, who has to file the original with the district director of tax office for the place where the payer resides, by the day before the payment of dividends and the other is Form 5 subtitled "Relief from Japanese Income Tax on Dividends with respect to Foreign Depository Receipt" to the district director of tax office through the payer of Dividends in eight months from the day following the base date of payment of dividends for application purposes for which Form 4 has been submitted). To claim the reduced rate, a non-resident holder of ADSs will be required to file proof of taxpayer status, residence and beneficial ownership, as applicable. The non-resident holder will also be required to provide information or documents clarifying its entitlement to the tax reduction as may be required by the depositary. A non-resident holder of shares or ADSs who does not submit an application in advance will be entitled to claim from the relevant Japanese tax authority a refund of withholding taxes withheld in excess of the rate of an applicable tax treaty.

Gains derived from the sale of the shares or ADSs outside Japan, or from the sales of shares within Japan by a non-resident individual of Japan or a non-Japanese corporation are in general not subject to Japanese income or corporation taxes provided that such gains are from portfolio investments where the shareholding ratio is within certain prescribed level.

An individual who has acquired shares or ADSs as a distributee, legatee or donee may have to pay Japanese inheritance and gift taxes at progressive rates.

United States Taxation

The following discusses United States federal income tax consequences of the ownership of shares or ADSs. It only applies to U.S. holders of shares or ADSs, as defined below, who hold their shares or ADSs as capital assets for tax purposes. It does not address special classes of holders, some of whom may be subject to other rules including:

- tax-exempt entities,
- life insurance companies,
- dealers in securities,
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings,
- investors liable for alternative minimum tax,
- investors that actually or constructively own 10% or more of the voting stock of IJ,
- investors that hold shares or ADSs as part of a straddle or a hedging or conversion transaction, or
- investors whose functional currency is not the U.S. dollar.

This discussion is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations and administrative and judicial interpretations, as currently in effect, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement relating to the ADRs and any related agreement will be performed in accordance with its terms.

For purposes of this discussion, a “U.S. holder” is a beneficial owner of shares or ADSs that is:

- a citizen or resident of the United States,
- a domestic corporation,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

This discussion addresses only United States federal income taxation. You should consult your own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to United States federal income tax.

The discussion under the headings “Taxation of Dividends” and “Taxation of Capital Gains” assumes that we will not be treated as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see the discussion under the heading “PFIC Rules” below.

Taxation of Dividends

Under the United States federal income tax laws, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15% provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the shares or ADSs generally will be qualified dividend income.

You must include any Japanese tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of shares, or the depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Japanese yen payments made, determined at the spot Japanese yen/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Japanese tax withheld in accordance with the Treaty and paid over to Japan will be creditable or deductible against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available to you under Japanese law or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

For foreign tax credit purposes, dividends constitute income from sources outside the United States. Dividends will, depending on your circumstances, be either "passive" or "general" income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

If you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the holder has a holding period greater than one year. Additionally, gain or loss will generally be from sources within the United States for foreign tax credit limitation purposes.

PFIC Rules

We do not believe that we will be treated as a PFIC for United States federal income tax purposes for our most recent taxable year. However, this conclusion is a factual determination made annually and thus may be subject to change.

In general, we will be a PFIC with respect to you if for any of our taxable years in which you held our ADSs or shares:

- at least 75% of our gross income for the taxable year is passive income, or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC and you did not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs, and
- any “excess distribution” that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If your shares or ADSs are treated as marketable stock of a PFIC, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. These amounts of ordinary income will not be eligible for the favorable tax rates applicable to qualified dividend income or long-term capital gains. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year or over their final sale or disposition prices, but only to the extent of the net amount of previously included income as a result of the mark-to-market election. Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares or ADSs during any year that we are a PFIC with respect to you, you must file Internal Revenue Service Form 8621.

F. Dividends and Paying Agents.

Not required.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

We file periodic reports and other information with the SEC. The SEC maintains a web site at www.sec.gov that contains reports and other information regarding us and other registrants that file electronically with the SEC. You may read and copy any document we file with the the SEC at the SEC’s public reference room at 100 F Street, NE, Washington, D.C. 20549. Please call SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. In addition, you may also inspect reports filed with the SEC and other information at our Tokyo headquarters, located at Jinbocho Mitsui Bldg., 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan.

I. Subsidiary Information.

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risks from changes in interest rates, equity prices and foreign currency exchange rates.

Interest Rate Risk

As of March 31, 2010, our interest rate risk on short-term borrowings (Outstanding of ¥4.5 billion) was not material since the weighted average interest rate as of March 31, 2010 is reasonably low (0.905%) and we do not expect interest rates to rise sharply in the near future. As of March 31, 2009, our interest rate risk on short-term borrowings (Outstanding of ¥7.4 billion) was also immaterial. On September 1, 2010, we made IJ-Global our 100% consolidated subsidiary by acquiring the stock of IJ-Global from AT&T Japan for ¥9.2 billion. To meet the funding for this acquisition, we borrowed an additional ¥9.0 billion in short-term borrowings from Japanese banks.

We had no outstanding long-term borrowings and interest rate swap contracts as of March 31, 2009 and 2010, respectively.

To the extent we have outstanding long-term borrowings, our basic policy on managing interest rate risk is to hedge our exposure to variability in future cash flows of floating rate interest payments on long-term bank borrowings. In order to reduce cash flow risk exposures on floating rate borrowings, we utilize interest rate swaps to convert floating rate borrowings into fixed rate borrowings. We do not hold derivative instruments for speculative purposes. Also, we do not hold or issue financial instruments for trading purposes. To the extent we have outstanding interest rate swaps, the changes in the fair value of interest rate swaps designated as hedging instruments are reported in accumulated other comprehensive income.

Equity Price Risk

The fair value of certain of our investments, primarily in marketable securities, exposes us to equity price risks. In general, we have invested in highly liquid and low-risk instruments, which are not held for trading purposes. We are exposed to changes in the market prices of the securities. As of March 31, 2009 and 2010, the fair value of such investments was ¥674 million and ¥867 million, respectively. The potential loss in fair value resulting from a 10% adverse change in equity prices would be approximately ¥67 million and ¥87 million as of March 31, 2009 and 2010, respectively. See Note 3 to our consolidated financial statements, included in this annual report on Form 20-F.

Foreign Currency Exchange Rate Risk

The assets held by us which are exposed to foreign currency exchange risk are U.S. dollar denominated bank deposits. The carrying value, which also represents fair value, amounted to \$2,044 thousand (¥203 million) and \$3,174 thousand (¥296 million) at March 31, 2009 and 2010, respectively. The potential loss in fair value for such financial instruments from a 10% adverse change in quoted foreign currency exchange rates would have been approximately ¥20 million and ¥30 million at March 31, 2009 and 2010, respectively.

Item 12. Description of Securities Other than Equity Securities.

A. Debt Securities.

Not applicable.

B. Warrants and Rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares.

Fees and charges payable by ADR Holders

The following table shows the fees and charges that a holder of our ADR may have to pay, either directly or indirectly:

Services	Fees (USD)
Taxes and other governmental charges	As applicable
Such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Shareholders' register of the Issuer or Foreign Registrar and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder	As applicable
Such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement	As applicable
Such expenses as are incurred by the Depositary in the conversion of Foreign Currency	As applicable
The execution and delivery of Receipts and the surrender of Receipts	\$5.00 or less per 100 ADR
Any cash distribution made pursuant to the Deposit Agreement	\$.02 or less per ADR
Receipt or Receipts for transfers made	\$1.50 or less per certificate
The distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities, but which securities are instead distributed by the Depositary to Owners	As applicable

Fees and other payments made by the Depositary to the Issuer

For the fiscal year beginning April 1, 2009 and ending March 31, 2010, The Bank of New York Mellon, as Depositary, reimbursed IJ for the NASDAQ Stock Market listing fees of \$30,000. The Bank of New York Mellon, as Depositary has also agreed to reimburse IJ for its annual stock exchange (NASDAQ Stock Market) listing fees for future years. Furthermore, from April 1, 2009 to March 31, 2010, the Bank of New York Mellon has waived a total of \$12,000 in fees associated with the administration of the ADR program, investor relations expenses and administrative fees for routine corporate actions in addition to their standard fees for providing investor relations information services.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

(a) Disclosure Controls and Procedures

As of the end of the fiscal year ended March 31, 2010, our management, with the participation of Koichi Suzuki, our president, chief executive officer and representative director, and Akihisa Watai, our director, chief financial officer and chief accounting officer, performed an evaluation of our disclosure controls and procedures.

Under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2010.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for our company.

Under Rules 13a-15(f) of the Securities Exchange Act of 1934, internal control over financial reporting means a process designed by, or under the supervision of, our chief executive officer and chief financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets,
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management evaluated the effectiveness of our internal control over financial reporting using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of March 31, 2010.

The effectiveness of our internal control over financial reporting has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report, presented hereafter.

Changes in Internal Control Over Financial Reporting

As required by Securities Exchange Act Rule 13a-15(d), our management, including our principal executive officer and principal financial officer, also conducted an evaluation of our company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our company's internal control over financial reporting. Based on that evaluation, our management concluded that there has been no such change during the period covered by this report, and that our internal controls are functioning effectively.

(c) Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Internet Initiative Japan Inc.:

We have audited the internal control over financial reporting of Internet Initiative Japan Inc. and subsidiaries (the "Company") as of March 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2010 of the Company and our report dated September 28, 2010 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE TOUCHE TOHMATSU LLC
Tokyo, Japan
September 28, 2010

(d) Changes in Internal Control Over Financial Reporting

With the participation of our chief executive officer and chief financial officer, our management also evaluated any change in our internal control over financial reporting that occurred during the fiscal year ended March 31, 2010. Based on that evaluation, our chief executive officer and chief financial officer concluded that no changes were made in our internal control over financial reporting that occurred during the fiscal year ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

At our shareholders' meeting in June 2004, two company auditors were nominated and our Board of Company Auditors determined that one of the nominated company auditors serving on the Board of Company Auditors, Masaaki Koizumi, is an "audit committee financial expert" as defined in Item 16A. of Form 20-F and to be independent under the standards of the NASDAQ Stock Market. Mr. Koizumi is independent from us.

Item 16B. Code of Ethics.

At our Board of Directors Meeting on April 28, 2004, we adopted a Code of Ethics, the Internet Initiative Japan Code of Conduct, applicable to all employees and officers, including our chief executive officer, chief financial officer and chief accounting officer. The Code of Conduct is attached as Exhibit 11.1 of this annual report.

Item 16C. Principal Accountant Fees and Services.

Independent Auditor Fees and Services

The Board of Directors engaged Deloitte Touche Tohmatsu to perform an annual audit of our financial statements for each of the fiscal years ended March 31, 2009 and 2010. The following table sets forth the aggregate fees billed for services rendered by Deloitte Touche Tohmatsu and its member firm for each of the last two fiscal years.

	Fiscal year ended March 31,	
	2009	2010
	(millions of yen)	
Audit fees ⁽¹⁾	97	105
Audit-related fees	-	-
Tax fees ⁽²⁾	12	23
All other fees	-	-
Total fees	109	128

(1) These are the aggregate fees billed for the fiscal year for professional services rendered by Deloitte Touche Tohmatsu for the audit of our annual financial statements, the audit of our internal control over financial reporting and services that are normally provided in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) These are the aggregate fees billed for the fiscal year for professional services rendered by member firms of Deloitte Touche Tohmatsu, such as Deloitte Tax LLP, for tax compliance, tax advice and tax planning.

Board of Company Auditors Pre-Approval Policies and Procedures

The Board of Company Auditors has adopted policies and procedures for pre-approving all audit and permissible non-audit work performed by independent registered public accounting firm in accordance with Rule 2-01(c)(7)(i)(B) under Regulation S-X. Under those policies and procedures, the Board of Company Auditors must pre-approve individual audit and non-audit services to be provided to us by our independent registered public accounting firm and its affiliates. Those policies and procedures also describe prohibited non-audit services that may never be provided by independent registered public accounting firm.

All of the services provided by our independent registered public accounting firm from May 6, 2003, when our pre-approval policies went into effect, through the end of the fiscal year ended March 31, 2010 were pre-approved by the Board of Company Auditors pursuant to the pre-approval policies described above, and none of such services were approved pursuant to the procedures described in Rule 2-01(c)(7)(i)(C) of Regulation S-X, which waives the general requirement for pre-approval in certain circumstances.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

With respect to the requirements of Rule 10A-3 under the Securities Exchange Act of 1934 relating to listed company audit committees, which apply to us through Rules 5605(c) of the NASD Listing Rules, we rely on an exemption provided by paragraph (c)(3) of that Rule available to foreign private issuers with Boards of Company Auditors meeting certain requirements. For a Nasdaq-listed Japanese company with a Board of Company auditors, the requirements for relying on paragraph (c)(3) of Rule 10A-3 are as follows:

- The Board of Company Auditors must be established, and its members must be selected, pursuant to Japanese law expressly requiring such a board for Japanese companies that elect to have a corporate governance system with company auditors,
- Japanese law must and does require the Board of Company Auditors to be separate from the Board of Directors,
- None of the members of the Board of Company Auditors may be elected by management, and none of the listed company's executive officers may be a member of the Board of Company Auditors,
- Japanese law must and does set forth standards for the independence of the members of the Board of Company Auditors from the listed company or its management, and
- The Board of Company Auditors, in accordance with Japanese law or the registrant's governing documents, must be responsible, to the extent permitted by Japanese law, for the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, to the extent permitted by Japanese law, the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed company, including its principal accountant which audits its consolidated financial statements included in its annual reports on Form 20-F.

To the extent permitted by Japanese law:

- The Board of Company Auditors must establish procedures for (i) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls, or auditing matters, and (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters,
- The Board of Company Auditors must have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties, and
- The listed company must provide for appropriate funding, as determined by its Board of Company Auditors, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for us, (ii) compensation to any advisers employed by the Board of Company Auditors, and (iii) ordinary administrative expenses of the Board of Company Auditors that are necessary or appropriate in carrying out its duties.

In our assessment, our Board of Company Auditors, which meets the requirements for reliance on the exemption in paragraph (c)(3) of Rule 10A-3 described above, is not materially less effective than an audit committee meeting all the requirements of paragraph (b) of Rule 10A-3 (without relying on any exemption provided by that Rule) at acting independently of management and performing the functions of an audit committee as contemplated therein.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

Item 16G. Corporate Governance.

Nasdaq Listing Rule 5615 provides that a foreign private issuer may follow its home country practice in lieu of the requirements of Rule 5600, provided that such foreign private issuer discloses in its annual reports filed with the Securities and Exchange Commission or on its website each requirement of Rule 5600 that it does not follow and describes the home country practice followed by the issuer in lieu of such requirements.

Nasdaq Listing Rule 5605(b), Rule 5605(d) and Rule 5605(e) require that (i) a majority of the Board of Directors be independent directors as defined in Rule 5605(a)(2), (ii) independent directors have regularly scheduled meetings at which only they are present, (iii) compensation of the chief executive officer and other executive officers be determined, or recommended to the Board of Directors for determination, either by a majority of the independent directors or by a compensation committee comprised solely of independent directors, and (iv) director nominees be selected, or recommended for selection by the Board of Directors, either by a majority of the independent directors or by a nominations committee comprised solely of independent directors, in accordance with the nominations process set forth in a formal written charter or board resolution. For large Japanese companies under the Company Law of Japan including us, which employ a corporate governance system based on a Board of Company Auditors, Japan's Company Law has no independence requirement with respect to directors. The task of overseeing management and accounting firms is assigned to the company auditors, who are separate and independent from the company's management. We are required to have at least 50% "outside" company auditors who must meet additional independence requirements under the Company Law. An outside company auditor is defined in the Company Law as a company auditor who had not served as a director, manager or any other employee of the company or any of its subsidiaries at any time prior to the appointment.

Nasdaq Listing Rule 5605(c) requires that (i) each issuer have adopted a formal written audit committee charter meeting the requirements of Rule 5605(c)(1) and (ii) the issuer have an audit committee of at least three members who are independent as defined under Rule 5605(a)(2), meet the independence criteria set forth in Rule 10A-3(b)(1) under the U.S. Securities Exchange Act of 1934 and satisfy certain other criteria. We employ the company auditor system as described above. Under this system, the Board of Company Auditors is a legally separate and independent body from the Board of Directors. The function of the Board of Company Auditors is similar to that of independent directors, including those who are members of the audit committee, of a U.S. company: to monitor the performance of the directors, and review and express an opinion on the method of auditing by the company's accounting firm and on such accounting firm's audit reports, for the protection of the company's shareholders. We are required to have at least three company auditors. In addition, our auditors serve a longer term than our directors. With respect to the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934 relating to listed company audit committees, we rely on an exemption under paragraph (c)(3) of that rule which is available to foreign private issuers with boards of company auditors meeting certain criteria.

Nasdaq Listing Rule 5620(c) provides that each issuer provide for a quorum as specified in its by-laws for any meeting of holders of common stock, which shall be at least 33 1/3% of the outstanding shares of the issuer's voting common stock. We provide for a quorum as specified in the Articles of Incorporation for any meeting of holders of common stock, which shall be at least one-third of our outstanding shares of voting common stock.

Nasdaq Listing Rule 5620(b) provides that each issuer solicit proxies and provide proxy statements for all meetings of shareholders and provide copies of such proxy solicitation to Nasdaq. As a Japanese company whose shares are listed on the securities exchanges defined in the Financial Instrument and Exchange Act, we may, but are not required to, solicit proxies for meetings of shareholders. If we solicit proxies for a meeting of shareholders, we are required to provide proxy statements and documents for reference as provided for in the Financial Instrument and Exchange Act and provide copies of such proxy statements and documents for reference to the Kanto Local Finance Bureau.

Nasdaq Listing Rule 5630(a) provides that each issuer conduct appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the issuer's audit committee or another independent body of the Board of Directors. Following the requirements of the Company Law of Japan, we require a director to obtain the approval of the Board of Directors in order for such director to accept a transfer of a product or any other asset of IJ, to transfer a product or any other asset of such director to IJ, to receive a loan from IJ, or to effect any other transaction with IJ, for himself or a third party.

Nasdaq Listing Rule 5635 provides that shareholder approval be obtained prior to the issuance of designated securities under subparagraphs (a), (b), (c) or (d) of Rule 5635. Where a Japanese joint stock company (Kabushiki-Gaisha) issues common shares or other shares, stock acquisition rights or bonds with stock acquisition rights under the Company Law of Japan, it is necessary for the Board of Directors to determine the conditions of issuance; provided, however, that this shall not apply if the Articles of Incorporation provide that such conditions shall be determined by the shareholders' meeting. Currently, IJ's Articles of Incorporation do not provide for any such exception. Additionally, if the company issues such securities to persons other than shareholders (in case of common shares or other shares) at a specially favorable issue price or (in case of stock acquisition rights or bonds with stock acquisition rights) on specially favorable conditions, even when there are provisions related thereto in the Articles of Incorporation, some matters related to such issuance shall be resolved by special resolution of the shareholders' meeting.

Item 17. Financial Statements.

Not applicable.

Item 18. Financial Statements.

See Financial Statements for Internet Initiative Japan Inc. and Subsidiaries beginning on page F-1.

Item 19. Exhibits.

- 1.1 Articles of Incorporation, as amended (English translation)¹
- 1.2 Share Handling Regulations, as amended (English translation)¹
- 1.3 Regulations of the Board of Directors, as amended (English translation)
- 1.4 Regulations of the Board of Company Auditors, as amended (English translation)²
- 2.1 Bylaws of the IJ Group Employee Shareholders' Association (English translation)
- 2.2 Form of Deposit Agreement among IJ, The Bank of New York Mellon as depository and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt³
- 2.3 Bylaws of the IJ Group Director Stock Purchase Plan (English translation)
- 4.1 Shareholders' Agreement Relating to the Establishment of INTERNET MULTIFEED CO., dated August 20, 1997, between Nippon Telegraph and Telephone Corporation and the Registrant (English translation)⁴
- 4.2 Basic Agreement to Delegate Services, dated April 1, 1998, between Internet Initiative Japan Inc. and Net Care, Inc. (English translation)⁴
- 4.3 Joint Venture Agreement, dated January 19, 2006, between Internet Initiative Japan Inc. and Konami Corporation (English translation)⁵
- 4.4 Service Agreement, dated March 25, 2004, between Internet Initiative Japan Inc. and IJ America Inc.⁶
- 4.5 Agreement on Limited Liability, dated June 27, 2008, June 26, 2009 and June 25, 2010, between Internet Initiative Japan Inc. and outside directors and outside company auditors⁷
- 4.6 Stock Purchase Agreement, dated June 1, 2010, between Internet Initiative Japan Inc. and AT&T Japan LLC.⁸
- 4.7 Solutions Engagement Agreement, dated May 31, 2010 between Communications Services KK (changed its trade name to IJ-Global Solutions Inc. on September 1, 2010) and IBM Japan, Ltd.⁸
- 4.8 Guaranty Letter Related to the Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK, dated June 1, 2010.⁸
- 8.1 List of Significant Subsidiaries (See "Our Group Companies" in Item 4.B. of this Form 20-F)
- 11.1 Internet Initiative Japan Code of Conduct⁹
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240.13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240.13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350

-
- (1) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on September 29, 2009.
 - (2) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on August 3, 2005.
 - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-110862) filed on December 2, 2003.
 - (4) Incorporated by reference to the corresponding exhibit to our Form F-1 Registration Statement (File No. 333-10584) declared effective on August 3, 1999.
 - (5) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on July 11, 2006.
 - (6) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on July 23, 2004.
 - (7) We entered into a Limitation of Liability Agreement with Mr. Masaki Okada and Mr. Masaaki Koizumi as our outside company auditors on June 27, 2008, with Mr. Junnosuke Furukawa as our outside director on June 26, 2009 and with Mr. Yasuro Tanahashi, Mr. Takashi Hiroi and Mr. Shingo Oda as our outside directors on June 25, 2010.
 - (8) Schedules, annexes and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. IJ agrees to furnish supplementary copies of the omitted schedules, annexes and similar attachments to the SEC upon request. A list briefly describing the omitted schedules, annexes and similar attachments are contained in this exhibit.
 - (9) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on June 30, 2008.

We are not a party to any instruments with respect to long-term debt.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Internet Initiative Japan Inc.

By: /s/ Koichi Suzuki
Name: Koichi Suzuki
Title: President, Chief Executive Officer
and Representative Director

Date: September 28, 2010

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Internet Initiative Japan Inc.:

We have audited the accompanying consolidated balance sheets of Internet Initiative Japan Inc. and subsidiaries (the "Company") as of March 31, 2009 and 2010 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2010 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Internet Initiative Japan Inc. and subsidiaries as of March 31, 2009 and 2010 and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2010, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 28, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

/s/ DELOITTE TOUCHE TOHMATSU LLC
Tokyo, Japan
September 28, 2010

Consolidated Balance Sheets
March 31, 2009 and 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2010	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 10,187,724	¥ 8,764,415	\$ 93,838
Accounts receivable, net of allowance for doubtful accounts of ¥22,072 thousand and ¥37,178 thousand (\$398 thousand) at March 31, 2009 and 2010, respectively (Notes 4, 5 and 20)	10,256,527	11,396,597	122,019
Inventories (Note 2)	529,756	807,803	8,649
Prepaid expenses	1,771,955	1,593,000	17,056
Deferred tax assets – current (Note 10)	762,221	1,570,746	16,817
Other current assets, net of allowance for doubtful accounts of ¥11,720 thousand and ¥720 thousand (\$8 thousand) at March 31, 2009 and 2010, respectively (Notes 4 and 8)	848,586	762,081	8,159
Total current assets	24,356,769	24,894,642	266,538
INVESTMENTS IN EQUITY METHOD INVESTEEES (Note 5)	947,626	1,131,354	12,113
OTHER INVESTMENTS (Notes 3, 15, 16 and 17)	1,914,594	2,581,610	27,640
PROPERTY AND EQUIPMENT—Net (Notes 6 and 8)	13,172,891	12,970,152	138,867
GOODWILL (Note 7)	2,639,319	2,639,319	28,258
OTHER INTANGIBLE ASSETS—Net (Note 7)	3,201,806	2,819,187	30,184
GUARANTEE DEPOSITS (Notes 8)	2,072,652	2,003,862	21,455
DEFERRED TAX ASSETS – Noncurrent (Note 10)	2,253,464	685,370	7,338
OTHER ASSETS, net of allowance for doubtful accounts of ¥72,800 thousand and ¥91,319 thousand (\$978 thousand) at March 31, 2009 and 2010, respectively, and net of loan loss valuation allowance of ¥16,701 thousand (\$179 thousand) at March 31, 2009 and 2010, respectively (Notes 4, 5, 8 and 16)	1,742,078	1,389,954	14,882
TOTAL	¥ 52,301,199	¥ 51,115,450	\$ 547,275

Internet Initiative Japan Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2009 and 2010

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2010	2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings (Note 9)	¥ 7,350,000	¥ 4,450,000	\$ 47,644
Capital lease obligations—current portion (Note 8)	3,272,257	2,729,673	29,226
Accounts payable (Notes 5 and 20)	6,064,829	6,967,654	74,600
Accrued expenses	1,069,310	1,184,483	12,682
Accrued retirement and pension costs-current (Note 11)	11,959	14,539	156
Deferred income	1,255,749	1,445,174	15,473
Other current liabilities	763,544	922,345	9,875
Total current liabilities	19,787,648	17,713,868	189,656
CAPITAL LEASE OBLIGATIONS—Noncurrent (Note 8)	4,866,120	3,657,657	39,161
ACCRUED RETIREMENT AND PENSION COSTS—Noncurrent (Note 11)	1,399,592	1,302,054	13,941
DEFERRED TAX LIABILITIES – Noncurrent (Note 10)	167,611	212,773	2,278
OTHER NONCURRENT LIABILITIES	837,309	865,395	9,266
Total liabilities	27,058,280	23,751,747	254,302
COMMITMENTS AND CONTINGENCIES (Note 15)			
SHAREHOLDERS' EQUITY (Notes 3, 11, 12 and 13):			
Common stock—authorized, 377,600 shares; issued and outstanding, 206,478 shares at March 31, 2009 and 2010	16,833,847	16,833,847	180,234
Additional paid-in capital	27,611,737	27,443,600	293,829
Accumulated deficit	(18,549,142)	(16,720,092)	(179,016)
Accumulated other comprehensive income (loss)	(320,711)	168,769	1,807
Treasury stock—3,934 shares at March 31, 2009 and 2010	(406,547)	(406,547)	(4,353)
Total Internet Initiative Japan Inc. shareholders' equity	25,169,184	27,319,577	292,501
NONCONTROLLING INTERESTS	73,735	44,126	472
Total equity	25,242,919	27,363,703	292,973
TOTAL	¥ 52,301,199	¥ 51,115,450	\$ 547,275

See notes to consolidated financial statements.

Consolidated Statements of Income
Three Years in the Period Ended March 31, 2010

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2009	2010	2010
REVENUES (Notes 5 and 20):				
Connectivity and Outsourcing services:				
Connectivity services (corporate use)	¥ 12,148,490	¥ 13,142,393	¥ 13,847,116	\$ 148,256
Connectivity services (home use)	5,429,955	6,537,370	6,854,258	73,386
Outsourcing services	13,724,218	15,395,833	16,271,256	174,210
Total	31,302,663	35,075,596	36,972,630	395,852
Systems integration				
Systems construction	18,021,089	14,658,502	11,353,598	121,559
Systems operation and maintenance	15,992,843	18,988,595	18,716,978	200,396
Total	34,013,932	33,647,097	30,070,576	321,955
Equipment sales	1,514,543	984,585	756,517	8,100
ATM operation business	4,161	23,452	206,657	2,213
Total revenues	66,835,299	69,730,730	68,006,380	728,120
COST AND EXPENSES (Notes 5, 8, 11 and 20):				
Cost of connectivity and Outsourcing services	26,039,660	29,317,645	30,533,726	326,914
Cost of systems integration	25,526,033	25,542,758	21,903,699	234,515
Cost of equipment sales	1,299,793	863,031	649,315	6,952
Cost of ATM operation business	17,135	422,285	963,862	10,320
Total cost	52,882,621	56,145,719	54,050,602	578,701
Sales and marketing (Note 19)	4,328,598	4,630,579	5,405,075	57,870
General and administrative (Note 6)	4,624,293	5,621,870	4,826,006	51,670
Research and development	240,423	415,180	313,112	3,352
Total cost and expenses	62,075,935	66,813,348	64,594,795	691,593
OPERATING INCOME	4,759,364	2,917,382	3,411,585	36,527
OTHER INCOME (EXPENSES):				
Interest income	63,030	45,153	28,691	307
Interest expense	(438,163)	(408,152)	(306,208)	(3,279)
Foreign exchange gains (losses)	1,409	(28,515)	(395)	(4)
Net gains on sales of other investments (Note 3)	217,957	15,631	49,512	530
Impairment of other investments (Note 3)	(288,643)	(524,287)	(342,796)	(3,670)
Other—net	46,715	17,276	18,673	200
Other expenses—net	(397,695)	(882,894)	(552,523)	(5,916)
INCOME FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT) AND EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEES	4,361,669	2,034,488	2,859,062	30,611
INCOME TAX EXPENSE (BENEFIT) (Note 10)	(861,414)	1,002,711	1,132,093	12,121
FORWARD	¥ 5,223,083	¥ 1,031,777	¥ 1,726,969	\$ 18,490

Internet Initiative Japan Inc. and Subsidiaries

Consolidated Statements of Income
Three Years in the Period Ended March 31, 2010

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2009	2010	2010
FORWARD	¥ 5,223,083	¥ 1,031,777	¥ 1,726,969	\$ 18,490
EQUITY IN NET INCOME (LOSS) OF EQUITY METHOD INVESTEEs (Note 5):	(143,200)	35,099	159,423	1,707
NET INCOME	5,079,883	1,066,876	1,886,392	20,197
LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	96,706	352,428	347,746	3,723
NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC.	¥ 5,176,589	¥ 1,419,304	¥ 2,234,138	\$ 23,920
NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC. PER SHARE (Note 14):				
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	206,240	205,165	202,544	
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	206,465	205,195	202,544	
		Yen		U.S. Dollars
BASIC NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC. PER COMMON SHARE	¥ 25,100	¥ 6,918	¥ 11,030	\$ 118
DILUTED NET INCOME ATTRIBUTABLE TO INTERNET INITIATIVE JAPAN INC. PER COMMON SHARE	¥ 25,072	¥ 6,917	¥ 11,030	\$ 118

See notes to consolidated financial statements.

Internet Initiative Japan Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity
Three Years in the Period Ended March 31, 2010

	Thousands of Yen								
	Internet Initiative Japan Inc. shareholders' equity								
	Total Equity	Comprehensive Income (Loss)	Accumulated Deficit (Note 12)	Accumulated Other Comprehensive Income (Loss) (Notes 11 and 13)	Shares of common stock outstanding	Common Stock	Treasury Stock (Note 12)	Additional Paid-in Capital	Noncontrolling Interests
BALANCE, APRIL 1, 2007	¥ 20,927,186		¥ (24,270,769)	¥ 949,709	204,300	¥ 16,833,847	¥ -	¥ 26,599,217	¥ 815,182
Issuance of common stock for the purchase of noncontrolling interests of consolidated subsidiaries, net of issuance cost	1,012,520				2,178			1,012,520	
Establishment of new consolidated subsidiaries	390,906								390,906
Purchase of noncontrolling interests of consolidated subsidiaries	(815,280)								(815,280)
Comprehensive income (loss):									
Net income	5,079,883	¥ 5,079,883	5,176,589						(96,706)
Other comprehensive loss, net of tax	(859,091)	(859,091)		(859,091)					
Total comprehensive income	4,220,792	¥ 4,220,792							
Dividends paid	(461,309)		(461,309)						
BALANCE, MARCH 31, 2008	25,274,815		(19,555,489)	90,618	206,478	16,833,847	-	27,611,737	294,102
Subsidiary stock issuance	132,061								132,061
Comprehensive income (loss):									
Net income	1,066,876	¥ 1,066,876	1,419,304						(352,428)
Other comprehensive loss, net of tax	(411,329)	(411,329)		(411,329)					
Total comprehensive income	655,547	¥ 655,547							
Dividends paid	(412,957)		(412,957)						
Purchase of treasury stock	(406,547)						(406,547)		
BALANCE, MARCH 31, 2009	25,242,919		(18,549,142)	(320,711)	206,478	16,833,847	(406,547)	27,611,737	73,735
Subsidiary stock issuance	150,000							(168,137)	318,137
Comprehensive income:									
Net income	1,886,392	¥ 1,886,392	2,234,138						(347,746)
Other comprehensive income, net of tax	489,480	489,480		489,480					
Total comprehensive income	2,375,872	¥ 2,375,872							
Dividends paid	(405,088)		(405,088)						
BALANCE, MARCH 31, 2010	¥ 27,363,703		¥ (16,720,092)	¥ 168,769	206,478	¥ 16,833,847	¥ (406,547)	¥ 27,443,600	¥ 44,126

Thousands of U.S. Dollars (Note 1)

Internet Initiative Japan Inc. shareholder's equity

	Total Equity	Comprehensive Income	Accumulated Deficit (Note 12)	Accumulated Other Comprehensive Income (Loss) (Notes 11 and 13)	Shares of common stock outstanding	Common Stock	Treasury Stock (Note 12)	Additional Paid-in Capital	Noncontrolling Interests
BALANCE, MARCH 31, 2009	\$ 270,266		\$ (198,599)	\$ (3,434)	206,478	\$ 180,234	\$ (4,353)	\$ 295,629	\$ 789
Subsidiary stock issuance	1,606							(1,800)	3,406
Comprehensive income (loss):									
Net income	20,197	\$ 20,197	23,920						(3,723)
Other comprehensive income, net of tax	5,241	5,241		5,241					
Total comprehensive income	25,438	<u>\$ 25,438</u>							
Dividends paid	(4,337)		(4,337)						
BALANCE, MARCH 31, 2010	<u>\$ 292,973</u>		<u>\$ (179,016)</u>	<u>\$ 1,807</u>	206,478	\$ 180,234	\$ (4,353)	\$ 293,829	\$ 472

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Three Years in the Period Ended March 31, 2010

	Thousands of Yen			Thousands of
	2008	2009	2010	U.S. Dollars (Note 1)
OPERATING ACTIVITIES:				
Net income	¥ 5,079,883	¥ 1,066,876	¥ 1,886,392	\$ 20,197
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	4,774,804	5,317,141	5,306,826	56,818
Impairment loss on other intangible assets	-	113,360	-	-
Provision for retirement and pension costs, less payments	191,057	127,662	225,915	2,419
Provision for (reversal of) allowance for doubtful accounts	(416)	26,020	40,467	433
Loss on disposal of property and equipment	72,086	443,019	639,160	6,843
Net gains on sales of other investments	(217,957)	(15,631)	(49,512)	(530)
Impairment of other investments	288,643	524,287	342,796	3,670
Foreign exchange losses, net	10,415	9,605	15,116	162
Equity in net (income) loss of equity method investees, less dividends received	143,200	(4,719)	(159,423)	(1,707)
Deferred income tax expense (benefit)	(1,653,275)	636,818	756,422	8,099
Others	-	1,741	13,000	139
Changes in operating assets and liabilities net of effects from acquisition of business and a company:				
Decrease (increase) in accounts receivable	(2,584,327)	1,947,490	(1,179,388)	(12,627)
Decrease (increase) in inventories, prepaid expenses and other current and noncurrent assets	(995,434)	467,023	485,711	5,201
Increase (decrease) in accounts payable	(668,481)	(2,005,074)	808,845	8,660
Increase (decrease) in income taxes payable	(274,475)	(188,517)	95,819	1,026
Increase in accrued expenses and other current and noncurrent liabilities	372,023	163,768	392,948	4,207
Net cash provided by operating activities—(Forward)	¥ 4,537,746	¥ 8,630,869	¥ 9,621,094	\$ 103,010

Consolidated Statements of Cash Flows
Three Years in the Period Ended March 31, 2010

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2009	2010	2010
Net cash provided by operating activities—(Forward)	¥ 4,537,746	¥ 8,630,869	¥ 9,621,094	\$ 103,010
INVESTING ACTIVITIES:				
Purchases of property and equipment	(1,856,249)	(2,991,378)	(3,253,629)	(34,835)
Proceeds from sales of property and equipment	-	-	205,548	2,201
Purchases of available-for-sale securities	(609,787)	(187,516)	(73,236)	(784)
Purchases of other investments	(232,122)	(175,264)	(875,016)	(9,369)
Investment in an equity method investee	(273,909)	-	(22,834)	(244)
Purchases of subsidiary stock from minority shareholders	(1,975,123)	-	-	-
Proceeds from sales of available-for-sale securities	616,920	3,417	123,880	1,326
Proceeds from sales of other investments	69,722	111,509	78,250	838
Payments of guarantee deposits	(353,911)	(109,929)	(83,833)	(898)
Refund of guarantee deposits	11,847	66,124	128,192	1,372
Payments for refundable insurance policies	(49,753)	(52,364)	(55,020)	(589)
Refund from insurance policies	3,905	7,382	39,959	428
Acquisition of a newly controlled company, net of cash acquired	(788,608)	-	-	-
Other	(6,698)	(53)	-	-
Net cash used in investing activities	(5,443,766)	(3,328,072)	(3,787,739)	(40,554)
FINANCING ACTIVITIES:				
Proceeds from issuance of short-term borrowings with initial maturities over three months and long-term borrowings	17,525,000	10,750,000	6,000,000	64,240
Repayments of short-term borrowings with initial maturities over three months and long-term borrowings	(15,940,000)	(12,125,000)	(11,100,000)	(118,844)
Principal payments under capital leases	(3,506,842)	(3,953,833)	(4,082,908)	(43,714)
Net increase (decrease) in short-term Borrowings	1,225,000	(425,000)	2,200,000	23,555
Proceeds from issuance of subsidiary stock to minority shareholders	6,000	-	150,000	1,606
Dividends paid	(461,309)	(412,957)	(405,088)	(4,337)
Payments for purchase of treasury stock	-	(406,547)	-	-
Net cash used in financing activities—(Forward)	¥ (1,152,151)	¥ (6,573,337)	¥ (7,237,996)	\$ (77,494)

Internet Initiative Japan Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Three Years in the Period Ended March 31, 2010

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2009	2010	2010
Net cash used in financing activities—(Forward)	¥ (1,152,151)	¥ (6,573,337)	¥ (7,237,996)	\$ (77,494)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(25,393)	(12,716)	(18,668)	(200)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,083,564)	(1,283,256)	(1,423,309)	(15,238)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,554,544	11,470,980	10,187,724	109,076
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 11,470,980	¥ 10,187,724	¥ 8,764,415	\$ 93,838

	Thousands of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2009	2010	2010
ADDITIONAL CASH FLOW INFORMATION:				
Interest paid	¥ 438,850	¥ 408,712	¥ 307,045	\$ 3,287
Income taxes paid	1,083,341	772,533	160,398	1,717
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Acquisition of assets by entering into capital leases	4,221,807	4,014,537	2,330,077	24,947
Facilities purchase liabilities	72,966	182,564	628,905	6,733
Purchase of minority interests of consolidated subsidiaries through share exchanges	1,012,520	-	-	-
Acquisition of a company:				
Assets acquired	2,319,277	-	-	-
Cash paid	(1,715,450)	-	-	-
Liabilities assumed	367,989	-	-	-
Noncontrolling interests assumed	235,838	-	-	-

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Internet Initiative Japan Inc. ("IIJ," a Japanese corporation) was founded in December 1992 to develop and operate Internet access services and other Internet-related services in Japan. 30.0 percent of IIJ's voting shares were jointly owned by Nippon Telegraph and Telephone Corporation ("NTT") and its subsidiary as of March 31, 2010. IIJ and subsidiaries (collectively, the "Company") provide customers substantially operating in Japan with Internet access services and Internet-related outsourcing services. The Company also provides Systems integration which consists of systems construction and systems operation and maintenance. A subsidiary engaged in a new business which operates Automated Teller Machines ("ATM") and its network systems from 2007.

Certain Significant Risks and Uncertainties—

The Company relies on telecommunications carriers for a significant portion of network backbone and on regional NTT subsidiaries, electric power companies and their affiliates for local connections to customers. Currently, NTT Communications, a wholly owned subsidiary of NTT, is the largest provider of network infrastructure. The Company believes that its use of multiple carriers and suppliers significantly mitigates damages from service disruptions. However, any disruption of telecommunication services could have an adverse effect on operating results.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments, accounts receivable and guarantee deposits. The Company's management believes that the risks associated with accounts receivable is mitigated by the large number of customers comprising its customer base.

Summary of Significant Accounting Policies

Basis of Presentation—IIJ maintains its records and prepares its financial statements in accordance with generally accepted accounting principles in Japan. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform to generally accepted accounting principles in the United States of America ("U.S. GAAP"). These adjustments were not recorded in the statutory accounts.

Accounting Standards Codification - On July 1, 2009, the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") became the single source of authoritative U.S. GAAP (other than rules and interpretive releases of the U.S. Securities and Exchange Commission). The Codification is topically based with topics organized by ASC number and updated with Accounting Standards Update ("ASU"). The Codification and ASUs replace accounting guidance that was historically issued as Statements of Financial Accounting Standards ("SFAS"), FASB Interpretations ("FIN"), FASB Staff Positions ("FSP"), Emerging Issue Task Force ("EITF") Abstracts and other types of accounting standards. The Codification became effective September 30, 2009 for the Company, and disclosures within this report on Form 20-F have been updated to reflect the change.

Reclassification - Certain reclassifications have been made to prior periods to conform to the current year presentations: Deferred tax asset-current, Deferred tax asset-noncurrent and Deferred tax liabilities-noncurrent, which had been previously included in Other current asset, Other asset and Other noncurrent liabilities, respectively, are now separately disclosed as they are deemed material.

Translation into U.S. Dollars—IIJ maintains its accounts in Japanese yen, the currency of the country in which it is incorporated and principally operates. The U.S. dollar amounts included herein represent a translation using the noon buying rate in New York City for cable transfers in yen as certified for customs purposes by the Federal Reserve Bank of New York at March 31, 2010 of ¥93.4 = \$1, solely for the convenience of the reader. The translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be converted into U.S. dollars.

Consolidation—The consolidated financial statements include the accounts of IJJ and all of its subsidiaries, Net Care, Inc. ("Net Care"), IJJ Technology Inc. ("IJJ-Tech"), IJJ America, Inc. ("IJJ-A"), IJJ Financial Systems Inc. ("IJJ-FS"), Netchart Japan Inc. ("NCJ"), GDX Japan Inc. ("GDX"), which was invested in on April 9, 2007, hi-ho Inc. ("hi-ho"), which was purchased from Panasonic network services Inc. on June 1, 2007, Trust network Inc. ("Trust"), which was established on July 17, 2007, On-Demand Solutions Inc. ("ODS"), which was established on April 4, 2008 and was liquidated on January 29, 2010, and IJJ Innovation Institute Inc. ("IJI"), which was established on June 10, 2008, all of which except for IJJ America, have fiscal years ending March 31. IJJ America's fiscal year end is December 31 and such date was used for purposes of preparing the consolidated financial statements as it is not practicable for the subsidiary to report its financial results as of March 31. There were no significant events that occurred during the intervening period that would require adjustment to or disclosure in the accompanying consolidated financial statements. Intercompany transactions and balances have been eliminated in consolidation.

Investments in companies over which IJJ has significant influence but not control are accounted for by the equity method. For other than a temporary decline in the value of investments in equity method investees below the carrying amount, the investment is reduced to fair value and an impairment loss is recognized.

A subsidiary or equity method investee may issue its shares to third parties at amounts per share in excess of or less than the Company's average per share carrying value. With respect to such transactions, the resulting gains or losses arising from the change in ownership were recorded in income for the year in which such shares were issued until the Company adopted the new guidance on noncontrolling interests under ASC 810 on April 1, 2009, which requires changes in a parent's ownership interest while the parent retain its controlling financial interest in its subsidiary to be accounted for as equity transactions.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions used are primarily in the areas of evaluation of cost method investments, valuation allowances for deferred tax assets, allowance for doubtful accounts, determination of pension benefit costs and obligations, estimated useful lives of fixed assets and intangible assets with finite useful lives and impairment of long-lived assets, goodwill and intangible assets deemed to have indefinite useful lives. Actual results could differ from those estimates.

Revenue Recognition—Revenues from connectivity services consist principally of connectivity services for corporate use and home use. Connectivity services for corporate use represent dedicated Internet access type services, such as IP service and Data Center Connectivity service, broadband Internet connectivity services that uses fiber optic access and ADSL access, such as IJJ FiberAccess/F Service and IJJ DSL/F Service and wireless broadband Internet connectivity services, that is IJJ Mobile Service. Connectivity services for home use are provided under IJJ brand such as IJJ4U and IJJmio, hi-ho brand and others, and consist of dial-up services, optical based or ADSL based broadband services and wireless broadband internet connectivity services. The term of these contracts is one year for connectivity services for corporate use and generally one month or one year for connectivity services for home use. All these services are billed and recognized monthly on a straight-line basis.

Outsourcing services revenues consist principally of sales of various Internet access-related services such as security related outsourcing services, network related outsourcing services, server-related outsourcing services, data center related services, wide-area Ethernet services and call-center services. The terms of these services are generally for one year and revenues are recognized on a straight-line basis during the service period.

Initial set up fees received in connection with connectivity services and outsourcing services are deferred and recognized over the estimated average period of the subscription for each service.

System integration services arrangements can be divided into two major categories; (1) those in which the Company resells third-party off-the-shelf software and (2) those in which the Company does not resell or license any software products. The following describes those arrangements and their accounting in more detail:

(a) System Integration Services Arrangements That Include Software

System integration services involve the construction of a customer's internet network system and provide related maintenance, monitoring and other operating services. These arrangements generally include the following deliverables:

- System Construction Services – include all or some of the following elements depending on arrangements to meet each of customers' requirements: consulting, project planning, system design, and development of network systems. These services will also include the installation of the software as well as configuration and installation of the hardware.
- Software – the Company resell to customers third-party software such as, Oracle or Windows, which is installed by the Company during the system development process. These software products are developed by the third-party software vendors and are often sold by those vendors without hardware or other services.
- Hardware – the Company also resell third-party hardware, primarily servers, switches and routers, which the Company install during the system development process. The hardware is generic hardware that is often sold by third party manufacturers and resellers without any software. That is, the functionality of the hardware is not dependent on the software.
- Monitoring and Operating Service – the Company monitor it's customer's network activity and internet connectivity to detect and report problems. The Company also provide constant data backup services.
- Hardware Maintenance Service – the Company repair or replace any malfunctioning parts of the hardware.

The system construction services are generally delivered over a three-month period. All hardware and software are delivered and installed during this period. Customers are required to pay a specified fixed fee that is not payable until after the system has been completed and accepted by customers.

Monitoring, operating and hardware maintenance services generally commence once customers have accepted the system and generally are included for one to five years. The Company's contracts include a stated annual fee for these services.

The software, system construction services and monitoring and operating services are subject to the scope of ASC Topic 985-605. ASC Topic 605-10-S99 applies to the sale of the hardware equipment and ASC Topic 605-20-25 applies to the hardware maintenance services.

Deliverables not subject to ASC Topic 985-605 should be separated from those subject to ASC Topic 985-605 using the principles in ASC Topic 605-25.

Revenue allocated to the hardware and hardware maintenance is recognized based on the guidance in ASC Topic 605-20-25-3. Revenue related to the hardware maintenance services is recognized on a straight-line basis over the contract period. Revenue related to the hardware is not recognized until customer acceptance is received because title to the hardware does not transfer to customers until formal acceptance is received.

Revenue allocated to the software, system construction services and monitoring and operating services is accounted for under ASC Topic 985-605. The Company has been able to establish vendor-specific objective evidence (VSOE) of fair value of the monitoring and operating services based on separate renewals of these services that are consistently priced within a narrow range. Additionally, these services are not essential to the functionality of the hardware and software system and are described in its arrangements such that the total price of the arrangement would be expected to vary as a result of the inclusion or exclusion of the services (ASC Topic 985-605-25-78). As a result the Company allocates revenue to such services based on VSOE and recognizes the revenue on a straight-line basis over the contract period. The Company allocates the residual amount to the software and system construction services.

The revenue allocated to the software and system construction services is accounted using contract accounting as required by ASC Topic 985-605-25-77. System construction service revenues, which basically completed within three months, are recognized based on the completed-contract method because the Company is unable to bill customers and the title of constructed network systems is not transferred to customer unless customers are satisfied with and accept the completed systems.

(b) System Integration Arrangements That Do Not Include Software

The Company also enter into system integration services arrangements in which the Company does not resell third-party off-the-shelf software. These arrangements generally include all the deliverables listed above under “*System Integration Services Arrangements That Include Software*”, except for the software deliverable. The Company evaluated these arrangements under ASC Topic 605-25 to determine the separate units of accounting.

Consistent with system integration arrangements that include software, the hardware maintenance services and operating and monitoring services qualify as separate units of accounting. Revenue allocated to these services is recognized on a straight-line basis over the contract period. System construction service revenues, which basically completed within three months, are recognized based on the completed-contract method because the Company is unable to bill customers and the title of constructed network systems is not transferred to customer unless customers are satisfied with and accept the completed systems.

The Company evaluates the criteria outlined in ASC Topic 605-45, “Principal Agent Considerations” in determining whether it is appropriate to record the gross amount of revenues and related costs or the net amount earned in reporting Equipment sales. The Company records the gross amounts billed to its customers based on the following facts: (i) it is primary obligor in these transactions, (ii) it has latitude in establishing prices and selecting suppliers, and (iii) it is involved in the determination of the service specifications.

Equipment sales are recognized when equipment is delivered and accepted by the customer. Title to equipment passes when equipment is accepted by the customer.

ATM operation business revenues are mainly comprised of commission fees charged when customers withdraw their deposits from ATMs. The commission fees are recognized when the fees are charged to customers.

Cash and Cash Equivalents—Cash and cash equivalents includes time deposit with original maturities of three months or less.

Allowance for Doubtful Accounts—An allowance for doubtful accounts is established in amounts considered to be appropriate based primarily upon the Company’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Other Investments—The Company classifies its marketable equity securities as available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income (loss). The cost of securities sold is determined based on average cost.

The Company reviews the fair value of available-for-sale securities on a regular basis to determine if the fair value of any individual security has declined below its cost and if such decline is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. Other than temporary declines in value are determined taking into consideration the extent of decline in fair value, the length of time that the decline in fair value below cost has existed and events that might accelerate the recognition of impairment. The resulting realized loss is included in the consolidated statements of income in the period in which the decline is deemed to be other than temporary.

Non-marketable equity securities are carried at cost as fair value is not readily determinable. If the value of a security is estimated to have declined and such decline is judged to be other than temporary, the security is written down to the fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and change in the regulatory, economic or technological environment of the investees. For purposes of computing an impairment loss, fair value is determined as the Company’s interest in the net assets of investees.

Inventories—Inventories consist mainly of network equipment purchased for resale and work-in-process for construction of network systems. Network equipment purchased for resale is stated at the lower of cost, which is determined by the average-cost method, or market. Work-in-process for development of network systems is stated at the lower of actual production costs, including overhead cost, or market. Inventories are reviewed periodically and items considered to be slow-moving or obsolete are written down to their estimated net realizable value.

Leases—Capital leases are capitalized at the inception of the lease at the present value of the minimum lease payments. All other leases are accounted for as operating leases. Lease payments for capital leases are apportioned to interest expense and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Sales-type Leases—The Company has some sales-type lease agreements with customers. The Company recognizes revenues on sales-type leases when the assets under lease are delivered to and accepted by the customers. The revenue recognized is calculated at the net present value of the future receipt amounts. Interest income in sales-type leases is recognized in other income using the interest method.

Property and Equipment—Property and equipment are recorded at cost. Depreciation and amortization of property and equipment, including purchased software and capital leases, are computed principally using the straight-line method based on either the estimated useful lives of assets or the lease period, whichever is shorter.

The useful lives for depreciation and amortization by major asset classes are as follows:

	Range of Useful Lives
Data communications, office and other equipment	2 to 15 years
Leasehold improvements	3 to 15 years
Purchased software	5 years
Capital leases	4 to 7 years

Impairment of Long-lived Assets—Long-lived assets consist principally of property and equipment, including those items leased under capital leases and amortized intangible assets. The Company evaluates the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Goodwill and Intangible Assets—Goodwill (including equity-method goodwill) and intangible assets that are deemed to have indefinite useful lives are not amortized, but are subject to impairment testing. Impairment testing is performed annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs annual impairment tests on March 31. Intangible assets with finite useful lives, consisting of customer relationship and licenses, are amortized using the straight-line method over the estimated useful lives, which range from 3 to 25 years for customer relationship and 5 years for licenses.

Pension and severance indemnities plans—The Company has pension plans and /or severance indemnities plans. The cost of the pension plans and severance indemnities plans are accrued based on amounts determined using actuarial methods. On March 31, 2009, the Company adopted the measurement date provision of ASC Topic 715, “Compensation-Retirement Benefits”. The adoption of the measurement date provision had no effect on the consolidated financial statements, because the Company’s measurement date was March 31 before the adoption.

Income Taxes—Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes and tax loss carryforwards. These deferred taxes are measured using the currently enacted tax rates in effect for the year in which the temporary differences or tax loss carryforwards are expected to reverse. Valuation allowances are provided against deferred tax assets when it is more likely than not that a tax benefit will not be realized.

April 1, 2007, the Company adopted FASB interpretation No.48 (“FIN No. 48”), “Accounting for Uncertainty in Income Taxes” (codified in ASC Topic 740, “Income Taxes”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes” (codified in ASC Topic 740, “Income Taxes”).

The Company recognizes the financial statement effect of tax positions when they are more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet more-likely-than-not recognition threshold are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Interest and penalties accrued related to unrecognized tax benefits are included in income tax expense in the consolidated statements of income. See Note 10 for further discussion of the effect of adopting FIN No.48 on the Company’s financial statements.

Foreign Currency Translation—Foreign currency financial statements have been translated in accordance with ASC topic 830, “Foreign Currency Matters-Translation of Financial Statements”. Pursuant to this statement, the assets and liabilities of a foreign subsidiary and an equity method investee are translated into Japanese yen at the respective year-end exchange rates. All income and expense accounts are translated at average rates of exchange. The resulting translation adjustments are included in accumulated other comprehensive income.

Foreign currency assets and liabilities, which consist substantially of cash denominated in U.S. dollars, are stated at the amount as computed by using year-end exchange rates and the resulting transaction gain or loss is recognized in earnings.

Stock-based Compensation— On April 1, 2006, the Company adopted SFAS No. 123R, “Share-Based Payment” (codified in ASC Topic 718, “Compensation-Stock Compensation”) and the related interpretations, which requires compensation expense for stock options and other share-based payments to be measured and recorded based on the instruments’ fair value, by using the modified prospective application method. ASC718 requires recognizing expenses for share-based payments granted prior to the adoption date equal to the fair value of unvested amounts over the remaining requisite service period. The portion of these share-based payments’ fair value attributable to vested awards prior to the adoption is never recognized. As all existing granted stock-based awards of the Company had vested, the adoption did not have any impact on the Company’s consolidated financial position or results of operations.

Prior to April 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principle Board Opinion (“APB”) No. 25, “Accounting for Stock Issued to Employers” and related interpretations.

Research and Development—Research and development costs are expensed as incurred.

Advertising—Advertising costs are expensed as incurred and are recorded in “Sales and marketing”.

Basic and Diluted Net Income attributable to Internet Initiative Japan Inc. per Common Share—Basic net income attributable to Internet Initiative Japan Inc. per common share is computed by dividing net income attributable to Internet Initiative Japan Inc. by the weighted-average number of shares of common stock outstanding during the year. Diluted net income attributable to Internet Initiative Japan Inc. per common share reflects the potential dilutive effect of stock options.

Other Comprehensive Income (Loss)—Other comprehensive income (loss) consists of translation adjustments resulting from the translation of financial statements of a foreign subsidiary, unrealized gains or losses on available-for-sale securities, gains or losses on cash flow hedging derivative instruments and defined benefit pension plans adjustment.

Segment Reporting —ASC Topic 280, “Segment Reporting” establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise that engage in business activities from which it may earn revenues and incur expense and for which separate financial information is available that is evaluated regularly by the chief operation decision maker in deciding how to allocate resources and in assessing performance.

The Company provides a comprehensive range of network solutions to meet its customers’ needs by cross-selling a variety of services, including Internet connectivity services, outsourcing services, systems integration and sales of network-related equipment, and ATM operation services. The Company’s chief operating decision maker, who is the Company’s Chief Executive Officer (“CEO”), regularly reviews the revenue and cost of sales on the two operating segments, which are Network service and systems integration business segment and ATM operation business segment. CEO also makes decisions regarding how to allocate resources and assess performance based on the segments.

New Accounting Guidance—

In February 2008, the FASB issued FSP No. FAS 157-2, “Effective Date of FASB Statement No.157 (codified in ASC820) (“SFAS 157”),” which partially delays the effective date of SFAS 157 for one year for certain nonfinancial assets and liabilities and removes certain leasing transactions from its scope. The Company adopted SFAS 157 in the first quarter of fiscal year beginning April 1, 2008 for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. This adoption did not have a material effect on the Company’s financial position or results of operations. The Company adopted SFAS 157 in the first quarter of fiscal year beginning April 1, 2009 for all nonfinancial assets and liabilities. This adoption did not have a material effect upon the Company’s financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" (codified in ASC Topic 805, "Business Combinations"). The Statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. This Statement also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This Statement is effective for fiscal years beginning on or after December 15, 2008 and was adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (codified in ASC Topic 805). This FSP amends the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the adoption of this FSP did not have an effect on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (codified in ASC Topic 810, "Consolidation") ("SFAS No.160"). This Statement establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and was adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. In accordance with the new guidance on noncontrolling interests, the Company revised all previous references to "minority interests" in the consolidated financial statements to "noncontrolling interests," and made the following changes:

- (1) Consolidated Balance Sheets now present "Noncontrolling interests" as a component of "Total equity." "Noncontrolling interests" is equivalent to the previously reported "Minority Interest." "Total Internet Initiative Japan Inc. shareholders' equity" is equivalent to the previously reported "Total shareholders' equity."
- (2) Consolidated Statements of Income now present "Net income," which includes "Net loss attributable to noncontrolling interests" and "Net income attributable to Internet Initiative Japan Inc."
- (3) Consolidated Statements of Shareholder' Equity now include a section for "Noncontrolling interests."
- (4) Consolidated Statements of Cash Flows now begin with "Net Income" instead of "Net Income Attributable to Internet Initiative Japan Inc."

In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (codified in ASC Topic 715, "Compensation – Retirement Benefits"). This FSP requires additional disclosure about plan assets including investment allocation, fair value of major categories of plan assets, development of fair value measurements, and concentrations of risk. This FSP is effective for fiscal years ending after December 15, 2009. The Company adopted this guidance in this fiscal year ended March 31, 2010. The required disclosures are included in Note 11.

In April 2009, the FASB issued FSP No. FAS 115-2 and No. FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (codified in ASC Topic 320, "Investments – Debt and Equity Securities"). This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP is effective for fiscal years ending after June 15, 2009 and early adoption is permitted. The Company adopted this FSP in the first quarter of fiscal year beginning April 1, 2009. The adoption of this FSP did not have a material impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (codified in ASC Topic 820, "Fair Value Measurements and Disclosures"). This FSP provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009 and adopted by the Company in the first quarter of fiscal year beginning April 1, 2009. The adoption of this FSP did not have a material impact on the Company's financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (codified in ASC Topic 855, "Subsequent Events"). This guidance established the principles and requirements for evaluating and reporting subsequent events, including the period subject to evaluation for subsequent events, the circumstances requiring recognition of subsequent events in the financial statements, and the required disclosures. This Statement is effective for fiscal years ending after June 15, 2009 and was adopted by the company in the first quarter beginning April 1, 2009. The adoption of this Statement did not have a material effect on the Company's financial position or results of operations.

In September 2009, the FASB issued ASU 2009-12, "Fair Value Measurements and Disclosures" (codified in ASC Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which provided guidance within ASC Topic 820 on measuring the fair value of certain alternative investments in entities that calculate net asset values. The company adopted this ASU in the third quarter of fiscal year beginning April 1, 2009. The adoption of this ASU did not have a material effect on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-02, "Consolidation: Accounting and Reporting for Decreases in Ownership of a Subsidiary", which clarifies the decrease-in-ownership provisions of ASC Topic 810-10 and guidance applicability. ASU 2010-02 is effective for the beginning of fiscal period that the company adopted SFAS No.160, which is the first quarter beginning April 1, 2009 for the Company. The adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

In February 2010, the FASB issued ASU 2010-09, "Amendments to Certain Recognition and Disclosure Requirements," which amends ASC 855 to address certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures. This ASU is effective upon the issuance of the ASU, and was adopted by the Company. The adoption of this Statement did not have an effect on the Company's financial position or results of operations.

Accounting Guidance Issued But Not Adopted as of March 31, 2010—

In October 2009, the FASB issued ASU 2009-13, "Revenue Recognition: Multiple-Deliverable Revenue Arrangements," which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting the guidance.

In October 2009, the FASB issued ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements," which provides a guidance of accounting for revenue arrangements that contain tangible products and software. This ASU is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of adopting the guidance.

In December 2009, the FASB issued ASU 2009-16, "Transfers and Servicing: Accounting for Transfers of Financial Assets." This ASU is intended to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. This ASU is effective for the first annual reporting period after November 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In December 2009, the FASB issued ASU 2009-17, "Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which amended the consolidation guidance applicable to variable interest entities and required additional disclosures concerning an enterprise's continuing involvement with variable interest entities. This ASU is effective for the first annual reporting period after November 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements," which adds disclosure requirements about transfers in and out of Levels 1 and 2 and separate disclosures about activity relating to Level 3 measurements and clarifies input and valuation techniques. This ASU is effective for the annual reporting period beginning after December 15, 2009. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

In April 2010, the FASB issued ASU 2010-17, "Revenue Recognition – Milestone Method", which establishes a revenue recognition model for contingent consideration that is payable upon the achievement of an uncertain future event, referred to as a milestone. This ASU is effective on prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company's financial position or results of operations.

2. INVENTORY

The components of inventories as of March 31, 2009 and 2010 are as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Network equipment purchased for resale	¥ 130,730	¥ 113,057	\$ 1,211
Work in process	399,026	694,746	7,438
Total inventories	¥ 529,756	¥ 807,803	\$ 8,649

3. OTHER INVESTMENTS

Pursuant to ASC Topic 320, all of the Company's marketable equity securities were classified as available-for-sale securities. Information regarding the securities classified as available-for-sale at March 31, 2009 and 2010 is as follows:

March 31, 2009	Thousands of Yen			Fair
	Cost	Unrealized Gains	Unrealized Losses	Value
Available-for-sale—Equity securities	¥ 507,391	¥ 225,811	¥ 58,948	¥ 674,254

March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale—Equity securities	¥ 485,960	¥ 430,517	¥ 49,481	¥ 866,996

March 31, 2010	Thousands of U.S. Dollars			Fair
	Cost	Unrealized Gains	Unrealized Losses	Value
Available-for-sale—Equity securities	\$ 5,203	\$ 4,610	\$ 530	\$ 9,283

The following table provides the fair value and gross unrealized losses of the Company's investments, which have been deemed to be temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2009 and 2010:

	Thousands of Yen					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2009						
Available-for-sale—Equity securities	¥ 293,704	¥ 48,136	¥ 35,120	¥ 10,812	¥ 328,824	¥ 58,948
March 31, 2010						
Available-for-sale—Equity securities	¥ 122,629	¥ 48,747	¥ 15,664	¥ 734	¥ 138,293	¥ 49,481

March 31, 2010	Thousands of U.S. Dollars					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale—Equity securities	\$ 1,313	\$ 522	\$ 168	\$ 8	\$ 1,481	\$ 530

The Company regularly reviews all of the Company's investments to determine if any are other-than-temporarily impaired. The analysis includes reviewing industry analyst reports, sector credit ratings and volatility of the security's market price.

The Company's unrealized loss on investments in marketable equity securities relates to Japanese companies (eight issuers) in various industries. The unrealized losses on these securities were due principally to a temporary decline in the stock market. The fair value of each investment is between 9.4% and 18.0% less than its cost except for certain investments with unrealized loss of ¥46,380 thousand (\$497 thousand) as of March 31, 2010, of which the fair value recovered to its cost in April 2010. The duration of the unrealized loss position was less than 14 months. The Company evaluated the near-term prospects of the issuer and the analyst reports in relation to the severity and duration of impairment. Based on that evaluation and the Company's ability and intent to hold the investment for a reasonable period of time sufficient for a recovery of fair value, the Company does not consider the investment to be other-than-temporarily impaired at March 31, 2010.

Proceeds from the sale of available-for-sale securities were ¥616,920 thousand, ¥3,417 thousand and ¥123,880 thousand (\$1,326 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively. Gross realized gains of ¥218,070 thousand and ¥49,512 thousand (\$530 thousand) were included in other income (expenses) for the year ended March 31, 2008 and 2010, respectively, and gross realized losses of ¥113 thousand and ¥2,049 thousand were included in other income (expenses) for the years ended March 31, 2008 and 2009, respectively.

The aggregate cost of the Company's cost method investments totaled ¥1,240,340 thousand and ¥1,714,614 thousand (\$18,357 thousand) at March 31, 2009 and 2010, respectively.

Losses on write-down of investments in certain marketable and nonmarketable equity securities, included in other income (expenses), were recognized to reflect the decline in value considered to be other than temporary, which were ¥103,243 thousand and ¥185,400 thousand, respectively, for the year ended March 31, 2008 and ¥163,836 thousand and ¥360,451 thousand, respectively, for the year ended March 31, 2009, and ¥20,295 thousand (\$217 thousand) and ¥322,501 thousand (\$3,453 thousand), respectively, for the year ended March 31, 2010.

In Japan, there is a market in which participants lend and borrow debt and equity securities without collateral from financial institutions under agreements known as lending and borrowing debt and equity securities contracts. Under the agreement, the Company loaned equity securities without collateral. Available-for-sale securities loaned to financial institutions amounted to ¥12,760 thousand and nil as of March 31, 2009 and 2010, respectively.

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS AND LOAN

An analysis of the allowance for doubtful accounts and loan for the years ended March 31, 2008, 2009 and 2010 is as follows:

	Thousands of Yen			
	Balance at Beginning of Year	Credits Charged Off	Provision for (Reversal of) Doubtful Accounts	Balance at End of Year
Year ended March 31, 2008	¥ 122,810	¥ (8,750)	¥ (416)	¥ 113,644
Year ended March 31, 2009	¥ 113,644	¥ (16,371)	¥ 26,020	¥ 123,293
Year ended March 31, 2010	¥ 123,293	¥ (17,842)	¥ 40,467	¥ 145,918

	Thousands of U.S.dollars			
	Balance at Beginning of Year	Credits Charged Off	Provision for Doubtful Accounts	Balance at End of Year
Year ended March 31, 2010	\$ 1,320	\$ (190)	\$ 433	\$ 1,563

5. INVESTMENTS IN EQUITY METHOD INVESTEEES

IJJ utilizes various companies in Japan and neighboring countries to form and operate its Internet business. Businesses operated by its equity method investees include multifeed technology services and location facilities for connecting high-speed Internet backbones (Internet Multifeed Co., "Multifeed"), data center services in Asian countries (i-Heart Inc., "i-Heart"), comprehensive portal sites operations (Internet Revolution Inc., "i-revo") and point management systems operations (Taihei Computer Co., Ltd., "TCC")

On July 6, 2007, IJJ invested ¥235,389 thousand in TCC to partner with TCC on the management of customer loyalty reward program systems.

The aggregate amounts of balances and transactions of the Company with these equity method investees as of March 31, 2009 and 2010, and for each of the three years in the period ended March 31, 2010 are summarized as follows:

	Thousands of Yen			Thousands of U.S. Dollars
	2008	2009	2010	2010
Accounts receivable	¥ -	¥ 66,880	¥ 67,575	\$ 724
Accounts payable	-	23,373	24,921	267
Revenues	582,290	672,014	675,726	7,235
Costs and expenses	207,670	257,732	261,077	2,795

On June 30, 2008, the Company received ¥30,380 thousand of dividends from Multifeed.

The Company's investments in these equity method investees and respective ownership percentage at March 31, 2009 and 2010 consisted of the following:

	Thousands of Yen				Thousands of
	2009		2010		U.S. Dollars
					2010
Multifeed	31.00%	¥ 713,375	32.00%	¥ 879,843	\$ 9,420
i-revo	30.00	24,114	30.00	21,219	227
TCC	45.00	188,775	45.00	210,413	2,253
i-Heart	28.57	21,362	28.57	19,879	213
Total		¥ 947,626		¥ 1,131,354	\$ 12,113

The Company also had a loan of ¥34,545 thousand (\$370 thousand) to i-Heart, net of loan loss valuation allowance, which was included in the "OTHER ASSETS" in the Company's balance sheets as of March 31, 2009 and 2010.

6. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2009 and 2010 consisted of the following:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Data communications equipment	¥ 1,010,283	¥ 1,309,732	\$ 14,023
Office and other equipment	1,190,217	1,495,993	16,017
Leasehold improvements	1,010,805	1,059,895	11,348
Purchased software	9,459,207	11,208,522	120,006
Assets under capital leases, primarily data communications equipment	16,946,896	15,549,281	166,480
Total	29,617,408	30,623,423	327,874
Less accumulated depreciation and amortization	(16,444,517)	(17,653,271)	(189,007)
Property and equipment—net	¥ 13,172,891	¥ 12,970,152	\$ 138,867

Depreciation and amortization expenses for the years ended March 31, 2008, 2009 and 2010 amounted to ¥4,720,325 thousand, ¥5,235,218 thousand and ¥4,924,228 thousand (\$52,722 thousand), respectively.

The Company recorded losses on disposal of property and equipment of ¥72,086 thousand, ¥443,019 thousand and ¥639,160 thousand (\$6,843 thousand) for the year ended March 31, 2008, 2009 and 2010, respectively, in "General and Administrative" expenses in the Company's statements of income.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of intangible assets as of March 31, 2009 and 2010 are as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Intangible assets subject to amortization:			
Licenses	¥ 143,110	¥ 143,110	\$ 1,532
Customer relationship	289,000	2,703,471	28,945
Total	432,110	2,846,581	30,477
Less accumulated amortization			
Licenses	(16,697)	(45,319)	(485)
Customer relationship	(118,309)	(183,539)	(1,965)
Total	(135,006)	(228,858)	(2,450)
Intangible assets subject to amortization—net	297,104	2,617,723	28,027
Intangible assets not subject to amortization:			
Telephone rights	¥ 9,485	¥ 9,464	\$ 101
Trademark	192,000	192,000	2,056
Customer relationship	2,703,217	-	-
Goodwill	2,639,319	2,639,319	28,258
Total	5,544,021	2,840,783	30,415
Total intangible assets	¥ 5,841,125	¥ 5,458,506	\$ 58,442

The weighted average amortization period for customer relationship is approximately 18.4 years and the amortization period for licenses is 5 years, respectively. The amortization expenses for the years ended March 31, 2009 and 2010 were ¥81,923 thousand and ¥93,852 thousand (\$1,005 thousand), respectively. The estimated aggregate amortization expense of intangible assets for each of the next five years is as follows:

Year Ending March 31	Thousands of yen	Thousands of U.S. Dollars
2011	¥ 156,969	\$ 1,681
2012	153,803	1,647
2013	153,803	1,647
2014	119,050	1,275
2015	103,514	1,108

The following table shows changes in the carrying amount of goodwill for the year ended March 31, 2010, by operating segment:

	Thousands of Yen			Thousands of U.S. Dollars		
	Network service and systems integration business	ATM operation business	Total	Network service and systems integration business	ATM operation business	Total
Balance at March 31, 2008	¥ 2,383,486	¥ 123,772	¥ 2,507,258			
Acquisitions	20,282	111,779	132,061			
Balance at March 31, 2009	2,403,768	235,551	2,639,319			
Balance at March 31, 2010	¥ 2,403,768	¥ 235,551	¥ 2,639,319	\$ 25,736	\$ 2,522	\$ 28,258

On April 5, 2007, IJ purchased the shares of IJ-Tech from its minority shareholders for ¥1,635,123 thousand by cash, and on May 11, 2007, IJ exchanged its new 1,848 shares which valued ¥861,475 thousand to the 2,200 shares of IJ-Tech. The acquisition price was determined on the basis of discounted future cash flows amounts of IJ-Tech. Through these transactions, IJ made IJ-tech a 100% owned subsidiary. The Company acquired an order backlog of ¥700 thousand customer relationships valued at ¥1,339,165 thousand and recorded goodwill of ¥644,759 thousand in the transaction.

On June 1, 2007, IJ purchased all shares of hi-ho, Inc. ("hi-ho") for ¥1,230,450 thousand which was a wholly owned subsidiary of Panasonic Network Services Inc. ("PNS") and is operating the ISP business provided by PNS under the "hi-ho" service brand and the solution business to corporate customers. The acquisition price of the shares was determined on the basis of discounted future cash flows amounts of hi-ho. The acquisition of hi-ho was consistent with the Company's strategy for expanding its internet service business by providing safe and high-quality services to individual customers, applying the Company's engineering and network operating expertise cultivated in its internet business for corporate customers. The Company acquired the trademark right of ¥192,000 thousand, customer relationships of ¥289,000 thousand which was subject to amortization and recorded goodwill of ¥177,770 thousand in the transaction. The pro forma impact of the acquisition of the business on consolidated revenues and net income of the Company, assuming the acquisition had been completed at the beginning of the year ended March 31, 2007 and the year ended March 31, 2008, would have been an increase to consolidated revenues of ¥5.5 billion and ¥0.8 billion, respectively, and a increase to net income of ¥288 million and a decrease of ¥18 million respectively. Basic net income per common share for the year ended March 31, 2007 and 2008 would have been ¥27,930 and ¥25,013 respectively and diluted net income per common share for the year ended March 31, 2007 and 2008 would have been ¥27,896 and ¥24,986 respectively.

In the year ended March 31, 2008, IJ acquired the following two entities for a total cost of ¥799,998 thousand which was paid in cash: (i)GDX, a start-up company to provide a message exchange network service in Japan, (ii)Trust, a start-up company to operate networks for ATMs. The Company recorded licenses of ¥143,110 thousand and goodwill of ¥123,772 thousand.

In the year ended March 31, 2009, IJ acquired additional shares of GDX for ¥50,000 thousand and Trust for ¥349,500 thousand. IJ recorded goodwill of ¥20,282 thousand for GDX and ¥111,779 thousand for Trust.

A certain customer relationship was impaired for the year ended March 31, 2009 because it was expected that the volume of business with this specific customer could decrease in the near future. As a result of the decrease in the business, the fair value of the customer relationship became worthless and the Company recorded an impairment loss of ¥113,360 thousand in Sales and marketing expenses in the Company's statements of income for the year ended March 31, 2009. The amount of the impaired customer relationship was included in the Network service and Systems integration business segment. The Company applied the excess earnings method to evaluate the impairment loss on the customer relationship. No impairment on goodwill and intangible assets were recognized during the years ended March 31, 2008 and 2010.

IJ recorded ¥288,746 thousand (\$3,091 thousand) losses on impairment of certain customer relationships related to the attrition of the customers by applying the specific identification method in Sales and marketing expenses in the Company's statements of income for the year ended March 31, 2010. The amount of loss on the customer relationships was included in the Network service and Systems integration business segment.

IJ evaluated the remaining useful life of intangible assets as of March 31, 2010. IJ identified that the customer attrition rate related to the customer relationships which have an indefinite useful life was increasing through the year ended March 31, 2010, due to the scale down, withdrawal from certain businesses or bankruptcies. IJ determined that customer relationships with a net carrying amount of ¥2,414,471 thousand (\$25,851 thousand) as of March 31, 2010 have a remaining useful life of 25 years based on the recent and expected attrition rate. This change in estimate had no impact on income from operations, net income or any related per-share amounts for the year ended March 31, 2010 because the amortization of the customer relationships will start from the beginning of the year ending March 31, 2011.

8. LEASES

The Company enters into, in the normal course of business, various leases for domestic and international backbone services, office premises, network operation centers and data communications and other equipment. Certain leases that meet one or more of the criteria set forth in the provision of ASC Topic 840, "Leases" have been classified as capital leases and the others have been classified as operating leases.

A portion of the Company's sales result from multi-year lease agreements, under which the Company leased some network equipment to customers. The leases are classified as sale-type leases which the Company accounts for in accordance with ASC Topic 840.

Operating Leases—The Company has operating lease agreements with telecommunications carriers and others for the use of connectivity lines, including local access lines that customers use to connect to IJ's network. The leases for domestic backbone connectivity are generally non-cancelable for a minimum one-year lease period. The leases for international backbone connectivity for mainly three-year lease period are substantially non-cancelable. The Company also leases its office premises, for which refundable lease deposits are capitalized as guarantee deposits, certain office equipment under non-cancelable operating leases, and its network operation centers under non-cancelable operating leases which expire on various dates through the year 2017.

Refundable guarantee deposits as of March 31, 2009 and 2010 consist of as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Head office	¥ 1,268,634	¥ 1,210,446	\$ 12,960
Sales and subsidiaries offices	754,987	753,909	8,072
Others	49,031	39,507	423
Total refundable guarantee deposits	¥ 2,072,652	¥ 2,003,862	\$ 21,455

Lease expenses related to backbone lines for the years ended March 31, 2008, 2009 and 2010 amounted to ¥3,469,717 thousand, ¥3,692,286 thousand and ¥3,698,901 thousand (\$39,603 thousand), respectively. Lease expenses for local access lines for the years ended March 31, 2008, 2009 and 2010, which are only attributable to dedicated access revenues, amounted to ¥4,997,621 thousand, ¥5,303,651 thousand and ¥5,470,853 thousand (\$58,574 thousand), respectively. Other lease expenses for the years ended March 31, 2008, 2009 and 2010 amounted to ¥6,236,004 thousand, ¥7,186,361 thousand and ¥8,159,661 thousand (\$87,363 thousand), respectively.

The Company has subleased a part of its office premises. Lease expenses mentioned above have been reduced by sublease revenues totaling ¥22,034 thousand, ¥24,719 thousand and ¥12,780 thousand (\$137 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively.

Capital Leases—The Company conducts its connectivity and other services by using data communications and other equipment leased under capital lease arrangements.

On December 1, 2009, the Company sold ATM equipment procured from a third party vendor, which amounted to ¥178,270 thousand (\$1,909 thousand), to the leasing company and concurrently entered into an capital lease arrangement to lease the equipment back at ¥40,649 thousand (\$435 thousand) per year through November 30, 2014.

The fair values of the assets upon execution of the capital lease arrangements and accumulated depreciation amounted to ¥16,946,896 thousand and ¥9,175,869 thousand at March 31, 2009 and ¥15,549,281 thousand (\$166,480 thousand) and ¥9,582,205 thousand (\$102,593 thousand) at March 31, 2010, respectively.

Lessee Future Minimum Lease Payments—As of March 31, 2010, future lease payments under non-cancelable operating leases, including the aforementioned non-cancelable connectivity lease agreements (but excluding dedicated access lines which the Company charges outright to customers), and capital leases were as follows:

	Thousands of Yen			Thousands of U.S. Dollars		
	Connectivity Lines Operating Leases	Other Operating Leases	Capital Leases	Connectivity Lines Operating Leases	Other Operating Leases	Capital Leases
Year ending March 31:						
2011	¥ 1,178,681	¥ 2,084,907	¥ 2,889,197	\$ 12,619	\$ 22,322	\$ 30,934
2012	259,111	1,769,111	2,129,056	2,774	18,941	22,795
2013	6,400	569,802	1,137,984	69	6,101	12,184
2014	6,400	466,830	436,782	69	4,998	4,676
2015		388,480	80,865		4,159	866
2016 and thereafter		703,600	4,686		7,533	50
Total minimum lease payments	¥ 1,450,592	¥ 5,982,730	6,678,570	\$ 15,531	\$ 64,054	71,505
Less amounts representing interest			291,240			3,118
Present value of net minimum capital lease payments			6,387,330			68,387
Less current portion			2,729,673			29,226
Noncurrent portion			¥ 3,657,657			\$ 39,161

Sales-type Leases—The components of the net investment in sales-type leases as of March 31, 2009 and 2010 were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Year ending March 31:			
2011		¥ 391,785	\$ 4,195
2012		127,156	1,361
2013		104,103	1,115
2014		45,727	490
2015		22,182	237
Total minimum lease payments to be received*	¥ 839,707	690,953	7,398
Estimated residual value of leased property (unguaranteed)	215,917	215,917	2,312
Less unearned income	35,764	33,274	357
Net investment in sales-type leases	1,019,860	873,596	9,353
Less current portion	325,829	372,699	3,990
Non-current net investment in sales-type leases	¥ 694,031	¥ 500,897	\$ 5,363

* Estimated executory costs, including profit thereon, of ¥222,835 thousand and ¥377,927 thousand (\$4,046 thousand) were excluded from total minimum lease payments to be received as of March 31, 2009 and 2010, respectively.

9. BORROWINGS

Short-term borrowings at March 31, 2009 and 2010 consist of bank overdrafts that bear fixed rate interest. The weighted average rates at March 31, 2009 and 2010 were 1.223 percent and 0.905 percent, respectively.

Substantially all short-term borrowings are made under agreements which, as is customary in Japan, provide that under certain conditions the bank may require the borrower to provide collateral (or additional collateral) or guarantor with respect to the borrowings and that the bank may treat any collateral, whether furnished as security for short-term or long-term loans or otherwise, as collateral for all indebtedness to such bank. Also, provisions of certain loan agreements grant certain rights of possession to the lenders in the event of default. The Company did not provide banks with any collateral for outstanding loans as of March 31, 2010.

The Company entered into bank overdraft agreements with certain Japanese banks for which the unused balance outstanding as of March 31, 2010 was ¥15,220,000 thousand (\$162,955 thousand).

10. INCOME TAXES

Income taxes imposed by the national, prefectural and municipal governments of Japan resulted in a normal statutory rate of approximately 41 percent for the years ended March 31, 2008, 2009 and 2010.

Income from operations before income tax expense (benefit) and equity in net income (loss) of equity method investees and income tax expense (benefit) for the years ended March 31, 2008, 2009, and 2010 consists of the following components:

	Thousands of Yen			Thousands of
	2008	2009	2010	U.S. Dollars
Income from operations before income tax expense (benefit) and equity in net income (loss) of equity method investees:				
Domestic	¥ 4,382,741	¥ 2,060,855	¥ 2,847,730	\$ 30,490
Foreign	(21,072)	(26,367)	11,332	121
Total	<u>¥ 4,361,669</u>	<u>¥ 2,034,488</u>	<u>¥ 2,859,062</u>	<u>\$ 30,611</u>
Income taxes - current:				
Domestic	¥ 778,152	¥ 359,143	¥ 462,779	\$ 4,955
Foreign	13,709	6,750	(87,108)	(933)
Total	<u>¥ 791,861</u>	<u>¥ 365,893</u>	<u>¥ 375,671</u>	<u>\$ 4,022</u>
Income taxes - deferred:				
Domestic	¥ (1,653,275)	¥ 636,818	¥ 756,422	\$ 8,099
Foreign	-	-	-	-
Total	<u>¥ (1,653,275)</u>	<u>¥ 636,818</u>	<u>¥ 756,422</u>	<u>\$ 8,099</u>

In September 2007, the Company applied for the consolidated tax declaration and the application was approved by the national tax agency. The company started the consolidated tax declaration for the fiscal year ended March 31, 2009.

The approximate effect of temporary differences and carryforwards giving rise to deferred tax balances at March 31, 2009 and 2010 was as follows:

	Thousands of Yen				Thousands of U.S. Dollars	
	2009		2010		2010	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Unrealized gains on available-for-sale securities	¥ -	¥ 79,392	¥ -	¥ 178,456	\$ -	\$ 1,910
Capital leases	78,314	-	58,710	-	628	-
Accrued expenses	342,146	-	382,626	-	4,097	-
Retirement and pension cost	578,616	-	593,364	-	6,353	-
Allowance for doubtful accounts	19,997	-	24,231	-	259	-
Depreciation	44,077	-	16,067	-	172	-
Net loss on other investment	811,120	-	1,051,840	-	11,262	-
Operating loss carryforwards	5,157,278	-	3,761,496	-	40,273	-
Transactions in transit*	-	72,397	-	67,974	-	728
Amortization of goodwill	-	108,663	-	106,477	-	1,140
Impairment loss on telephone rights	85,923	-	87,003	-	932	-
Accrued enterprise tax	72,496	-	97,154	-	1,040	-
Other	181,884	97,609	248,638	212,642	2,662	2,277
Total	7,371,851	358,061	6,321,129	565,549	67,678	6,055
Valuation allowance	(4,165,716)	-	(3,712,237)	-	(39,746)	-
Total	¥ 3,206,135	¥ 358,061	¥ 2,608,892	¥ 565,549	\$ 27,932	\$ 6,055

* This item arises from transactions between IJJ and IJJ America, which were recorded in the different periods as a result of the difference in each company's fiscal year end.

As of March 31, 2009 and 2010, the valuation allowance for deferred tax assets which has been provided, related principally to operating loss carryforwards and net loss on other investment, at amounts which are not considered more likely than not to be realized. The net changes in the valuation allowance for deferred tax assets were a decrease of ¥2,455,640 thousand, an increase of ¥57,842 thousand and a decrease of ¥453,479 thousand (\$4,855 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively.

As of March 31, 2010, IJ and certain subsidiaries had tax operating loss carryforwards. These loss carryforwards are available to offset future taxable income, and will expire in the period ending March 31, 2016 in Japan and December 31, 2027 in the United States of America as follows:

Year Ending March 31	Thousand of Yen		
	Corporate tax subject to consolidation tax filing	Inhabitant and enterprise tax subject to consolidation tax filing	Others
2011	¥ 4,832,339	¥ 7,353,136	¥ -
2012	415,384	415,384	-
2013	-	-	-
2014	-	-	-
2015 and thereafter	-	146,146	3,068,252
Total	¥ 5,247,723	¥ 7,914,666	¥ 3,068,252

Year Ending March 31	Thousand of U.S. Dollars		
	Corporate tax subject to consolidation tax filing	Inhabitant and enterprise tax subject to consolidation tax filing	Others
2011	\$ 51,738	\$ 78,727	\$ -
2012	4,447	4,447	-
2013	-	-	-
2014	-	-	-
2015 and thereafter	-	1,565	32,851
Total	\$ 56,185	\$ 84,739	\$ 32,851

A reconciliation between the amount of reported income taxes and the amount of income taxes computed using the normal statutory rate for each of the three years in the period ended March 31, 2010 is as follows:

	Thousands of Yen			Thousands of U.S. Dollars
	2008	2009	2010	2010
Amount computed by using normal Japanese statutory tax rate	¥ 1,788,284	¥ 834,140	¥ 1,172,215	\$ 12,550
Increase (decrease) in taxes resulting from:				
Expenses not deductible for tax purpose	81,117	78,705	187,591	2,008
Provision for (reversal of) reserve for tax contingencies	12,365	6,707	(86,298)	(924)
Inhabitant tax-per capita	25,780	27,475	26,679	286
Realization of tax benefit of operating loss carryforwards	(769,583)	-	-	-
Expiration of operating loss carryforward	-	-	204,074	2,185
Other change in valuation allowance	(1,980,018)	38,046	(390,874)	(4,185)
Enterprise tax - not based on income	45,283	55,083	56,181	602
Other—net	(64,642)	(37,445)	(37,475)	(401)
Income tax expense (benefit) as reported	¥ (861,414)	¥ 1,002,711	¥ 1,132,093	\$ 12,121

In September 2006, IJ America filed an application with the Internal Revenue Service (“IRS”) for the Bilateral Advance Pricing Agreement Request (“BAPA”), relating to the terms of transactions with IJ and the use of tax operating loss carryforwards in its taxation. IJ America reserved for tax contingencies related to the denial of the past use of tax operating loss carryforwards, which amounted to ¥102,310 thousand as of March 31, 2007. IJ America did not provide a reserve for the potential penalty relating to the past use of the tax operating loss carryforwards. The Company believed that IRS would not impose tax penalty because the Company applied the BAPA.

The Company adopted FIN No.48 effective April 1, 2007. As a result of implementation of FIN No.48, the Company identified liabilities for uncertain tax positions of ¥102,310 thousand which included unrecognized tax benefit of ¥77,417 thousand and related interest accrual of ¥24,893 thousand as of April 1, 2007 and did not require a cumulative-effect adjustment to retained earnings.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
			2010
Balance at April 1	¥ 79,434	¥ 65,811	\$ 705
Increases related to positions taken on items from current year	2,801	7,656	82
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	-	(65,811)	(705)
Translation adjustment	(16,424)	1,735	19
Balance at March 31	¥ 65,811	¥ 9,391	\$ 101

In the year ended March 31, 2010, the unrecognized tax benefit of ¥65,811 thousand (\$705 thousand) was reversed as a result of a lapse of the applicable statute of limitations.

In April 2010, the IRS and National Tax Agency Japan (“NTA”) reached a tentative settlement of the BAPA covering the intercompany transactions between IJ and IJ America. IJ America identified liabilities for uncertain tax positions of ¥9,391 thousand (\$101 thousand), which is based on the difference between the actual transaction amounts among IJ and IJ America and the amount to be adjusted pursuant to the terms of tentative settlement of the BAPA.

At March 31, 2010, the amount of unrecognized tax benefits was ¥9,391 thousand (\$101 thousand), which would decrease the effective tax rate, if recognized.

Interest associated with uncertain tax positions of ¥3,906 thousand was recognized as income tax expense for the year ended March 31, 2009 and accrued interest of ¥28,143 thousand was recognized as of March 31, 2009. The accrued interest was reversed as of March 31, 2010 as a result of the tentative settlement of the BAPA. Interest associated with uncertain positions and penalties will not be imposed by the benefit of BAPA.

The Company does not reasonably expect that the unrecognized tax benefit will change significantly within the next twelve months.

The Company has open tax years subject to examination from the year ended March 31, 2003 in Japan and from the year ended December 31, 2005 in the U.S.

11. RETIREMENT AND PENSION PLANS

Until March 31, 2009, IJ and certain subsidiaries had unfunded severance benefit and noncontributory defined benefit pension plans which together covered substantially all of their employees who were not directors and also participated in a contributory multi-employer pension plan, the Japan Computer Information Service Employee's Pension Fund (the "Multi-Employer Plan"), which covered substantially all of their employees.

Because the current tax-qualified benefit pension plan system will terminate in March 2012, effective March 31, 2009, IJ amended the defined benefit pension plan. IJ transferred 71% of the current benefit pension plan into a new defined benefit pension plan and the remaining 29% of the current benefit pension plan into a defined contribution plan. This plan amendment reduced projected benefit obligation by ¥337,845 thousand, accumulated benefit obligation by ¥199,234 thousand and plan assets by ¥140,103 thousand which reflects the benefits obligation transferred to the defined contribution plan. As a result of the plan amendment, a curtailment and partial settlement occurred, and ¥126,715 thousand of gain was recorded for the year ended March 31, 2009.

Effective March 31, 2010, IJ-Tech and IJ-FS amended their unfunded severance benefits plans to participate in IJ's pension plans. IJ-Tech and IJ-FS transferred 50% of the unfunded severance benefit plans into the defined benefit pension plan and 20% of the unfunded severance benefits plans into the defined contribution plan. This plan amendment reduced projected benefit obligation by ¥193,158 thousand (\$2,068 thousand) and the accumulated benefit obligation by ¥109,885 thousand (\$1,176 thousand) which reflects the benefits obligation transferred to the defined contribution plan. As a result of the plan amendment, a curtailment and partial settlement occurred, and ¥30,234 thousand (\$324 thousand) of gain was recorded for the year ended March 31, 2010.

The following information regarding net periodic pension cost and accrued pension cost also includes the unfunded severance benefit. Under the severance and defined benefit pension plans, all of IJ, IJ-Tech and IJ-FS's employees are entitled, upon retirement with 20 years or more service, to a 10-year period of annuity payments from age 60 (or lump-sum severance indemnities) based on the rate of pay at the time of retirement, length of service and certain other factors. IJ, IJ-Tech and IJ-FS's employees who do not meet these conditions are entitled to lump-sum severance indemnities.

As stipulated by the Japanese Welfare Pension Insurance Law, the Multi-Employer Plan is composed of a substitutional portion of Japanese Pension Insurance and a multi-employers' portion of a contributory defined benefit pension plan. The benefits for the substitutional portion are based on a standard remuneration schedule under the Welfare Pension Insurance Law and the length of participation. The multi-employers' portion of the benefits is based on the employees' length of service. However, assets contributed by an employer including IJ are not segregated in a separate account or restricted to provide benefits only to employees of that employer. The net pension cost under the Multi-Employer Plan is recognized when contributions become due.

Net periodic pension cost for the years ended March 31, 2008, 2009 and 2010 included the following components:

	Thousands of Yen			Thousands of
	2008	2009	2010	U.S. Dollars
				2010
Service cost	¥ 325,065	¥ 372,954	¥ 395,920	\$ 4,239
Interest cost	31,076	36,307	34,473	369
Expected return on plan assets	(29,098)	(26,952)	(17,128)	(184)
Amortization of transition obligation	402	402	322	3
Amortization of net actuarial loss	3,699	8,098	18,093	194
Effect of curtailment	-	(197,181)	(6,860)	(73)
Effect of settlement	-	70,466	(23,374)	(250)
Other	-	-	95,090	1,018
Net periodic pension cost	¥ 331,144	¥ 264,094	¥ 496,536	\$ 5,316

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the year ended March 31, 2010 are as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Net actuarial loss (gain)	¥ 250,029	¥ (118,967)	\$ (1,274)
Amortization of net actuarial loss in net periodic pension cost	(8,098)	(18,093)	(194)
Amortization of transition obligation in net periodic pension cost	(402)	(322)	(3)
Effect of curtailment	(561)	(76,413)	(818)
Effect of settlement	(70,466)	(11,988)	(129)
Other	-	(95,090)	(1,018)
Amounts recognized in other comprehensive income	170,502	(320,873)	(3,436)
Total net periodic pension cost and amounts recognized in other comprehensive income	¥ 434,596	¥ 175,663	\$ 1,880

The change in benefit obligation and plan assets for the years ended March 31, 2009 and 2010 and the amounts recognized in the consolidated balance sheets as of March 31, 2009 and 2010 are as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 2,044,301	¥ 2,189,092	\$ 23,438
Service cost	372,954	395,920	4,239
Interest cost	36,307	34,473	369
Actuarial loss (gain)	122,069	(47,788)	(512)
Benefit paid	(48,694)	(33,012)	(353)
Effect of curtailment	(197,742)	(83,273)	(892)
Effect of settlement	(140,103)	(109,885)	(1,176)
Benefit obligation at end of year	¥ 2,189,092	¥ 2,345,527	\$ 25,113
Change in plan assets:			
Fair value of plan assets at beginning of year	¥ 1,171,804	¥ 1,070,521	\$ 11,462
Actual return on plan assets	(101,008)	88,307	945
Employer contribution	167,433	100,714	1,078
Benefits paid	(27,605)	(17,398)	(186)
Effect of settlement	(140,103)	-	-
Fair value of plan assets at end of year	¥ 1,070,521	¥ 1,242,144	\$ 13,299
Funded status at end of year	¥ (1,118,571)	¥ (1,103,383)	\$ (11,814)

Amounts recognized in the consolidated balance sheets as of March 31, 2009 and 2010 consist of:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Accrued retirement and pension costs-current	¥ (11,959)	¥ (14,539)	\$ (156)
Accrued retirement and pension costs-non current	(1,106,612)	(1,088,844)	(11,658)
Net amount recognized	¥ (1,118,571)	¥ (1,103,383)	\$ (11,814)

The accumulated benefit obligation for the Company's defined benefit pension plans as of March 31, 2009 and 2010 was ¥1,246,825 thousand and ¥1,359,952 thousand (\$14,561 thousand), respectively.

The aggregate projected benefit obligation and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets were ¥2,189,092 thousand and ¥1,070,521 thousand at March 31, 2009 and ¥2,345,527 thousand (\$25,113 thousand) and ¥1,242,144 thousand (\$13,299 thousand) at March 31, 2010, respectively. The aggregate accumulated benefit obligations of plans with no plan assets were ¥448,224 thousand and ¥447,507 thousand (\$4,791 thousand) at March 31, 2009 and 2010, respectively.

Amounts recognized in accumulated other comprehensive income at March 31, 2009 and 2010 consist of:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Net actuarial loss	¥ 484,354	¥ 163,518	\$ 1,751
Obligation at transition	2,249	2,211	23
	¥ 486,603	¥ 165,729	\$ 1,774

The unrecognized net loss and the unrecognized net obligation at the date of initial application are being amortized over 14 years and 21 years, respectively.

The estimated net actuarial loss and obligation at transition for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension cost in the fiscal year ending March 31, 2011 are zero and ¥369 thousand (\$4 thousand), respectively.

Actuarial assumptions as of March 31:

	Benefit Obligations		Net Periodic Costs		
	2009	2010	2008	2009	2010
Discount rate	1.6%	1.8%	1.9%	1.8%	1.6%
Expected long-term rate of return on plan assets			2.7	2.3	1.6
Rate of increase in compensation	3.5	3.5	3.5	3.6	3.5

The Company sets the discount rate assumption annually at March 31 to reflect the market yield of Japanese Government Bonds matched against the average remaining service period of employees.

The basis for determining the long-term rate of returns is a combination of historical returns and prospective return assumptions derived from pension trust funds' managing company.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

Year Ending March 31	Thousands of yen	Thousands of U.S. Dollars
2011	¥ 43,893	\$ 470
2012	55,243	591
2013	66,346	710
2014	82,084	879
2015	79,729	854
2016 - 2020	625,300	6,695
Total	¥ 952,595	\$ 10,199

Contributions due and paid during the years ended March 31, 2008, 2009 and 2010 under the Multi-Employer Plan, including its substitutional portion, amounted to ¥621,786 thousand, ¥758,642 thousand and ¥840,208 thousand (\$8,996 thousand), respectively.

IIJ expects to contribute ¥100,714 thousand (\$1,078 thousand) to its defined benefit pension plan in the year ending March 31, 2011.

IIJ, IIJ-Tech and IIJ-FS's defined contribution plan covers substantially all its employees. IIJ contributes monthly 1.6% of its employees' base salaries to the plan. No employee contributions to the plan are allowed. Contributions to the plan were ¥45,018 thousand (\$482 thousand) for the year ended March 31, 2010.

IIJ's funding policies with respect to the noncontributory plan are generally to contribute amounts considered tax deductible under applicable income tax regulations. Plan assets including life insurance pooled investment portfolios consist of Japanese Government bonds, other debt securities and marketable equity securities. Life insurance pooled investment portfolios are managed by an insurance company and guarantee a minimum rate of return.

The Company's investment strategy for the plan assets is to manage the assets in order to pay retirement benefits to plan participants from the Company over the life of the plans.

This is accomplished by identifying and managing the exposure to various market risks, diversifying investments in various asset classes based on portfolio determined by the insurance company in order to maximize long-term rate of return, while considering the liquidity needs of the plans.

The plan is permitted to use derivative instruments only for the purpose of hedging. Both dealing on credit and real-estate investment are prohibited in principle.

The Company mitigates the credit risk of investments by establishing guidelines with the insurance company. These guidelines are monitored periodically for compliance by the Company.

The projected allocation of the plan assets managed by the insurance company is developed in consideration of the expected long-term investment returns for each category of the plan assets. Approximately 63.0%, 35.0%, and 2.0% of the plan assets excluding pooled investment portfolios will be allocated to debt securities, equity securities and other financial instruments, respectively, to moderate the level of volatility in pension plan asset returns and reduce risks. 50% of the employer's contribution to the plan during the year ending March 31, 2011 will be allocated to life insurance pooled investment portfolios and other 50% will be allocated to the aforementioned investments.

The following table summarizes the basis used to measure the Company's pension plan assets at fair value:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

Basis of Fair Value Measurement of Pension Plan Assets at March 31, 2010

	Thousands of Yen			Total 2010
	Level 1	Level 2	Level 3	
Equity securities:				
Japanese equity	¥ 177,008	¥ -	-	¥ 177,008
U.S. equity	40,139	-	-	40,139
Other equity -developed countries	33,202	-	-	33,202
Total equity securities	250,349	-	-	250,349
Debt securities:				
Japanese government and municipalities	-	298,707	-	298,707
Japanese corporate bonds-investment grade	-	46,076	-	46,076
U.S. government	-	32,719	-	32,719
Other government-developed countries	-	80,948	-	80,948
Residential mortgage-backed	-	14,323	-	14,323
Total debt securities	-	472,773	-	472,773
Other financial instruments*	-	476,719	-	476,719
Cash	42,303	-	-	42,303
Total assets at fair value	¥ 292,652	¥ 949,492	-	¥ 1,242,144

Basis of Fair Value Measurement
of Pension Plan Assets at March 31, 2010

	Thousands of U.S.Dollars			Total 2010
	Level 1	Level 2	Level 3	
Equity securities:				
Japanese equity	\$ 1,895	\$ -	-	\$ 1,895
U.S. equity	430	-	-	430
Other equity -developed countries	355	-	-	355
Total equity securities	2,680	-	-	2,680
Debt securities:				
Japanese government and municipalities	-	3,198	-	3,198
Japanese corporate bonds-investment grade	-	493	-	493
U.S. government	-	350	-	350
Other government-developed countries	-	867	-	867
Residential mortgage-backed	-	154	-	154
Total debt securities	-	5,062	-	5,062
Other financial instruments*	-	5,104	-	5,104
Cash	453	-	-	453
Total assets at fair value	\$ 3,133	\$ 10,166	-	\$ 13,299

* Other financial instruments are life insurance pooled investment portfolios.

Pension plan assets classified as Level 1 are comprised principally of equity securities, which are valued using an unadusted quoted market price in active markets with sufficient volume and frequency of transactios.

Pension plan assets classified as Level 2 are comprised principally of government bonds, corporate bonds and life insurance pooled investment portfolios which are valued quoted prices obtained from third parties.

The amount of retirement benefits for retiring directors and company auditors must be approved by the shareholders. The Company has retirement plans for full-time company auditors and retirement plans for full-time directors. The Company recorded a liability for retirement benefit for full-time directors and company auditors of ¥292,980 thousand and ¥213,210 thousand (\$2,283 thousand), which would be required if they retire at March 31, 2009 and 2010, respectively.

The retirement benefits paid to retired directors and company auditors were ¥6,480 thousand, ¥3,780 thousand and ¥122,230 thousand (\$1,309 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively.

12. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Company Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet the criteria (4) above. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

At the 14th Ordinary General Shareholders' Meeting held on June 28, 2006, IJ's shareholders approved the reductions of additional paid-in capital of ¥21,980,395 thousand and common stock of ¥2,539,222 thousand to eliminate the accumulated deficit for purpose of reporting under the Companies Act in its non-consolidated financial statements. The effective date was August 4, 2006.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, and other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock.

The amount of retained earnings available for dividends under the Companies Act is based on the amount of retained earnings recorded in IJ's general books of account with accepted Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements for U.S.GAAP purposes but not recorded in the general books of account have no effect on the determination of retained earnings available for dividends under the Companies Act. Retained earnings shown in IJ's general books of account amounted to ¥10,409,083 thousand (\$11,446 thousand) at March 31, 2010.

In May 11, 2007, IJ issued new 2,178 shares and exchanged them for the shares of two consolidated subsidiaries.

On June 26, 2007, IJ's shareholders approved the payment of cash dividend to shareholders of record at March 31, 2007 of ¥1,500 per share or in the aggregate amount of ¥306,450 thousand.

On November 12, 2007, the board of directors of IJ resolved the payment of cash dividend to shareholders of record at September 30, 2007 of ¥750 per share or in the aggregate amount of ¥154,859 thousand.

On June 27, 2008, IJ's shareholders approved the payment of cash dividend to shareholders of record at March 31, 2008 of ¥1,000 per share or in the aggregate amount of ¥206,478 thousand.

On November 13, 2008, the board of directors of IJ resolved the payment of cash dividend to shareholders of record at September 30, 2008 of ¥1,000 per share or in the aggregate amount of ¥206,479 thousand.

On October 28, 2008, the board of directors of IJ authorized the repurchase of up to 4,000 shares and the amount of ¥400,000 thousand of IJ common stock over the period which ended on January 30, 2009. IJ repurchased 3,934 shares of common stock, which amounted to ¥399,414 thousand, plus commissions under the authorization.

On June 26, 2009, IJ's shareholders approved the payment of cash dividend to shareholders of record at March 31, 2009 of ¥1,000 per share or in the aggregate amount of ¥202,544 thousand (\$2,169 thousand).

On November 13, 2009, the board of directors of IJ resolved the payment of cash dividend to shareholders of record at September 30, 2009 of ¥1,000 per share or in the aggregate amount of ¥202,544 thousand (\$2,168 thousand).

Stock Option Plans—In May 2000, IJ granted 295 options to 34 directors and employees. The options vested fully on April 8, 2002 and are exercisable for eight years from that date. In August 2001, IJ granted 395 options to 44 directors and employees. The options became fully vested on June 28, 2003 and are exercisable for eight years from that date. No options are available for additional grant as of March 31, 2010. No compensation expense has been recognized in the consolidated statements of income pursuant to APB No. 25, because the exercise price was greater than the market price on the dates of grant.

The following table summarizes the transactions of IJ's stock option plans for the year in the period ended March 31, 2010:

	Number of Options	Number of Shares	Thousands of Yen Weighted Average Exercise Price per Common Shares
Unexercised options outstanding—March 31, 2009	515	2,575	¥ 1,009
Options granted	-	-	-
Options exercised	-	-	-
Options forfeited	15	75	944
Unexercised options outstanding—March 31, 2010	500	2,500	¥ 1,011

Due to the effect of the stock split in October 2005, grantees of options can purchase five shares by exercising one option.

Summarized information about stock options outstanding as of March 31, 2010 is as follows:

Exercise Price (Thousands of Yen)	Outstanding		Exercisable		Total Intrinsic Value (Thousands of Yen)
	Number of Shares Underlying Options	Remaining Life (in Years)	Number of Shares Underlying Options		
¥ 2,163	925	0.02	925	-	-
334	1,575	1.24	1,575	-	-

13. OTHER COMPREHENSIVE INCOME

The changes in each component of other comprehensive income (loss) for the years ended March 31, 2008, 2009 and 2010 are as follows:

	Thousands of Yen		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Year ended March 31, 2008:			
Foreign currency translation adjustments	¥ (20,029)	¥ -	¥ (20,029)
Unrealized holding gain (loss) on securities:			
Amount arising during the period	(574,683)	235,620	(339,063)
Less: Reclassification adjustments for gains included in net income	(114,714)	47,032	(67,682)
Increase in deferred tax asset valuation allowance*	-	(282,652)	(282,652)
Net unrealized holding gain (loss) during the period	(689,397)	-	(689,397)
Loss on cash flow hedging derivative instruments:			
Amount arising during the period	-	-	-
Less: Reclassification adjustments for gains included in net income	(45)	-	(45)
Loss on cash flow hedging derivative instruments	(45)	-	(45)
Defined benefit pension plans:			
Amount arising during the period	(167,746)	22,247	(145,499)
Less: Reclassification adjustments for losses included in net income	4,101	(1,418)	2,683
Less: Other reclassification	(11,522)	4,718	(6,804)
Net defined benefit pension plans	(175,167)	25,547	(149,620)
Other comprehensive income (loss)	¥ (884,638)	¥ 25,547	¥ (859,091)
Year ended March 31, 2009:			
Foreign currency translation adjustments	¥ (80,588)	¥ -	¥ (80,588)
Unrealized holding gain (loss) on securities:			
Amount arising during the period	(354,330)	145,275	(209,055)
Less: Reclassification adjustments for losses included in net income	165,884	(68,012)	97,872
Increase in deferred tax asset valuation allowance*	-	(77,263)	(77,263)
Net unrealized holding gain (loss) during the period	(188,446)	-	(188,446)
Defined benefit pension plans:			
Amount arising during the period	(250,029)	30,502	(219,527)
Less: Reclassification adjustments for losses included in net income	8,500	(2,295)	6,205
Less: Reclassification adjustments on effect of curtailment and settlement	71,027	-	71,027
Net defined benefit pension plans	(170,502)	28,207	(142,295)
Other comprehensive income (loss)	¥ (439,536)	¥ 28,207	¥ (411,329)

	Thousands of Yen		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Year ended March 31, 2010:			
Foreign currency translation adjustments	¥ 2,739	¥ -	¥ 2,739
Unrealized holding gain (loss) on securities:			
Amount arising during the period	243,390	(99,789)	143,601
Less: Reclassification adjustments for gains included in net income	(29,217)	11,979	(17,238)
Release of deferred tax asset valuation allowance*	-	87,810	87,810
Net unrealized holding gain (loss) during the period	214,173	-	214,173
Defined benefit pension plans:			
Amount arising during the period	118,967	(8,572)	110,395
Less: Reclassification adjustments for losses included in net income	18,415	(3,402)	15,013
Less: Reclassification adjustments on effect of curtailment and settlement	88,401	(36,331)	52,070
Less: Other	95,090	-	95,090
Net defined benefit pension plans	320,873	(48,305)	272,568
Other comprehensive income (loss)	¥ 537,785	¥ (48,305)	¥ 489,480

	Thousands of U.S. Dollars		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Year ended March 31, 2010:			
Foreign currency translation adjustments	\$ 29	\$ -	\$ 29
Unrealized holding gain (loss) on securities:			
Amount arising during the period	2,606	(1,068)	1,538
Less: Reclassification adjustments for losses included in net income	(313)	128	(185)
Release of deferred tax asset valuation allowance*	-	940	940
Net unrealized holding gain (loss) during the period	2,293	-	2,293
Defined benefit pension plans:			
Amount arising during the period	1,274	(92)	1,182
Less: Reclassification adjustments for losses included in net income	197	(36)	161
Less: Reclassification adjustments on effect of curtailment and settlement	947	(389)	558
Less: Other	1,018	-	1,018
Net defined benefit pension plans	3,436	(517)	2,919
Other comprehensive income (loss)	\$ 5,758	\$ (517)	\$ 5,241

* The release of (increase in) the deferred tax asset valuation allowance has resulted from unrealized gain and (losses) on available-for-sale securities, respectively.

The components of accumulated other comprehensive income (loss) at March 31, 2009 and 2010 are as follows:

	Thousands of Yen		Thousands of
	2009	2010	U.S. Dollars
Foreign currency translation adjustments	¥ (83,928)	¥ (81,189)	\$ (869)
Unrealized holding gain on securities	166,863	381,036	4,079
Defined benefit pension plans	(403,646)	(131,078)	(1,403)
	<u>¥ (320,711)</u>	<u>¥ 168,769</u>	<u>\$ 1,807</u>

14. BASIC AND DILUTED NET INCOME PER COMMON SHARE

Basic and diluted net income attributable to Internet Initiative Japan Inc. per common share computation for three years ended March 31, 2008, 2009 and 2010 is as follows.

	Thousands of Yen			Thousands of
	2008	2009	2010	U.S. Dollars
Numerator:				
Net income attributable to Internet Initiative Japan Inc.-basic and diluted	¥ 5,176,589	¥ 1,419,304	¥ 2,234,138	\$ 23,920
Denominator:				
	Number of shares			
	2008	2009	2010	
Weighted-average common shares outstanding-basic	206,240	205,165	202,544	
Dilutive effect of stock options	225	30		
Weighted-average common shares outstanding-diluted	<u>206,465</u>	<u>205,195</u>	<u>202,544</u>	
	Yen			U.S. Dollars
	2008	2009	2010	2010
Basic net income attributable to Internet Initiative Japan Inc. per common share	¥ 25,100	¥ 6,918	¥ 11,030	\$ 118
Diluted net income attributable to Internet Initiative Japan Inc. per common share	¥ 25,072	¥ 6,917	¥ 11,030	\$ 118

For the years ended March 31, 2008, 2009 and 2010, potentially dilutive shares have been excluded from the computation of diluted net income attributable to Internet Initiative Japan Inc. because the exercise prices of the options were greater than the average market price of the common shares.

Diluted net income attributable to Internet Initiative Japan Inc. per share does not include the effects of the following potential common shares:

	Year ended March 31		
	2008	2009	2010
Shares issuable under stock options	950	950	2,500

15. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is involved in normal claims and other legal proceedings in the ordinary course of business. Except as noted below, the Company is not involved in any litigation or other legal proceedings that, if determined adversely to us, the Company believe would individually or in the aggregate have a material adverse effect on us or our operations.

In December 2001, a class action complaint alleging violations of the federal securities laws was filed against the Company, naming the Company, certain of its officers and directors as defendants, and underwriters of the Company's initial public offering. Similar complaints have been filed against over 300 other issuers that have had initial public offerings since 1998 and such actions have been included in a single coordinated proceeding in the Southern District of New York. An amended complaint was filed on April 24, 2002 alleging, among other things, that the underwriters of the Company's initial public offering violated the securities laws (i) by failing to disclose in the offering's registration statement certain alleged compensation arrangements entered into with the underwriters' clients, such as undisclosed commissions or tie in agreements to purchase stock in the after market, and (ii) by engaging in manipulative practices to artificially inflate the price of the Company's stock in the after market subsequent to the initial public offering. On July 15, 2002, the Company joined in an 'omnibus' motion to dismiss the amended complaint filed by the issuers and individuals named in the various coordinated cases. On February 19, 2003, the Court ruled on the motions to dismiss. The Court granted the Company's motion to dismiss the claims against it under Rule 10b-5 promulgated under the Exchange Act due to the insufficiency of the allegations against the Company. The motions to dismiss the claims under Section 11 of the Securities Act were denied for virtually all of the defendants in the consolidated cases, including the Company. In June 2003, the Company conditionally approved a proposed partial settlement with the plaintiffs in this matter. The Company, along with the settling issuer defendants, filed a motion seeking the court's preliminary approval of the settlement. The settlement would have provided, among other things, a release of the Company and of the individual officer and director defendants for the alleged wrongful conduct in the amended complaint in exchange for a guarantee from the Company's insurers regarding recovery from the underwriter defendants and other non-monetary consideration from the Company. While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The District Court directed that the litigation proceed with a number of "focus cases" rather than all of the 310 cases that had been consolidated. The Company's case is not one of these focus cases. On October 13, 2004, the District Court certified the focus cases as class actions in the ongoing litigation. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the District Court's class certification decision. On April 6, 2007, the Second Circuit denied the plaintiffs' petition for rehearing, and on May 18, 2007, the Second Circuit denied the plaintiffs' petition for rehearing en banc. In light of the Second Circuit opinion, liaison counsel for all issuer defendants, including the Company, informed the District Court that the settlement could not be approved, because the defined settlement class, like the litigation class, could not be certified. On June 25, 2007, the District Court entered an order terminating the proposed settlement. On August 14, 2007, the plaintiffs filed their second consolidated amended complaints against the six focus cases and on September 27, 2007, again moved for class certification. On November 12, 2007, certain of the defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the District Court denied the motions to dismiss except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. The motion for class certification was withdrawn without prejudice on October 10, 2008. On February 25, 2009, liaison counsel for the plaintiffs informed the District Court that a settlement had been agreed to in principle, subject to formal approval by the parties, and preliminary and final approval by the District Court. On April 2, 2009, a stipulation and agreement of settlement among the plaintiffs, issuer defendants and underwriter defendants was submitted to the District Court for preliminary approval. This global settlement requires no financial contribution from IJJ. The District Court granted the plaintiffs' motion for preliminary approval and preliminarily certified the settlement classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. The District Court granted the plaintiffs' motion for final approval of the settlement and certified the settlement classes on October 5, 2009. The District Court determined that the global settlement is fair to the class members, approved the global settlement, and dismissed, with prejudice, the case against IJJ and its individual defendants. Notices of appeal of the opinion granting final approval have been filed. Due to the inherent uncertainties of litigation and because the settlement remains subject to appeal, the ultimate outcome of the matter is uncertain.

In addition to the foregoing, the Company is a party to other suits and claims that arise in the normal course of business. The negative adverse outcome of such suits and claims would not have a significant impact on the financial statements.

In May 2006, January 2007 and January 2008, IJ made agreements (three agreements in total) for investing in funds which invest in mainly unlisted stocks with an investment advisory company. IJ committed to provide up to \$5 million for each fund (\$15 million in total) at its request basically in future several years. IJ has provided a total of ¥650,000 thousand (\$6,959 thousand) to them as of March 31, 2010. The amounts invested in their funds were recorded as other investments in the Company's consolidated balance sheets.

16. FINANCIAL INSTRUMENTS

Fair Value—In the normal course of business, the Company invests in financial assets. To estimate the fair value of those financial assets, the Company used quoted market prices to the extent that they were available. Where a quoted market price is not available, the Company estimates fair value using primarily the discounted cash flow method. For certain financial assets and liabilities, such as trade receivables and trade payables, which are expected to be collected and settled within one year, the Company assumed that the carrying amount approximates fair value due to their short maturities. For guarantee deposits, which are fully refunded at the end of lease contracts, the remaining noncancellable lease terms are principally within two years and the Company assumed that the carrying amount approximates fair value. Investment for which it is not practicable to estimate fair value primarily consists of investments in a number of unaffiliated and unlisted smaller sized companies and the estimate of their fair values cannot be made without incurring excessive costs. Refundable insurance policies are carried at cash surrender value. The carrying amounts and fair value of financial instruments are summarized below:

	Thousands of Yen				Thousands of U.S. Dollars	
	2009		2010		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other investments for which it is:						
Practicable to estimate fair value	¥ 674,254	¥ 674,254	¥ 866,996	¥ 866,996	\$ 9,283	\$ 9,283
Not practicable	1,240,340	-	1,714,614	-	18,357	-
Noncurrent refundable insurance policies (other assets)	206,387	206,387	107,081		\$ 1,146	\$ 1,146

Other investments for which it is practicable to estimate fair value are available-for-sales-equity securities disclosed in note 3.

Cash at March 31, 2009 and 2010 included U.S. dollar denominated current bank deposits of ¥202,689 thousand and ¥296,465 thousand (\$3,174 thousand), respectively.

17. FAIR VALUE MEASUREMENTS

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 – Inputs are quoted prices in active

Level 2 – Inputs are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, which reflect the reporting entity's own assumptions about the assumptions that market participants would use in establishing a price.

Assets Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2009 and 2010 respectively, consistent with the fair value hierarchy provisions of ASC Topic 820.

March 31, 2009	Thousands of Yen			Total
	Level 1	Level 2	Level 3	2009
Assets:				
Available-for-sale securities equity securities	¥ 674,254	-	-	¥ 674,254

March 31, 2010	Thousands of Yen			Total
	Level 1	Level 2	Level 3	2010
Assets:				
Available-for-sale securities-equity securities	¥ 866,996	-	-	¥ 866,996

March 31, 2010	Thousands of U.S Dollars			Total
	Level 1	Level 2	Level 3	2010
Assets:				
Available-for-sale securities-equity securities	\$ 9,283	-	-	\$ 9,283

Available-for-sale securities are comprised of marketable securities, which are listed on Japan, U.S. and Hong Kong securities market, which are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Assets Measured at Fair Value on a Nonrecurring Basis

March 31, 2009	Thousands of Yen			impairment loss
	Level 1	Level 2	Level 3	
Assets:				
Non-marketable securities- equity securities	-	-	¥ 298,280	¥ 360,451

March 31, 2010	Thousands of Yen			impairment loss
	Level 1	Level 2	Level 3	
Assets:				
Non-marketable securities- equity securities	-	-	¥ 622,137	¥ 322,501

March 31, 2010

Thousands of U.S Dollars

	Level 1	Level 2	Level 3	impairment loss
Assets:				
Non-marketable securities- equity securities	-	-	\$ 6,661	\$ 3,453

In accordance with the provisions of ASC 325-20, "Cost Method Investments", we review the carrying values of our investments when events and circumstances warrant. This review requires the comparison of the fair values of our investments to their respective carrying values.

Non-marketable equity securities with a carrying amount of ¥658,731 thousand and ¥944,638 thousand (\$10,114 thousand), which were included in Other investments in the balance sheet, were written down to their fair value of ¥298,280 thousand and ¥ 622,137 thousand (\$6,661 thousand), resulting in an other-than-temporary impairment charge of ¥ 360,451 thousand and ¥ 322,501 thousand (\$3,453 thousand), which were included in earnings for the year ended March 31, 2009, and 2010, respectively. All impaired non-marketable equity securities were classified as Level 3 instruments and the Company uses the unobservable inputs to these investments. The Company evaluated the fair value of these investments based on the net assets of each issuers, as the Company could not obtain other information such as future cash flows related to the issuers.

18. BUSINESS SEGMENTS

The operating segments reported below are those for which segment-specific financial information is available. Accounting policies used to determine segment profit/loss and segment assets are consistent with those used to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States. The Company's management uses this financial information to make decisions on the allocation of management resources and to evaluate business performance.

Network service and systems integration business segment comprises revenues from connectivity and outsourcing services, systems integration and equipment sales.

ATM operation business segment comprises revenues from ATM operation business.

Revenues:

	Thousands of Yen			Thousands of U.S. Dollars
	2008	2009	2010	2010
Network service and systems integration business:				
Customers	¥ 66,831,138	¥ 69,707,278	¥ 67,799,723	\$ 725,907
Intersegment	-	253,985	428,560	4,588
Total	66,831,138	69,961,263	68,228,283	730,495
ATM operation business				
Customers	4,161	23,452	206,657	2,213
Intersegment	-	-	-	-
Total	4,161	23,452	206,657	2,213
Elimination	-	253,985	428,560	4,588
Consolidated total	¥ 66,835,299	¥ 69,730,730	¥ 68,006,380	\$ 728,120

Segment profit or loss:

	Thousands of Yen			Thousands of U.S. Dollars
	2008	2009	2010	2010
Operating income (loss):				
Network service and systems integration business	¥ 4,854,309	¥ 3,663,040	¥ 4,435,207	\$ 47,486
ATM operation business	(89,195)	(704,431)	(1,001,166)	(10,719)
Elimination	5,750	41,227	22,456	240
Consolidated operating income	¥ 4,759,364	¥ 2,917,382	¥ 3,411,585	\$ 36,527

Segment assets:

	Thousands of Yen		Thousands of U.S. Dollars
	2009	2010	2010
Segment Assets:			
Network service and systems integration business	¥ 51,799,206	¥ 50,462,478	\$ 540,283
ATM operation business	504,144	655,123	7,014
Elimination	2,151	2,151	23
Consolidated total assets	¥ 52,301,199	¥ 51,115,450	\$ 547,274

Other significant items:

	Thousands of Yen			Thousands of U.S. Dollars
	2008	2009	2010	2010
Depreciation and amortization:				
Network service and systems integration business	¥ 4,771,468	¥ 5,417,275	¥ 5,287,887	\$ 56,615
ATM operation business	3,336	13,226	18,939	203
Consolidated total	¥ 4,774,804	¥ 5,430,501	¥ 5,306,826	\$ 56,818

Transfers between reportable businesses are made at market-based prices. Operating income is sales and operating revenue less costs and operating expenses.

Substantially all revenues are from customers operating in Japan. Geographic information is not presented due to immateriality of revenue attributable to international operations.

There have been no sales and operating revenue from transactions with a single external customer amounting to 10% or more of the Company's revenues for the years ended March 31, 2008, 2009 and 2010.

19. ADVERTISING EXPENSES

Advertising expenses incurred during the years ended March 31, 2008, 2009 and 2010 related primarily to advertisements in magazines, journals and newspapers and amounted to ¥575,306 thousand, ¥459,679 thousand and ¥467,813 thousand (\$5,009 thousand), respectively.

20. RELATED PARTY TRANSACTIONS

NTT and its subsidiary own 29.4 percent of IJ's outstanding common shares and 30.0 percent of IJ's voting shares as of March 31, 2010.

The Company entered into a number of different types of transactions with NTT and its subsidiaries including purchases of wireline telecommunication services for the Company's offices. For the Company's connectivity and outsourcing services, the Company purchases international and domestic backbone services, local access lines and rental rack space in data centers from NTT and its subsidiaries. The Company sells to NTT and its subsidiaries its services including OEM services, system integration services and monitoring services for their data centers.

The amounts of balances as of March 31, 2009 and 2010 and transactions of the Company with NTT and its subsidiaries for the each of the three years in the period ended March 31, 2010, are summarized as follows.

	Thousands of Yen			Thousands of
	2008	2009	2010	U.S. Dollars
Accounts receivable	¥ -	¥ 194,258	¥ 130,741	\$ 1,400
Accounts payable	-	1,184,399	1,099,237	11,769
Revenues	1,186,771	1,129,160	911,622	9,760
Costs and expenses	9,437,253	10,689,937	11,304,222	121,030

As for equity method investees, refer to Note 5, "INVESTMENTS IN EQUITY METHOD INVESTEES"

21. SUBSEQUENT EVENTS

On June 25, 2010, IJ's shareholders approved the payment of cash dividend to shareholders of record at March 31, 2010 of ¥1,250 (\$13.38) per share or in the aggregate amount of ¥253,180 thousand (\$2,711 thousand).

On September 1, 2010, IJ acquired all shares of the new subsidiary established by AT&T Japan LLC for JPY9,170 million (\$98 million), which succeeded a part of the business, mainly the domestic network outsourcing services, provided by AT&TJLLC, AT&T Japan K.K and AT&T Japan Ltd.. It began operations on September 1, 2010 under the name IJ Global Solutions Inc. ("IJ-Global"). IJ-Global plans to provide highly value-added network services by integrating IJ Group's abundant network solution services to create greater customer satisfaction. The disclosure of other information required by ASC 805-10-50-2 is impracticable because the initial accounting for the business combination, such as determining assets acquired and liabilities assumed from the predecessor companies, is incomplete.

* * * * *

Index to Exhibits

- 1.1 Articles of Incorporation, as amended (English translation)¹
- 1.2 Share Handling Regulations, as amended (English translation)¹
- 1.3 Regulations of the Board of Directors, as amended (English translation)
- 1.4 Regulations of the Board of Company Auditors, as amended (English translation)²
- 2.1 Bylaws of the IJ Group Employee Shareholders' Association (English translation)
- 2.2 Form of Deposit Agreement among IJ, The Bank of New York Mellon as depository and all owners and holders from time to time of American Depositary Receipts, including the form of American Depositary Receipt³
- 2.3 Bylaws of the IJ Group Director Stock Purchase Plan (English translation)
- 4.1 Shareholders' Agreement Relating to the Establishment of INTERNET MULTIFEED CO., dated August 20, 1997, between Nippon Telegraph and Telephone Corporation and the Registrant (English translation)⁴
- 4.2 Basic Agreement to Delegate Services, dated April 1, 1998, between Internet Initiative Japan Inc. and Net Care, Inc. (English translation)⁴
- 4.3 Joint Venture Agreement, dated January 19, 2006, between Internet Initiative Japan Inc. and Konami Corporation (English translation)⁵
- 4.4 Service Agreement, dated March 25, 2004, between Internet Initiative Japan Inc. and IJ America Inc.⁶
- 4.5 Agreement on Limited Liability, dated June 27, 2008, June 26, 2009 and June 25, 2010, between Internet Initiative Japan Inc. and outside directors and outside company auditors⁷
- 4.6 Stock Purchase Agreement, dated June 1, 2010, between Internet Initiative Japan Inc. and AT&T Japan LLC. ⁸
- 4.7 Solutions Engagement Agreement, dated May 31, 2010 between Communications Services KK (changed its trade name to IJ-Global Solutions Inc. on September 1, 2010) and IBM Japan, Ltd.⁸
- 4.8 Guaranty Letter Related to the Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK, dated June 1, 2010.⁸
- 8.1 List of Significant Subsidiaries (See "Our Group Companies" in Item 4.B. of this Form 20-F)
- 11.1 Internet Initiative Japan Code of Conduct⁹
- 12.1 Certification of the principal executive officer required by 17 C.F.R. 240. 13a-14(a)
- 12.2 Certification of the principal financial officer required by 17 C.F.R. 240. 13a-14(a)
- 13.1 Certification of the chief executive officer required by 18 U.S.C. Section 1350
- 13.2 Certification of the chief financial officer required by 18 U.S.C. Section 1350

-
- (1) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on September 29, 2009.
 - (2) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on August 3, 2005.
 - (3) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-110862) filed on December 2, 2003.
 - (4) Incorporated by reference to the corresponding exhibit to our Form F-1 Registration Statement (File No. 333-10584) declared effective on August 3, 1999.
 - (5) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on July 11, 2006.
 - (6) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on July 23, 2004.
 - (7) We entered into a Limitation of Liability Agreement with Mr. Masaki Okada and Mr. Masaaki Koizumi as our outside company auditors on June 27, 2008, with Mr. Junnosuke Furukawa as our outside director on June 26, 2009 and with Mr. Yasurou Tanahashi, Mr. Takashi Hiroi and Mr. Shingo Oda as our outside directors on June 25, 2010.
 - (8) Schedules, annexes and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. IJ agrees to furnish supplementary copies of the omitted schedules, annexes and similar attachments to the SEC upon request. A list briefly describing the omitted schedules, annexes and similar attachments are contained in this exhibit.
 - (9) Incorporated by reference to the corresponding exhibit to our annual report on Form 20-F (File No. 0-30204) filed on June 30, 2008.

(English Translation)

REGULATIONS OF THE BOARD OF DIRECTORS

Amended On March 4, 2010

CHAPTER 1. GENERAL PROVISIONS

(Object)

Article 1. The object of these Regulations is to provide for regulations in respect of the Board of Directors, and to manage its due and smooth operations.

(Application)

Article 2. All matters relating to the Board of Directors of the Company, except those provided for in laws and regulations or in the Articles of Incorporation, shall be governed by these Regulations.

(Organization)

Article 3. The Board of Directors shall be organized by all directors

2 Statutory auditors must attend meetings of the Board of Directors and must give their opinions thereat when it is deemed necessary.

(Ordinary Meetings and Extraordinary Meetings)

Article 4. Meetings of the Board of Directors shall consist of ordinary meetings and extraordinary meetings.

2 Ordinary meetings shall be held once a month, and extraordinary meetings shall be convened whenever necessary.

CHAPTER 2. CONVOCATION

(Convocation)

Article 5. A meeting of the Board of Directors shall be convened by the Director/President. In the event the Director/President is prevented from so doing, another director shall convene the meeting in the order previously determined by a resolution of the Board of Directors.

2 Any director or statutory auditor may request the person entitled to convene a meeting of the Board of Directors to convene such meeting by giving him a document outlining therein the subjects and reasons for the meeting.

3 In the event that notifications of convening a meeting within a period of two weeks are not dispatched within five days after the request for the meeting referred to in the preceding paragraph was made, the director or the statutory auditor who made such request may convene the meeting.

(Procedure of convening)

Article 6. A notice of convening a meeting of the Board of Directors shall be dispatched to each director and statutory auditor at least three days prior to the date of the meeting; provided, however, that the notice period may be shortened in the case of emergency.

2 With the unanimous consent of all directors and all statutory auditors, a meeting of the Board of Directors may be held without the procedure for convening a meeting.

CHAPTER 3. PROCEEDINGS

(Chairman)

Article 7. At meetings of the Board of Directors, the Director/President of the Company shall act as chairman. In the event that the Director/President is prevented from so doing, another director shall act as chairman in the order previously determined by a resolution of the Board of Directors.

(Resolution)

Article 8. A resolution by the Board of Directors shall be made by a majority vote of the directors present at the meeting of the Board of Directors at which a majority of the directors shall be present.

2 Any director who has any special interest with respect to the resolution of the Board of Directors in the preceding Paragraph may not exercise his voting rights (in the matter). In this case, such director shall not be counted in the number of directors present set forth in the preceding Paragraph.

(Matters Requiring Resolution)

Article 9. The matters as enumerated below shall require approval of the Board of Directors:

- (1) Matters relating to business management;
 - a) Decisions and changes of medium/long term plans and short term plans;
 - b) Assignments and acquisitions of business;
 - c) Establishments, mergers or dissolutions of subsidiaries or affiliate companies;
 - d) Important capital/business cooperations or cancellations thereof;
 - e) Decisions of plans of advances to new business
 - f) Decisions of fundamental policy of internal control ;
 - (2) Matters relating to shareholders' meetings;
 - a) Convocation of shareholders' meetings and decisions of items on the agenda of shareholders' meetings;
 - b) Approvals of financial reports(including balance sheets, statements of income, statements of shareholder's equity) and business reports, and attached schedules thereto;
 - c) Decisions on matters authorized by resolutions of shareholders' meetings;
 - (3) Matters relating to directors, etc. ;
 - a) Elections and dismissals of Representative Directors and decisions of joint representatives;
 - Approvals of competing business transactions by directors and
 - transactions between directors and the Company;
 - Appointments and dismissals of directors with specific titles;
 - Determinations of orders among the directors and orders relating to directors' acting on behalf of other directors;
 - Amendments to the Regulations of the Board of Directors;
 - Other matters which are deemed necessary regarding directors and statutory auditors;
 - (4) Matters relating to shares;
 - a) Issuances of new shares;
 - d) Capitalizations of legal reserves and issuances of new shares incidental to such capitalizations;
 - e) Stock split and amendment to the Articles of Incorporation according to such stock split;
 - f) Issuances of bonds, stock acquisition rights and bonds with stock acquisition rights;
 - g) Acquisitions, cancellations and dispositions of own shares of the Company;
 - h) Amendments to the Share Handling Regulations;
 - (5) Matters relating to personnel and organizations;
 - a) Appointment and dismissals of Executive Officers
 - b) Appointments and dismissals of important employees;
 - c) Establishments, changes and abolitions of branch offices and other important organizations;
 - d) Amendments to the Work Rules;
 - e) Amendments to the Salary Regulations;
 - f) Establishments and amendments of regulations relating to organizations, divisions of business and authorized powers in respect of business;
 - g) Establishments and amendments to regulations in respect of other matters relating to personnel and organizations;
 - (6) Matters relating to accounting and finance;
 - a) A large amount of borrowings, important contribution, investment, lease, guaranty, establishment of security, and exemption of debts;
 - b) Establishments and amendments of Accounting Rules;
 - (7) Other matters;
 - a) Approvals of matters which are require prior board approval under the Corporation Law;
 - b) Establishments and amendments of important regulations; and
 - c) Other matters which are recognized as necessary for operating the business.
-

(Matters to be Reported)

Article 10. At meetings of the Board of Directors, Representative Directors, Directors or Executive Officers designated by Representative Directors shall report the progress of business execution and other matters which the Board of Directors deems necessary.

2 Any director who has performed a competing business transaction or any business transaction with the Company shall make a report on any important facts concerning such transaction to the Board of Directors without delay.

(Presence by persons other than directors/statutory auditors)

Article 11. The Board of Directors may permit any persons other than directors/statutory auditors attend a meeting, and listen to their opinions as necessary.

(Minutes)

Article 12. The proceedings and the results of all meetings of the Board of Directors shall be stated or recorded in the Minutes, and shall be signed and sealed or affixed electronic signature by the directors and the statutory auditors present at any such meeting, and such minutes shall be reserved.

CHAPTER 4. MISCELLANEOUS

(Amendments and Abolition)

Article 13. These Regulations shall be amended or abolished by resolutions of the Board of Directors.

(English Translation)

**RULES OF EMPLOYEES' SHAREHOLDING ASSOCIATION
OF INTERNET INITIATIVE JAPAN GROUP**

Amended on April 1, 2010

(Name and Nature of the Association)

Article 1. This association shall be called the "Employees' Shareholding Association of Internet Initiative Japan Group (hereinafter called the "Association")".

2 The Association shall be organized as a "kumiai (partnership)" under Article 667, Paragraph 1 of the Civil Code of Japan. Investments in the Association shall consist of contributions under Article 5, Paragraph 2 and 3 (including Article 12), incentives under Article 7, and dividends and interim dividends under Article 11.

(Objectives)

Article 2. The objectives of the Association are to facilitate the acquisition of the Shares of Internet Initiative Japan Inc. (hereinafter called the "Shares") by contributions mentioned in the preceding Article, Paragraph 2 by the employees of Internet Initiative Japan Inc., Net Care, Inc., Net Chart Japan Inc. and hi-ho Inc. (hereinafter called collectively the "Company") and to assist their asset formation.

(Qualification of the Members)

Article 3. The membership shall be limited to the employees of the Company. For those companies that adopts the Executive Officer System, an employee who was appointed Executive Officer, is not qualified as a member during his/her term as Executive Officer.

Article 4. (Enrollment)

Article 5. Employees of the Company desiring to become members may enter the Association by applying to the Chairman between July 1 and July 7 or between January 1 and January 7 of each year, and shall become members from July or January of that year, respectively.

(Contributions)

Article 6. One unit of contribution shall be JPY 1,000.

2 As investments in the Association, the members shall make contributions of a fixed number of units, each month within no more than 10% of their monthly salary, and at the time of the bonuses, a sum of units equal to 3 times the monthly contributions.

3 In the following events, the members may make special contributions, as investments in the Association, in addition to those under the preceding Paragraph:

- (1) In the event the members terminate their membership;
- (2) In the event the members make special contributions in addition to regular contributions;
- (3) Purchase of Shares in a capital increase by the issuance at the market price or by the sale of the shares;
- (4) Subscription of new Shares in a capital increase by the allotment of Shares to the shareholders;
- (5) Subscription of new Shares in a capital increase by the allotment of Shares to the third party.

4 The special contributions under the preceding Paragraph shall, in principle, be limited to the amount necessary to purchase one unit of the Shares per each member who make special contributions. The special contributions under the preceding Paragraph, Items (2) and (3) shall be limited to the amount of JPY 1,000,000 per each member. However, in case of that one unit price of the Share exceeds more than JPY 1,000,000, it is allowed for the members to make a contributions up to the amount necessary to purchase one unit of the Shares.

(Suspension and Change of Contribution)

Article 7. A member who cannot continue contributions for unavoidable reasons can suspend contributions by filing an application with the Chairman and obtaining the approval from him/her.

2 In case the event which causes the suspension has finished, the member may file a it with the Chairman.

3 Any member who desires to change the number of units of contribution shall file an application to request it with the Chairman by 7 each month, and shall make a contribution in the number of units changed from month.

(Incentives)

Article 8. Based on the Agreement between the Association and the Company, the members shall be contributed as investments to the Association.

(1) The amount of the contribution mentioned in Article 5, Paragraph 2 multiplied by the ration mentioned in the subsidiary rules.

(2) The amount of the commission for carrying out office work (including the consumption tax).

2 Notwithstanding the preceding Paragraph, incentives shall not be paid for the special contributions mentioned in Article 5, Paragraph 3 (including Article 12).

(Purchase of Shares)

Article 9. The Association shall purchase the Shares at the securities market at the market price (including entrustment charges and consumption tax), in principle, on the 25th of each month for regular contributions, and two days after the date of the bonuses for special contributions, for the aggregated amount of the contributions mentioned in Article 5, Paragraph 2, and Article 5, Paragraph 3, Item (3) and (4), and the Incentives mentioned in the preceding Article, Paragraph 1, Item (1) (hereinafter called the "Shares Purchase Funds").

2 The part of the Shares Purchase Funds which is less than the purchase price of the unit of the shares (hereinafter called the "Remaining Fund") shall be carried to the time of next payment.

(Entrustment to the Chairman)

Article 10. The members shall entrust the management of the Shares purchased pursuant to the preceding Article and Article 11, the Shares obtained under Article 12, and the Shares incorporated into Shares held by the Association under Article 18, with the Chairman and the Chairman shall accept such entrustment.

(Treatment for the Split of the Shares)

Article 11. In case the numbers of the entrusted Shares (hereinafter called the "Entrusted Shares") under the preceding Article will be increased by the split of the shares, the Shares increased by the split shall automatically belong to the entrusted assets.

(Reinvestment of the Dividends)

Article 12. The members shall contribute dividends for the Entrusted Shares to this Association as investments and shall use such contributions for the purchase of the Shares according to Article 8.

(Payment for the Increase of Capital)

Article 13. In case of the allotment of pre-emptive right to the Entrusted Shares, the Association shall, if the members so desire, receive such allotment according to the ratio of the numbers of Shares recorded on the date of the allotment. The payment for the Shares be as follows:

(1) The member shall make a special contribution to the Association equal to the amount of the payment for the Shares.

(2) The Chairman shall pay for the New Shares by the aggregated amount of the special contributions mentioned in the preceding Item.

(Calculation of Holding Ratio)

Article 14. The Association shall record the numbers of the Entrusted Shares calculated by the following calculation method in the Registry of Shares as the holdings of each member.

(1) For the Shares purchased pursuant to Article 8, the number of the Shares corresponding to the Share Purchase Funds (including carry-over from previous month) of each member.

(2) For the Shares increased pursuant to Article 10, the number of the Shares corresponding to the recorded holding ratio of each member of the standard date.

(3) For the Shares purchased pursuant to Article 11, the number of the Shares corresponding to the amount equivalent to tax-deducted dividends (including remaining cash) which each member grants.

(4) For the Shares obtained pursuant to Article 12, the number of Shares corresponding to the special contributions of each year.

2 The Remaining Fund provided in Article 8, Paragraph 2 shall be recorded at the registry of the Shares as the residual belonging to each member in proportion to the amount of the Share Purchase Fund of each member prior to the purchase of the Shares.

(Assignment and Pledge of Rights)

Article 15. The members shall not assign nor establish any security on the rights of the member's recorded Shares. However, in case the members apply to the designated loan facilities (hereinafter called the "Designated Loan") for the members that the Association make an agreement with financial institutions, with a permission of the Chairman, it is allowed for him/her to assign or establish securities on the rights of his/her recorded Shares.

(Registry of Shares)

Article 16. The Association, in accordance with Article 13, shall keep the Registry of Shares on the Shares and rights of the member's recorded Shares.

(Notice of the Detail of the Balance)

Article 17. The Association shall notify each member of the details of the balance twice every year.

- 2 The member may inquire of his/her balance at any time he deems that it is necessary.

(Withdrawal of Part of Holdings)

Article 18. The member may withdraw a part of his/her holdings by a unit of the Shares. Provided that the member has loan obligations from the Designated Loan in accordance with Article 14, it is not allowed for him/her to withdraw a part of his/her holdings without permission of the Chairman and the creditor of the loan,

- 2 The member shall take necessary action to register the Shares when he withdraws it. Provided in case that the member moves to foreign countries, or makes payment to loan obligation under the preceding Paragraph of this Article, it is allowed for him/her to sell the Shares at the security market at the market price through the Association every month on the date of the purchase of the Shares.

- 3 The numbers of the Shares withdrawn under Paragraph 1 shall be deducted from the number of Shares of the members in the Registry.

(Retirement of Members)

Article 19. The members may terminate their membership at any time by reporting to the Chairman. Provided that, as a general principle, once an employee has terminated his/her membership, except the case that he has rational reasons, such employee shall not be entitled to enroll again as a member.

- 2 If a member is no longer the employee of the Company or if the member was appointed IJ's Executive Officer, his/her membership shall automatically be terminated. However, in case that the employee transfers his/her domicile from an IJ Group company to other IJ Group company, based on the agreement between him/her and both IJ Group companies, he is entitled to keep his/her membership by his/her request.

- 3 Besides the Paragraph (1) and (2) of this Article, provided that the creditor of designated loan makes application to retire the Association on behalf of the member, the Chairman shall approve the application.

(Return of Holding upon Withdrawal from Membership)

Article 20. When a member retires and withdraws from the Association, the Shares corresponding to the recorded holdings on the date of withdrawal (hereinafter called the "Withdrawal Day"). In case that the member has loan obligation on the Withdrawal Day, the member shall be paid the amount which the remaining loan obligation is deducted.

- 2 Besides preceding Paragraph, the member the Remaining Fund mentioned in preceding Paragraph, shall be returned to the member, provided, however, that member may choose one of the following option for the portion less than one unit of the Shares:

- (1) Sell the portion at the market price and receive the amount equal to the market price minus the commission fee (including consumption tax) and share transfer tax.

- (2) Purchase several numbers of Shares by special contribution and receive a unit of the Shares.

- 3 The member shall take necessary action to register the Shares in unit when he retires the Association and withdraws it. Provided that in case of inheritance or moving to foreign countries, it is allowed to sell the Shares in unit at the security market at the market price through the Association.

- 4 The sale of the collected Shares under the Paragraph 2, Item (1) and Paragraph 3 of this Article shall be done at one time on the purchase date every month.

- 5 In case a part of the dividends shall not be paid on the Withdrawal Day, it will be disposed of as follow:
-

- (1) Dividends shall be paid in cash immediately after the Association receives such payment.
- (2) The Shares obtained by Article 8 Paragraph 2 and the Shares increased by Article 10 shall be immediately returned to the members according to Paragraph 1 and Paragraph 2, Item (1) of this Article after the Association receives the New Shares.
- 6 The member who has obtained the allotment of the pre-emptive rights according to Article 12 shall make a special contribution to this Association prior to the date of the special contribution and prior to the withdrawal of this Association. In this case, this Association shall return the share certificates to the member according to Paragraph 1 and Paragraph 2, Item (1) of this Article immediately after the Association receives them.
- 7 A member who withdraws from the Association may not request for the payment of the fractions of Shares accrued by the calculations based on Article 13 on the Withdrawal Day.

(Voting Right of Entrusted Shares)

Article 21. The voting right of the Entrusted Shares shall be exercised by the Chairman, provided, however, that each member may give the Chairman individual instructions for each general meeting of shareholders to exercise the voting rights corresponding to his/her holding ratio of the Shares.

- 2 The Chairman shall announce the contents of the notice of convocation for the general meeting of shareholders.

(Election of Officers)

Article 22. As the officers of the Association, the Association shall have several of directors and auditors.

- 2 The directors and auditors shall be elected from the members as follows:

- (1) The Board of Directors shall recommend the nominees of the directors for the next term at least one month prior to the expiration of the term and the Chairman shall announce such nominees in writing to the members.
 - (2) The members who oppose the nominees under the preceding Item shall notify such objection in writing to the Chairman.
 - (3) If the number of the objections to the preceding Item is less than one half of the members after two weeks of the announcement of the notice by Item (1), the nominees will be deemed to be approved and assume the offices contemporaneously with the expiration of the terms of the current officers.
 - (4) If the number of objections under Item (2) is more than one half of the members, the Board of Directors shall recommend new nominees and shall take the proceedings mentioned in Item (1) to Item (3).
- 3 The terms of office of the officers shall expire at the end of July of the following year of the appointment. Provided, however, that an officer whose term has expired shall continue to perform his/her duty after termination of his/her term until his successor is elected, in case the proceedings in the preceding Paragraph, Item (4) has not been finished or new officers have not been elected for some reasons. The officers may be reelected.

- 4 The Chairman shall be elected by directors.

- 5 The Chairman shall represent the Association and conduct the Association's business. In the event of any accident to the Chairman, the directors shall replace him/her in the pre-determined order.

(Board Meeting)

Article 23. The directors shall constitute the Board of Directors and operate the business of the Association.

- 2 The Chairman shall convene a Board of Directors' Meeting whenever necessary.
- 3 The Board of Directors shall resolve the following matters:
 - (1) Matters the Board of Directors should decide according to these Rules and subsidiary rules.
 - (2) Any other matters that the Chairman deems that are important for the operation of the Association.
- 4 The Board of Directors shall make decisions by a majority of directors present at the meeting.

(Auditors)

Article 24. Auditors shall audit the operation of the directors of the Association.

- 2 Auditors may at any time request the Chairman to prepare a report on the operation of the Association.
 - 3 Auditors shall be allowed to state their opinion at the Board of Directors' Meeting.
-

(Entrustment of the Operation)

Article 25. The Association shall entrust Nomura Securities Co., with the operation of its business.

(Costs)

Article 26. The Association shall pay for its operation costs from the contributions and incentives.

(Report of Business)

Article 27. At the end of March of each year, the Board of Directors shall make a business report relating to the previous year and shall notify it to the members after the approval of the Auditors.

(Location of the Association)

Article 28. The location of the Association shall be at 1-105, Kanda Jinbo-cho, Chiyoda-ku, Tokyo.

(Amendment of these Rules)

Article 29. These Rules shall be amended as follows:

- (1) The Board of Directors shall make a draft of the amendment and notify it to the members in writing.
 - (2) The members who are opposed to the above amendment shall make an objection to the Chairman in writing.
 - (3) The amendment shall be effective, if the objections to the amendment are less than one third of the members after two weeks of the date of public notice which has been made pursuant to Item (1).
 - (4) If the objection to the amendment shall be more than one third of the members, the Board of Directors may change the proposal of the amendment and propose it again.
- 2 The term of office of a company auditor elected to fill a vacancy of his/her predecessor who retired or resigned prior to the expiration of term shall expire at such time as the term of office of his/her predecessor would otherwise expire.

(Details of the Rules)

Article 30. The details of the Rules for the operation of the Association shall be provided in subsidiary rules stipulated by the Board of Directors.

SUPPLEMENT

Article 1

These Rules shall become effective on April 1, 2010.

Article 2

Until the public offering of the Shares, the items herein below shall read as follows:

Article 5, Paragraph 3 – The members may make special contributions in the following events, in addition to those under the preceding Paragraph:

1. Subscription of new shares in a capital increase by the allotment of shares to shareholders;
2. Subscription of shares in a capital increase of capital by allotments to third parties or by purchase of shares at the time of the change of shareholders;
3. Subscription of shares in response to the offering for public subscription.

Article 3

Until the public offering of the Shares, notwithstanding Article 8, Paragraph 1 of the Rules, the Association may purchase the shares at any time. The Board of Directors shall decide the purchase price in this case. Provided, however, that while the purchase price of the shares is regulated by the regulations relating to the public offering, the Board of Directors shall decide the purchase price in accordance with the "Regulations of the Tokyo Stock Exchange in relation to public offerings and public sales prior to the listing of stocks", and the "Regulations of the Japan Securities Association in relation to increases of capital by allotments to third parties and transfers of shares by interested parties before the listing of stocks".

Article 4

Until the public offering of the Shares, notwithstanding Article 17 of the Rules, the members cannot withdraw the Shares from the Association, and the Association shall pay for them in cash at the price mentioned in Article 3 of this Supplement in case it is unavoidable. However, this is not applied to the persons who are to be appointed on behalf of the Directors and Auditors.

Article 5

Until the public offering of the Shares, notwithstanding Article 20 of the Rules, the Association shall pay back in cash to the members who withdraw from the Association the amount calculated by Article 3 of this Supplement in addition to the money mentioned in Article 4 of this Supplement.

Article 6

Notwithstanding Article 22, Paragraph 2 of the Rules, incorporators of the Association shall appoint the first Director and Auditors.

Article 7

Notwithstanding Article 27 of the Rules, the Board of Directors shall make a first business report covering the time between the incorporation of the Association and March 31, 1996.

Articles 8

In case the members withdraw from the Association before the purchase of the Shares or the acquisition of New Shares mentioned in Article 3 of the Supplement, the Association shall return to the members, Contributions, Incentives, Interests, and Allotments for the withdrawal. However, accrued interest from contributions the members paid in shall not be returned.

Article 9

During the time the Association does not purchase the Shares in accordance with Article 3 of the Supplement, the Association shall manage the Share Purchase Fund by Money Market Fund provided by Nomura Securities Co.

(English Translation)

Bylaws of Director Stock Purchase Plan

(The Plan)

Article 1. The "Director Stock Purchase Plan (the "Plan")" provides opportunities for Full-time Directors and Executive Officers of Internet Initiative Japan Inc. ("IJ") and its 100% owned consolidated subsidiaries (the "Group Company") to purchase common shares of IJ (the "Shares") at market value, every month, with a fixed amount of their own money.

(Objective)

Article 2. The objective of the Plan is to facilitate IJ and its Group Company Directors' motivation for further growth in IJ's corporate value in the mid- to long- term span.

(Premise)

Article 3. Directors of IJ and its Group Company are to fully understand and comply with laws and related rules regarding insider trading and etc.

2 Directors of IJ and its Group Company are to fully understand the responsibility for reporting the number of the Shares acquired through the Plan under Article 7, Paragraph 4.

(Qualification of the Members)

Article 4. The membership shall be, in principal, limited to Directors of IJ and its Group Company (the "Member"). The member must be able to constantly contribute funds monthly deducted from their monthly compensation for the purchase of the Shares.

2 After resigning as Director of IJ and its Group Company, if he or she continues to work as advisor, part-time worker or any other position for IJ and the Company, he or she is qualified as the Member of the Plan. However, he or she must be able to make monthly contributions continuously.

(Enrollment)

Article 5. The Plan will become effective in November 2007 (after the announcement of the FY2007 interim period financial results) and the Member starts their first contributions from December 2007, at the timing where the Member does not hold any insider information.

2 Directors of IJ and the Company are allowed to become the Members of the Plan, suspend its membership, change its contribution or sell its Shares acquired through the Plan, in principal, once every year in May (after the announcement of the full fiscal year financial results) at the timing where the Member does not hold any insider information.

(Contributions)

Article 6. Monthly contribution for each Member shall be set at JPY 30,000, JPY 50,000, JPY 100,000 or JPY 200,000 or more, but under JPY 1,000,000.

2 Frequent suspension or change of contributions in the short term, in principal, is not allowed.

(Purchase of Shares)

Article 7. The purchase of Shares under the Plan is entrusted to Nomura Securities Co., Ltd. (the "Nomura Securities").

2 Nomura Securities shall open a joint account (the "Account") for the Plan, and shall purchase the Shares at market price on the second business day of each month with the aggregated amount of monthly contributions provided by the Member in the previous month (the "Funds") under its name. If the part of the Funds is less than the purchase price of the unit of the shares, Nomura Securities will contribute necessary amount for purchasing.

3 Nomura Securities shall hold the voting right of the Shares in the Account. The newly acquired shares by stock split or dividends entitled to the Shares in the Account will be distributed to the Members according to their ownership ratio of the Shares in the Account. Dividends for the Shares in the Account will be automatically contributed to the Funds for reinvestment.

4 If the aggregated amount of shares purchased for each Member, exceeds more than a unit, those shares in units will be allocated to the each Member's private account from the Account.

(Assignment, Pledge and Mortgage of Rights)

Article 8. The Shares and its rights related to the Shares in the Account under the Plan may not be assigned nor established nor mortgaged.

(Procedures)

Article 9. The administrative work regarding the Plan will be conducted by the Financial Division of IJ.

(Others)

Article 10. The member must open a private account for the Plan at Nomura Securities exclusively.

2 The member must pay yearly fees, administrative fee for the Account and their private account fee for the Plan, by themselves, which cost them JPY 1,500 (as of September 2007) respectively.

Internet Initiative Japan Inc., Financial Division
Executed on September 6th, 2007
Amended on April 1, 2010

(English Translation)

Agreement on Limited Liability

Internet Initiative Japan, Inc. ("IIJ") and [name of outside director / outside statutory auditor], an outside director of IIJ, (the "Director") / an outside statutory auditor of IIJ, (the "Auditor") agree as follows in respect of limited liability for damages stipulated in Article 423 paragraph 1 of the Corporation Law of Japan of the Director/the Auditor to the company pursuant to the provision of Article 427 paragraph 1 of the Corporation Law of Japan.

Article 1. (Maximum Amount of Limited Liability)

If, after the execution hereof, the Director/the Auditor conducts any of the acts stipulated in Article 423 paragraph 1 of the Corporation Law of Japan as an outside director/an outside statutory auditor of IIJ and causes IIJ to sustain any damages as a result of such act, the Director/the Auditor shall, save for acts conducted by himself/herself with any willful misconduct or gross negligence, bear the limited liability for such damages amounting to 10 million yen or the aggregate of the amounts set forth in Article 425 paragraph 1 of the Corporation Law of Japan, whichever is higher.

Article 2. (Expiration of Agreement on Limited Liability)

This Agreement shall expire at any time in the future if the Director /the Auditor becomes a director, an executive officer, or an employee entitled to execute the business of IIJ or a subsidiary thereof.

Article 3. (In case of Reelection)

This Agreement shall apply to the acts which the Director/the Auditor conducts until he/she retires from the position of director of IIJ; provided, however, if upon expiration of the term of office as a director/a statutory auditor, the Director/the Auditor is reelected as a director of IIJ and assumes the position, this Agreement shall remain effective with respect to the acts conducted by such director/auditor after the reelection. The same shall apply thereafter.

Article 4. (Deposit of Certificate of Stock Acquisition Rights)

If in case the Director/the Auditor possesses the certificate of stock acquisition right issued concerning the rights set forth in Article 288 paragraph 1 of the Corporation Law of Japan (including the certificate of stock acquisition rights issued concerning the rights set forth in Article 280-19 paragraph 1 of the Commercial Code of Japan which is granted pursuant to the resolution set forth in Article 280-21 paragraph 1 of the Commercial Code of Japan) IIJ notifies the Director/the Auditor that the Director/the Auditor has caused IIJ to sustain damages by conducting the acts set forth in Article 423 paragraph 1 of the Corporation Law of Japan, the Director/the Auditor shall promptly deliver the certificate of stock acquisition rights to the care and custody of IIJ.

Article 5. (Disclosure of Agreement on Limited Liability)

IIJ may disclose the existence and contents of this Agreement to a third party if such disclosure is required by provisions of applicable laws or regulations.

Article 6. (Jurisdiction by Agreement)

Any incident or dispute arising out of or in relation to this Agreement shall be subject to the exclusive jurisdiction of the Tokyo District Court as the court of first instance.

IN WITNESS WHEREOF, this Agreement is executed in duplicate, and with their seals and signatures affixed, each party retains one original, respectively.

June 28, 2010

IIJ: Internet Initiative Japan, Inc.
1-105, Kanda Jinbo-cho, Chiyoda-ku, Tokyo, Japan

Koichi Suzuki
Representative Director

Director: [name of outside director/auditor]

STRICTLY CONFIDENTIAL

EXECUTION COPY

STOCK PURCHASE AGREEMENT

Between

AT&T Japan LLC

and

Internet Initiative Japan Inc.

June 1, 2010

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (the "**Agreement**") is entered into on June 1, 2010 by and between AT&T Japan LLC, a limited liability company organized under the laws of the State of Delaware, the United States of America ("**Seller**") and Internet Initiative Japan Inc., a corporation organized under the laws of Japan ("**Buyer**").

WHEREAS:

- A) Seller is engaged in the Business either directly or through the Subsidiary and AT&T Japan Ltd.
- B) After the date of this Agreement but before the Closing Date, Seller will, and will cause the Subsidiary and AT&T Japan Ltd. to, effect the Business Split Transactions so that Newco will acquire the Transferred Business on the terms and subject to the conditions set forth in this Agreement.
- C) Newco and IBM will contemporaneously with the execution of this Agreement enter into an agreement in connection with the assumption by Newco of the rights, obligations and status of Seller under the IBM Master Services Agreement to the extent applicable to the Transferred Business.
- D) AT&T Corp., Newco and Buyer will contemporaneously with the execution of this Agreement enter into the Intellectual Property Agreement.
- E) The parties hereto desire that at the Closing, Seller shall sell the Newco Shares to Buyer, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

The parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

1.1 Definitions

For the purposes of this Agreement, the following terms and variations on them will have the meanings set forth below:

"**Affiliate**" means, with respect to a specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the specified Person. For purposes of this definition, the term "control" (including the terms "controlling," "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Alternate Site**" means the alternate site used by Buyer where the lessor does not consent to a sub-lease of the Transferred Sites, in accordance with the Transition Services Agreement (Seller to Newco) and the Transition Services Agreement (Newco to Seller).

"**Ancillary Agreements**" means:

- (i) the AT&T Global Master Carrier Agreement;
- (ii) the Transition Services Agreement (Seller to Newco);
- (iii) the Domestic Services Agreement;
- (iv) the Transition Services Agreement (Newco to Seller);
- (v) the Intellectual Property Agreement;
- (vi) the Split Agreement;
- (vii) the LLC Business Transfer Agreement;
- (viii) the LTD Business Transfer Agreement; and
- (vi) the Guaranty.

"**AT&T Corp.**" means AT&T Corp., a corporation organized under the laws of the State of New York, the United States of America.

"**AT&T Global Master Carrier Agreement**" means the service agreement to be executed between AT&T Corp. and Newco for the provision by AT&T Corp. (or its Affiliates, as applicable) to Newco of certain services to support customers of Newco (or its Affiliates, as applicable) after the Closing, substantially in the form attached as [Exhibit 1.1\(a\)](#).

"**AT&T Japan Ltd.**" means AT&T Japan Ltd., a corporation organized under the laws of Japan.

“**Business**” means the Retained Business and the Transferred Business.

“**Business Day**” means any day other than Saturday, Sunday or any day on which banking institutions in Tokyo and New York are closed either under applicable Law or action of any Governmental Body.

“**Business Split Transactions**” means the Corporate Split, the Business Transfer and the Contribution in Kind.

“**Business Transfer**” means (i) the transfer of the assets, contracts and liabilities described in, and in accordance with, the Business Transfer Agreements and (ii) the transfer of Target Employees pursuant to Article 8.

“**Business Transfer Agreements**” means the LLC Business Transfer Agreement and the LTD Business Transfer Agreement.

“**Closing Date**” means the date on which the Closing actually takes place, as contemplated in Section 4.1.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**commercially reasonable efforts**” means the efforts a prudent Person desirous of achieving a result would use in similar circumstances to achieve the result within a time frame so as not to result in a delay of the Closing beyond the intended Closing Date, as set forth in Section 4.1 (to the extent intended to be achieved by Closing) or expeditiously (to the extent a specific time frame is not otherwise specified or evident from the context); provided however commercially reasonable efforts shall not require a Person to undertake extraordinary or unreasonable measures, including the payment of any amounts or making of any concessions to any third party other than normal and usual fees under business practices in Japan, if any, or to take actions that would result in more than a minimal decrease in the benefits to such Person contemplated under this Agreement.

“**Consent**” means any approval, consent, ratification, waiver or other authorization.

“**Contribution in Kind**” means the issuance of the new shares of Newco for which the contribution is made in kind in connection with the Business Transfer from Seller to Newco.

“**Corporate Split**” means the absorption type corporate split (*kyushu bunkatsu*) described in the Split Agreement.

“**Domestic Customer**” means any customer, including but not limited to any Person who is a potential customer, whose headquarters is located in Japan and all of whose office locations and all telecommunications needs are located in Japan.

“**Domestic Services Agreement**” means the service agreement to be executed between Newco and the Subsidiary for the provision by Newco to the Subsidiary (or its Affiliates, as applicable) of certain services to support customers of the Subsidiary or its Affiliates (as applicable) after the Closing, substantially in the form attached as [Exhibit L.1\(b\)](#).

“**Encumbrance**” means any charge, claim, mortgage, servitude, easement, right of way, covenant, equitable interest, license, lease or other possessory interest, option, pledge, security interest, preference, priority, right of first refusal or similar restriction or other lien.

“**Environmental Law**” means any Law concerning (a) the treatment, disposal, emission, discharge, Release or threatened Release of Hazardous Material or (b) the protection of the environment (including natural resources, air and surface or subsurface land or waters).

“**GAAP**” means generally accepted accounting principles for financial reporting in the United States of America.

“**Governmental Authorization**” means any Consent, license, permit or registration issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Law.

“**Governmental Body**” means any (a) nation, region, state, county, prefecture, city, town, village, district or other jurisdiction, (b) federal, state, national, local, municipal, foreign or other government, (c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department or other entity and any court or other tribunal), (d) multinational organization exercising judicial, legislative or regulatory power, (e) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, policy, regulatory or taxing authority or power of any nature or (f) official of any of the foregoing.

“**GS Services**” means the global managed network services and other value-added services provided by AT&T Corp. or any of its Affiliates (including Seller and the Subsidiary) to its customers under the brand name of “AT&T”, including IP-VPN, internet access, managed hosting and high-security remote access provided by AT&T Corp. or any of its Affiliates (including Seller and the Subsidiary), to the extent such services are provided by Seller and the Subsidiary to the Retained Customers as of the Closing Date.

“**Guaranty**” means the guaranty agreement, substantially in the form attached as Exhibit 1.1(c), to be executed by AT&T Corp. under which AT&T Corp. guarantees in favor of Buyer the performance by Seller of any and all of its obligations under this Agreement.

“**Hazardous Material**” means any waste or other substance that is listed, defined, designated or classified as hazardous, radioactive or toxic or a pollutant or a contaminant under any Environmental Law, including any admixture or solution thereof, and including petroleum and all derivatives thereof or synthetic substitutes therefor, asbestos or asbestos-containing materials in any form or condition and polychlorinated biphenyls.

“**IBM**” means International Business Machines Corporation.

“**IBM End-User Contracts**” means those contracts between Seller and IBM in relation to the IBM End-Users Requiring Consents.

“**IBM Master Services Agreement**” means the certain Amended and Restated Master Services Agreement dated January 1, 2005 executed between AT&T Corp. and IBM, as amended.

“**Intellectual Property**” means all of the following anywhere in the world and all legal rights, title or interest in the following arising under Law: (a) all patents and applications for patents and all related reissues, reexaminations, divisions, disclosures, renewals, extensions, provisionals, continuations and continuations in part; (b) all copyrights, copyright registrations and copyright applications, copyrightable works and all other corresponding rights; (c) all mask works, mask work registrations and mask work applications and all other corresponding rights; (d) all trade dress and trade names, logos, internet addresses and domain names, trademarks and service marks and related registrations and applications, including any intent to use applications, supplemental registrations and any renewals or extensions, all other indicia of commercial source or origin and all goodwill associated with any of the foregoing; (e) all inventions (whether patentable or unpatentable and whether or not reduced to practice), know how, technology, technical data, trade secrets, confidential business information, manufacturing and production processes and techniques, research and development information, financial, marketing and business data, pricing and cost information, business and marketing plans, advertising and promotional materials, customer, distributor, reseller and supplier lists and information, correspondence, records, and other documentation, and other proprietary information of every kind; (f) all computer software (including source and object code), firmware, development tools, algorithms, files, records, technical drawings and related documentation, data and manuals; (g) all databases and data collections; and (h) all other intellectual property rights.

“**Intellectual Property Agreement**” means the intellectual property agreement dated June 1, 2010 executed between AT&T Corp., Newco and Buyer in relation to the use of certain Intellectual Property by Newco and Buyer.

“**JNOS Services**” means the design, acquisition, installation, operation and management of multi-carrier based networks within Japan, including network services and value-added services,

and excluding only such services that are provided in relation to networks that connect to the global network used for the GS Services, for third-party customers that utilize third party circuits, equipment and software applications from other suppliers, as such services are provided to the Transferred Customers by Seller and the Subsidiary as of the Closing Date.

“**Judgment**” means any order, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Body or arbitrator.

“**KDDI**” means KDDI Corporation.

“**Knowledge**” means, with respect to Seller, the actual knowledge of the persons listed in Schedule 1.1(a). Seller shall be deemed to have actual knowledge of a matter if any of the relevant persons listed in the Schedule actually knows of such matter.

“**Law**” means any constitution, law, statute, treaty, rule, regulation, ordinance, binding case law or principle of common law, notice, approval or Judgment of any Governmental Body (including, without limitation, the rules of NASDAQ Stock Market and the Tokyo Stock Exchange).

“**Liabilities**” includes liabilities or obligations of any nature, whether known or unknown, whether absolute, accrued, contingent, choate, inchoate or otherwise, whether due or to become due, and whether or not required to be reflected on a balance sheet prepared in accordance with GAAP.

“**LLC Business Transfer Agreement**” means the agreement to be executed between Seller and Newco in connection with the Business Transfer, incorporating substantially all of the terms and provisions of the LLC Terms of Business Transfer.

“**LLC Terms of Business Transfer**” means the terms and conditions set out in Exhibit 1.1(d).

“**Loss**” means Liability, loss, damage (including incidental and consequential damages), claim, cost, deficiency, diminution of value, or expense (including costs of investigation and defense, penalties and reasonable legal fees and costs), whether or not involving a third-party claim.

“**LTD Business Transfer Agreement**” means the agreement to be executed between AT&T Japan Ltd. and Newco in connection with the Business Transfer, incorporating substantially all of the terms and provisions of the LTD Terms of Business Transfer.

“**LTD Terms of Business Transfer**” means the terms and conditions set out in Exhibit 1.1(e).

“**Material Adverse Effect**” means any change in, or effect on, the Transferred Business as currently conducted by Seller and the Subsidiary, that is or is reasonably likely to be materially adverse to the results of operations, assets, liabilities or financial condition of the Transferred Business but shall not include the effects of changes that (i) are generally applicable in the network outsourcing industry or the U.S. or Japanese economy or changes arising from or relating to the fact that Buyer will be the acquirer of the Transferred Business or the announcement of the transactions with Buyer contemplated herein or (ii) arise from the execution of this Agreement or the consummation of the transactions contemplated by this Agreement.

“**Newco**” means Communications Services KK, a joint-stock corporation (*kabushiki kaisha*).

“**New IBM Agreement**” means the Solutions Engagement Agreement dated June 1, 2010 executed between IBM Japan Ltd. and Newco.

“**NTT**” means Nippon Telegraph and Telephone Corporation.

“**Overhead Services**” means corporate services provided to or in support of the Transferred Business that are general corporate or other overhead services including legal and risk management services, treasury services, public relations, enterprise-level licenses of software, real estate, energy/utilities services, procurement and supply arrangements, accounting services, tax services, financial and accounting services, internal audit services, human resources, billing, e-mail services, website services, employee relations management services, employee benefits services, property management services, environmental support services and customs and excise services, in each case including services relating to the provision of access to information, operating and reporting systems and databases. Overhead Services shall not include any item in the previous sentence that is (a) exclusive to the Transferred Business, rather than shared with any other line of business or the general corporate operations of Seller, or (b) provided solely by or using Transferred Employees and Transferred Assets.

“**Person**” refers to an individual or an entity, including a corporation, share company, limited liability company, partnership, trust, association, Governmental Body or any other body with legal personality separate from its equity holders or members.

“**Post-Closing Acquired Business**” means an operating business acquired by Seller or one or more of its Affiliates (whether in the form of a purchase of assets, merger or other combination), after the Closing the primary purpose of which acquisition is not to circumvent the obligations of Section 15.1.

“**Post-Closing Exempt Company**” means any Person who becomes an Affiliate of Seller after the Closing due to a transaction or series of transactions that involves Seller or ultimate controlling ownership of Seller being acquired by a third party, the primary purpose of which transaction is not to circumvent the obligations of Section 15.1.

“**Post-Closing Period**” means any taxable period or portion of a period that begins on or after the Closing Date.

“**Pre-Closing Period**” means any taxable period or portion of a period that begins before the Closing Date and ends before the Closing Date.

“**Proceeding**” means any action, arbitration, audit, examination, investigation, hearing, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, and whether public or private) commenced, brought, conducted, or heard by or before, or otherwise involving, a court or any other Governmental Body or arbitrator.

“**Release**” means the release, spill, emission, leaking, pumping, pouring, emptying, escaping, dumping, injection, deposit, disposal, discharge, dispersal, leaching or migrating of any Hazardous Material into the environment.

“**Representative**” means, with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, legal counsel, accountant or other representative of that Person.

“**Retained Business**” means all of the Business carried on by Seller either directly or through the Subsidiary or AT&T Japan Ltd. as of the date of this Agreement other than the Transferred Business.

“**Retained Business End-Users**” means the end-users who are listed in [Schedule 1.1\(b\)](#).

“**Retained Business Partner**” means a Shared Business Partner listed in [Schedule 1.1\(d\)](#) under the heading of “Retained Business Partners”.

“**Retained Contract**” means any contract, agreement, commitment, purchase order, understanding, lease, license, franchise, warranty, guaranty, mortgage, note, bond or other instrument or consensual obligation (whether written or oral and whether express or implied) that is legally binding, entered into by Seller, the Subsidiary or AT&T Japan Ltd. other than Transferred Contracts.

“**Retained Customers**” means the customers listed in [Schedule 1.1\(c\)](#) and the Retained Business End-Users.

“**Seller Business Solicitation**” means a solicitation, participation in a public tender or attempt by Seller or any Affiliate of Seller to induce a Domestic Customer to select Seller or any of its Affiliates to provide JNOS Services to such Domestic Customer; provided however that general solicitations or advertising not specifically targeted at a Domestic Customer shall not be considered a Seller Business Solicitation.

“**Seller Disclosure Schedule**” means the disclosure schedule attached to this Agreement or otherwise delivered by Seller to Buyer concurrently with the execution and delivery of this Agreement.

“**Seller Pension Plans**” means the qualified pension (*tekikaku nenkin*) and retirement allowance (*taishokukin*) plans maintained by Seller and AT&T Japan Ltd. respectively as of the date of this Agreement.

“**Shared Business Partner**” means each of the business partners listed in [Schedule 1.1\(d\)](#).

“**Shared Business Partner Contract**” means a contract between the Subsidiary and a Shared Business Partner.

“**Shared Global Services Customer**” means each of the global services customers listed in [Schedule 1.1\(e\)](#).

“**Shared Global Services Customer Contract**” means a contract between Seller or the Subsidiary and a Shared Global Services Customer.

“**Softbank**” means Softbank Mobile Corp.

“**Split Agreement**” means the split agreement to be entered into between Seller and Newco in connection with the Corporate Split, in the form attached as [Exhibit 1.1\(f\)](#).

“**Subsidiary**” means AT&T Japan KK.

“**Target Employees**” means those employees of Seller and AT&T Japan Ltd. who are listed in [Schedule 8](#).

“**Tax**” means any national, prefectural, municipal or foreign income, license, payroll, employment, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social insurance (or similar), unemployment, disability, real property, personal property, value added, alternative or add-on minimum, estimated or other tax of any kind whatsoever, including any interest, penalty or addition thereto. For the avoidance of doubt, “Tax” shall not include the Transfer Taxes as described in Section 14.6.

“**Tax Attributes**” means any net operating loss, net capital loss, investment tax credit, foreign tax credit, charitable deduction or any other credit or tax attribute that could be carried forward or back to reduce Taxes (including deductions and credits relating to alternative minimum Taxes) and any additional items described in Section 381 of the Code without reference to the conditions and limitations described therein.

“**Tax Contest**” means an audit, claim, dispute or controversy relating to Taxes.

“**Tax Return**” means any report, return, declaration, claim for refund, or information return or statement related to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Transferred Assets**” means those certain assets described in the Split Agreement and the Business Transfer Agreements.

“**Transferred Business**” means the business which is carried on by Seller either directly or through the Subsidiary or AT&T Japan Ltd. as of the date of this Agreement using the Transferred Assets and the Transferred Liabilities.

“**Transferred Business End-Users**” means the end-users who are listed in [Schedule 1.1\(f\)](#).

“**Transferred Business Partner**” means a Shared Business Partner listed in [Schedule 1.1\(d\)](#) under the heading of “Transferred Business Partners”.

“**Transferred Contract**” means any contract, agreement, commitment, purchase order, understanding, lease, license, franchise, warranty, guaranty, mortgage, note, bond or other instrument or consensual obligation (in each case, whether written or oral and whether express or implied) that is legally binding, to the extent that it relates to the Transferred Business, and is to be transferred to Newco from Seller, the Subsidiary or AT&T Japan Ltd., pursuant to the Business Split Transactions in accordance with the Split Agreement and the Business Transfer Agreements.

“**Transferred Customers**” means the customers that are a party to the customer contracts listed in Annex 2(a) of the Split Agreement, the end-users listed in Annex 2(b) of the Split Agreement, the Transferred Business End-Users and the IBM end-users listed in Annex 2(c) of the LLC Terms of Business Transfer.

“**Transferred Employees**” means those Target Employees who have accepted the Employment Offers and executed the Resignation Letters in accordance with Article 8 of this Agreement.

“**Transferred Liabilities**” means those certain liabilities described in the Split Agreement and the Business Transfer Agreements.

“**Transition Bonus Payment**” means payments by Seller of the Transition Bonus to the Transition Bonus Eligible Employees in accordance with Section 8.3.

“**Transition Services Agreement (Newco to Seller)**” means the transition services agreement to be executed between Newco and Seller for provision by Newco to Seller (or its Affiliates, as applicable) of certain services, substantially in the form attached as [Exhibit 1.1\(g\)](#).

“**Transition Services Agreement (Seller to Newco)**” means the transition services agreement to be executed between Seller and Newco for provision by Seller (or its Affiliates, as applicable) to Newco of certain services, substantially in the form attached as [Exhibit 1.1\(h\)](#).

1.2 Other Defined Terms

For purposes of this Agreement, the following capitalized terms have the meanings given to them respectively below:

<u>Term</u>	<u>Reference</u>
5.7(c) Deductible	Section 13.2(a)(iii)
Agency Arrangement	Section 7.15(c)
Buyer	Preamble
Buyer Indemnitees	Section 13.2
Buyer Pension Plan	Section 8.4(c)
Buyer's Intended Tax Treatment	Section 14.7(b)
Carrier	Section 7.14(a)
Claim Notice	Section 13.4(a)
Closing	Section 4.1
Commitment Letters	Section 6.5
Consent Plan	Section 7.5(c)
Data	Section 7.18
December 2009 Balance Sheet	Section 5.6(a)
December 2009 Financial Statements	Section 5.6(a)
Deductible	Section 13.5(a)(ii)
Employment Offer	Section 8.1(a)
E-net Shares	Section 5.5
IBM End-Users Requiring Consents	Section 7.17(a)
Identified Contracts	Section 7.5(a)
Indemnified Party	Section 13.4(a)
Indemnifying Party	Section 13.4(a)
Information	Section 7.7(a)
LLC Interim Balance Sheet	Section 5.6(b)
LTD Interim Balance Sheet	Section 5.6(c)
Material Transferred Contracts	Section 5.15(a)
New Customer Contract	Section 7.11
Newco Shares	Section 5.4(a)
Products	Section 5.20
Provider	Section 7.7(a)
Purchase Price	Section 3.1(a)
Receiver	Section 7.7(a)
Representatives	Section 7.7(a)
Reserved Reinstatement Account	Section 7.13(a)
Resignation Letter	Section 8.1(b)(vi)
Restricted Period	Section 15.1
Seller	Preamble
Seller Indemnitees	Section 13.3
Seller's Intended Tax Treatment	Section 14.7(a)
Shared Business Partner Assumption Agreement	Section 7.15(a)
Shared Global Services Separation Agreement	Section 7.16(a)
Third Party Claim	Section 13.4(b)
Transfer Taxes	Section 14.6
Transferred Sites	Section 5.11(a)
Transition Bonus	Section 8.3
Transition Bonus Account	Section 8.3
Transition Bonus Eligible Employee	Section 8.3
Transition Bonus Funds	Section 8.3

1.3 Construction

- (a) Any reference in this Agreement to an “Article,” “Section” or “Schedule” refers to the corresponding Article, Section or Schedule of or to this Agreement, unless the context indicates otherwise.
- (b) The headings of Articles and Sections are provided for convenience only and should not affect the construction or interpretation of this Agreement.
- (c) All words used in this Agreement should be construed to be of such gender or number as the circumstances require.
- (d) The terms “include” and “including” indicate examples of a foregoing general statement and not a limitation on that general statement.

2. **SALE AND PURCHASE OF SHARES**

2.1 Sale and Purchase of Shares

In accordance with the provisions of this Agreement, at the Closing, Seller will sell, transfer and deliver to Buyer, and Buyer will purchase and acquire from Seller, all of the Newco Shares.

3. **PURCHASE PRICE AND PAYMENT**

3.1 Purchase Price and Payment

- (a) The purchase price for the Newco Shares (the “**Purchase Price**”) is ¥9,170,000,000.
- (b) Subject to the terms and conditions of this Agreement, Buyer will pay the Purchase Price to Seller in immediately available funds at the Closing by wire transfer to Seller’s bank account designated in accordance with Section 4.2(b)(iii).

4. **CLOSING**

4.1 Closing

Subject to Article 11, the consummation of the sale and transfer of the Newco Shares by Seller to Buyer (the “**Closing**”) will take place at the offices of Baker & McKenzie GJB Tokyo Aoyama Aoki Law Office (Gaikokuho Joint Enterprise) (a) at 10:00 a.m. on the first day of the month after the lapse of at least three (3) Business Days following the date on which the last of the conditions set out in Article 9, Article 10 and Article 11 has been satisfied or waived (other than those conditions that by their nature can only be satisfied at the Closing and the conditions set forth in Section 9.1 and Section 11.5 which are intended to be satisfied or waived at or immediately prior to the Closing), provided however that if the first day of the month does not fall on a Business Day, the Closing shall take place on the next Business Day, or (b) such other time and place Seller and Buyer may agree in writing. Seller and Buyer acknowledge that the intent of both parties is to have the Closing take place on the first day of September 2010 (it being understood, however, that (a) neither party shall be required to waive any of its conditions in Articles 9, 10 or 11 in order for the Closing to occur on such date and (b) Closing will not occur before September 1, 2010).

4.2 Closing Deliveries

At the Closing:

- (a) Seller will deliver, or will cause to be delivered, to Buyer:
 - (i) the various certificates, instruments and documents referred to in Article 10;
 - (ii) the Ancillary Agreements, except for the Intellectual Property Agreement, duly executed by Seller, Newco, AT&T Japan Ltd. or AT&T Corp., as applicable;
 - (iii) all required documents to cause Newco to record Buyer as a new shareholder of all the Newco Shares in its shareholder record;
 - (iv) letters of resignation effective as of the date of Closing from all directors and officers of Newco as requested by Buyer giving Seller notice no later than three (3) Business Days prior to the Closing;
 - (v) a true, correct and complete copy of the minutes of the shareholders’ meeting of Newco approving transfer of the Newco Shares from Seller to Buyer pursuant to this Agreement;
 - (vi) a true, correct and complete copy of the resolutions of Seller approving and authorizing the execution, delivery and performance of this Agreement and the contemplated transactions;
 - (vii) commercial register (*rireki jiko zenbu shomeisho*), corporate seal of Newco (including the corporate seal registered at the competent legal affairs bureau), and the card regarding the corporate seal for Newco to be registered at the competent legal affairs bureau (*inkan* card);
 - (viii) Certificate of Formation of Seller;
 - (ix) a certificate issued by a duly authorized officer of Seller, certifying that the documents in sub-sections (v) and (vi) of this Section 4.2(a) delivered to Buyer are in full force and effect or otherwise true and accurate as of the Closing Date, and are not modified or amended in any way;
 - (x) a copy of the receipt issued by the Legal Affairs Bureau acknowledging receipt of all applications required to be filed with the Legal Affairs Bureau for registration of the changes to the commercial register of Newco due to the Corporate Split and the Contribution in Kind;
 - (xi) a legal opinion from legal counsel to Seller opining that all the approvals required to duly and validly complete the Corporate Split, Business Transfer (including the procedure of *Jigo-Setsuritsu*) and the Contribution in Kind under the Companies Act in Japan have been duly obtained and all such approvals are valid, and all the procedures required for Corporate Split, Business Transfer and the Contribution in Kind under the Companies Act of Japan have been duly and validly completed in accordance with the Companies Act of Japan; and
 - (xii) such other documents as Seller and Buyer may mutually agree in writing.

- (b) Buyer will deliver to Seller:
- (i) the various certificates, instruments and documents referred to in Article 11;
 - (ii) the Ancillary Agreements, except for the Intellectual Property Agreement, duly executed by Buyer;
 - (iii) the Purchase Price by wire transfer of immediately available funds, to the bank account to be designated by Seller, which designation of bank account shall be made no later than three (3) Business Days prior to the Closing;
 - (iv) a true, correct and complete copy of the resolutions of Buyer approving and authorizing the execution, delivery and performance of this Agreement and the purchase of the Newco Shares;
 - (v) commercial register (*rireki jiko zenbu shomeisho*) of Buyer;
 - (vi) a certificate issued by a duly authorized officer of Buyer, certifying that the document in sub-section (v) of this Section 4.2(b) delivered to Seller is in full force and effect or otherwise true and accurate as of the Closing Date, and is not modified or amended in any way; and
 - (vii) such other documents as Seller may reasonably require.

5. **REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller represents and warrants to Buyer, as of the date of this Agreement and as of the Closing Date (or, if the representation and warranty speaks as of a specified date, as of such date), except as set forth in the Seller Disclosure Schedule, as follows:

5.1 Corporate Organization; Status

- (a) Seller, the Subsidiary and AT&T Japan Ltd. are a limited liability corporation or corporation respectively, and each is duly organized, validly existing and in good standing under the Laws of its place of incorporation or formation, with full power and authority to own and use its assets (to the extent it relates to the Transferred Business) and to conduct the Transferred Business as presently conducted.
- (b) Seller, the Subsidiary and AT&T Japan Ltd. are duly qualified to do business in Japan where the nature of the Transferred Business activities requires such qualification.
- (c) Newco is a joint-stock corporation (*kabushiki kaisha*) duly organized, validly existing and in good standing under the Laws of Japan, with full corporate power and authority to own and use its assets and to conduct the Transferred Business.
- (d) Newco is duly qualified to do business in Japan where the nature of its activities requires such qualification.
- (e) As of the Closing Date, Seller has delivered to Buyer true, accurate and complete copies of (i) the articles of incorporation, bylaws or other internal rules and regulations with respect to the board of directors (if any), handling of shares, segregation of duties, internal audit, handling of personal information and other material matters of Newco and (ii) the minute books of Newco which contain records of all meetings, and other corporate actions taken by, its stockholders, Board of Directors (if any) and any committees appointed by its Board of Directors.
- (f) Seller has delivered to Buyer, a copy of the commercial registers (*rireki jiko zenbu shomeisho*) of the Subsidiary, AT&T Japan Ltd. and Newco, each certified by the Legal Affairs Bureau.
- (g) All directors, statutory auditors and the representative director appearing on the relevant certificate of all matters recorded of Newco certified by the relevant Legal Affairs Bureau have been duly elected in accordance with applicable Laws.
- (h) As of the Closing, all approvals required to duly and validly complete the Corporate Split, Business Transfer (including the procedure of *Jigo-Setsuritsu*) and the Contribution in Kind under the Companies Act of Japan have been duly obtained and all such approvals are valid, and all the procedures required for the Corporate Split, Business Transfer and the Contribution in Kind under the Companies Act of Japan have been duly and validly completed in accordance with the Companies Act of Japan.

5.2 Due Authorization

- (a) Seller has all requisite limited liability company power and authority to execute and deliver this Agreement and the Ancillary Agreements and to perform its obligations under this Agreement and the Ancillary Agreements. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements by Seller have been or will have been at Closing duly authorized by all necessary action on the part of Seller. Assuming the due authorization, execution and delivery of this Agreement and the Ancillary Agreements by Buyer, this Agreement and the Ancillary Agreements constitute the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to (i) Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (ii) Laws governing specific performance, injunctive relief and other equitable remedies.
- (b) AT&T Japan Ltd. has all requisite company power and authority to execute and deliver the LTD Business Transfer Agreement and to perform its obligations under the LTD Business Transfer Agreement. The execution, delivery and performance of the LTD Business Transfer Agreement and the consummation of the transactions contemplated by the LTD Business Transfer Agreement by AT&T Japan Ltd. have been or will have been at Closing duly authorized by all necessary action on the part of AT&T Japan Ltd. The LTD Business Transfer Agreement constitutes the valid and binding obligation of AT&T Japan Ltd., enforceable against AT&T Japan Ltd. in accordance with its terms, subject to (i) Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (ii) Laws governing specific performance, injunctive relief and other equitable remedies.
- (c) AT&T Corp. has all requisite company power and authority to execute and deliver the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement, and to perform its obligations under the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement. The execution, delivery and performance of the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement, and the consummation of the transactions contemplated by the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement by AT&T Corp. have been or will have been at Closing duly authorized by all necessary action on the part of AT&T Corp. Assuming the due authorization, execution and delivery of the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement by Buyer, the Intellectual Property Agreement, the Guaranty and the AT&T Global Master Carrier Agreement constitute the valid and binding obligations of AT&T Corp., enforceable against AT&T Corp. in accordance with their terms, subject to (i) Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (ii) Laws governing specific performance, injunctive relief and other equitable remedies.

5.3 No Conflict

Except as set forth in Section 5.3 of the Seller Disclosure Schedule, and except in any case that would not have a Material Adverse Effect, neither the execution, delivery and performance of this Agreement or the Ancillary Agreements by Seller or AT&T Corp., as applicable, nor the consummation by Seller, the Subsidiary, AT&T Japan Ltd. or AT&T Corp. of the transactions contemplated by this Agreement or the Ancillary Agreements, as applicable, will (a) conflict with or violate any of Seller's, the Subsidiary's, AT&T Japan Ltd.'s or AT&T Corp.'s certificate of incorporation, articles of incorporation, bylaws, Certificate of Formation or limited liability company agreement, (b) result in a breach or default under, or create in any Person the right to terminate, cancel, accelerate or modify, or require any notice, consent or waiver under, any Material Transferred Contract, in any case with or without due notice or lapse of time or both (c) violate any Law or Judgment applicable to Seller, the Subsidiary, AT&T Japan Ltd. or AT&T Corp., (d) require Seller, the Subsidiary or AT&T Corp. to obtain any Governmental Authorization or make any filing with any Governmental Body, (e) to Seller's Knowledge, result in the creation or imposition of an Encumbrance upon, or the forfeiture of, any Transferred Assets or (f) result in a breach or default under or create in any Person the right to terminate, cancel, accelerate or modify, or require any notice, consent or waiver under, any material contract other than Transferred Contracts to which Seller, the Subsidiary or AT&T Japan Ltd. is a party or by which Seller, the Subsidiary or AT&T Japan Ltd. is bound, in any case with or without due notice or lapse of time or both.

5.4 Capitalization and Ownership

- (a) As of the Closing Date, the authorized capital stock of Newco consists solely of 1,000 ordinary shares (*futsu kabushiki*). As of the Closing Date, Newco will have 110 issued and outstanding ordinary shares (*futsu kabushiki*) ("**Newco Shares**"). As of the Closing Date (but prior to the sale and purchase of Newco Shares contemplated by this Agreement) and since the incorporation of Newco, Seller is, and has been, the sole record and beneficial owner and holder of all of the Newco Shares free and clear of all Encumbrances. Upon payment in full of the Purchase Price, good and valid title to the Newco Shares will pass to Buyer with no restrictions on the voting rights or other incidents of record of such Newco Shares. As of the Closing Date, all of the Newco Shares are duly authorized, validly issued, fully paid and nonassessable. As of the Closing Date, there are no preemptive rights or any other similar rights with respect to the Newco Shares. There are no contracts, except this Agreement and the Ancillary Agreements, to which either Seller or any other Person is a party or bound with respect to Newco Shares including any contract with respect to the voting rights (including voting trusts or proxies) of the Newco Shares. Other than the Newco Shares, there are no outstanding or authorized options, warrants, rights, agreements or commitments to

which Newco will be a party or which are binding upon Newco providing for the issuance or redemption of any shares of Newco's capital stock.

- (b) For the purposes of Section 5.4(a), references to "as of the Closing Date" shall mean such time as of the Closing Date after the Corporate Split and the Contribution in Kind has each become effective.

5.5 Subsidiaries

Newco does not have any subsidiary. As of the date of this Agreement, the Subsidiary is the sole record holder of 4,000 shares of common stock issued by E-net Co., Ltd ("**E-net Shares**"), and at the Closing, Newco will be the sole record and beneficial owner and holder of the E-net Shares. To Seller's Knowledge, all of the E-net Shares are duly authorized, validly issued, fully paid and non-assessable. There are no preemptive rights or other similar rights in respect of the E-net Shares. Seller has disclosed to Buyer true, accurate and complete copies of any contracts to which Seller or the Subsidiary is a party or currently bound with respect to the E-net Shares including voting (including voting trust and proxies) and disposition of the E-net Shares.

5.6 Financial Statements

- (a) Seller has delivered to Buyer the consolidated audited balance sheet of AT&T Japan LLC Japan Branch for the year ended December 31, 2009 (the "**December 2009 Balance Sheet**"), and the related statement of income for that period, including the accompanying notes (the "**December 2009 Financial Statements**"). The December 2009 Financial Statements fairly present the financial position and results of operations of AT&T Japan LLC Japan Branch as of the respective dates thereof and for the periods indicated therein, all in accordance with GAAP.
- (b) Seller has delivered to Buyer the consolidated unaudited balance sheet of AT&T Japan LLC Japan Branch as of March 31, 2010 ("**LLC Interim Balance Sheet**") and the related statement of income for that period. The LLC Interim Balance Sheet and the related statement of income fairly present the financial position and results of operations of AT&T Japan LLC Japan Branch as of the respective dates thereof and for the periods indicated therein, all in accordance with GAAP.
- (c) Seller has delivered to Buyer the unaudited balance sheet of AT&T Japan Ltd. as of March 31, 2010 ("**LTD Interim Balance Sheet**"). The LTD Interim Balance Sheet fairly presents the financial position and results of operations of AT&T Japan Ltd. as of the respective dates thereof and for the periods indicated therein, all in accordance with GAAP.
- (d) Seller has prepared and provided, in good faith, the annexes to the LLC Terms of Business Transfer, the LTD Terms of Business Transfer and the Split Agreement.

5.7 Absence of Undisclosed Liabilities

- (a) As of the date of this Agreement, except for Liabilities incidental to (i) the incorporation and organization of a Japanese joint-stock corporation (*kabushiki kaisha*), (ii) the application by Newco for employee health benefits (*kenko hoken kumiai*), (iii) Newco becoming a party to the New IBM Agreement or any Ancillary Agreement that has been executed by Newco on or prior to the date of this Agreement, Newco has not entered into any contracts or undertaken any other obligations and does not owe any Liabilities.
- (b) Other than the Liabilities reflected or reserved against in the December 2009 Balance Sheet, the LLC Interim Balance Sheet or the LTD Interim Balance Sheet, to Seller's Knowledge, Newco has no Liabilities of the nature required to be disclosed in a balance sheet prepared in accordance with GAAP, except for Liabilities incurred in the ordinary course of business since the respective dates of the December 2009 Balance Sheet, the LLC Interim Balance Sheet and the LTD Interim Balance Sheet.
- (c) Other than the Liabilities reflected or reserved against in the December 2009 Balance Sheet, the LLC Interim Balance Sheet or the LTD Interim Balance Sheet, Newco has no Liabilities arising out of, relating to or incurred in connection with any breach of obligations under agreements related to the Transferred Business, or willful misconduct or negligence by Seller, the Subsidiary, AT&T Japan Ltd., Newco or representatives, directors, officers or employees of Seller, the Subsidiary, AT&T Japan Ltd. or Newco.

5.8 Absence of Certain Changes and Events

From the date of the LLC Interim Balance Sheet to the date of this Agreement, there has not been any Material Adverse Effect. From the date of the LLC Interim Balance Sheet to the date of this Agreement, the Transferred Business has been operated in the ordinary course of the Transferred Business.

5.9 Transferred Contracts

The Transferred Contracts do not include any contract related to the Transferred Business that (i) has any relation to false business transactions, (ii) contains any provision in violation of applicable Laws except for such violations that would not have a Material Adverse Effect, or (iii) contains any provision which prohibits any party to such contracts, Seller or the Subsidiary from engaging in any kind of business or transaction.

5.10 Tangible Personal Property

As of the Closing Date, Newco has had since its incorporation, good and marketable title to, or in the case of leased assets, valid leasehold interests in, all of its tangible personal property free and clear of all Encumbrances except as set forth in Section 5.10 of the Seller Disclosure Schedule.

5.11 Leased Real Property

- (a) Section 5.11(a) of the Seller Disclosure Schedule sets forth an accurate and complete description (by street address of the subject leased real property, the date and term of the lease, the name of the parties thereto and the aggregate annual rent payable thereunder) of all the real property that is currently leased by Seller or the Subsidiary used for the purpose of the Transferred Business, together with an indication as to whether each leased real property is contemplated to transfer to Newco. The leased real property which are contemplated to transfer to Newco shall be referred to as "Transferred Sites". As of the date of this Agreement, Seller or the Subsidiary has sole and complete right to occupy and use the Transferred Sites free and clear of all Encumbrances. Seller has made available to Buyer complete and correct copies of the leases in effect as of the date hereof relating to the Transferred Sites, including all amendments, modifications, notices or memoranda of lease thereto. To Seller's Knowledge, each of the leases for the Transferred Sites is enforceable against each party to the lease, and is in full force and effect and will continue to be so on identical terms following the consummation of the contemplated transactions. There has not been any written or oral sublease, occupancy or assignment entered into by Seller or Subsidiary in respect of its Transferred Sites. Neither Seller nor the Subsidiary is in default of any material provision of any leases for the Transferred Sites.
- (b) As of the Closing Date, for the Transferred Sites where the lessor has consented to the assignment of the lease or a sub-lease (as the case may be) to Newco of the leased premises, Newco will have a complete right to occupy and use the Transferred Sites free and clear of Encumbrances.
- (c) There has not been any written or oral sublease or assignment entered into by Newco in respect of the Transferred Sites or the Alternate Site (as the case may be). Newco is not in default of any provision of any leases for the Transferred Sites or the Alternate Site (as the case may be).

5.12 Equipment

To Seller's Knowledge, all of the fixtures and other improvements to the Transferred Sites included in the Transferred Assets and all of the tangible personal property included in the Transferred Assets (a) are suitable for their present and intended uses, (b) are in good working order, operating condition and state of repair, (c) have no defects (whether patent or latent) and (d) have been maintained in accordance with normal industry practice.

5.13 Accounts Receivable/Accounts Payable

- (a) All accounts and notes receivable included in the Transferred Business have arisen in the ordinary course of business.
- (b) All accounts and notes payable included in the Transferred Business have arisen in the ordinary course of business.

5.14 Intellectual Property

To Seller's Knowledge, none of the activities or operation of the Transferred Business infringes or violates, or constitutes a misappropriation of, any Intellectual Property rights of any Person, except for any infringement, violation or misappropriation that would not have a Material Adverse Effect. To Seller's Knowledge, no other Person is infringing, violating or misappropriating any of the Intellectual Property used in the operation of the Transferred Business as presently conducted, except for any infringement, violation or misappropriation that would not have a Material Adverse Effect. This Section 5.14 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to Intellectual Property, except as set forth in the Intellectual Property Agreement.

5.15 Material Transferred Contracts

- (a) Section 5.15(a) of the Seller Disclosure Schedule sets forth an accurate and complete list as of the date hereof of each Transferred Contract to which Seller or the Subsidiary is a party as of the date hereof, which:
 - (i) is a Transferred Contract or a group of Transferred Contracts to which one of the customers listed in Schedule 5.15(a)(i) is a party;
 - (ii) is a Transferred Contract or a group of Transferred Contracts to which one of the business partners listed in Schedule 5.15(a)(ii) is a party;
 - (iii) is a Transferred Contract for the provision of services to one of the IBM end-users listed in Schedule 5.15(a)(iii) to which IBM Japan is a party;
 - (iv) is a Transferred Contract for a mortgage, indenture, guarantee, loan or credit agreement, security agreement or otherwise relating to indebtedness for borrowed money, other than in the ordinary course of the business, and in each case having an outstanding principal amount in excess of ¥25,000,000;
 - (v) is a Transferred Contract for a material license under which Seller or the Subsidiary has obtained a license to use the Intellectual Property of another Person (except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs with a value of less than ¥25,000,000 under which Seller or the Subsidiary is the licensee);
 - (vi) is a material Transferred Contract (other than the contracts described in Section 5.15(a)(ix) and Section 5.15(a)(xi)) that provides for Seller or the Subsidiary to act as a distributor, dealer, sales representative or authorized service Person;
 - (vii) is a material Transferred Contract that limits or purports to limit the ability of Seller or the Subsidiary to compete in any line of business or with any Person or in any geographic area;
 - (viii) is a material Transferred Contract between Seller or the Subsidiary and their respective Affiliates;
 - (ix) is that certain data center service agreement with Infocom Corporation dated June 9, 2008;
 - (x) is that certain stock subscription agreement (*kabushiki hikiuke keiyakusho*) by and between the Subsidiary and E-net Co., Ltd dated June 1, 2001; or
 - (xi) is a master services agreement for carrier commissions (including the master services agreement with KDDI dated July 1, 2006, the master sales cooperation agreement with NTT Communications Corporation dated May 22, 2000 and the master sales agreement with Nihon Telecom Corp. (Softbank) dated December 28, 2001).

The Transferred Contracts listed in Section 5.15(a) of the Seller Disclosure Schedule are referred to in this Agreement as the "Material Transferred Contracts".

(b) Except as disclosed in Schedule 5.15(b) of the Seller Disclosure Schedule, Seller has made available to Buyer an accurate and complete copy of each Material Transferred Contract (excluding individual purchase orders). With respect to each such Material Transferred Contract, none of the Seller, the Subsidiary or Newco, nor, to the Seller's Knowledge, any other party to the Material Transferred Contract is in material breach or material default under the Material Transferred Contract except for such breaches or defaults as to which requisite waivers or consents have been obtained. To the Seller's Knowledge, each Material Transferred Contract is enforceable as to Seller or the Subsidiary (as of the date hereof) and, subject to the relevant Consents being obtained, Newco (as of the Closing Date), in accordance with its terms except to the extent it has previously expired in accordance with its terms and subject to (i) Laws of general application relating to bankruptcy, insolvency and the relief of debtors, and (ii) rules of Law governing specific performance, injunctive relief and other equitable remedies.

5.16 Tax Matters

(a) All Tax Returns required to be filed on or before the Closing Date by Newco have been timely filed (taking into account applicable extensions of time to file), (b) all Taxes shown on such Tax Returns have been paid and (c) no Governmental Body has proposed formally in writing to make or has made any material adjustment with respect to such Tax Returns. This Section 5.16 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to Taxes.

5.17 Environmental, Health and Safety Matters

Seller and the Subsidiary (as of the date hereof) and Newco (as of the Closing Date) are in compliance with (a) all Environmental Laws applicable to the conduct of the Transferred Business and (b) all Governmental Authorizations required of Seller, the Subsidiary and Newco under Environmental Laws to conduct the Transferred Business, except in any case, where the failure to so comply would not have a Material Adverse Effect. There has been no release or, to Seller's Knowledge, threatened release of any pollutant, contaminant or toxic or Hazardous Material (including toxic mold), substance or waste on, upon, into or from any Transferred Sites. Seller and the Subsidiary (as of the date hereof) and Newco (as of the Closing Date) have not received any written notice stating that the conduct of the Transferred Business is currently, or has been in violation of any Environmental Law, except for such violations which would not have a Material Adverse Effect. No Proceeding is pending or, to Seller's Knowledge, threatened against Seller, the Subsidiary or Newco that alleges a violation by Seller, the Subsidiary or Newco of any applicable Environmental Laws that, if adversely determined, would have a Material Adverse Effect. This Section 5.17 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to environmental, health and safety matters.

5.18 Governmental Authorizations

Newco will upon its incorporation, or alternatively by the Closing Date, have all Governmental Authorizations set forth in Section 5.18 of the Seller Disclosure Schedule that are necessary for it to conduct the Transferred Business as conducted by Seller and the Subsidiary immediately prior to the execution of this Agreement, other than any such Governmental Authorizations the failure of which to have would not have a Material Adverse Effect. As of the Closing Date, Newco is in compliance with all Governmental Authorizations that are necessary for it to conduct the Transferred Business as conducted by Seller and the Subsidiary immediately prior to the execution of this Agreement, except where the failure to so comply would not have a Material Adverse Effect.

5.19 Compliance with Laws

Except for the matters disclosed in Section 5.19 of the Seller Disclosure Schedule and to the extent it relates to the Transferred Business, Seller, the Subsidiary (as of the date of this Agreement), AT&T Japan Ltd. (as of the date of this Agreement) and Newco (as of the Closing Date), are in compliance with all legal requirements of all Laws (including the filing requirements under the Companies Act, in the case of Newco) and their respective organizational documents applicable to them or the conduct of the Transferred Business or the ownership or use of their properties and assets and to Seller's Knowledge, there is no basis which could constitute such breach or violation of or default under any legal requirement of any applicable Law and their respective organizational documents, except where the failure to so comply would not have a Material Adverse Effect.

To Seller's Knowledge, in the conduct of the Transferred Business during the seven (7) year period immediately preceding the Closing Date, none of Seller, the Subsidiary, AT&T Japan Ltd., Newco or any of their respective directors, officers, employees or agents, has (a) directly or indirectly, given, or agreed to give, any illegal gift, contribution, payment or similar benefit to any supplier, customer, government official or employee or other Person who was, is or may be in a position to help or hinder Seller, the Subsidiary, AT&T Japan Ltd. or Newco (or assist with any actual or proposed transaction) or made, or agreed to make, any illegal contribution, or reimbursed any illegal political gift or contribution made by any other Person or (b) established or maintained any unrecorded fund or asset or made any false entries on any books or records for any purpose.

5.20 Product Warranties; Defects; Liability

- (a) Except as disclosed in Section 5.20 of the Seller Disclosure Schedule (and except for other Liabilities for which there is a reserve which meets the standards described in the following sentence), to Seller's Knowledge, each product manufactured, sold, leased, licensed, delivered or installed or each service provided by the Subsidiary, Seller or Newco with respect to the Transferred Business (collectively, the "**Products**") is, and at all times has been, in compliance with all applicable Laws. None of the Subsidiary, Seller or Newco has any Liability (and, to Seller's Knowledge, there is no basis for any present or future action giving rise to any Liability) for the replacement or repair of any Products or other damages in connection with any Products, subject only to the reserve for product warranty claims set forth on the face of the December 2009 Financial Statements, as adjusted for the passage of time in accordance with GAAP, applied on a basis consistent with the principles applied in the preparation of the December 2009 Financial Statements, which reserve is adequate to address all such Liabilities. Each Product contains adequate warnings, the content and display of which conform to applicable Laws and current industry practice.
- (b) Except as disclosed in Section 5.20 of the Seller Disclosure Schedule, to Seller's Knowledge, no Product is subject to any guaranty, warranty, or other indemnity by the Subsidiary or Seller (as of the date of this Agreement) or Newco (as of the Closing Date) beyond the applicable standard terms and conditions of sale, lease, service or license agreement. Section 5.20 of the Seller Disclosure Schedule includes a summary of such standard terms and conditions of all sale, lease, service or license agreements (including the applicable guaranty, warranty, and indemnity provisions).

5.21 Insurance

Seller and the Subsidiary maintain, and up until the Closing Date will continue to maintain, in full force and effect, policies of insurance against fire, theft and other casualties, and covering, to the extent that it relates to the Transferred Business, such other Liabilities and business risks and properties of Seller, the Subsidiary and Newco. A list and brief description of such policies, including the policy number, the coverage, names of insurance carrier, principal amount or limit, annual premium and date of expiration of each policy is set forth in Section 5.21 of the Seller Disclosure Schedule.

5.22 Legal Proceedings

To the extent that it relates to the Transferred Business, there is no Proceeding pending or, to Seller's Knowledge, threatened against Seller, the Subsidiary (as of the date hereof), AT&T Japan Ltd. (as of the date hereof) or Newco (as of the Closing Date), or any of their properties or assets that, if adversely determined, would have a Material Adverse Effect. Seller, Subsidiary, AT&T Japan Ltd., or Newco are not subject to any outstanding Judgment that would have a Material Adverse Effect.

5.23 Employment and Labor Matters

- (a) Section 5.23(a) of the Seller Disclosure Schedule is a complete and accurate list of all work rules (*shugyo kisoku*, including any accompanying rules such as *kyuyo kitei*) and all agreements with labor unions (*roudoukyoyaku*), agreements with the person representing the majority of workers (*roushikyotei*) or any committee of Seller and AT&T Japan Ltd. in effect as of the date of this Agreement established under the applicable laws, including the Labor Standards law of Japan. Seller and AT&T Japan Ltd. are in material compliance with (as of the date hereof) and Newco is in material compliance with (as of the Closing Date), their legal, contractual, statutory, and fiscal obligations of and in relation to all of the Transferred Employees.
- (b) Neither Seller nor AT&T Japan Ltd. is (as of the date hereof), or Newco (as of the Closing Date) is, a party to or bound by any collective bargaining agreement in connection with any Transferred Employee and to Seller's Knowledge, no petition has been filed or Proceeding instituted by any Transferred Employee, Seller, AT&T Japan Ltd. or Newco with any labor relations board seeking recognition of a bargaining representative. To Seller's Knowledge, there is no organizational effort currently being made or threatened by or on behalf of any labor union to organize any of the Transferred Employees of Seller or AT&T Japan Ltd. (as of the date hereof) or Newco (as of the Closing Date), other than as disclosed in Section 5.23 (b) of the Seller Disclosure Schedule. To the extent it relates to the Transferred Employees and other than as disclosed in Section 5.23(b) of the Seller Disclosure Schedule, within the 12 months prior to the date of this Agreement, there has not been any labor strike, picketing, slowdown, lockout or other work stoppage or workers' compensation claim, claim or investigation by any Labor Standards Inspection Office in connection with any non-compliance with any applicable Laws relating to labor related matters (including unpaid wages, wrongful termination of employment or labor, compensation for work-related injuries or illness, unilateral change to conditions of employment, disguised worker dispatching and employment discrimination), claim or investigation of sexual harassment, or other labor disputes of a similar nature or, to Seller's Knowledge, threatened between Seller or AT&T Japan Ltd. (as of the date hereof) or Newco (as of the Closing Date), on the one hand, and any of the Transferred Employees, on the other hand, except as would not have a material adverse effect and except for such disputes with individual Transferred Employees arising in the ordinary course of the Transferred Business. Seller and AT&T Japan Ltd. are (as of the date hereof) and Newco will be (as of the Closing Date) in material compliance with all applicable Laws pertaining to the employment of Transferred Employees, including all such Laws relating to fair employment practices, equal employment opportunities, prohibited discrimination and other similar employment activities.
- (c) This Section 5.23 constitutes the sole and exclusive representations and warranties of Seller with respect to any matters relating to employment and labor matters.

5.24 Disclosure

Seller has in good faith made available to Buyer the due diligence information included in the electronic data room maintained by Seller.

5.25 Sufficiency

To Seller's Knowledge, the Transferred Assets, together with all assets, services, Intellectual Property and licenses to be provided under the Ancillary Agreements (including Business Exclusive Software to be transferred, Business Related Software to be licensed, and Third Party IP Agreement (as defined in the Intellectual Property Agreement) to be transferred, each under the Intellectual Property Agreement) will, as of the Closing, constitute all of the tangible and intangible assets necessary for Newco to satisfy its obligations to provide JNOS Services and GS Services that Newco is required to provide to customers under the Transferred Contracts and the New IBM Agreement, and any services to be provided by Newco under the Domestic Services Agreement, except for (i) Intellectual Property to be retained by AT&T Corp., Seller or the Subsidiary under the Intellectual Property Agreement, (ii) Third Party IP Agreement that has not been assigned to Newco in accordance with Section 7.2 of the Intellectual Property Agreement as of the Closing, (iii) Overhead Services and (iv) as would not have a Material Adverse Effect.

5.26 New IBM Agreement

Assuming the due authorization, execution and delivery of the New IBM Agreement by IBM Japan Ltd., the New IBM Agreement constitutes the valid and binding obligation of Newco and IBM Japan Ltd., enforceable against IBM Japan Ltd. in accordance with its terms, subject to (i) Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (ii) Laws governing specific performance, injunctive relief and other equitable remedies.

5.27 Disclaimer of Other Representations and Warranties

The representations and warranties set forth in this Article 5 are the only representations and warranties made by Seller with respect to Seller, Newco, the Subsidiary, the Newco Shares or any other matter relating to the contemplated transactions except as set forth in Ancillary Agreements. Except as specifically set forth in this Article 5 or other provisions in this Agreement or the Ancillary Agreements, (a) Seller is selling the Newco Shares "as is" and "where is" and with all faults, and makes no warranty, express or implied, as to any matter whatsoever relating to Seller, Newco, the Subsidiary, the Newco Shares or any other matter relating to the contemplated transactions including as to (i) merchantability or fitness for any particular use or purpose, (ii) the operation of the Transferred Business by Buyer after the Closing in any manner or (iii) the probable success or profitability of the Transferred Business after the Closing, and (b) other than the indemnification obligations of Seller set forth in Article 13 or other provisions in this Agreement, none of the Seller, the Subsidiary, any of their Affiliates, or any of their respective officers, directors, employees, agents, representatives or stockholders will have, or will be subject to, any Liability or indemnification obligation to Buyer or any other Person resulting from the distribution to Buyer or its Affiliates or Representatives of, or the Buyer's use of, any information relating to the Newco Shares, Seller, the Subsidiary or any of their Affiliates, including any descriptive memoranda, summary business descriptions or any information, documents or material made available to Buyer or its Affiliates or Representatives, whether orally or in writing, in certain "data rooms," management presentations, discussions, responses to questions submitted on behalf of Buyer or in any other form in expectation of the contemplated transactions.

6. **REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller, as of the date of this Agreement and as of the Closing Date, as follows:

6.1 Corporate Organization; Status

Buyer is a corporation duly organized, validly existing and in good standing under the laws of Japan, with full corporate power and authority to conduct its business as it is presently conducted.

6.2 Due Authorization

Buyer has all requisite corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to perform its obligations under this Agreement and the Ancillary Agreements. The execution, delivery and performance of this Agreement and the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby have been or will have been at Closing duly authorized by all necessary action on the part of Buyer. Assuming the due authorization, execution and delivery of this Agreement and the Ancillary Agreements by Seller and the other parties thereto, this Agreement and the Ancillary Agreements constitute, the valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, subject to (a) Laws of general application relating to bankruptcy, insolvency and the relief of debtors and (b) Laws governing specific performance, injunctive relief and other equitable remedies.

6.3 No Conflict

Except in any case that would not have a material adverse effect on the ability of Buyer to perform its obligations under this Agreement or the Ancillary Agreements or on the ability of Buyer to consummate the transactions contemplated by this Agreement or the Ancillary Agreements, and except for the filing of a share acquisition notification pursuant to the Anti-Monopoly Act, neither Buyer's execution, delivery and performance of this Agreement or the Ancillary Agreements, nor the consummation by Buyer of the transactions contemplated by this Agreement or the Ancillary Agreements, will (a) conflict with or violate Buyer's certificate of incorporation, articles of incorporation, bylaws or other organizational documents, (b) result in a breach or default under or create in any Person the right to terminate, cancel, accelerate or modify, or require any notice, consent or waiver under, any material contract to which Buyer is a party or by which Buyer is bound, in any case with or without due notice or lapse of time or both, (c) violate any Law or Judgment applicable to Buyer or (d) require Buyer to obtain any Governmental Authorization or make any filing with any Governmental Body.

6.4 Legal Proceedings

There is no Proceeding pending or, to Buyer's knowledge, threatened against Buyer that questions or challenges the validity of this Agreement or that may prevent, delay, make illegal or otherwise interfere with the ability of Buyer to consummate any of the transactions contemplated by this Agreement.

6.5 Financial Capacity

Buyer has immediately available cash in an amount sufficient to pay the Purchase Price or, if some or all of the Purchase Price will be obtained from external financing sources, Buyer has delivered to Seller executed commitments, including bridge commitments (collectively, the "Commitment Letters"), if necessary, for all such funds, and Buyer will have available as of the Closing Date (either from its immediately available cash or from the financing contemplated by the Commitment Letters, or a combination thereof) funds sufficient to pay the Purchase Price. Buyer knows of no circumstance or condition that it expects will prevent the availability at the Closing of the requisite financing to consummate the transactions contemplated by this Agreement on the terms set forth in this Agreement.

6.6 Independent Investigation

Buyer has conducted its own independent investigation, review and analysis of the business, operations, assets, liabilities, results of operations, financial condition and prospects of the Transferred Business to the extent possible based on the information furnished by Seller and the Subsidiary, which investigation, review and analysis was done by Buyer, its Affiliates and Representatives. Buyer hereby acknowledges and agrees that (a) other than the representations and warranties set forth in Article 5 or any other provision in this Agreement or Ancillary Agreements, none of Seller, the Subsidiary, Newco or any of their Affiliates, or any of their respective officers, directors, employees, agents, representatives or stockholders make or have made any representation or warranty, express or implied, at law or in equity, as to any matter whatsoever relating to Seller, the Subsidiary, Newco, the Newco Shares or any other matter relating to the contemplated transactions including as to (i) merchantability or fitness for any particular use or purpose, (ii) the operation of the Transferred Business after the Closing in any manner or (iii) the probable success or profitability of Newco or the Transferred Business after the Closing, and (b) other than the indemnification obligations of Seller set forth in Article 13 or any other provision in this Agreement or Ancillary Agreements, none of Seller, the Subsidiary, Newco or any of their Affiliates, or any of their respective officers, directors, employees, agents, Representatives or stockholders will have or will be subject to any Liability or indemnification obligation to Buyer or any other Person resulting from the distribution to Buyer or its Affiliates or Representatives of, or Buyer's use of, any information relating to the Newco Shares, Seller, the Subsidiary, Newco or any other matter relating to the transactions contemplated by this Agreement, including any descriptive memoranda, summary business descriptions or any information, documents or material made available to Buyer or its Affiliates or Representatives, whether orally or in writing, in certain "data rooms," management presentations, discussions, responses to questions submitted on behalf of Buyer or in any other form in expectation of the contemplated transactions.

7. COVENANTS

7.1 Closing and Notification

Between the date of this Agreement and the Closing Date, Seller will promptly notify Buyer in writing if Seller becomes aware of (i) any fact or condition that causes or constitutes a material breach of any of Seller's representations and warranties as of the date of this Agreement or (ii) the occurrence, after the date of this Agreement, of any fact or condition that would cause or constitute a material breach of any such representation or warranty had that representation or warranty been made as of the time of the occurrence or discovery of such fact or condition.

7.2 Access and Investigation

Until the Closing and upon reasonable advance notice from Buyer, Seller will allow, and will cause the Subsidiary, AT&T Japan Ltd. and Newco to allow, Buyer and its Representative reasonable access during normal business hours and without unreasonable interference with the operation of the Transferred Business to (a) such materials and information (including all books, records, and other documents and data, offices and other facilities and properties) about the Transferred Business as Buyer may reasonably request (including when Buyer requests such materials and information for the inspection and confirmation of Seller's compliance with the obligations set forth in Section 7.3 and for review, examination and confirmation of the balance sheets prepared by Seller pursuant to Section 7.3(a)) and (b) specified members of management of the Transferred Business as the parties may reasonably agree. Representatives of Seller and Buyer will have discussions at least twice a month or at such frequency as the parties may agree during the period beginning on the date of this Agreement and ending on the Closing Date in relation to the accounting processes with respect to the Transferred Business in accordance with Section 7.3.

7.3 Operation of the Transferred Business

(a) Until the Closing, except as otherwise set forth in this Agreement (including the Split Agreement and the Business Transfer Agreements), the Seller Disclosure Schedule or as otherwise consented to by Buyer (which consent will not be unreasonably withheld, conditioned or delayed), Seller will, and will cause the Subsidiary, AT&T Japan Ltd. and Newco, as applicable, to (i) conduct the Transferred Business in the ordinary course consistent with past practice in all material respects, (ii) use their commercially reasonable efforts to preserve relationships with their customers and others doing business with them, to the extent it relates to the Transferred Business, (iii) pay punctually any outstanding Liabilities in the ordinary course in accordance with the terms and conditions applicable to such Liabilities including as to the due date for payment and without any prepayments, and (iv) collect all receivables due in accordance with the respective terms and conditions of the agreement under which such receivables are due in a manner consistent with past practice, (v) implement, subject to obtaining any consent from Buyer required under Section 7.3(b), capital expenditures as the necessity arises in a manner consistent with past practice, (vi) prepare and maintain their respective books and records consistent with past practice, in accordance with GAAP (including, without limitation, making necessary depreciations, impairment, disposal and reserves in a timely manner), applied on a basis consistent with the methods applied in the preparation of the December 2009 Financial Statements, and (vii) prepare and deliver to Buyer by the 22nd of each month a monthly estimated balance sheet of the Transferred Business for the immediately preceding month.

- (b) Without limiting the generality of Section 7.3(a), until the Closing, except as otherwise set forth in this Agreement (including the Split Agreement and the Business Transfer Agreements), the Seller Disclosure Schedule or as otherwise consented to by Buyer (which consent will not be unreasonably withheld, conditioned or delayed), Seller will not, and will cause Newco, AT&T Japan Ltd. and the Subsidiary not to, in each case with respect to the Transferred Business:
- (i) incur any indebtedness for purposes of raising cash;
 - (ii) change the general practices of the business with respect to entering into leases from those followed prior to the date of this Agreement in a manner that materially increases the Retained Assets (as defined in the Business Transfer Agreements) or Transferred Assets (as defined in the Business Transfer Agreements) at the expense of increases to Transferred Liabilities by an aggregate amount of ¥20,000,000 or more;
 - (iii) waive or release any right or claim of a material value to the Transferred Business other than in the ordinary course of the Transferred Business;
 - (iv) sell, lease or license, or permit any Encumbrance on, any material portion of the assets of the Transferred Business other than in the ordinary course of the Transferred Business;
 - (v) acquire, by merger or consolidation with, or by purchase of all or a substantial portion of the assets or stock of, or by any other manner, any business or entity, or enter into any joint venture, partnership or other similar arrangement for the conduct of the Transferred Business;
 - (vi) materially change the remuneration or other terms of employment of any Target Employee other than (A) in the ordinary course of the Transferred Business, (B) as required by Law or (C) for retention, incentive and similar payments relating to the consummation of the transactions contemplated by this Agreement;
 - (vii) materially change the composition of personnel (including, without limitation, a drastic reduction of the workforce and implementation of early retirement plans);
 - (viii) amend the organizational documents of Newco; or
 - (ix) declare or pay any dividend or other distribution of assets that would otherwise constitute part of the Transferred Assets;
 - (x) create, purchase, redeem, issue or allot or agree to create, purchase, redeem, issue or allot any shares;
 - (xi) conduct any transaction between Seller, the Subsidiary, AT&T Japan Ltd. or Newco and any Affiliates of AT&T Corp. in a manner and/or on terms inconsistent with the normal practice of the 12 months prior to the date of this Agreement, and in all cases in accordance with any existing policies;
 - (xii) enter into, modify or terminate any material contract, agreement, transaction or commitment (regardless of whether they are legally binding or not) other than in the ordinary course of the Transferred Business;
 - (xiii) modify or terminate the agreement entered into between Newco and IBM, as referred to in Recital C of this Agreement;
 - (xiv) decide, resolve, enter into agreements relating to, or otherwise carry out, capital expenditures that will become Transferred Liabilities in excess of ¥50,000,000 for any one investment or series of related investments except that such limit shall be ¥150,000,000 for any one investment or series of related investments for capital expenditure incurred in the course of providing services (including but not limited to resale) to Transferred Customers;
 - (xv) institute or settle any litigation or other legal proceeding having, or which may have, a Material Adverse Effect on the Transferred Business;
 - (xvi) enter into guarantee, indemnity or other similar agreements other than in the ordinary course of the Transferred Business;
 - (xvii) fail to maintain in force insurance policies with limits of indemnity at least equal to, and otherwise on terms no less favorable than, those policies of insurance currently maintained by it, nor permit any of its insurance policies to lapse or do anything which would make any insurance policy void or voidable;
 - (xviii) change, modify or amend master services agreements for carrier commissions in Section 5.15(a)(xi); or
 - (xix) agree to take any of the foregoing actions (whether or not in writing).

7.4 Filings

Subject to terms and conditions provided in this Section 7.4, Seller and Buyer each will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the contemplated transactions and to cooperate with each other in connection with the foregoing, including to: (i) obtain all Governmental Authorizations that are required to be obtained under any Law, (ii) lift or rescind any injunction, restraining order or other Judgment adversely affecting the ability of the parties to this Agreement to consummate the contemplated transactions; (iii) effect all necessary registrations and filings including filings and submissions of information requested or required by any Governmental Body, including the Fair Trade Commission of Japan, with pre-transaction and post-transaction filing requirements that are deemed by Seller and Buyer, after consulting with one another, to be applicable to the contemplated transactions; and (iv) fulfill all conditions to this Agreement except as expressly provided in this Agreement. Notwithstanding anything to the contrary herein, (a) Seller shall have the discretion to accept or reject the terms and conditions (or proposed terms and conditions) of any Governmental Approval that (1) relates to any business of Seller or its Affiliates other than the Transferred Business or (2) materially adversely affects Seller or the Subsidiary, and (b) Buyer shall have the discretion to accept or reject the terms and conditions (or proposed terms and conditions) of any Governmental Approval that materially adversely affects it or the Transferred Business. In no event, however, will Seller, Buyer, the Subsidiary or Newco be obligated to pay any money to any Person or to offer or grant other financial or other accommodations to any Person in connection with its obligations under this Section 7.4.

7.5 Consents

- (a) Seller shall, after the execution of this Agreement and before the Closing, use its best efforts to obtain or cause the relevant third party to obtain, all the necessary Consents of the relevant third parties to the Material Transferred Contracts identified on Schedule 7.5(a) (the "Identified Contracts") as of the Closing. Buyer shall, as reasonably requested by Seller, cooperate with Seller to the extent reasonable in Seller's best efforts to obtain such Consents.
- (b) If there are any such Consents that have not been obtained as of the Closing, Seller and Buyer shall (and Buyer shall cause Newco to) each use its best efforts, to obtain as promptly as practicable after the Closing the Consent of the other parties to such Identified Contracts.
- (c) For purposes of this Section 7.5, "best efforts" of a party shall mean substantial compliance in all material respects with the following: Appropriate management of Seller and Buyer shall develop a plan to approach each Person from whom Consent is required with respect to each Identified Contract, which plan shall be reasonable in the circumstances (the "Consent Plan"). Subject to time limitations of Seller's management in meeting its obligations under this Agreement and not unreasonably interfering with the operation of the Transferred Business, Seller shall endeavor to obtain the Consents in accordance with the strategy developed, including devoting appropriate Seller management to contacting the third party and, where necessary and consistent with the Consent Plan, offering to meet with the third party in person to facilitate obtaining the Consent. In no event, however, will "best efforts" in this Section 7.5 be deemed to require a Person to undertake extraordinary or unreasonable measures, including the payment of amounts or making of any other concessions to any third party to induce granting such Consent. In no event shall Seller be required to continue to seek Consents after three (3) months following the Closing Date. It is recognized that after the Closing, Newco will generally have the personnel with the necessary relationships and abilities to continue to seek Consents; and therefore after the Closing Newco will be the primary lead in the effort to obtain any such remaining Consents; with Seller cooperating to the extent reasonable in Newco's efforts to obtain such Consents.
- (d) From the date of this Agreement until the Closing, Seller shall provide Buyer reasonable periodic updates as to the status of obtaining such Consents. After the Closing, Seller shall provide Buyer updates as to the status of obtaining any remaining such Consents as Buyer shall reasonably request. Seller shall promptly notify Buyer if Seller has Knowledge that after the date of this Agreement Seller has received a written notice from the third party to the Identified Contract that such third party refuses to grant the Consent or otherwise intends to terminate the Identified Contract.

7.6 Public Announcements

Any public announcement or similar publicity with respect to this Agreement or the contemplated transactions will be issued, if at all, at such time and in such manner as agreed by the parties, unless otherwise required by Law. Seller and Buyer will consult with each other concerning the means by which the customers, suppliers and others having dealings with respect to the Transferred Business will be informed of the contemplated transactions.

7.7 Confidentiality

- (a) Each of Buyer and Seller will, and will cause its Affiliates and respective officers, directors, employees, lenders, accountants, representatives, agents, consultants and advisors ("**Representatives**") to hold in confidence all information (other than such information as may have become publicly available without violation of this Agreement) furnished or made available by such party ("**Provider**") to the other party ("**Receiver**") in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, as well as all information concerning Provider, its Affiliates or its assets, business or operations contained in any analyses, compilations, studies or other documents prepared by or on behalf of Receiver based on information provided by Provider (collectively, the "**Information**"). Receiver will not, without the prior written consent of Provider, release or disclose any Information regarding Provider to any other person, except to Receiver's own Representatives who need to know the Information in connection with the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, who are informed of the confidential nature of the Information and who agree to maintain the Information as confidential.
- (b) Notwithstanding the foregoing, Seller and Buyer may provide Information to third parties or to the public, as the case may be, to the extent reasonably necessary to fulfill their respective obligations under this Agreement and the Ancillary Agreements; as may be reasonably necessary in connection with Tax filings and related matters; and as may be required by any stock exchange or Governmental Body, the Bank of Japan or self regulatory organizations or, subject to Section 7.6 (*Public Announcements*) and Section 7.7(c) below, as required by applicable Law or as part of arbitral or legal proceedings, filings or other similar processes.
- (c) In the event Receiver or any person to whom Receiver transmits Information regarding Provider pursuant to this Agreement becomes legally compelled to disclose any of such Information, Receiver will provide Provider with prompt notice to the extent practically possible so that Provider may seek a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained, Receiver will furnish only that portion of the Information which Receiver is legally required to disclose.
- (d) If the transactions contemplated by this Agreement are not consummated, Buyer and Seller each agree that: (i) the Information, except for that portion thereof which consists of analyses, compilations, studies or other documents prepared by or on behalf of Receiver, will be returned to Provider promptly upon Provider's request therefor; and (ii) that portion of the Information which consists of analyses, compilations, studies or other documents prepared by or on behalf of Receiver will be held by Receiver and kept confidential and subject to the terms of this Section, or will be destroyed. The obligations of this Section 7.7(d) shall survive termination of this Agreement.

- (e) After the Closing and for a period of three (3) years thereafter, except as otherwise contemplated in this Agreement or the Ancillary Agreements (including for the purpose of providing services under the AT&T Global Master Carrier Agreement), Seller shall not and shall cause its Affiliates not to disclose to any third parties, any Information regarding the Transferred Business or any other information regarding the Transferred Business that was or is in the possession of Seller or Subsidiary prior to or as of the Closing.
- (f) Notwithstanding anything herein to the contrary, the following shall not constitute Information: (i) information that was already in the public domain (including through press releases or public disclosures previously authorized or coordinated between the parties) or lawfully in the possession of the Receiver before disclosure by the Provider; (ii) information that is known to the Receiver prior to the time of disclosure by the Provider or independently developed by the Receiver; or (iii) information obtained by the Receiver from a third party legally entitled to disclose the same free of any non-disclosure restrictions.
- (g) It is understood and agreed that nothing in this Section 7.7 shall limit or restrict a party from using any Information to enforce or to defend its rights under this Agreement or any Ancillary Agreement in any legal proceeding, arbitration, administrative proceeding or other similar proceeding.
- (h) Notwithstanding anything to the contrary in Section 7.6 or this Section 7.7, nothing in Section 7.6 or this Section 7.7 shall limit or restrict Buyer from, after the Closing, using, or disclosing to any third parties or to the public, any information (including Information) that relates solely to Newco's Transferred Business.

7.8 Corporate Split

- (a) On the Closing Date by the Closing, Seller shall cause the Subsidiary to use commercially reasonable efforts to effect, at its own cost, the Corporate Split as provided in the Split Agreement and in accordance with applicable Law.
- (b) Notwithstanding anything herein to the contrary, Seller shall, and shall cause the Subsidiary to, report, deliver and submit to Buyer:
 - (i) (until the Closing) promptly after becoming aware of such issue, any material issue (including, without limitation, the existence of any objection from creditors during the creditor's objection giving period) that has arisen or may arise in the course of the Corporate Split, together with reasonable evidence;
 - (ii) (until the Closing) upon Buyer's reasonable request, materials and information concerning the Corporate Split;
 - (iii) (until the Closing) promptly after the effectuation of the Corporate Split, notice that the Corporate Split has been completed and effectuated; and
 - (iv) (until six (6) months after the effective date of the Corporate Split) promptly after becoming aware of such event, any material basis for the filing of proceedings nullifying the Corporate Split.

7.9 Business Transfer

- (a) On the Closing Date by the Closing, Seller shall, and shall cause AT&T Japan Ltd. to, use commercially reasonable efforts to effect the Business Transfer as provided in the Business Transfer Agreements (including the Contribution in Kind) and in accordance with applicable Law.
- (b) Notwithstanding anything herein to the contrary, Seller shall, and shall cause AT&T Japan Ltd. to, report, deliver and submit to Buyer:
 - (i) (until the Closing) promptly after becoming aware of such event, any material issue that has arisen or may arise in the course of the Business Transfer, together with reasonable evidence;
 - (ii) (until the Closing) upon Buyer's reasonable request, materials and information concerning the Business Transfer;
 - (iii) (until the Closing) promptly after the effectuation of the Business Transfer, notice that the Business Transfer has been completed and effectuated; and
 - (iv) (until six (6) months after the effective date of the Business Transfer) promptly after becoming aware of such event, any material basis for the filing of proceedings nullifying the Business Transfer.
- (c) Seller and Buyer shall, and Seller shall cause AT&T Japan Ltd. to, cooperate with each other in good faith in the allocation and transfer of any non-material assets or liabilities to the extent such assets or liabilities are not reflected in the Schedules to the Business Transfer Agreements; provided however that for the purpose of such cooperation, neither Seller or Buyer shall be required to use more than commercially reasonable efforts.

7.10 Examination of Delivery and Preparation of Closing Balance Sheet

- (a) During the three (3) month period beginning on the Closing Date, Seller shall, and shall cause the Subsidiary and AT&T Japan Ltd. to, provide documents, explanation or any other information reasonably required by Buyer in order for Buyer to verify that all the Transferred Assets, Transferred Contracts, Transferred Sites and Transferred Business have been transferred, and any liabilities other than Transferred Liabilities have not been transferred, to Newco through Corporate Split and Business Transfer. Notwithstanding anything herein to the contrary, Seller shall take all reasonable measures to remedy any lack of delivery of Transferred Assets, Transferred Contracts, Transferred Sites and Transferred Business to Newco and any wrongful delivery of assets, liabilities or other items that do not belong to the Transferred Business to Newco in accordance with good faith discussions between Buyer and Seller.
- (b) During the three (3) month period beginning on the Closing Date, Buyer shall, and shall cause Newco to, provide documents, explanation or any other information reasonably required by Seller in order for Seller to perform its obligations under Section 7.10(a).
- (c) During the three (3) month period beginning on the Closing Date, Buyer and Seller shall cooperate in preparation of a balance sheet of Newco as of the Closing Date.

7.11 New Customer Contracts

Unless the parties mutually agree in writing otherwise, Contracts entered into after the date of this Agreement up until the Closing by Seller, the Subsidiary or Newco (as the case may be) for the supply of services to a customer (each such contract a "**New Customer Contract**") shall be allocated as between the Transferred Business and the Retained Business as follows:

- (a) a New Customer Contract entered into with a Transferred Customer shall be treated as a Transferred Contract;
- (b) a New Customer Contract entered into with a Retained Customer shall be treated as a Retained Contract;
- (c) a New Customer Contract with a customer other than a Transferred Customer or a Retained Customer shall be treated as either a Transferred Contract or a Retained Contract based on the same methodology used to identify customers of the Business as either Transferred Customers or Retained Customers for purposes of this Agreement; and
- (d) a New Customer Contract with a customer that is both a Transferred Customer and a Retained Customer shall be treated as a Transferred Contract if such New Customer Contract is for JNOS Services or as a Retained Contract if such New Customer Contract is for GS Services.

7.12 New IBM Agreement

Prior to the Closing, Seller shall cause Newco not to commit or agree to any modifications to the New IBM Agreement.

7.13 Transferred Sites

- (a) Upon written notice from Buyer, Seller will pay to Buyer, in immediately available funds, amounts incurred by Buyer to restore and reinstate the Transferred Sites (including any Transferred Sites which are sub-leased to Newco) to their original condition as may be required under the terms of the respective leases for the Transferred Sites; provided however that the amount paid by Seller to Buyer for each Transferred Site pursuant to this Section 7.13(a) will in no event exceed the amount set out in Schedule 7.13(a) against each Transferred Site. The aggregate of the restoration and reinstatement costs for all the Transferred Sites specified in Schedule 7.13(a) is equal to the amount reflected on the LLC Interim Balance Sheet ("**Reserved Reinstatement Amount**").
- (b) With respect to the Transferred Sites where the Consent of the lessor is required for (i) the split of the existing lease agreement for the lease of the Shin Nikko Building located at 2-10-1 Toranomon, Minato-ku, Tokyo as outlined in Schedule 5.11(a), (ii) the assignment of the lease agreement, or (iii) the sub-lease of the leased premises to Newco, Seller and Buyer each will use its commercially reasonable efforts, and cooperate with each other, to obtain such Consent as promptly as practicable.
- (c) In the event that the requisite Consent for (i) or (ii) is not given by the Closing Date, to the extent permitted by the respective lease agreements, Seller shall sub-lease the Transferred Sites to Newco on substantially the same terms and conditions as the underlying lease agreement.
- (d) Except as the parties may otherwise agree, with respect to a Transferred Site for which an Alternate Site is utilized, (i) Seller shall bear all liabilities in relation to the Transferred Site under the respective lease agreement retained by Seller, including rental payments and restoration and reinstatement costs at the expiration or termination of the lease agreement, and (ii) Newco shall fully bear all costs and expenses in relation to the Alternate Site, including rent, costs for securing the Alternate Site and costs for restoration and reinstatement (if any).

7.14 Suppliers

In relation to the supply of goods or services used in the Transferred Business as of the date of this Agreement, Seller will use commercially reasonable efforts to provide the following assistance, make the following arrangements or filings or take the following actions, as the case may be:

- (a) Circuits. On or as soon as practicable after Closing, file with each of NTT, KDDI and Softbank (each a "Carrier") a circuit owner change notification, in the form prescribed by each Carrier, specifying Newco as owner of the circuits used in the Transferred Business (excluding the circuits Seller uses to provide Newco with GS Services pursuant to the AT&T Global Master Carrier Agreement) as of the date of this Agreement as listed in Schedule 7.14(a), which list shall be updated as of Closing to reflect changes to circuits in the ordinary course of business between the date of this Agreement and Closing;
- (b) Non-Payroll Workers. To the extent that there are contracts for the provision of services by non-payroll workers that are engaged exclusively in the Transferred Business, arrange for the transfer of such contracts to Newco pursuant to either the LLC Business Transfer Agreement or the LTD Business Transfer Agreement; and
- (c) Other Supplier Contracts. To the extent that there are any other contracts in effect as of the date of this Agreement that are for the supply of goods or services used exclusively in the Transferred Business (excluding the supply of goods or services Seller uses to provide Newco with GS Services pursuant to the AT&T Global Master Carrier Agreement), Seller shall use commercially reasonable efforts to arrange for the transfer of such contracts to Newco pursuant to either the LLC Business Transfer Agreement or the LTD Business Transfer Agreement.

7.15 Shared Business Partner Contracts

- (a) Seller will, between the date of this Agreement and the Closing Date, use commercially reasonable efforts to enable Newco to enter into an agreement with each Shared Business Partner (each such agreement, a "Shared Business Partner Assumption Agreement") that allows Newco to, in effect, assume substantially the same rights, obligations and status of the Subsidiary under each Shared Business Partner Contract, to the extent that such Shared Business Partner Contract pertains to the services provided to the Transferred Business End-Users.
- (b) If by the date on which the Subsidiary and Newco enter into the Split Agreement, Newco has not entered into a Shared Business Partner Assumption Agreement with any of the Transferred Business Partners, Seller will arrange for the transfer of each Shared Business Partner Contract with each such Transferred Business Partner to Newco pursuant to the Corporate Split.
- (c) Seller and Buyer will cooperate to establish an agency type or other similar arrangement ("Agency Arrangement") reasonably satisfactory to Seller and Buyer with respect to the Retained Business End-Users under the Shared Business Partner Contracts transferring to Newco pursuant to the Corporate Split. Under each Agency Arrangement, Newco would enforce for the benefit of the Subsidiary, with the Subsidiary assuming and agreeing to perform and pay Newco's Liabilities and expenses, any and all rights of Newco against the Transferred Business Partner and remit to the Subsidiary, any amount paid by the Transferred Business Partner for the provision of the services to such Retained Business End-User. Buyer shall, or shall cause Newco to, terminate each Agency Arrangement, in part corresponding to each Retained Business End-User when the service contract or purchase order between each Transferred Business Partner and the respective Retained Business End-User expires or terminates.

- (d) If by the Closing Date, Newco has not entered into a Shared Business Partner Assumption Agreement with any of the Retained Business Partners, Seller and Buyer will, and Seller will cause the Subsidiary to, cooperate to establish an Agency Arrangement reasonably satisfactory to Seller and Buyer with respect to each such Transferred Business End-User under the respective Shared Business Partner Contract with the Retained Business Partner. Under each Agency Arrangement, the Subsidiary would enforce for the benefit of Newco, with Newco assuming and agreeing to perform and pay the Subsidiary's Liabilities and expenses, any and all rights of the Subsidiary against the Retained Business Partner and remit to Newco any amount paid by the Retained Business Partner for the provision of the services to the Transferred Business End-Users. The Subsidiary shall terminate each Agency Arrangement, in part corresponding to each Transferred Business End-Users, when the service contract or purchase order between each Retained Business Partner and the respective Transferred Business End-User expires or terminates.
- (e) During the Restricted Period, on expiration or termination of any service contract or purchase order outstanding under a Shared Business Partner Contract between:
 - (i) the Subsidiary and a Retained Business Partner in relation to a Transferred Business End-User, Seller shall cause the Subsidiary to reject any new purchase order or request for provision of services in relation to such Transferred Business End-User;
 - (ii) Newco and a Transferred Business Partner in relation to a Retained Business End-User, Buyer shall cause Newco to reject any new purchase order or request for provision of services in relation to such Retained Business End-User.

7.16 Shared Global Services Customers

- (a) Seller will, between the date of this Agreement and the Closing Date, use commercially reasonable efforts to, or cause the Subsidiary to, enter into a separate agreement with each Shared Global Services Customer for the Shared Global Services Customer's Japan site(s) ("Shared Global Services Separation Agreement"). Each such Shared Global Services Separation Agreement shall be on substantially the same terms and conditions as the corresponding Shared Global Services Customer Contract.
- (b) If by the date on which the Subsidiary and Newco enter into the Split Agreement, Seller or the Subsidiary has entered into a Shared Global Services Separation Agreement with any of the Shared Global Services Customer, Seller will arrange for the transfer of the Shared Global Services Separation Agreement to Newco pursuant to the Corporate Split.
- (c) If by the Closing Date, Seller or the Subsidiary has not entered into a Shared Global Services Separation Agreement with any of the Shared Global Services Customers, Seller will pay to Buyer 10% of the Seller's revenues under any outstanding Shared Global Services Customer Contract (including any outstanding purchase order under any such Shared Global Services Customer Contract) in relation to such Shared Global Services Customer's Japan site(s) until the expiration or termination of such Shared Global Services Customer Contract (or purchase order) or 12 months, whichever is shorter. For reference, Schedule 1.1(e) sets out the billed revenue for the Japan site(s) of all of the Shared Global Services Customers in 2009.

7.17 IBM End-Users

- (a) Schedule 7.17(a) contains a list of IBM's end-users whose Consents have to be obtained for the transfer of the IBM End-User Contracts ("**IBM End-Users Requiring Consents**") between the date of this Agreement and the Closing Date. Seller will use commercially reasonable efforts to obtain such Consents in cooperation with IBM.
- (b) If by the Closing Date, the Consents have not been obtained, Seller and Buyer will cooperate to establish an Agency Arrangement reasonably satisfactory to Seller and Buyer with respect to the IBM End-User Contracts. Under each Agency Arrangement, Seller would enforce for the benefit of Newco, with Newco assuming and agreeing to perform and pay Seller's Liabilities and expenses, any and all rights of Seller against the IBM End-Users and remit to Newco any amount paid by the IBM End-Users for the provision of the services under the IBM End-User Contracts. Seller shall terminate each Agency Arrangement, in part corresponding to each IBM End-User, when the service contract or purchase order of the IBM End-User under the respective IBM End-User Contract expires or terminates.
- (c) During the Restricted Period, on expiration or termination of any service contract or purchase order outstanding under the respective IBM End-User Contract after Closing, Seller shall reject any new purchase order or request for provision of services in relation to such IBM End-User.

7.18 Return or Destruction of Data

In the event that information, data or software pertaining to the Retained Business ("**Data**") is mistakenly provided or disclosed to Buyer, Buyer shall immediately on being aware of its access to, or possession of, such Data inform Seller. Buyer shall follow Seller's security procedures and guidelines in the return to Seller, or destruction, of such Data. Buyer acknowledges that it will acquire no right, title or interest (including any license rights or rights of use) to such Data.

7.19 Regional Partner

During the period from the Closing until two (2) years therefrom, Seller and its Affiliates (including AT&T Corp.) recognize Buyer and its Affiliates as a regional business partner.

7.20 NTT Shares

Seller shall cause AT&T Global Network Assets LLC (or one of its Affiliates) to use commercially reasonable efforts to take all actions necessary on its part so to complete the acquisition of the entire ownership interest of Milletechno, Inc. in Seller by the date the Closing would have occurred but for the failure of the closing condition set forth in Section 11.5 to be satisfied. To the extent that the Closing has not yet occurred by six (6) months less five (5) Business Days from the date of this Agreement and all of the other conditions to Closing of Seller set forth in Articles 9 and 11 have been duly satisfied or waived by Seller except for the condition set forth in Section 11.5, Seller agrees that it shall waive the condition to Closing in Section 11.5.

8. **EMPLOYEES**

8.1 Employment Offer

- (a) Seller shall cause Newco to extend a written offer of employment ("**Employment Offer**") to each of the Target Employees.
- (b) Each Employment Offer extended to the Target Employees by Newco shall:
 - (i) be conditional upon the completion of the Closing;
 - (ii) be for terms and conditions that are substantially equivalent to those in effect immediately prior to the Closing Date, excluding the terms and conditions related to the Seller Pension Plans, which will be replaced by the terms and conditions that are in accordance with the current Buyer Pension Plan;
 - (iii) provide employee benefits that in the aggregate are substantially equivalent to those provided to the Target Employee immediately prior to the Closing Date, excluding the benefits related to the Seller Pension Plans;
 - (iv) be for a position with job duties that are in principle substantially similar to the job duties of the position that the Target Employee held immediately prior to the Closing Date; provided however that, the position and job duties may be changed to meet the reasonable needs of Newco's business operations;
 - (v) be for employment at a location within 25 km of the location that the Target Employee works at immediately prior to the Closing Date; and
 - (vi) require a Target Employee who wishes to accept the Employment Offer to execute a letter of resignation ("**Resignation Letter**") under which such Target Employee agrees to resign from the Subsidiary or AT&T Japan Ltd. on the terms and subject to the conditions set forth in the Resignation Letter .

8.2 Newco Employment Terms and Conditions

- (a) Newco shall not, and Buyer shall cause Newco not to, prior to the first anniversary of the Closing Date, in relation to any Employment Offer made pursuant to this Section 8:
 - (i) alter, modify or withdraw any of the terms contained in the Employment Offer except for (i) any change to the base salary, position/job duties or the place of work, which change has to be in accordance with this Section 8.2(a), or (ii) any alteration, modification or withdrawal where such alteration, modification or withdrawal is justified under applicable laws and regulations in light of any wrong-doing on the part of the respective Transferred Employee, including (A) absence without justifiable reason, (B) injury or sickness not sustained in the course of employment and necessitates a reduction in working hours, workload or responsibilities, or (C) conduct which is in violation of any Laws or public policy (for the avoidance of doubt this exception (ii) shall apply to Sections 8.2(a)(iv) and 8.2(a)(v));
 - (ii) terminate the employment of any Transferred Employee unless the termination is for cause and is justified in light of the work rules of Newco, and relevant laws and regulations;
 - (iii) amend the work rules of Newco to the detriment of the Transferred Employee;
 - (iv) change the position/job duties of the Transferred Employee described in the Employment Offer except in the ordinary course of business or for Newco's operational requirements, provided that any such change is for promotional or developmental purposes and does not involve any demotion or downgrade;
 - (v) decrease the base salary of the Transferred Employee; or
 - (vi) change the physical place of work to a location that is more than 25 km away from the original place of work unless consent is obtained from the Transferred Employee. Each Transferred Employee shall be provided appropriate relocation benefits in the event of a relocation.

- (b) Newco shall, and Buyer shall cause Newco to, establish and maintain, the following benefits for the Transferred Employees for at least the period up to the first anniversary of the Closing Date:
- (i) Relo Club Membership;
 - (ii) a savings plan for the Transferred Employees as currently maintained by Seller or AT&T Japan Ltd. (as the case may be), where certain amounts are deducted from the employees' monthly salary and deposited into a bank account established for savings purposes;
 - (iii) baby-sitting services provided to individual Target Employees equivalent to the baby-sitting discount coupons provided by Seller or AT&T Japan Ltd. to a Transferred Employee prior to the Closing Date or which a Transferred Employee is eligible to receive before the first anniversary after returning from maternity leave;
 - (iv) any education or professional certification program sponsored by Seller or AT&T Japan Ltd. (as the case may be) in which a Transferred Employee participates in prior to the Closing Date, to the extent that such program is available in Japan and reasonably necessary for a Transferred Employee in the ordinary course of business.
- (c) Newco shall, and Buyer shall cause Newco to, include the years of continuous employment with Seller or AT&T Japan Ltd. (as the case may be) as part of the years of continuous employment with Newco when calculating periods for paid leave and administrative leave. Seller and Buyer acknowledge that Newco will not rollover the Transferred Employee's years of continuous employment with Seller or AT&T Japan Ltd. (as the case may be) to the Buyer Pension Plan.

8.3 Transition Bonus

Seller shall pay to each Target Employee who accepts an Employment Offer and executes a Resignation Letter a transition bonus ("**Transition Bonus**") on the terms and subject to the conditions set forth in the Resignation Letter, each such Target Employee being a "**Transition Bonus Eligible Employee**". Seller shall pay, as Transition Bonus, up to the aggregate of the amounts offered to each of the Transition Bonus Eligible Employees specified in Schedule 8 as Transition Bonus ("**Transition Bonus Funds**"). On the Closing Date, Seller shall deposit the Transition Bonus Funds by wire transfer to a bank account maintained by Newco that is opened and operated solely for the purpose of receiving Transition Bonus Funds and making the Transition Bonus Payments to the Transition Bonus Eligible Employees ("**Transition Bonus Account**"). Newco shall, and Buyer shall cause Newco to: (i) withdraw any amounts from the Transition Bonus Account only with the prior written consent of Seller, (ii) timely make the Transition Bonus Payments on behalf of Seller on the first anniversary of the Closing Date in accordance with the Resignation Letters, and (iii) promptly transfer back to Seller by wire transfer any monies remaining in the Transition Bonus Account after the Transition Bonus Payments have been made. Newco shall, and Buyer shall cause Newco to, bear all bank charges for wire transfers from Newco to Seller, as contemplated by this Section 8.3. For the avoidance of doubt, for the purpose of this Section 8.3, Newco will be deemed to be acting at all times as Seller's agent and accordingly, Newco will not treat the Transition Bonus Payments as expenses for accounting and Tax purposes.

8.4 Seller Pension Plans

- (a) On or before the Closing, Seller shall, and shall cause AT&T Japan Ltd. to: (i) terminate the Seller Pension Plans, (ii) cause all assets of the Seller Pension Plans to be paid to the Transferred Employees, and (iii) make a lump-sum payment of all retirement benefits that each respective Transferred Employee is eligible to receive from Seller or AT&T Japan Ltd. (as the case may be) in the case of an involuntary retirement pursuant to the employment terms and conditions currently applied to the respective Transferred Employee as of the date of this Agreement.
- (b) In the event that any of the Target Employees are not Transferred Employees for whatever reason, Buyer shall make a one-time payment to Seller or AT&T Japan Ltd. (as the case may be) at Closing equal to ¥890,000 multiplied by the number of the Target Employees who are permanent employees (*seishain*) who do not become Transferred Employees at Closing; provided, however, Target Employees who leave the business without requiring a severance payment between the signing of this Agreement and Closing and Target Employees who have been removed from Schedule 8 upon the agreement of Seller and Buyer will not be counted in the number of such Target Employees.
- (c) Starting on the Closing Date, Buyer shall, or shall cause Newco to, provide each Transferred Employee a pension plan that is no less favorable to the Transferred Employee than the pension plan of a similarly situated employee of Buyer ("**Buyer Pension Plan**").
- (d) If any Transferred Employee cannot be covered by the Buyer Pension Plan from the Closing Date, Buyer shall provide a RAP (retirement annuity policy) solution and accrue for it appropriately. Buyer shall rollover the accrual into the Buyer Pension Plan when each such Transferred Employee is covered by the Buyer Pension Plan.
- (e) Seller shall, or shall cause an Affiliate of Seller to, pay to each Target Employee who becomes a Transferred Employee the amount set out in the pension reduction incentive column for that Target Employee on the Closing Date.
- (f) Starting on the Closing Date until at least the first anniversary of the Closing Date, Buyer shall, or shall cause Newco to, provide each Transferred Employee life insurance coverage comparable to the group life insurance coverage (*sogo fukushi dantai teiki hoken*) each Transferred Employee had prior to Closing. Buyer or Newco shall be responsible for paying all premiums due to maintain this life insurance coverage for the Transferred Employees.

8.5 Transferred Employee Liabilities

- (a) Seller shall, and shall cause AT&T Japan Ltd. to, satisfy at or before the Closing, all of the following Liabilities (as of the Closing Date) as an employer of the Transferred Employees:
 - (i) the Seller Pension Plans applicable to each of the Transferred Employees;
 - (ii) all benefits under executive plans accrued prior to the Closing;
 - (iii) all incentives, awards and bonuses attributable to the period prior to the Closing; and
 - (iv) any amounts to be reimbursed to employees for payments made by such employees in the course of carrying out their work duties during the period prior to Closing (*tatekae mibarai seisankin*).

9. **CONDITIONS PRECEDENT TO SELLER'S AND BUYERS OBLIGATION TO CLOSE**

The respective obligations of Seller and Buyer to consummate the contemplated transactions and to take the other actions required to be taken by Seller or Buyer at the Closing is subject to the satisfaction, on or before the Closing Date, of each of the following conditions:

9.1 Consummation of Corporate Split and Business Transfer

Each of the Corporate Split and the Business Transfer shall have been consummated in accordance with this Agreement.

9.2 Governmental Authorizations

Each of the material Governmental Authorizations required in connection with the contemplated transactions will have been obtained and will be in full force and effect.

9.3 No Prohibition

There must not be in effect any applicable Law or Judgment that prohibits the consummation of the contemplated transactions, and the applicable waiting period under Anti-Monopoly Act in Japan in connection with the contemplated transactions has passed.

9.4 Employees

As of the Closing, no less than 75% of the Target Employees who are permanent employees (*seishain*) have timely accepted the offer of employment extended by Newco in accordance with this Agreement.

10. **CONDITIONS PRECEDENT TO BUYER'S OBLIGATION TO CLOSE**

Buyer's obligation to consummate the contemplated transactions and to take the other actions required to be taken by Buyer at the Closing is subject to the satisfaction, on or before the Closing Date, of each of the following conditions (any of which may be waived by Buyer, in whole or in part):

10.1 Accuracy of Representations

The representations and warranties of Seller in Article 5 must be true and correct in all respects as of the Closing (except to the extent any such representation or warranty speaks as of the date of this Agreement or any other specific date, in which case such representation and warranty must have been true and correct in all respects as of such date), except where the failure of such representations and warranties to be so true and correct (without regard for any "material", "Material Adverse Effect" or similar qualification) would not, individually or in the aggregate, constitute a Material Adverse Effect; and Buyer shall have received a certificate signed by an authorized officer of Seller to such effect.

10.2 Performance

All of the covenants or obligations that Seller is required to perform or comply with under this Agreement on or before the Closing Date (considered both collectively and individually) will have been performed and complied with in all material respects at or prior to Closing.

10.3 Additional Documents

Seller must have delivered to Buyer such documents as Buyer may reasonably request for the purpose of facilitating the consummation or performance of any of the contemplated transactions.

10.4 Ancillary Agreements

Each of Seller, AT&T Japan Ltd. and AT&T Corp. shall have duly and validly executed each Ancillary Agreement to which it is a party.

10.5 Material Adverse Effect

From the date of this Agreement, no Material Adverse Effect shall have occurred.

11. **CONDITIONS PRECEDENT TO SELLER'S OBLIGATION TO CLOSE**

Seller's obligation to consummate the contemplated transactions and to take the other actions required to be taken by Seller at the Closing is subject to the satisfaction, on or before the Closing Date, of each of the following conditions (any of which may be waived by Seller, in whole or in part):

11.1 Accuracy of Representations

The representations and warranties of Buyer in Article 6 must be true and correct in all material respects as of the Closing (except to the extent any such representation or warranty speaks as of the date of this Agreement or any other specific date, in which case such representation and warranty must have been true and correct in all respects as of such date); and Seller shall have received a certificate signed by an authorized officer of Buyer to such effect.

11.2 Buyer's Performance

All of the covenants or obligations that Buyer is required to perform or comply with under this Agreement on or before the Closing Date (considered both collectively and individually) will have been performed and complied with in all material respects.

11.3 Additional Documents

Buyer must have delivered to Seller such documents as Seller may reasonably request for the purpose of facilitating the consummation or performance of any of the contemplated transactions.

11.4 Ancillary Agreements

Buyer shall have duly and validly executed each Ancillary Agreement to which it is a party.

11.5 NTT Shares

AT&T Global Network Assets LLC (or one of its Affiliates) shall have acquired the entire ownership interest of Milletechno, Inc. in Seller.

12. **TERMINATION**

12.1 Termination Events

This Agreement may, by written notice given before or at the Closing, be terminated:

- (a) by mutual consent of Buyer and Seller;
- (b) by Buyer (so long as Buyer is not then in material breach of any of its representations, warranties or covenants contained in this Agreement) if there has been a breach of any of Seller's representations, warranties or covenants contained in this Agreement, which would result in the failure of a condition set forth in Sections 10.1, 10.2 and 10.5, and which breach has not been cured within 30 days after written notice of the breach has been delivered to Seller from Buyer;
- (c) by Seller (so long as Seller is not then in material breach of any of its representations, warranties or covenants contained in this Agreement) if there has been a breach of any of Buyer's representations, warranties or covenants contained in this Agreement, which would result in the failure of a condition set forth in Section 11.1 or Section 11.2, and which breach has not been cured within 30 days after written notice of the breach has been delivered to Buyer from Seller;
- (d) by either Buyer or Seller if any Governmental Body has issued a nonappealable final Judgment or taken any other nonappealable final action, in each case having the effect of permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement; provided however that the right to terminate this Agreement under this Section 12.1(d) will not be available to any party whose failure to fulfill any material covenant under this Agreement has been the cause of or resulted in the action or event described in this Section 12.1(d) occurring; or
- (e) by Buyer if the Closing has not occurred (other than through the failure of Buyer to comply fully with its obligations under this Agreement) on or before six (6) months from the date of this Agreement; or
- (f) by Seller if the Closing has not occurred (other than through the failure of Seller to comply fully with its obligations under this Agreement) on or before six (6) months from the date of this Agreement.

12.2 Effect of Termination

Each party's right of termination under Section 12.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of such right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 12.1, all

obligations of the parties under this Agreement will terminate, except that the obligations in Sections 7.6, 7.7, 7.18, 16.1, 16.2, 16.4, 16.5, 16.6, 16.9 and 16.10 will survive; provided however that if this Agreement is terminated by a party because of the breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

13. **INDEMNIFICATION; REMEDIES**

13.1 Survival, Right to Indemnification; Waiver

- (a) All representations and warranties contained in this Agreement and the Sellers Disclosure Schedule will survive the Closing until the one-year anniversary of the Closing Date; provided however that Section 5.16 (*Tax Matters*), and the right to make claims thereunder, will survive 60 days following the expiration of the applicable statute of limitations. All covenants contained in this Agreement will survive the Closing until the expiration of the applicable statute of limitations or for such shorter period explicitly specified therein.
- (b) All claims for indemnification under this Agreement must be asserted pursuant to a Claim Notice given prior to the expiration of the applicable survival period set forth in this Section 13.1; provided however that any representation, warranty or covenant that is the subject of a claim for indemnification which is asserted pursuant to a Claim Notice given after the Closing Date within the survival period specified in this Section 13.1 will survive until, but only for purposes of, the resolution of such claim.

13.2 Indemnification by Seller

- (a) Subject to the limitations expressly set forth in Section 13.1 and Section 13.5, Seller will indemnify and hold harmless Buyer and its directors, officers, employees, agents, representatives, stockholders and Affiliates (collectively, the "**Buyer Indemnitees**") from and against any and all Losses incurred by Buyer Indemnitees arising or resulting from (a) any breach of any representation or warranty set forth in Article 5 and (b) any breach of any covenant of Seller set forth in this Agreement; provided however that:
 - (i) the limitation set forth in Section 13.5(a)(i) shall not apply to a breach of Section 5.7(c) where such breach is caused by the willful misconduct of Seller, the Subsidiary, Newco or AT&T Japan Ltd., or Section 7.13(a);
 - (ii) the limitation set forth in Section 13.5(a)(ii) shall not apply to a breach of Section 5.5, Section 5.7(c) (where such breach is caused by the willful misconduct of Seller, the Subsidiary, Newco or AT&T Japan Ltd.), Section 7.3, Section 7.10 or Section 7.13(a);
 - (iii) in the event of a breach of Section 5.7(c) by Seller, the Subsidiary, Newco or AT&T Japan Ltd., where such breach is caused by a breach of obligations under agreements with third parties related to the Transferred Business, then solely with respect to Losses to the extent caused by such breaches, the amount of the Deductible shall be ¥200,000,000 (such amount being, the "**5.7(c) Deductible**") rather than 5% of the Purchase Price as contemplated in Section 13.5(a)(ii). For the avoidance of doubt, (a) all Losses of the nature described in this Section 13.2(a)(iii) shall count toward the 5.7(c) Deductible, and up to ¥200,000,000 of Losses caused by breaches of the nature described in this Section 13.2(a)(iii) shall count toward the Deductible set forth in Section 13.5(a)(ii) together with any Losses (to the extent they are Losses subject to indemnity by Seller hereunder) of any other nature and (b) any Losses of a nature other than as described in this Section 13.2(a)(iii) shall not count toward the 5.7(c) Deductible;
 - (iv) the limitation set forth in Section 13.5(a)(iii) shall not apply to a breach of Section 5.7(c) where such breach is caused by the willful misconduct of Seller, the Subsidiary, Newco or AT&T Japan Ltd.
- (b) Notwithstanding the above, Seller's indemnification with respect to Taxes shall be governed by Article 14.

13.3 Indemnification by Buyer

Subject to the limitations expressly set forth in Section 13.1 and Section 13.5, Buyer will indemnify and hold harmless Seller and its directors, officers, employees, agents, representatives, stockholders and Affiliates (collectively, "**Seller Indemnitees**") from and against any and all Losses incurred by Seller Indemnitees arising or resulting from (a) any breach of any representation or warranty set forth in Article 6 and (b) any breach of any covenant of Buyer set forth in this Agreement. Notwithstanding the above, Buyer's indemnification with respect to Taxes shall be governed by Article 14.

13.4 Procedure for Indemnification

- (a) A party that seeks indemnity under this Article 13 (an "**Indemnified Party**") will give written notice (a "**Claim Notice**") to the party from whom indemnification is sought (an "**Indemnifying Party**") whether the Losses sought arise from matters solely between the parties or from Third Party Claims described in Section 13.4(b). The Claim Notice must contain (i) a description and, if known, the estimated amount of any Losses incurred or reasonably expected to be incurred by the Indemnified Party, (ii) a reasonable explanation of the basis for the Claim Notice to the extent of the facts then known by the Indemnified Party and (iii) a demand for payment of those Losses.
- (b) If the Indemnified Party seeks indemnity under this Article 13 in response to a claim or Proceeding by another Person not a party to this Agreement (a "**Third Party Claim**"), then the Indemnified Party will give a Claim Notice to the Indemnifying Party within 10 days after the Indemnified Party has received notice or otherwise learns of the assertion of such Third Party Claim and will include in the Claim Notice (i) the facts constituting the basis for such Third Party Claim and the amount of the damages claimed by the other Person, in each case to the extent known to the Indemnified Party, accompanied by reasonable supporting documentation submitted by such third party (to the extent then in the possession of the Indemnified Party) and (ii) the assertion of the claim or the notice of the commencement of any Proceeding relating to such Third Party Claim; provided however that no delay or deficiency on the part of the Indemnified Party in so notifying the Indemnifying Party will relieve the Indemnifying Party of any Liability under this Agreement except to the extent such delay or deficiency prejudices or otherwise adversely affects the rights of the Indemnifying Party with respect thereto.
- (c) In the event of a Third Party Claim, the Indemnifying Party will be entitled to participate in the defense thereof at its own expense and to the extent permitted by law, and, if it so chooses, assume at any time control of the defense thereof with counsel reasonably satisfactory to the Indemnified Party by giving to the Indemnified Party written notice of its intention to assume control of the defense of such Third Party Claim to the extent permitted under applicable Law; provided however that to the extent permitted by applicable Law, the Indemnified Party may participate in the defense of such Third Party Claim with its own counsel at its own expense.
- (d) The Indemnifying Party will not agree to any settlement of, or consent to the entry of any Judgment (other than a Judgment of dismissal on the merits without costs) arising from, any such Third Party Claim without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld); provided however that the consent of the Indemnified Party will not be required if the Indemnifying Party agrees in writing to pay any amounts payable pursuant to such settlement or any Judgment and such settlement or Judgment includes a full, complete and unconditional release of the Indemnified Party from further Liability. The Indemnified Party will not agree to any settlement of, or the entry of any Judgment (other than a Judgment of dismissal on the merits without costs) arising from, any such Third Party Claim without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld).

13.5 Limitations on Liability

(a) Cap and Deductible

Notwithstanding anything to the contrary contained in this Agreement (but excluding indemnification under Article 14):

- (i) no indemnification payments will be made by or on behalf of the Seller under this Agreement in respect of any individual claim or series of claims having the same nature or origin where the Losses relating thereto are less than ¥2,000,000 and such items less than ¥2,000,000 will not be aggregated for purposes of calculating the Deductible in clause (ii) below. For avoidance of doubt, examples of claims having the same nature or origin include each of the following type of claim: (i) claims relating to failure to pay circuit fees charged by the Carriers, (ii) claims relating to failure to pay amounts due under contracts for the supply of non-payroll workers (*haken keiyaku*), (iii) claims relating to failure to pay amounts due under outsourcing contracts (*gyomu itaku keiyaku*), and (iv) claims relating to failure to pay rent, in each case relating solely to the Transferred Business;
- (ii) subject to Section 13.2(a)(iii), no indemnification payments will be made under this Agreement until the aggregate amount of Losses for which each party to this Agreement would (but for this clause (ii)) be liable thereunder exceeds 5% of the Purchase Price (such amount being, the "**Deductible**"), and then only to the extent of such excess over the Deductible; and
- (iii) the aggregate total amount in respect of which each party to this Agreement will be liable to indemnify and hold harmless the Indemnified Party pursuant to this Agreement will not exceed 15% of the Purchase Price.

(b) Knowledge of Breach

The right of any Indemnified Party to indemnification pursuant to this Article 13 will not be affected by any investigation conducted or knowledge acquired (or capable of being acquired) after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy of any representation or warranty, or performance of or compliance with any covenant or agreement, referred to in Articles 5, 6, 7 and 8. The waiver of any condition contained in this Agreement or in any Ancillary Agreement based on the breach of any such representation or warranty, or on the performance of or compliance with any such covenant or agreement, will not affect the right of any Indemnified Party to indemnification pursuant to this Article 13 based on such representation, warranty, covenant or agreement.

(c) Tax Refunds, Insurance Proceeds and Other Payments

The amount of any and all Losses for which indemnification is provided pursuant to this Article 13 will be net of any Tax benefit to which an Indemnified Party is entitled by reason of payment of such Liability (taking into account any Tax cost or reduction in such Tax benefits by reason of receipt of the indemnification payment) and any amounts of any insurance proceeds, indemnification payments, contribution payments or reimbursements receivable by, or payable in kind to, the Indemnified Party with respect to such Losses or any of the circumstances giving rise thereto. In connection therewith, if, at any time following payment in full by the Indemnifying Party of any amounts of Losses due under this Agreement, the Indemnified Party receives any insurance proceeds, indemnification payments, contribution payments or reimbursements relating to the circumstances giving rise to such Losses, the Indemnified Party will promptly remit to the Indemnifying Party such proceeds, payments or reimbursements in an amount not to exceed the amount of the corresponding indemnification payment made by the Indemnifying Party. The Buyer will use (and will cause its Affiliates to use) commercially reasonable efforts to collect the proceeds of any available insurance which would have the effect of reducing any Losses (in which case the net proceeds thereof will reduce the Losses).

(d) Mitigation

The Indemnified Party will use its commercially reasonable efforts to mitigate any Losses with respect to which it may be entitled to seek indemnification pursuant to this Agreement.

(e) Subrogation

The Indemnifying Party will be subrogated to all rights and remedies of the Indemnified Party against any Person not party to this Agreement for any Losses pursuant to this Agreement with respect to any claim by such third party, and the Indemnified Party will cooperate with and assist the Indemnifying Party in asserting all such rights and remedies against such third party.

13.6 Exclusive Remedy

If the Closing occurs, then from and after the Closing the sole and exclusive remedy of Buyer for breach of any representation or warranty or any other provision of this Agreement will be pursuant to the indemnification obligations set forth in Article 13 or Article 14; provided however, that, (i) Buyer shall be entitled to specific performance and injunctive relief to the extent allowed under Japanese law, and (ii) no claim for or in connection with fraud, intentional misrepresentation, or willful misconduct shall be subject to the limitation set forth in this Section 13.6, nor shall any provision of this Section 13: (A) be interpreted as an agreement as to the amount of indemnification as contemplated in Article 420 of Civil Code of Japan, or (B) otherwise prohibit Buyer from exercising any remedy under the Laws of Japan applicable to such a claim.

14. **TAX MATTERS**

14.1 Liability and Indemnification for Taxes

- (a) If the Closing occurs, subject to Section 14.1(e), and except to the extent any Taxes are reserved or accrued on the Balance Sheet, Seller will indemnify the Buyer Indemnitees against all Losses (i) for all Taxes of Newco that are attributable to Pre-Closing Periods, (ii) for all Taxes attributable to any breach of Seller's representations and warranties set forth in Section 5.16 and (iii) for all Taxes of Newco (including as secondary tax liability or *dai-niji nozei gimu* as defined under Article 38 of the National Tax Collection Act and joint tax liability or *rentai nofu no sekinin* as defined under Article 9-2 of the Act on General Rules for National Tax) attributable to any breach by Seller of Section 14.2(b).
- (b) If the Closing occurs, Buyer will indemnify the Seller Indemnitees against all Losses for all Taxes of Newco that are attributable to any Post-Closing Period.
- (c) If the Closing occurs, Buyer will indemnify the Seller Indemnitees against all Taxes and Losses of Seller that arise from or are attributable to any breach by Buyer of Section 14.7 or Section 14.8.
- (d) Seller will not be required to indemnify the Buyer Indemnitees for reductions in any Tax Attributes. Seller will not be required to indemnify the Buyer Indemnitees against Losses for Taxes attributable to a Pre-Closing Period to the extent such Losses for Taxes could be reduced under applicable Law by reason of Tax Attributes arising in the Pre-Closing Period (assuming for the purposes of this sentence that such Tax Attributes are not used to reduce Taxes in the Post-Closing Period).
- (e) This Article 14 constitutes the sole and exclusive responsibility of Seller or Buyer with respect to indemnification relating to Losses for Taxes.

14.2 Tax Return Filing; Audit Responsibilities

- (a) Except as set forth in Section 14.2(b), Buyer will control and be responsible for the filing of all Tax Returns required to be filed with respect to Newco which relates solely to Post-Closing Periods. All such Tax Returns will be completed in accordance with past practice to the extent permitted by applicable Law. Buyer will cause Newco to make all payments required with respect to any such Tax Return.
- (b) If the Closing occurs, Seller will (i) timely file, and will cause Subsidiary and AT&T Japan Ltd. to timely file, all Tax Returns as appropriate to report the Business Transfer and the Corporate Split, and (ii) timely pay, and will cause Subsidiary and AT&T Japan Ltd. to pay, all Taxes shown to be due on such Tax Returns.

- (c) If the Closing occurs, Seller will control and be responsible for the preparation and filing of all Tax Returns of Newco related to Pre-Closing Periods that are required to be filed after the Closing Date. All such Tax Returns will be completed in accordance with past practice to the extent permitted by applicable Law. Seller will promptly make all payments to Newco that Newco is required to pay with respect to any such Tax Returns.
- (d) In the event that Seller or Buyer is liable under this Agreement for any Taxes of Newco paid by the other party with respect to any Tax Return relating to Newco, prompt reimbursement will be made.
- (e) If Buyer or Newco receives notice of a Tax Contest with respect to Newco which could reasonably be expected to cause Seller to have an indemnification obligation under this Article 14, then Buyer will notify Seller in writing of such Tax Contest within five (5) Business Days of receiving such notice. Seller will have the right to control the conduct and resolution of such Tax Contest; provided however that Seller may decline to participate in such Tax Contest. If Seller controls the conduct of such Tax Contest, Seller will not resolve such Tax Contest, to the extent such Tax Contest relates to Taxes for any Post-Closing Period, without Buyer's written consent, which consent will not be unreasonably withheld, conditioned or delayed. If Seller declines to control a Tax Contest pursuant to this Section 14.2(e), then Buyer will have the right to control the conduct of such Tax Contest; provided however that Buyer will not resolve a Tax Contest without Seller's written consent, which consent will not be unreasonably withheld, conditioned or delayed. Each party will bear its own costs for participating in such Tax Contest.
- (f) Any refunds (including any interest payable on any refund) and credits attributable to the payment of Taxes of Newco for a Pre-Closing Period will be for the account of Seller, and Buyer will promptly cause Newco to pay to Seller any such refund (including any interest payable on any refund) or credit.
- (g) To the extent not inconsistent with the provisions of this Section 14.2, the procedures of Section 13.4 will apply in the case of any claim for Losses related to Taxes.

14.3 Cooperation

Each of Seller and Buyer agrees that it will:

- (a) provide assistance to the other party as reasonably requested in preparing and filing Tax Returns and responding to Tax Contests with respect to Newco;
- (b) make available to the other party as reasonably requested all information, records, and documents relating to Taxes concerning Newco; and
- (c) retain any books and records that could reasonably be expected to be necessary or useful in connection with any preparation by the other party of any Tax Return relating to Newco or for any Tax Contest or other examination or Proceeding relating to Taxes of Newco. Such books and records will be retained until the expiration of the applicable statute of limitations (including extensions thereof).

14.4 Indemnification Payments

Any indemnification payment made under this Agreement will be treated as an adjustment to the Purchase Price for all Tax purposes unless otherwise required by applicable Tax Law.

14.5 No Deduction of Taxes from Purchase Price

All payments of the Purchase Price due to Seller hereunder will be made without deduction or withholding for or on account of any present or future taxation, including without limitation any Transfer Taxes (including consumption Tax) or withholding Taxes that may arise in connection with the consummation of the contemplated transactions.

14.6 Transaction Taxes

Buyer and Seller will equally bear and pay in a timely manner all registration and stamp Taxes due under Japanese laws ("Transfer Taxes"), arising out of or in connection with or attributable to the Business Split Transactions effected pursuant to this Agreement, regardless of whether such Transfer Taxes are imposed by Law on Buyer, Seller, the Subsidiary, AT&T Japan Ltd. or Newco.

14.7 Intended Tax Treatment

- (a) Seller agrees that the Business Transfer (i) is a taxable transaction and does not constitute tax-free exchanges under any applicable provisions of the Code, and (ii) will not result in a carryover of tax basis or any other Tax Attributes under any applicable Tax Laws of Japan or the Tax Laws of other jurisdictions (collectively, the "Seller's Intended Tax Treatment").
- (b) Buyer agrees that (i) Newco succeeds to the Transferred Assets and assumes the Transferred Liabilities, (ii) the Transferred Assets and Transferred Liabilities will be received and assumed by Newco at fair market value upon the Business Transfer, under Japanese income Tax Law pertaining to taxable business, (iii) the amount of goodwill ("*Shisan-chosei-kanjyo*" or "*Fusai-chosei-kanjyo*") received in connection with the Business Transfer will be determined in accordance with Japanese Corporation Tax Law Article 62(8), and (iv) under Japanese income Tax Laws, no net operating losses or tax credits will be transferred to Newco in connection with the Business Transfer (collectively, the "Buyer's Intended Tax Treatment").
- (c) Unless otherwise required by a Governmental Body or a court, Seller and Buyer will report consistently with the Seller's Intended Tax Treatment and the Buyer's Intended Tax Treatment, respectively, on all Tax Returns.

14.8 Tax Deductions for Japanese Purposes

Buyer agrees that it will ensure that Newco will not claim any tax deductions for Japanese income Tax purposes with respect to any portion of the Retained Liabilities that were actually retained by Seller and were actually not (i) transferred to Newco through the Business Transfer or (ii) discharged by Newco, and agrees not to file a Tax Return of Newco in a jurisdiction other than Japan in a manner inconsistent with Section 14.7(b) and this Section 14.8 for a period of five (5) years following Seller's fiscal year 2010 ending December 31, 2010.

14.9 Usage of Defined Terms

For the purposes of Section 14.7(b) and Section 14.8, references to "Transferred Assets", "Transferred Liabilities" and "Retained Liabilities" shall have the meaning ascribed to them in the LLC Business Transfer Agreement.

15. **NON-COMPETE; NON-SOLICIT**

15.1 Restrictions on Seller

- (a) Seller agrees with Buyer that, except with the consent of Buyer, for a period of 2 years after the Closing Date (“Restricted Period”), neither Seller nor any Affiliate of Seller shall, directly or indirectly, provide to any Transferred Customer:
 - (i) any JNOS Services; or
 - (ii) any GS Services that would directly replace any GS Services provided to that Transferred Customer by Newco at the same location as were being provided as of the Closing Date.
- (b) As of the date of this Agreement, Seller and Buyer acknowledge that neither Seller nor any Affiliate of Seller has any intention to make Seller Business Solicitation to any Domestic Customer during the Restricted Period.

15.2 Exceptions from Restrictions on Seller

Section 15.1 shall not apply with respect to any Post-Closing Acquired Business or any Post-Closing Exempt Company; provided, however, that the exceptions to the restrictions in Section 15.1 with respect to a Post-Closing Acquired Business or a Post-Closing Exempt Business are intended to apply only as a result of bona fide acquisition or disposition transactions involving an AT&T company and a third party, where the value of the transaction is in excess of US\$200 million or the majority of the assets and operations of the businesses acquired or disposed of in the transaction are located outside of Japan. During the Restricted Period, neither Seller nor any of its Affiliates shall be permitted to use any Information regarding a Transferred Customer for purposes of soliciting Transferred Customers in relation to the provision of the services contemplated in Section 15.1. In addition, nothing in Section 15.1 shall prevent or restrict Seller or any Affiliate of Seller from:

- (a) providing services (including JNOS Services) to a Transferred Customer that has ceased to be a customer of Buyer or its Affiliates (other than as a result of any breach of Section 15.1);
- (b) providing services (including any JNOS Services) as expressly contemplated under this Agreement or any Ancillary Agreement;
- (c)
 - (i) subject at all times to Section 15.2(c)(ii)(A), under which Seller would not replace any JNOS Services or GS Services that are provided to that Transferred Customer by Newco at the same location as were being provided as of the Closing Date, providing services (including JNOS Services) to any Transferred Customer if the revenue to be received by Seller and its Affiliates from the Transferred Customer for services to be provided outside of Japan is reasonably expected to be no less than fifty-one percent (51%) of the total revenue reasonably expected to be received by Seller and its Affiliates from the Transferred Customer with respect to all of such services. The determination of expected revenue for purposes of this Section 15.2(c) shall be made by Seller in good faith using reasonable methodologies and assumptions. For the avoidance of doubt, if Seller or its Affiliates enter into arrangements in reasonable good faith with reliance on this Section 15.2(c), Seller and its Affiliates shall not have any restriction under Section 15.1 regardless whether in the future revenue mix changes;
 - (ii) to the extent Seller or any of its Affiliates relies solely on Section 15.2(c) to be in compliance with this Article 15:
 - (A) Seller shall not replace any JNOS Services or GS Services that are provided to that Transferred Customer by Newco at the same location as were being provided as of the Closing Date;
 - (B) with respect to a particular opportunity that does not directly replace JNOS Services or GS Services that are provided to that Transferred Customer by Newco at the same location as were being provided as of the Closing Date, Seller will give Newco an opportunity to present a bid to Seller to support the applicable portion of the JNOS Services under the Domestic Services Agreement or other agreement as the parties may agree, and will use Newco during the Restricted Period to support the applicable portion of the JNOS Services under the Domestic Services Agreement or other agreement as the parties may agree if Seller determines that the pricing and other terms are the best available to Seller.

For the avoidance of doubt, Section 15.1(a)(ii) shall not apply to any Transferred Customer that is also a Retained Customer.

15.3 Restrictions on Newco

Buyer agrees with Seller that, except with the consent of Seller, during the Restricted Period, Buyer shall cause Newco and any of its Affiliates that Newco controls not to directly or indirectly provide to any Retained Customer:

- (a) any GS Services; or
- (b) any JNOS Services that would directly replace any JNOS Services provided to that Retained Customer by Seller or the Subsidiary at the same location as were being provided as of the Closing Date.

In addition, during the Restricted Period, neither Buyer nor any of its Affiliates shall be permitted to use any Information regarding a Retained Customer received from Seller or Newco in connection with the transactions contemplated by this Agreement and the Ancillary Agreements for purposes of soliciting Retained Customers in relation to the provision of the services contemplated in this Section 15.3, nor to have any Transferred Employee to undertake any activity that Newco would be precluded from undertaking directly under this Section 15.3.

For the avoidance of doubt, this Section 15.3 shall restrict Newco and its Affiliates that Newco controls in accordance with its terms, and except as provided in the immediately preceding paragraph, nothing in this Section 15.3 shall restrict in any way any businesses that are or will be conducted by Buyer or its Affiliates other than Newco and any of its Affiliates that Newco controls.

15.4 Exceptions from Restrictions on Newco

Nothing in Section 15.3 shall prevent or restrict Newco from:

- (a) providing services (including any GS Services) to a Retained Customer that has ceased to be a customer of Seller or its Affiliates (other than as a result of any breach of Section 15.3);
- (b) providing services (including any GS Services) as expressly contemplated under this Agreement or any Ancillary Agreement.

For the avoidance of doubt, Section 15.3(b) shall not apply to any Retained Customer that is also a Transferred Customer.

15.5 Employee Solicitation Restriction on Seller and Buyer

During the Restricted Period, other than through public advertising not focused on or addressed with specificity to a party's personnel:

- (a) neither Seller nor any Affiliate of Seller shall, without the prior written consent of Buyer, solicit the employment of any personnel of Buyer or its Affiliates, including Newco, who are, as of the Closing Date, substantially involved in any aspect of the provision of the Transferred Business; provided however that, the general solicitations or employment advertisements not specifically targeted at such personnel shall not be restricted under Section 15.5(a); and
- (b) neither Buyer nor any Affiliate of Buyer shall, without the prior written consent of Seller, solicit the employment of any personnel of Seller or its Affiliates, who are, as of the Closing Date, substantially involved in any aspect of the provision of the Retained Business; provided however that, the general solicitations or employment advertisements not specifically targeted at such personnel shall not be restricted under this Section 15.5(b).

16. **GENERAL PROVISIONS**

16.1 Expenses

Except as otherwise expressly provided in this Agreement, each party will bear its respective expenses incurred in connection with the preparation, execution and performance of this Agreement and the contemplated transactions. If this Agreement is terminated, the obligation of each party to pay its own expenses will be subject to any rights of such party arising from a breach of this Agreement by the other party.

16.2 Notices

All notices, consents, waivers and other communications under this Agreement will be in English, in writing and will be deemed given to a party when (a) delivered to the appropriate address by hand or by courier service (costs prepaid); (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment; or (c) received or rejected by the addressee, if sent by certified mail, return receipt requested; in each case to the following

addresses, facsimile numbers or e-mail addresses and marked to the attention of the individual (by name or title) designated below (or to such other address, facsimile number, e-mail address or individual as a party may designate by notice to the other party):

If to Seller:

AT&T Management Services, L.P.

Attention: Peter H. Knag - Senior Executive Director, Corporate Development
Address: 208 S. Akard Street – Room 3224, Dallas, TX 75202, USA
Facsimile No.: +1-214-746-2217
e-mail address: peter.knag@att.com

With a copy also, which shall not constitute notice for this purpose, to:

AT&T Management Services, L.P.

Attention: Chris F. Cass - Director, Corporate Development
Address: 208 S. Akard Street – Room 3221, Dallas, TX 75202, USA
Facsimile No.: +1-214-746-2217
e-mail address: chris.cass@att.com

and

AT&T Services, Inc.
Attention: Bill Caldwell-General Attorney M&A
208 S. Akard
Dallas, TX 75202
Facsimile No.: 214-746-2216
Email address: wc2842@att.com

If to Buyer:

Internet Initiative Japan Inc.
Attention: Akihisa Watai - CFO
Address: 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
Facsimile No.: +81-3-5205-6441
e-mail address: watai@ij.ad.jp

With a copy also, which shall not constitute notice for this purpose, to:

Internet Initiative Japan Inc.
Attention: Akira Sumiya - Manager Legal Division
Address: 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
Facsimile No.: +81-3-5205-6411
e-mail address: sumiya@ij.ad.jp

16.3 Further Actions

Upon the request of any party to this Agreement, the other parties will (a) furnish to the requesting party any additional information, (b) execute and deliver, at their own expense, any other documents and (c) take any other actions as the requesting party may reasonably require to more effectively carry out the intent of this Agreement and the contemplated transactions.

16.4 Incorporation of Schedules and Exhibits

The Schedules and Exhibits identified in this Agreement, including Seller Disclosure Schedule, are incorporated herein by reference and made a part of this Agreement.

16.5 Entire Agreement and Modification

This Agreement supersedes all prior agreements among the parties with respect to its subject matter and constitutes (along with the documents delivered pursuant to this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended, supplemented or otherwise modified except in a written document executed by the party against whose interest the modification will operate.

16.6 Severability

If a court of competent jurisdiction holds any provision of this Agreement invalid or unenforceable, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

16.7 Assignments; Successors; No Third Party Rights

No party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other party. Nothing expressed or referred to in this Agreement will be construed to give any Person, other than the parties to this Agreement, any legal right, remedy or claim under or with respect to this Agreement or any provision of this Agreement except such rights as may inure to a successor or permitted assignee pursuant to this Section.

16.8 Waiver

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither any failure nor any delay by a party in exercising any right, power or privilege under this Agreement or any of the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege.

16.9 Governing Law

This Agreement will be governed by and construed under the laws of Japan, without regard to conflicts of laws principles that would require the application of any other law.

16.10 Jurisdiction

All disputes, controversies, or differences which may arise between the parties out of or in relation to or in connection with this Agreement, or of the breach thereof, will be subject to the exclusive jurisdiction of the Tokyo District Court.

16.11 Counterparts; Language

This Agreement may be executed in one or more counterparts. This Agreement has been prepared and executed in the English language only.

[Remainder of page intentionally left blank; signature page follows.]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

AT&T Japan LLC

By: _____
Name: Ronald E. Spears
Title: President and Chief Executive Officer, AT&T Business Solutions LLC
Authorized Signatory of AT&T Japan LLC

Internet Initiative Japan Inc.

By: _____
Name: Koichi Suzuki
Title: Representative Director and CEO

[Remainder of page intentionally left blank; Schedules and Exhibits follow.]

Seller Disclosure Schedule

List of Schedules

Schedule 5.3	No Conflict
Schedule 5.10	Tangible Personal Property
Schedule 5.11(a)	Transferred Sites
Schedule 5.15	Material Transferred Contracts
	Schedule 5.15(a)(i) Top 25 Customers
	Schedule 5.15(a)(ii) Top 5 Business Partners
	Schedule 5.15(a)(iii) Top 5 IBM End-Users
	Schedule 5.15(a)(iv) Finance Contracts
	Schedule 5.15(a)(v) Material IP Licenses
	Schedule 5.15(a)(vi) Resale Contracts
	Schedule 5.15(a)(vii) Non-Compete
	Schedule 5.15(a)(viii) Transactions with Affiliates
	Schedule 5.15(a)(ix) Data Centre Service Agreement with Infocom Corporation Contract
	Schedule 5.15(a)(x) Subscription Agreement with E-Net Co., Ltd.
	Schedule 5.15(a)(xi) Carrier Commissions Contracts
	Schedule 5.15(b) Missing Contracts
Schedule 5.18	Governmental Authorization
Schedule 5.19	Compliance with Laws
Schedule 5.20(a)	Product Warranties; Defects; Liabilities – Defects; Liabilities
Schedule 5.20(b)	Product Warranties; Defects; Liabilities – Product Warranties
Schedule 5.21	Insurance
Schedule 5.23(a)	Employment and Labor Matters – List of Work Rules, etc.
Schedule 5.23(b)	Employment and Labor Matters – No Unions, Disputes or Claims, etc.

List of Exhibits

- Exhibit 1.1(a) Form of AT&T Global Master Carrier Agreement
 - Attachment A Initial Services*
 - Schedule 1*
- Exhibit 1.1(b) Form of Domestic Services Agreement
 - Appendix A Definitions*
 - Appendix B General Terms & Conditions*
 - Appendix C Form of Change Order*
 - Appendix D Taxes*
 - Appendix E Insurance*
 - Appendix F Quality Assurance*
 - Appendix G Security Requirements*
 - Exhibit 1 AT&T Supplier Information Security Requirements*
 - Appendix H Background Checks*
 - Appendix I Notices*
 - Appendix J Statement of Work (SOW) *
 - Exhibit A Carrier Interface Agreements*
 - Exhibit B Carrier Management Demand Set*
 - Exhibit C Secure IP WAN Demand Set*
 - Exhibit D SecureIP WAN Service Description*
 - Exhibit E Invoicing Requirements*
 - Exhibit F Services Pricing*
 - Appendix K Reimbursable Expenses*
 - Appendix L Target Employees*
- Exhibit 1.1(c) Form of Guaranty*
- Exhibit 1.1(d) LLC Terms of Business Transfer
 - Annex 2(a)(i) Summary of Fixed Assets*
 - Annex 2(a)(ii) List of Fixed Assets*
 - Annex 2(b)(i) Summary of Accounts Receivable*
 - Annex 2(b)(ii) Billed Accounts Receivable*
 - Annex 2(b)(iii) Unbilled Accounts Receivable*
 - Annex 2(b)(iv) Unapplied Cash*
 - Annex 2(b)(v) Contra Revenue and Bad Debt*
 - Annex 2(c) Contracts*
 - IBM End-User Contracts*
 - Supplier Contracts*
 - Reseller Contracts*
 - Annex 2(d) Leased Real Property*
 - Annex 2(f)(i) Other Assets (1) *
 - Annex 2(f)(ii) Other Assets (2) *
 - Annex 2(i) Inventory*
 - Annex 4(a)(i) Summary of Trade Accounts Payable*
 - Annex 4(a)(ii) List of Trade Accounts Payable*
 - Annex 4(b)(i) Accrued Invoices*
 - Annex 4(b)(ii) Accrued Invoices*
 - Annex 4(b)(iii) Accrued Invoices*
 - Annex 4(b)(iv) Accrued Invoices*
 - Annex 4(b)(v) Accrued Invoices*
 - Annex 4(c) *
 - AGN Circuit Accruals*
 - Executive Incentive Plan*
 - Annex 4(d) Advanced Billing and Other Deferred Payments*
- Exhibit 1.1(e) LTD Terms of Business Transfer
 - Annex 2(a)(i) List of Fixed Assets*
 - Annex 2(b) Contracts*
 - Annex 2(c)(i) Other Assets*
 - Annex 4(a) List of Trade Accounts Payable*
 - Annexes 4(b)(i) Accrued Invoices*
 - Annexes 4(b)(ii) Accrued Invoices*
 - Annex 4(d) *
 - Accrued Compensation Absences*
 - Executive Incentive Plan *

Exhibit 1.1(f) Form of Split Agreement
Exhibit Schedule of Rights and Obligations to be Assumed*
1 Assets*
2 Liabilities*
3 Contractual Status and Associated Rights and Obligations*
Annex 1 Assets*
Annex 2 (a) Customer Contracts – Direct Customers*
Annex 2 (b) Business Partner Contracts – Not Shared*
Annex 2 (c) Shared Business Partner Contracts – Contract Split Agreed*
Annex 2 (d) Transferred Business Partners*
Annex 2 (e) Shared Global Services Contracts – Contracts Split Agreed*
Annex 2 (f) Carrier Commissions Contracts*

Exhibit 1.1(g) Form of Transition Services Agreement (Newco to Seller)
SCHEDULE I GENERAL PRINCIPLES*
SCHEDULE II REAL ESTATE*
SCHEDULE III CASH-IN INFORMATION: RECEIVABLES*
SCHEDULE IV REIMBURSEMENT OF PAYABLES*
SCHEDULE V DATA SECURITY*
SCHEDULE VI BILLING SUPPORT*
SCHEDULE VII SYSTEMS SUPPORT*
SCHEDULE VIII CIRCUIT INVENTORY*
SCHEDULE IX NETWORK CONNECTIVITY*
SCHEDULE X PAYROLL SYSTEMS SUPPORT*
SCHEDULE XI CONTRACTED LABOR*
Exhibit A Contracted Labor Estimate*

Exhibit 1.1(h) Form of Transition Services Agreement (Seller to Newco)
SCHEDULE I GENERAL PRINCIPLES*
SCHEDULE II CUSTOMER BILLING DATA & ACCOUNT MANAGEMENT SERVICES*
SCHEDULE III CASH-IN INFORMATION: RECEIVABLES*
SCHEDULE IV REIMBURSEMENT OF PAYABLES*
SCHEDULE V LAN SEPARATION*
SCHEDULE VI DATA SEPARATION AND TRANSFER*
SCHEDULE VII BUSINESS PARTNER CONTRACT SEPARATION*
SCHEDULE VIII FINANCIAL INFORMATION*
SCHEDULE IX REAL ESTATE - EMPLOYEE LOCATION*
SCHEDULE X REAL ESTATE - LEASE TRANSITION*
SCHEDULE XI SYSTEMS SUPPORT: TRANSFERRED SYSTEMS AND SOFTWARE*
SCHEDULE XII CONTRACTED LABOR*
SCHEDULE XIII SHARED GLOBAL SERVICES CUSTOMER CONTRACT TRANSITION*
SCHEDULE XIV THIRD PARTY SOFTWARE PURCHASED THROUGH CORPORATE CONTRACTS*

*Schedules, annexes and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. IJ agrees to furnish supplementary copies of the omitted schedules, annexes and similar attachments to the SEC upon request.



AT&T Global Master Carrier Agreement

CUSTOMER Name (Full Legal Name): Communications Services KK ("CUSTOMER")	AT&T Corp., A New York corporation("AT&T")	AT&T Sales Representative: Junya Yamada
CUSTOMER Name (and Title) for Notice: Toshinori Iwasawa, Representative Director	AT&T Name (and Title) for Notice: Sean McCarthy Executive Director, Global Wholesale Global Service Provider Management	AT&T Contact Telephone Number: +813 3584 4725
CUSTOMER Address: 2-10-1, Toranomon, Minato-ku	AT&T Address: 340 Mount Kemble Avenue S-204	Initial Deposit or other Security Required: Initial Deposit Waived
City State/Province Tokyo	City State/Province Morristown NJ	
Country Postal Code Japan 105-0001	Country Postal Code United States 07960	
CUSTOMER Fax number for Notice: +813 5545 9470	AT&T Fax number for Notice: +1 973 326 4278	

This **AT&T Global Master Carrier Agreement** (the "Agreement") consists of this Cover Sheet, the Special Terms and Conditions referenced in the Table of Documents below; Attachment A to the Special Terms and Conditions referenced below, any executed Pricing Schedules, and any Applicable Tariffs and AT&T Service Guides. In the event of any inconsistency, precedence will be given to the documents in the following order: (1) this Cover Sheet; (2) Pricing Schedule (if applicable); (3) Attachment A; (4) the Special Terms and Conditions; and (5) AT&T Service Guide (if applicable) or Applicable Tariff.

This Agreement shall be legally binding when signed by both parties and shall continue in effect until the end of the longest term specified in an Attachment, or until otherwise terminated pursuant to this Agreement. The rates and commitments shall be effective as provided in each Attachment.

<u>Table of Documents</u>		
<u>Title</u>	<u>Doc. ID</u>	<u>Date/time stamp</u>
Special Terms and Conditions	GMCA 110909.doc	11/17/2008 1:07 pm
Attachment A		

AGREED:
Communications Services KK
By: _____
(Authorized CUSTOMER Signature)
Chris F. Cass
Director
Date: September 1, 2010

AGREED:
AT&T Corp.
By: _____
(Authorized Agent or Representative for AT&T)
Sean McCarthy
Executive Director, Global Wholesale Global Service Provider Management
Date: September 1, 2010

10/19/2006 3:44 PM AT&T and Customer Confidential Information

This document and information contained herein may be disclosed only to authorized persons, and may be used only for authorized purposes, in accordance with applicable agreements.

SPECIAL TERMS AND CONDITIONS

1. **Provision of Services.** AT&T agrees to provide to CUSTOMER the AT&T services described in this Agreement (collectively, the "Services"). AT&T is not responsible for the quality of transmission or signaling on CUSTOMER's side of the network interface between AT&T and CUSTOMER. Service is furnished subject to (a) the availability of the Service Components required, (b) operational and systems constraints, and (c) if applicable, third party supplier consent to allow CUSTOMER to resell such third party Service Components or Services.

AT&T may suspend or discontinue the provision of any Service or portion thereof upon as much prior notice to CUSTOMER as feasible, up to 45 days, (i) if provision of such Service(s), or portion thereof, is determined to be a violation of any applicable law, rule or regulation or (ii) to the extent that AT&T's supplier withdraws the availability of the Service from AT&T. AT&T will use reasonable efforts to provide a functionally equivalent substitute service that does not violate any applicable law, rule or regulation, at mutually agreed rates, terms and conditions. If AT&T is unable to provide such substitute service, CUSTOMER shall pay for any portion of the discontinued Service it has used and AT&T will provide a refund to CUSTOMER of any amounts paid for the discontinued Service that it has not used. AT&T will waive any charges arising solely because of Customer's failure to meet term, revenue or volume commitments due to AT&T's termination of Service.

2. Pricing.

2.1. The Pricing for the Services set forth on Attachment A hereto (the "Initial Services") shall be as set forth on Attachment A.

2.2 To the extent CUSTOMER wishes to purchase any Services other than those Initial Services described on Attachment A ("Future Services"), the pricing for the Future Services shall be as mutually agreed, by Service type, in an executed Pricing Schedule (each, a "Pricing Schedule"). For the avoidance of doubt, Future Services includes renewals (excluding automatic renewals which expire prior to the expiration of the Term of Attachment A) of any Initial Service and incremental Services.

2.3 AT&T reserves the right to increase charges as a result of: (i) expenses incurred by AT&T reasonably relating to regulatory assessments stemming from an order, rule or regulation of the Federal Communications Commission or other regulatory authority or court having competent jurisdiction (including but not limited to payphone, PICC and USF related expenses and E911 and deaf relay charges); or (ii) in the case of local exchange Services and voice over Internet protocol applications and Services, the price or availability of network elements used in the provision of the Services, amounts other carriers are required to pay to AT&T or the amount AT&T is required to pay to other carriers in connection with the provision of the Services to Customer under an applicable Pricing Schedule.

3. **Billing and Payment for the Services.** CUSTOMER is liable for all amounts due to AT&T under this Agreement. Charges will be quoted and invoices shall be paid in U.S. dollars, except as otherwise provided in an Attachment or invoice. Payment is due within thirty days after the bill date, except as otherwise provided below with respect to Billing Disputes. Payment must refer to the invoice number.

4. **Non-Payment.** AT&T may add interest charges to any past due amounts at the lower of 1.5% per month or the maximum rate allowed by law. CUSTOMER shall reimburse AT&T for reasonable attorney's fees and any other costs associated with collecting delinquent or dishonored payments. Restrictive endorsements or other statements on checks accepted by AT&T will not apply.

5. **Billing Disputes.** To dispute a charge on a bill, CUSTOMER must identify the specific charge in dispute and provide a full written explanation of the basis for the dispute using a standard AT&T billing dispute form within 90 days after the bill date. CUSTOMER may withhold payment of a charge subject to a good faith dispute provided: (a) CUSTOMER submits the billing dispute, using a standard AT&T billing dispute form, within thirty days after the bill date; (b) CUSTOMER pays the undisputed portion of all charges; and (c) CUSTOMER cooperates reasonably with AT&T's efforts to investigate and resolve the dispute. If AT&T determines a disputed charge was billed in error, AT&T shall issue a credit to reverse the amount incorrectly billed. If AT&T determines a disputed charge was billed correctly, payment shall be due from CUSTOMER within five days after AT&T advises CUSTOMER in writing that the dispute is denied.

6. **Deposits and Other Security.** Using its credit management standards, AT&T has assessed the initial deposit amount or other security as specified on the Cover Sheet (the "Initial Security"). CUSTOMER shall provide the Initial Security before Services are provided. AT&T may require CUSTOMER, during the term of this Agreement, to provide a deposit or other security in an amount to be determined by AT&T in its reasonable discretion (the "Subsequent Security"). (The Initial Security and the Subsequent Security are referred to, as applicable, as the "Security"). AT&T will rely upon commercially reasonable factors to determine the need for and amount of any Security. These factors may include, but are not limited to, payment history, number of years in business, history of service with AT&T, bankruptcy history, current account treatment status, financial statement analysis, and commercial credit bureau rating, as well as commitment levels and anticipated monthly charges. Any Security will be held by AT&T as a guarantee for the payment of charges. Provision of Security does not relieve CUSTOMER of the responsibility for the prompt payment of bills. Interest (at the rate of 6% per year or such other rate as is applicable by law) will be paid to CUSTOMER for any period that a cash deposit is held by AT&T. AT&T may apply a deposit against past due charges at any time. AT&T may set-off amounts payable to CUSTOMER or its Affiliates under this or other agreements against any amounts due to AT&T under this Agreement.

7. **Obligations Regarding Taxes.** CUSTOMER shall pay any applicable taxes (excluding those on AT&T's net income), fees, duties, levies and other similar charges (and any related interest and penalties) relating to the sale, transfer of ownership, installation, license, use or provision of the Services ("Government Charges"), except to the extent customer provides a valid exemption certificate to AT&T prior to the delivery of Services.

Charges set forth in the Attachments are exclusive of any applicable Government Charges. To the extent CUSTOMER is required to withhold or deduct non-U.S. income taxes from payments due to AT&T, Customer shall use reasonable commercial efforts to reduce such tax to the maximum extent possible giving effect to the applicable Tax Convention and shall furnish AT&T with such evidence as may be required by U.S. taxing authorities to establish that such tax has been paid so that AT&T may claim any applicable credit.

8. **CUSTOMER is a Carrier.** CUSTOMER certifies it is a "common carrier" as defined in the Communications Act of 1934 (see 47 USC §§153(10) and 211) or as defined under the laws of such other country(ies) to whose jurisdiction CUSTOMER may be subject in connection with the provision of Service hereunder, in either case, with all required operating authority.

9. Responsibilities of CUSTOMER.

9.1 CUSTOMER is responsible for interfacing and communicating with its End Users, for placing any orders, and for assuring that it and any Intermediate Providers comply with the provisions of this Agreement and with all applicable laws and regulatory requirements with respect to the Services, including any applicable anti-corruption laws and regulations. CUSTOMER will maintain all required licenses and authorizations for the use or resale of the Services. CUSTOMER is responsible for arranging premises access at any reasonable time so that AT&T personnel may install, repair, maintain, inspect or remove service components.

9.2 CUSTOMER may not resell any portion of a Service to third parties except (a) to the extent applicable local law or regulation mandates that CUSTOMER may engage in such resale, or (b) to the extent otherwise expressly provided in this Agreement.

9.3 If CUSTOMER is authorized in an Attachment to resell any portion of a Service to third parties, the following additional terms and conditions apply:

9.3.1 AT&T grants to CUSTOMER the non-exclusive right to resell the Services, subject to the provisions of this Agreement. AT&T expressly reserves the right both to contract with others to resell the Service and to itself directly engage in the marketing and sale of the Service

9.3.2 If the right to resell is designated on the Attachment as "Restricted Resale", CUSTOMER may resell the Service only if bundled with additional value added features or services that enhance the Service as part of a larger project for its customers.

9.3.3 Except as otherwise expressly stated in an Attachment, AT&T will not provide support directly to any End User. CUSTOMER is responsible for implementing with its End Users appropriate terms, conditions, and measures to ensure that all End User Customers comply with the terms and conditions of this Agreement and the Attachments under which the Services are provided. Accordingly, to the extent any on-line support services include AT&T terms and conditions (including the Acceptable Use Policy), CUSTOMER shall contract directly with its End Users on the same terms and conditions.

9.3.4 CUSTOMER is solely responsible for establishing the price plans according to which End Users will be billed; for determining the taxes and other charges that are to be billed to End Users; for remitting those taxes and other charges to the applicable authorities and for handling related disputes; and for collecting billed amounts from End Users. CUSTOMER assumes all risk of delinquent and uncollectible amounts billed to End Users.

9.3.5 CUSTOMER agrees that it will not market or sell the Service to End User Customers except for such End Users' own internal use.

9.3.6 CUSTOMER represents and warrants that it has obtained and shall maintain all relevant trade and regulatory authorizations, including those related to telecommunications matters and any authorizations by an authority that may be required to execute the this Agreement and any Pricing Schedule under which the Services are provided and resell the Services to End Users.

10. RESPONSIBILITIES OF THE PARTIES

10.1. To the extent a Service is provided over or includes access to the Internet, CUSTOMER, and its End Users shall comply with the AUP. If Customer fails to rectify a violation of the AUP within five (5) days after receiving notice thereof from AT&T, then AT&T may suspend the applicable portions of the Service. AT&T reserves the right to act immediately and without notice to suspend or terminate service in response to a court order or government notice that certain conduct must be stopped or when AT&T reasonably determines: (i) that it may be exposed to sanctions or prosecution; (ii) that such violation may cause harm to or interfere with the integrity or normal operations or security of AT&T's network or networks with which AT&T is interconnected or interfere with another customer's use of AT&T Services or the Internet; or (iii) that such violation otherwise presents imminent risk of harm to AT&T or AT&T's customers or their respective employees.

10.2. Unless expressly registered in the name of CUSTOMER, an Intermediate Provider, or an End User, all IP addresses, AT&T-based domain names and telephone numbers shall remain, at all times, property of AT&T and shall be nontransferable and Customer shall have no right to use such IP addresses, AT&T-based domain names or telephone numbers upon termination or expiration of the applicable Attachment.

10.3. AT&T will use reasonable commercial efforts in providing the Service. However, AT&T does not guarantee network security, the encryption employed by any service, or the integrity of any data that is sent, backed up, stored or subject to load balancing, or that AT&T's security procedures will prevent the loss of, alteration of, or improper access to, CUSTOMER or End User data and information.

10.4. Both parties agree to comply with privacy laws applicable to their respective businesses. CUSTOMER shall obtain any End User consents legally required relating to handling of such End User's Content. If CUSTOMER or its End User believes that, in the course of providing Services under this Agreement, AT&T will have access to data CUSTOMER or the End User does not want AT&T personnel to comprehend, CUSTOMER or the End User should encrypt such data so that it will be unintelligible. The other party's Information may be used and transmitted between countries only for purposes of performing this Agreement and using the Services.

10.5. Unless applicable local law or regulation mandates otherwise, AT&T may discontinue providing a Service to CUSTOMER upon twelve (12) months written notice, or a Service Component upon one hundred and twenty (120) days written notice, unless a different written notice period is provided in the applicable Attachment.

11. Equipment & Software.

11.1. Equipment.

11.1.1 To the extent Service includes the use of AT&T CPE, CUSTOMER shall provide a suitable and secure environment free from environmental hazards and electric power for AT&T CPE and shall keep the AT&T CPE free from all liens, charges, and encumbrances. AT&T CPE shall not be removed, relocated, modified, interfered with, or attached to non-AT&T equipment by Customer without prior written authorization from AT&T. CUSTOMER will pay reasonable shipping charges for delivery to CUSTOMER's premises of AT&T equipment used to provide Service under this Agreement. CUSTOMER is liable to AT&T for the replacement cost of any AT&T-provided equipment installed at CUSTOMER's premises in the event of loss of said equipment for any reason, including but not limited to theft.

11.1.2. To the extent CUSTOMER purchases equipment from AT&T, title to and risk of loss of Purchased Equipment will pass to CUSTOMER as of delivery, upon which date AT&T will have no further obligations of any kind with respect to that Purchased Equipment, except as set forth in an applicable Attachment, Pricing Schedule or Service Guide. If CUSTOMER does not accept the Equipment, the Equipment should be returned to the manufacturer. AT&T will obtain from the manufacturer and forward to CUSTOMER a Return Material Authorization. AT&T retains a purchase money security interest in each item of Purchased Equipment until CUSTOMER pays for it in full; CUSTOMER appoints AT&T as Customer's agent to sign and file a financing statement to perfect AT&T's security interest.

11.1.3 All Purchased Equipment provided under this Agreement is provided on an "AS IS" basis, except that AT&T will pass through to CUSTOMER any warranties available from its Purchased Equipment suppliers, to the extent that AT&T is permitted to do so under its contracts with those suppliers.

11.1.4 All ownership interest in a party's facilities and associated Equipment used in connection with the Services shall at all times remain with that party. If any Customer Equipment is used to provide the Service, Customer grants AT&T a non-transferable and non-exclusive license to use such Customer Equipment in the manner necessary to provide the Service.

11.2 Software. AT&T grants CUSTOMER a personal, non-transferable and non-exclusive license (without the right to sublicense) to use, in object code form, all software and associated written and electronic documentation and data furnished pursuant to this Agreement (collectively, "Software"), solely in connection with the Services and solely in accordance with applicable written and electronic documentation. CUSTOMER will refrain from taking any steps to reverse assemble, reverse compile or otherwise derive a source code version of the Software. The Software shall at all times remain the sole and exclusive property of AT&T or its suppliers. "Third-Party Software" means Software that bears a copyright notice of a third party. "AT&T Software" means all Software other than Third-Party Software. CUSTOMER shall not copy or download the Software, except that CUSTOMER may make two copies of the Software, one for archive and the other for disaster recovery purposes. Any copy must contain the same copyright notices and proprietary markings as the original Software. CUSTOMER agrees to comply with any additional restrictions that are provided with any Third-Party Software. The term of the license granted with respect to any Software shall be coterminous with the Attachment which covers the Software and/or related Services. CUSTOMER shall assure that its Users comply with the terms and conditions of this Section.

12. **Warranty with Respect to Software.** AT&T warrants that all AT&T Software will perform substantially in accordance with its applicable published specifications for the term of the Attachment that covers the AT&T Software. If CUSTOMER returns to AT&T, within such period, any AT&T Software that does not comply with this warranty, then AT&T, at its option, will either repair or replace the portion of the AT&T Software that does not comply or refund the amount paid by CUSTOMER for such failed or defective AT&T Software. This warranty will apply only if the AT&T Software is used in accordance with the terms of this Agreement and is not altered, modified or tampered with by CUSTOMER or Users.

13. **Abuse of Service.** The abuse of Service is prohibited. Using Service or permitting Service to be used in the following ways constitutes abuse: (a) interfering unreasonably with the use of AT&T service by others or the operation of the AT&T network; (b) with respect to Services that include the provision of terminating switched access over local exchange company facilities, carrying calls that originate on the network of a facilities-based interexchange carrier other than AT&T and terminate disproportionately to locations for which AT&T's cost of terminating switched access (based on the published access rates of the incumbent local exchange companies or the established rates of non-US telecommunications service providers) is above AT&T's price for the call under this Agreement (after application of discounts); (c) subjecting AT&T personnel or non-AT&T personnel to hazardous conditions; (d) attempting to avoid the payment, in whole or in part, of any charges by any means or device (non-payment of billed charges will not be considered abuse of service for purposes of this Section); or (e) using the Services or displaying or transmitting Content in a manner that violates any applicable law or regulation. In any instance in which AT&T believes in good faith that there is abuse of Service as set forth above, AT&T may immediately restrict, suspend or discontinue providing Service or prevent the display or transmission of Content, without liability on the part of AT&T, and then notify CUSTOMER of the action that AT&T has taken and the reason for such action. To the extent doing so does not interfere with its ability to prevent abuse of Service (to be determined in AT&T's reasonable judgment), AT&T will attempt to notify CUSTOMER before taking such action, and will attempt to limit any restriction, suspension or discontinuance under this Section to the locations, Content, or Services with respect to which the abuse is taking place.

14. TERMINATION

14.1 If a Service or a Service Component is terminated, Customer must pay all charges incurred as of the effective date of termination.

14.2 If CUSTOMER terminates a Service or a Service Component for material breach by AT&T, CUSTOMER shall not be liable for any Termination Charges.

14.3 If CUSTOMER terminates a Service Component other than for material breach by AT&T, or if AT&T terminates a Service or a Service Component for material breach by CUSTOMER, CUSTOMER must pay Termination Charges equal to the sum of: (i) any credits, waived charges or unpaid amortized charges if the Service Component is terminated prior to the end of an applicable minimum retention period (specified in the Attachment, the Service Guide or the Applicable Tariffs); (ii) the applicable amount of recurring charges for the terminated Service Component multiplied by the number of months remaining in an applicable minimum payment period (specified in the Attachment, the Service Guide or the Applicable Tariffs); and (iii) any access facilities cancellation charges and other third-party charges incurred by AT&T due to the termination. The charges set forth in (i) and (ii) above will not apply if a terminated Service Component is replaced with an upgraded like Service Component at the same Site(s), provided the applicable minimum period and associated charge for the replacement Service Component are each equal to or greater than the applicable period and charge for the terminated Service Component.

14.4. In the event of a termination of an Attachment either by Customer other than for material breach by AT&T, or by AT&T for material breach by CUSTOMER, CUSTOMER must pay: (i) a Termination Charge equal to 50% of the unsatisfied Minimum Revenue Commitment for the Commitment Period in which the Attachment is terminated plus 50% of the Minimum Revenue Commitment for each remaining Commitment Period; and (ii) the amounts set forth in Section 14.3, above.

15. **Default.** If a party breaches any material term of this Agreement and the breach continues unremedied for 60 days after written notice of default, the other party may terminate for cause any Attachment materially affected by the breach. If CUSTOMER is in breach of its payment obligations (including failure to provide required Security), and fails to make payment in full within 5 days after receipt of written notice of default, AT&T may, at its option, terminate the Agreement, terminate affected Attachments, suspend Service under the affected Attachments, and/or require a deposit, advanced payment, or other satisfactory assurances in connection with any or all Attachments as a condition of continuing to provide Services; except that AT&T will not take any such action as a result of CUSTOMER's non-payment of a charge subject to a timely billing dispute, unless AT&T has reviewed the dispute and determined that the charge is correct. An Attachment may be terminated by either party immediately upon written notice if the other party has become insolvent or involved in a liquidation or termination of its business, or adjudicated bankrupt, or been involved in an assignment for the benefit of its creditors. Termination by either party of an Attachment does not waive any other rights or remedies it may have under this Agreement.

16. **No Other Representations or Warranties.** EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, AT&T MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, UNDER THIS AGREEMENT AND SPECIFICALLY DISCLAIMS ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE OR NON-INFRINGEMENT OR ANY WARRANTY ARISING BY USAGE OF TRADE, COURSE OF DEALING OR COURSE OF PERFORMANCE. AT&T DOES NOT REPRESENT OR WARRANT THAT THE SERVICES WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT THE SERVICES WILL MEET CUSTOMER'S REQUIREMENTS OR THAT THE SERVICES WILL PREVENT UNAUTHORIZED ACCESS BY THIRD PARTIES. AT&T DOES NOT AUTHORIZE ANYONE TO MAKE A REPRESENTATION OR WARRANTY OF ANY KIND ON ITS BEHALF AND CUSTOMER SHOULD NOT RELY ON ANYONE MAKING SUCH STATEMENTS.

17. **Limitation of Liability.** EITHER PARTY'S ENTIRE LIABILITY, AND THE OTHER PARTY'S EXCLUSIVE REMEDIES, FOR ANY DAMAGES CAUSED BY ANY SERVICE DEFECT OR FAILURE, OR FOR OTHER CLAIMS ARISING IN CONNECTION WITH ANY SERVICE OR OBLIGATIONS UNDER THIS AGREEMENT SHALL BE:

(a) FOR A BREACH OF THE PROVISIONS OF SECTION 17 (USE OF MARKS), THE OTHER PARTY'S RIGHT TO PROVEN DIRECT DAMAGES;

(b) FOR DEFECTS OR FAILURES OF SOFTWARE, THE REMEDIES SET FORTH ABOVE UNDER THE HEADING *WARRANTY WITH RESPECT TO SOFTWARE*;

(c) FOR INDEMNITY, THE REMEDIES SET FORTH BELOW UNDER THE HEADING *INDEMNIFICATION*;

(d) FOR DAMAGES OTHER THAN THOSE SET FORTH ABOVE AND NOT EXCLUDED UNDER THIS AGREEMENT, EACH PARTY'S LIABILITY SHALL BE LIMITED TO PROVEN DIRECT DAMAGES NOT TO EXCEED PER CLAIM (OR IN THE AGGREGATE DURING ANY 12-MONTH PERIOD) AN AMOUNT EQUAL TO THE TOTAL NET PAYMENTS PAYABLE BY CUSTOMER FOR THE APPLICABLE SERVICE UNDER THE APPLICABLE ATTACHMENT DURING THE 3 MONTHS PRECEDING THE MONTH IN WHICH THE DAMAGE OCCURRED.

THE LIMITATIONS IN THIS SECTION 17 SHALL NOT PRECLUDE A PARTY FROM OBTAINING INJUNCTIVE RELIEF FROM A COURT OF COMPETENT JURISDICTION IN THE EVENT OF A VIOLATION OF SECTION 11.2 (SOFTWARE), SECTION 13 (ABUSE OF SERVICE), ARTICLE 20 (USE OF MARKS), OR ARTICLE 23 (CONFIDENTIALITY OBLIGATIONS).

EXCEPT TO THE EXTENT PROVIDED UNDER THIS AGREEMENT WITH RESPECT TO INDEMNIFICATION, NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, PUNITIVE, RELIANCE OR SPECIAL DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS, ADVANTAGE, SAVINGS OR REVENUES OF ANY KIND, OR INCREASED COST OF OPERATIONS, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL AT&T BE LIABLE FOR ANY CLAIM OR DAMAGES CAUSED BY OR ARISING OUT OF:

(i) ANY ACT OR OMISSION (INCLUDING WITHOUT LIMITATION UNAUTHORIZED USE, THEFT, ALTERATION, LOSS OR DESTRUCTION OF SERVICE OR THE APPLICATIONS, CONTENT, DATA, PROGRAMS, INFORMATION, NETWORK OR SYSTEMS OF CUSTOMER, AN END USER OR ANY THIRD PARTY) OF CUSTOMER, AN INTERMEDIATE PROVIDER, OR AN END USER,

(ii) EXCEPT AS OTHERWISE PROVIDED IN AN ATTACHMENT, SERVICE LEVELS, DELAYS OR INTERRUPTIONS OR LOST OR ALTERED MESSAGES OR TRANSMISSIONS,

(iii) INTEROPERABILITY, INTERACTION OR INTERCONNECTION OF THE SERVICES WITH APPLICATIONS, EQUIPMENT, SERVICES, CONTENT OR NETWORKS PROVIDED BY CUSTOMER OR THIRD PARTIES, OR

(iv) BODILY INJURY OR DEATH TO ANY PERSON, OR REAL OR TANGIBLE PROPERTY DAMAGE, NEGLIGENCE CAUSED BY CUSTOMER PARTY, OR WILLFUL MISCONDUCT OF CUSTOMER

THE LIMITATIONS OF LIABILITY SET FORTH IN THIS AGREEMENT SHALL SURVIVE FAILURE OF AN EXCLUSIVE REMEDY, AND SHALL APPLY REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT, TORT, WARRANTY, STRICT LIABILITY, OR NEGLIGENCE (INCLUDING WITHOUT LIMITATION ACTIVE AND PASSIVE NEGLIGENCE). NOTHING IN THIS SECTION LIMITS CUSTOMER'S RESPONSIBILITY FOR THE PAYMENT OF CHARGES DUE AS PROVIDED IN THIS AGREEMENT, OR AT&T'S OBLIGATION TO PROVIDE CREDITS DUE AS PROVIDED IN THIS AGREEMENT.

For purposes of all remedies and limitations of liability set forth in this Agreement or any Attachment, (i) "AT&T" shall mean AT&T Corp., its Affiliates, and its and their employees, directors, officers, agents, representatives, subcontractors, interconnection service providers and suppliers and (ii) "CUSTOMER" shall mean Customer, its Affiliates, and its and their employees, directors, officers, agents, and representatives.

18. **Force Majeure.** Neither party nor its Affiliates or subcontractors shall be liable to the other party for any delay, failure in performance, loss or damage due to force majeure conditions such as fire, explosion, power blackout, earthquake, volcanic action, flood, hurricane, the elements, strike, embargo, labor disputes, civil or military authority, war, acts of God, acts or omissions of other providers (except, for CUSTOMER, the acts or omissions of its Intermediate Providers), acts of regulatory or governmental agencies, or other causes beyond their reasonable control, except that CUSTOMER's obligation to pay for services provided shall not be excused. Changes in economic, business or competitive conditions are not force majeure conditions. If CUSTOMER is unable to meet its commitments as a direct result of a force majeure condition, CUSTOMER may suspend its commitments for one full billing month (or longer, with AT&T's written consent, which shall not be unreasonably withheld). The effect of such a suspension of commitment will be to exclude the affected month(s) from all calculations affecting the CUSTOMER's commitments and to extend the term of this Agreement by the same number of months. CUSTOMER must provide notice to AT&T of the force majeure condition giving rise to the right to suspend commitments within 30 days after its occurrence.

19. **Indemnification.** CUSTOMER shall indemnify, defend, and hold harmless AT&T and its Affiliates, directors, officers, employees, agents, successors and assigns from any and all claims, damages and expenses whatsoever (including reasonable attorneys' fees) arising on account of or in connection with CUSTOMER's use, resale or sharing of the Services, including but not limited to: (a) claims for libel, slander, invasion of privacy; (b) claims for infringement of copyright arising from any communication using the Services; (c) claims arising from any failure, breakdown, interruption or deterioration of service provided by AT&T to CUSTOMER or by CUSTOMER to End Users or Intermediate Providers; (d) claims arising from CUSTOMER's marketing efforts; (e) claims of patent infringement arising from combining or using services or equipment furnished by AT&T in connection with services or equipment furnished by others; and, (f) claims alleging death, bodily injury, personal injury or real or tangible property damage to any person. CUSTOMER's indemnity and defense obligations cover all claims brought under common law or statute, including but not limited to strict tort liability, strict products liability, negligence, misrepresentation, or breach of warranty. CUSTOMER's indemnification obligations do not apply to claims for damages to real or tangible personal property or for bodily injury or death negligently caused by AT&T.

AT&T shall indemnify, defend, and hold harmless CUSTOMER and its Affiliates, directors, officers, employees, agents, successors and assigns from all claims of patent infringement arising solely from the use of the Services. (Whenever AT&T is responsible under the preceding sentence, AT&T may at its option either procure the right for CUSTOMER to continue using, or may replace or modify the alleged infringing Service so that the Service becomes noninfringing. If those alternatives are not reasonably achievable, AT&T may terminate the affected Attachment without termination liability to either party.) The indemnified party under this Section 19: (i) must notify the other party in writing promptly upon learning of any claim or suit for which indemnification may be sought, provided that failure to do so shall have no effect except to the extent the other party is prejudiced thereby; (ii) shall have the right to participate in such defense or settlement with its own counsel and at its sole expense, but the other party shall have control of the defense or settlement; and (iii) shall reasonably cooperate with the defense.

a. 20. **Use of Marks.** The parties acknowledge and agree that certain of the Services are branded with AT&T trademarks, service marks, logos, trade dress, trade devices, indicia of origin or other symbols. ("AT&T Marks") and AT&T agrees to allow the continued use of such AT&T Marks solely for the Services set forth herein during the Term of this Agreement; provided, however, that within 6 (six) months of the date of this Agreement, Customer shall develop, at its sole expense, its own distinctive corporate or trade name, trademark, service mark, logo, trade dress, trade device, indicia of origin or other symbol ("Customer Mark") that serves to identify and distinguish it from AT&T. Pending prior approval by AT&T which shall not be unreasonably withheld, Customer shall develop and distribute to all End Users any necessary communications stating that the AT&T branded Services will no longer be owned and provided by AT&T and that these Services will be offered and provided by Customer as of the applicable date. Beginning no later than six (6) months after the date of this Agreement, Customer shall immediately cease all use of the AT&T Marks on all advertising, sales, public relations, promotional and marketing communications ("Marcom"), in the conduct of its business or otherwise and shall have no further rights with respect thereto. To the extent Customer fails to do so, AT&T will develop such Customer Mark including all necessary Marcom and charge Customer for AT&T's costs of developing and distributing same. AT&T may revoke Customer's limited right to use the AT&T Marks at anytime during the Term of this Agreement. Customer acknowledges that Registration and use of "AT&T" or "att" by Customer as a keyword is prohibited. Nothing in this Agreement creates in a party any rights in the other party's Marks or any other intellectual property. AT&T may use the Customer's trade names, trademarks, or service marks but only to the extent required to communicate to End Users that there is no fiduciary relationship among or between the End User and AT&T; that AT&T has no contractual obligation or legal duty to End User; that End User is purchasing services from Customer and not AT&T; that Customer and AT&T are independent businesses; and, that neither AT&T nor Customer is a division, subsidiary, joint venturer, partner, employee or faction or servant of the other for any purpose whatsoever. In no event shall either party use or display, in advertising or otherwise, any of the other party's logos, trade dress, trade devices or other indicia of origin, or any confusingly similar logos, trade dress, trade devices or indicia of origin.

CUSTOMER will not indicate or imply to any other party that CUSTOMER is affiliated with AT&T, that CUSTOMER is authorized by AT&T to sell or provide service to them, that CUSTOMER is providing (or will provide) service to such party jointly or in collaboration or partnership with AT&T, or as the agent of AT&T, or that service provided by CUSTOMER or another carrier is provided by AT&T.

21. **Relationship of the Parties.** The relationship between the parties shall be that of independent contractors and not of principal and agent, employer and employee, franchiser and franchisee, partners or joint venturers. This Agreement does not establish CUSTOMER as a dealer, distributor or franchisee of AT&T, and no fee is being paid to AT&T to enter into this Agreement.

22. **Confidential Information Defined.** "Confidential Information" consists of the following: all information disclosed by one party or its agent or representative (the "Disclosing Party") to the other party or its agent or representative (the "Receiving Party") in connection with this Agreement regarding the telecommunications needs of CUSTOMER and/or the telecommunications offerings of AT&T, to the extent that (a) for information disclosed in written, graphic or other tangible form, it is designated by appropriate markings to be confidential or proprietary or (b) for information disclosed orally, it is both identified as proprietary or confidential at the time of disclosure and summarized in a writing so marked within 15 business days following the oral disclosure. Notwithstanding the foregoing, all written or oral pricing and contract proposals exchanged between the parties shall be Confidential Information, whether or not so designated. Confidential Information is the property of the Disclosing Party and shall be returned to the Disclosing Party upon request. This Agreement is Confidential Information as to which each party is both a Disclosing Party and a Receiving Party. Information that (i) is independently developed by the Receiving Party, (ii) is lawfully received by the Receiving Party free of any obligation to keep it confidential, or (iii) becomes generally available to the public other than by breach of this Agreement, shall not be Confidential Information.

23. **Confidentiality Obligations.** A Receiving Party shall hold all Confidential Information in confidence from the time of disclosure until at least 3 years following its disclosure (except with respect to Software, which shall be held in confidence indefinitely). During that period, the Receiving Party: (a) shall use and transmit between countries such Confidential Information only for the purposes of performing this Agreement and using the Services; (b) shall reproduce such Confidential Information only to the extent necessary for such purposes; (c) shall restrict disclosure of such Confidential Information to employees that have a need to know for such purposes; (d) shall advise those employees of the obligations of this Agreement; (e) shall not disclose Confidential Information to any third party without prior written approval of the Disclosing Party except as expressly provided in this Agreement; and (f) shall use at least the same degree of care (in no event less than reasonable care) as it uses with regard to its own proprietary or confidential information to prevent the disclosure, unauthorized use or publication of Confidential Information.

24. **Publicity.** Except as required by applicable law, no public statements or announcements relating to this Agreement shall be issued by either party without the prior written consent of the other party.

25. **Alternative Dispute Resolution.** The parties will attempt to settle any claim for non-payment of charges or recovery of overpayment of charges for the Services (hereinafter a "Billing Dispute"), through good faith negotiations. The parties may agree to submit a Billing Dispute to non-binding mediation. At any time, the party seeking payment may submit a notice of arbitration of a Billing Dispute for arbitration under the United States Arbitration Act pursuant to the terms of this Section and the Non-Administered Arbitration Rules of the CPR Institute for Dispute Resolution ("CPR"), to the extent such rules do not conflict. The Arbitration will be held in New York, New York, or any other location selected by mutual agreement of the parties. The arbitrator shall not have the power to award any damages in excess of the limits set forth in or excluded under the limitations of liability provided in this Agreement. The arbitrator may not limit, expand or otherwise modify the terms of this Agreement. The arbitrator shall strictly limit discovery to the production of documents directly relevant to the facts alleged in the notices of arbitration and defense. If depositions are required, the arbitrator shall permit each Party to conduct an equal number of depositions (not to exceed five per side), with equal limits on the number of deposition hours for each Party (not to exceed 7 per deposition). If an evidentiary hearing is held, each Party's presentation of its case shall be limited to three (3) days. Requests for temporary injunctive relief may be submitted to a court of competent jurisdiction if the arbitrator has not yet been appointed, but the arbitrator shall have the authority to modify any injunctive relief granted by such a court. The arbitration award shall be made final within eight months of filing of the notice of arbitration and judgment upon the award may be entered in any court having competent jurisdiction. All participants and the arbitrator shall hold the existence, content and results of mediation and arbitration in confidence, except as necessary to enforce a final settlement agreement or to enforce an arbitration award. Each party shall bear its own expenses and equally share expenses related to the compensation of the arbitrator. The arbitrator's award shall be in writing and shall state the reasons for the award.

26. **Time to Bring Claims.** Any initial demand for arbitration pursuant to this Agreement, and any legal action arising under this Agreement, must be initiated within two years after the cause of action arises.

27. **Notices.** All notices under this Agreement shall be in writing and shall be made: (a) by personal delivery; (b) by certified or registered mail, postage prepaid return receipt requested, (c) by overnight delivery, or (d) by facsimile transmission. Notice shall be sent to the individuals identified on the Cover Sheet (at the address and/or fax number designated for notice), or to such other individual, address or fax number as a party may designate by notice to the other party.

28. **Export Regulations.** The parties acknowledge that the Services, Software and technical information (including, but not limited to, technical assistance and training) may be subject to export laws and regulations. The parties will not use, distribute, transfer, or transmit the Services, Software or technical information (even if incorporated into other products) except in compliance with applicable export laws and regulations. If requested by either party, the other party agrees to sign assurances and other export-related documents required to comply with all applicable export regulations.

In the event any necessary export license cannot be obtained within six months after application therefor, neither party shall have further obligations with respect to providing or purchasing and, if applicable, CUSTOMER shall return to AT&T, the equipment, products, Software, or technical information that is the subject matter of the unsuccessful export application.

29. **Quality Monitoring.** CUSTOMER authorizes AT&T to monitor and record calls to AT&T concerning the Services for training and quality control purposes.

30. **Assignment.** This Agreement may not be assigned by either party except that either party may assign so much of this Agreement or an Attachment that is to be performed in a given country to an Affiliate of that party in such country (except that CUSTOMER may not assign parts of the Agreement to more than one Affiliate in the same country without AT&T's consent), and either party may assign this Agreement to a successor; provided that any assignee of CUSTOMER must satisfy the requirements of Section 8 of these Special Terms and Conditions, and that AT&T and CUSTOMER shall be responsible for their respective Affiliates' performance.

In countries in which AT&T does not have an Affiliate to provide Service, AT&T may assign its rights and obligations related to a Service provided in such a country to the local service provider; provided however, that AT&T shall be responsible to Customer for such obligations. In some such countries, Customer may be required to contract directly with the local service provider.

31. **No Third Party Beneficiaries.** This Agreement does not expressly or implicitly provide any third party (including but not limited to End Users and Intermediate Providers) with any remedy, claim, liability, reimbursement, cause of action or other right or privilege.

32. **Non-Waiver.** The failure of a party to enforce any right under this Agreement at any particular point in time shall not constitute a continuing waiver of any such right with respect to the remaining term of this Agreement, or the waiver of any other right under this Agreement.

33. **Severability.** If any portion of this Agreement is found to be invalid or unenforceable, the remaining provisions shall remain in effect and the parties shall immediately begin negotiations to replace any invalid or unenforceable portions that are essential parts of this Agreement.

34. **Survival of Terms.** The rights and obligations of either party that by their nature would continue beyond the termination or expiration of this Agreement shall survive termination or expiration of this Agreement. For example, the provisions of this Agreement regarding Confidentiality shall remain in effect following termination of this Agreement and the provisions of this Agreement regarding arbitration, use of Marks, indemnification, and/or limitation of liability shall survive termination of this Agreement as to any cause of action arising under the Agreement.

35. **Choice of Law.** The domestic law of the State of New York, except its conflict-of-laws rules, shall govern the construction, interpretation, and performance of this Agreement, except to the extent superceded by federal law. The United Nations Convention on Contracts for International Sale of Goods shall not apply. The parties irrevocably consent to the exclusive jurisdiction of the courts located in New York City, USA.

36. **Amendment.** No amendment, supplement, modification or waiver of any provision of this Agreement shall be effective unless in writing and signed by authorized representatives of both parties.

37. **Entire Agreement; Authentic Language.** This Agreement constitutes the entire agreement between the parties with respect to the Services. This Agreement supersedes all prior agreements, proposals, representations, statements or understandings, whether written or oral, concerning the Services or the parties' rights or obligations relating to the Services. Any prior representations, promises, inducements or statements of intent regarding the Services that are not embodied in this Agreement are of no effect. The authentic language of this Agreement is English. In the event of a conflict between this Agreement and any translation, the English version will take precedence.

38. **Definitions.** The following definitions apply in addition to the definitions set forth elsewhere in this Agreement:

“**Affiliate**” means any entity that controls, is controlled by or is under common control with a party.

“**Applicable Tariffs**” consist of the standard AT&T service descriptions, pricing and other provisions filed by AT&T or any of its Affiliates with the appropriate regulatory commission having jurisdiction respecting a Service, as revised from time to time. In the event an Applicable Tariff is withdrawn by AT&T or tariffing is no longer permitted or required by the appropriate regulatory commission, references to the Applicable Tariff shall be deemed to refer to the corresponding applicable provisions of the Service Guide.

“**AT&T CPE**” means equipment provided under this Agreement by AT&T or its suppliers and located at a Site. AT&T CPE includes any internal code required to operate such Equipment. AT&T CPE does not include Customer Equipment or Purchased Equipment.

“**Attachment**” means Attachment A (including Schedule 1) and any executed Pricing Schedules under this Agreement.

“**AUP**” means AT&T’s Acceptable Use Policy, as revised by AT&T from time to time, located at <http://www.ipservices.att.com/policy.html> or such other AT&T-designated location.

“**Commitment Period**” means the period for which a Minimum Revenue Commitment applies, as set forth in an Attachment. If a Minimum Revenue Commitment is referred to in the Attachment as a MARC, the Commitment Period is twelve months.

“**Content**” means information made available, displayed or transmitted (including information made available by means of an HTML “hot link”, a third party posting or similar means) in connection with a Service including all trademarks, service marks and domain names contained therein, CUSTOMER and End User data, and the contents of any bulletin boards or chat forums, and, all updates, upgrades, modifications and other versions of any of the foregoing.

“**Customer Equipment**” means equipment owned by Customer. Customer Equipment includes any internal code required to operate such Equipment

“**Effective Date**” of a Pricing Schedule is the date on which the last party signs the Pricing Schedule. If the rules of a regulatory authority having jurisdiction respecting a Service would require a later date, the Effective Date shall be in accordance with such rules.

“**End User**” or “**User**” means the entity that uses the service furnished under this Agreement for its own use, and not for purposes of providing telecommunications services to others.

“**Equipment**” means “AT&T CPE”, “Customer Equipment” and “Purchased Equipment.”

“**Intermediate Provider**” means any provider or other intermediary (other than CUSTOMER or its agents or employees) in the sales chain between CUSTOMER and an End User.

“**Master Agreement**” means the Agreement.

“**Minimum Revenue Commitment**” means a revenue commitment set forth in an Attachment that CUSTOMER agrees to satisfy during a specified Commitment Period. If the Commitment Period is twelve months, the Minimum Revenue Commitment may be referred to as a Minimum Annual Revenue Commitment, or MARC.

“**MRC-Eligible Charges**” means, unless the applicable Attachment indicates otherwise, the recurring and usage charges, after applicable discounts and credits, incurred by CUSTOMER for the Services identified in the applicable Attachment as MRC-contributing. Notwithstanding anything set forth in an Attachment, the following charges shall not be deemed MRC Eligible Charges: (a) charges for or in connection with Purchased Equipment; (b) charges for outsourcing services; (c) taxes, and (d) charges imposed in connection with governmentally imposed costs or fees (such as USF, PICC, payphone service provider compensation, E911 and deaf relay charges).

“**Pricing Schedule**” means a pricing schedule to this Agreement that has been executed by both parties.

“**Service**” means collectively all of the Service Components Customer orders under a Pricing Schedule and the Initial Services.

“**Service Component**” means the individual portions of the Service that (a) CUSTOMER orders under a Pricing Schedule or (b) are part of an Initial Service, as these are more fully described in the Service Guide.

“**Service Guide**” means the standard AT&T service descriptions, pricing and other provisions, as revised by AT&T from time to time, relating to Services offered under this Agreement (if there is no Applicable Tariff). The Service Guide is located at <http://serviceguide.att.com/ABS/ext> or <http://att.com/abs/serviceguide> or such other AT&T designated location.

“**Site**” means a Customer physical location, including a Customer co-location space on AT&T premises, where AT&T installs or provides a Service.

“**Term**” or “**Pricing Schedule Term**” is the period of time stated in the applicable Attachment or Pricing Schedule.

If not otherwise defined, capitalized terms shall be defined as provided in the Service Guide.

End of Terms and Conditions

*11/17/2009 1:07 pm AT&T and Customer Confidential Information Doc. ID: GMCA 110909.doc
This document and information contained herein may be disclosed only to authorized persons, and
may be used only for authorized purposes, in accordance with applicable agreements.*

DOMESTIC SERVICES AGREEMENT

This Domestic Services Agreement (“**Agreement**”) is by and between:

AT&T Japan KK, a Japanese *kabushiki kaisha* with its registered head office at Shin-Nikko Building, 2-10-1 Toranomon, Minato-ku, Tokyo 105-0001, Japan (“**Company**” or “**AT&T**”); and

Communications Services KK, a Japanese *kabushiki kaisha* with its registered head office at Shin-Nikko Building, 2-10-1 Toranomon, Minato-ku, Tokyo 105-0001, Japan (“**Preferred Provider**”).

Company and Preferred Provider also are referred to, individually, as a “**Party**” and, collectively, as the “**Parties**”.

This Agreement sets forth the terms and conditions on which Company procures and Preferred Provider provides certain Services—whether for resale or license to, or performance for the benefit of, Company customers, or for Company’s own use or benefit, including at Company or customer locations.

Original signatures transmitted and received via facsimile or other electronic transmission of a scanned document (*e.g.*, .pdf or similar format) are true and valid signatures for all purposes hereunder and will bind the parties to the same extent as that of original signatures on original documents.

This Agreement may be executed in multiple counterparts, each of which will be deemed to constitute an original but all of which together will constitute only one document.

[Signature page follows.]

By the signatures of their respective authorized representatives, the Parties affirm their understanding of and agreement to each term and condition set forth in this Agreement.

Communications Services KK	AT&T Japan KK
X	X
Name: Chris F. Cass	Name: Manabu Oka
Title: Representative Director	Title: President
Date: _____, 2010	Date: _____, 2010

1. INTRODUCTION

- 1.1 This Agreement shall be for a period (the “**Initial Term**”) commencing on the closing date of the Stock Purchase Agreement (“**SPA**”) entered into as of September 1, 2010 by and between AT&T Japan LLC (“**ATTJ-LLC**”) and Internet Initiative Japan, Inc. (“**IJ**”) (the “**Effective Date**”) and expiring without notice on September 1, 2012 (the “**Expiration Date**”), unless terminated earlier in accordance with the terms of this Agreement. The Initial Term of this Agreement may be extended for two (2) consecutive additional terms (each, an “**Extension Term**”) of one (1) year each upon mutual agreement of AT&T and Preferred Provider. Each Extension Term shall commence on the day following the Initial Term or the expiration of the preceding Extension Term (as the case may be), and (unless the Parties otherwise agree) shall be on the same terms and conditions as are then set forth in this Agreement. AT&T and Preferred Provider shall commence in good faith negotiations regarding any Extension Term no later than ninety (90) days prior to expiration of the then-current Extension Term.
- 1.2 For the avoidance of doubt, this Agreement conveys no Company commitment to purchase any Services (other than the initial Services referenced in Section 4.1.2). Each Order will specify its own period(s) of performance.
- 1.3 **Appendices.** The following are made part of this Agreement by this reference. To the extent any Appendix, by its form, requires execution by the Parties, such appendix will become part of this Agreement upon such execution; to the extent that the Parties have agreed to complete any Appendix after the date of execution of this Agreement, such Appendix will become part of this Agreement upon a writing or writings signed by the Parties evidencing its completion:

Appendix A	Definitions
Appendix B	General Terms & Conditions
Appendix C	Form of Change Order
Appendix D	Taxes
Appendix E	Insurance
Appendix F	Quality Assurance
Appendix G	Security Requirements Exhibit 1: AT&T Supplier Information Security Requirements
Appendix H	Background Checks
Appendix I	Notices
Appendix J	Statement of Work (SOW)
Appendix K	Reimbursable Expenses
Appendix L	Target Employees

- 1.4 Services to be provided by Preferred Provider are described in the **Statement of Work (SOW)** (**Appendix J**).
- 1.5 **Definitions.** Capitalized terms used but not expressly defined in a provision of any part of this Agreement will have the meaning given them in **Appendix A**.
- 1.6 **Order of Priority.** Conflicts or inconsistencies between or among provisions will be resolved in the following descending order of priority: Order, SOW, Exhibit, Appendix other than Appendix B, body of Agreement, Appendix B (General Terms and Conditions).
- 1.7 **Notices.** Notice is deemed given when made in writing and delivered by hand, facsimile transmission, electronic mail, or when deposited with a postal carrier, postage prepaid, return-receipt requested, and addressed as specified in **Appendix I**.

2. SERVICES

- 2.1 Preferred Provider shall provide to Company the following Services:
 - 2.1.1 the services described in this Agreement, including the services, functions and responsibilities described in the SOW set forth as **Appendix J**.
 - 2.1.2 the services, functions and responsibilities being performed prior to the Effective Date by (a) the Target Employees in support of any services which are to become Services under this Agreement, and/or (b) contractors under the Assigned Agreements in support of such services; and
 - 2.1.3 any services, functions or responsibilities not specifically described in this Agreement, but which are required for the proper performance and delivery of the Services (items (2.1.1) through (2.1.3), collectively, the "**Services**").

3. NEW SERVICES

- 3.1 AT&T may from time to time during the Term of this Agreement request that Preferred Provider perform a service that is significantly different from, or outside of the scope of, the Services (a "**New Service**").
- 3.2 Upon receipt of such a request from AT&T, Preferred Provider shall provide AT&T with:
 - (a) a written description of the work Preferred Provider anticipates performing in connection with such New Service;
 - (b) a schedule for commencing (and, if applicable, completing) such New Service;
 - (c) Preferred Provider's prospective charges for such New Service, including a detailed breakdown thereof;
 - (d) when appropriate, a description of any existing and new software, equipment, etc. to be used or provided by Preferred Provider in connection with such New Service; and
 - (e) a written description of the personnel, including job descriptions, necessary to develop and provide the New Service.
- 3.3 Notwithstanding anything to the contrary in this Agreement, any proposal submitted by Preferred Provider in accordance with this section will be based on pricing that takes into account the total scope and volume of Services then being provided by Preferred Provider. Preferred Provider shall not begin performing any New Service until AT&T has provided Preferred Provider with authorization (which may be in the form of an amendment to this Agreement) to perform the New Service.

4. ORDERS

4.1 General.

4.2 4.1.1 Services will be specified in Orders executed from time to time by the Parties. Orders will indicate whether a Service is for resale or Company's own use or both, and/or whether Services will be performed by a Subcontractor. When executed, an Order creates a contract that is governed by this Agreement, and which is enforceable solely against the parties to that Order. For the avoidance of doubt, other than as provided in Section 4.1.2, Preferred Provider's obligation to provide, and Company's obligation to pay for, a Service arises only in connection with, and on execution of, the Order specifying that Service.

4.1.2 The provisions of Section 4.1.1 shall not apply in respect of Preferred Provider's initial provision to Company of the Services commencing on the Effective Date. For the avoidance of doubt, Preferred Provider will provide the initial Services to Company (including under section 2 hereof and under Appendix K) without the requirement of any action by either Party hereunder, other than the execution and delivery of this Agreement.

4.3 Affiliates

4.2.1 Company Affiliates have the right to place Orders with Preferred Provider Affiliates. In case of Orders for Services intended for resale, the parties to the Order must be entities registered in the same country.

4.2.2 Reference to "Company" and "Preferred Provider" as well as to "Party" and "Parties" will be deemed, as appropriate, to apply to the Affiliates that become parties to an Order.

4.2.3 Neither Party will be liable to, or required to indemnify, the other for the acts or omissions of its own Affiliates. Nor will any Affiliate of a Party be liable to, or required to indemnify, (i) such Party or any other Affiliate of such Party, or (ii) the other Party or any Affiliate of the other Party, other than an Affiliate of such other Party that is a counterparty to an Order.

4.3 **Anticipated Delay.** Preferred Provider will immediately notify Company of an anticipated, reasonably certain delay in the performance of an Order.

4.4 Change Control

4.4.1 The Party requesting a change to an Order will complete and provide to the other Party a draft Change Order in the form of **Appendix C**. The Change Order will describe the nature of and reason for the change, and its anticipated effect on Services and charges therefor.

4.4.2 The Parties will negotiate each Change Order. If the Parties agree on the terms and conditions therein, they will execute the Change Order, which then will be incorporated by reference into and become part of the Order. Change Orders shall be sequentially numbered. For the avoidance of doubt, Preferred Provider will not be obligated to provide, and Company will not be obligated to pay for, Services different from what is specified in an Order unless the difference has been agreed to in a Change Order. Invoices subsequent to a Change Order will distinguish between charges for Services under the original Order, and charges for Services under the Change Order.

5. ACCEPTANCE

- 5.1 **Acceptance.** If an Order specifies that the Company has a right to Acceptance of Services (or any milestone or element thereof), the Acceptance Test Period will commence ten days after Preferred Provider has notified Company of completion of Services (or the applicable milestone or element). Company will within 30 days of such commencement specify any non-conformity in writing and afford Preferred Provider the opportunity to make the Services (or milestone) conform (failing which, Company will be deemed to have accepted the Services). After Preferred Provider's prompt corrective action, Preferred Provider will notify Company in writing that the Services (or milestone) now conform to the Acceptance Test. Preferred Provider's failure to pass the Acceptance Test following its corrective action shall give Company the right to terminate the Order with respect to the Services that failed inspection.

6. SERVICE LEVEL AGREEMENTS AND SERVICE LEVEL OBJECTIVES

- 6.1 **Service Level Agreements.** In the event that (i) AT&T fails to provide any service or service component to any service level (howsoever denominated) required by any Customer (including such service levels specified in the Company service level agreements with International Business Machines Corporation and Louis Vuitton Moët – Hennessy respectively set forth in the SOW (Appendix J) and AT&T incurs a monetary service-level credit (howsoever denominated) to such Customer, and (ii) such AT&T failure is due in whole or in part to the failure of any Service or Service Component, or Preferred Provider's failure to provide such Service or Service Component to the service level that the Customer requires of AT&T, Preferred Provider shall pay to AT&T an amount equal to the amount of the credit that AT&T has incurred to the Customer. For the avoidance of doubt, (i) no such payment by Preferred Provider shall limit AT&T's right to recover, without duplication, any Losses incurred or sustained by AT&T under this Agreement as a result of such Preferred Provider failure, and (ii) nothing in this Section 6.1.1 shall be deemed to limit or obviate AT&T's right to terminate this Agreement as set forth herein.
- 6.2 **Service Level Objectives.** Preferred Provider shall use commercially reasonable efforts to perform Services which are the subject of service level objectives ("Service Objectives") in accordance with the requirements of the service level objectives set forth in the Operations Manual (Attachment 4 to the SOW (Appendix J)).
- 6.3 Company shall have the right to request, after the Effective Date, (i) establishment of service levels ("**Service Levels**"), whether with or without associated monetary performance credits, relating to the Services, and (ii) incorporation of such Service Levels into the **SOW (Appendix J)**. If Preferred Provider consents to such request, the Parties shall execute and deliver an amendment to the Agreement setting forth the terms of such Service Levels. Upon the execution and delivery of such amendment, the provisions of paragraphs a) through e) below shall apply to the Service Levels.
- a) Preferred Provider shall perform Services which are the subject of Service Levels in accordance with the requirements of the Service Levels set forth in the **SOW (Appendix J)**.
- b) In the event of a failure of any Service or Service Component to meet any applicable Service Level, Preferred Provider shall pay to AT&T a Service Level credit in the amount of any credit (howsoever denominated) that the Preferred Provider has accrued, or that Preferred Provider's Subcontractor(s) have paid to the Preferred Provider, relating to such failure, as specified in the **SOW (Appendix J)**.
- c) The Service Level credits shall not limit AT&T's right to recover, in accordance with this Agreement, without duplication, any Losses incurred or sustained by AT&T under any other Section of this Agreement as a result of Preferred Provider's failure to provide the Services to the required Service Level. Nothing in this Section or the **SOW (Appendix J)** shall be deemed to limit or obviate AT&T's right to terminate this Agreement as set forth herein.
- d) Preferred Provider will be responsible for implementing and operating all measurement and monitoring tools and procedures required to measure and report its performance relative to the applicable Service Levels or Service Objectives to the extent that such measurement and monitoring can be reasonably applied to the Services. The Service Level or Service Objective measurement, monitoring and reporting process will be subject to audit by AT&T.
- e) If Preferred Provider fails to meet any Service Level or Service Objective, Preferred Provider shall: (i) promptly investigate and report on the causes of the problem; (ii) use all reasonable efforts to correct the problem and to begin meeting the applicable Service Level or Service Objective as soon as practicable; (iii) advise AT&T, as and to the extent requested by AT&T, of the status of remedial efforts being undertaken with respect to such problem; and (iv) provide AT&T reasonable evidence that the causes of such problem have been or will be corrected.

7. DISASTER RECOVERY

- 7.1 With respect to the Services, Preferred Provider shall make commercially reasonable efforts to maintain the same, or reasonably comparable, disaster recovery capabilities that the Company maintained for the Services immediately prior to the Effective Date.

8. INVOICES, PAYMENTS, PRICING, TAXES

8.1 Invoices

- 8.1.1 Only the Preferred Provider Affiliate that is party to the Order will render invoices under that Order, and will do so consistent with the terms of that Order.

- 8.1.2 Invoices for Services will specify as applicable and where required (i) the Services performed; (ii) the Site(s) where Services were performed; (iii) the fee charged for each Service; (iv) Transaction Taxes required by Law and tax reimbursements; and (v) *provided that* the Order entitles Preferred Provider to reimbursement of expenses, itemized expenses incurred by Preferred Provider. In case of (v), Preferred Provider will provide reasonably detailed supporting documents.

8.2 Payments

- 8.2.1 Payments will be solely by the Company Affiliate that is party to the Order, and will be made within Company has the right to withhold payment for non-conforming Services and for any forty-five (45) days after receipt of Preferred Provider's invoice. Preferred Provider will accept standard amount it disputes in good faith. Company will specify in writing the grounds on which it commercial methods of payment.9.2.2 disputes an invoiced amount.

- 8.3 **Pricing.** Company shall pay the charges for the Services set forth in **Exhibit F (Service Charges)** of the **SOW (Appendix J)** for the Services, unless such charges are superseded in Order agreed to by the Parties.

- 8.4 **Taxes.** The Parties' performance of this Agreement and, in particular, the invoices and payments under it, are subject to the tax provisions set forth in **Appendix D**.

- 8.5 **Most Favored Customer.** Preferred Provider represents and warrants that the terms and conditions of this Agreement (including the financial terms on which Preferred Provider is providing the Services to AT&T) are, and during the Term will continue to be, at least as favorable as those currently being offered, or that will be offered, by Preferred Provider to any of its multinational telecommunication carrier customers for the same or similar services. Accordingly, Preferred Provider shall semi-annually (i) review this Section, and (ii) have an officer of Preferred Provider certify to AT&T Preferred Provider's compliance herewith (with such certification being sent to AT&T's addressee set forth in Appendix I (Notices)).

9. COMPLIANCE WITH CERTAIN LAWS

- 9.1 Without limiting the generality of the Parties' respective obligations under the Compliance with Laws provision in the **General Terms and Conditions (Appendix B, Section 4)**, Preferred Provider, at its expense, will comply with the following Japanese legislations:

- 9.1.1 Act on the Protection of Personal Information;

- 9.1.2 Unfair Competition Prevention Law; and

- 9.1.3 Foreign Exchange and Foreign Trade Act.

- 9.2 Preferred Provider shall not directly or indirectly export, import, re-export, or otherwise distribute Services to any destination that is subject to export restrictions under Japanese law or any other country's law unless such export is permitted under all applicable laws, rules and regulations of any Governmental Authority. Compliance with the foregoing includes record-keeping and reporting obligations.

10. WARRANTIES & REPRESENTATIONS

- 10.1 **General.** Preferred Provider warrants and/or represents that:
- 10.1.1 There is no action, suit, or proceeding, pending or threatened, which could have a material adverse effect on Preferred Provider's ability to fulfill its obligations under this Agreement;
 - 10.1.2 Preferred Provider has the authority, financial resources, rights, and skills necessary to enter into, and perform, this Agreement, including to perform the Services;
 - 10.1.3 Preferred Provider has the authority legally to bind to this Agreement any Preferred Provider Affiliate that becomes party to an Order;
 - 10.1.4 No consent, approval, or withholding of objection is required from any entity, including any governmental authority with respect to Preferred Provider's entering into or performing this Agreement; and
 - 11.1.5 No agent, director, employee, or officer of Company has been or will be employed, retained or paid a fee, or otherwise has received or will receive, personal compensation or consideration by or from Preferred Provider, or from an agent, director, employee, or officer of Preferred Provider, in connection with this Agreement.
- 10.2 **Services.** Preferred Provider warrants and/or represents that:
- 10.2.1 All Services will be performed in a professional manner, in material compliance with all Specifications, and with the care, skill and diligence of—and in accordance with—the standards currently recognized in Preferred Provider's industry. If Preferred Provider fails to meet the Specification or such standards, Preferred Provider will, without additional compensation, promptly correct or revise the Services so that they comply with the Specification and such standards, including correcting or revising errors or deficiencies in the Services;
 - 10.2.2 Preferred Provider will exercise full control over and supervise the performance of Services, including full control and supervision with respect to the assignment, compensation, discharge, and employment of Preferred Provider personnel and Subcontractors performing Services;
 - 10.2.3 (a) No Service will infringe a patent, copyright, trademark, trade secret or other intellectual right and (b) as of the Effective Date, no third party claim has been alleged against Preferred Provider that any Service to be provided hereunder infringes upon such third party's intellectual property rights.
 - 10.2.4 Preferred Provider's performance of Services will be in accordance with Laws, including the Laws specified in Section 10.
- 10.3 **Warranty Period.** The warranty period for the Services specified in any Order will be the longer of the warranty period stated in such Order, or thirty (30) days from Company's Acceptance of such Services (the "**Warranty Period**"). Any warranty to perform Services shall be void to the extent that, after Preferred Provider's delivery thereof, such Services are modified by Company or any party acting through or under Company.
- 10.4 **Assignment, Enforcement.** Preferred Provider will pass through to or assign to Company the original warranties of Subcontractors, to the extent permitted. Preferred Provider will provide to Company copies of any such warranties. For Subcontractor warranties that Preferred Provider cannot pass through or assign, Preferred Provider will enforce such warranties on Company's behalf.
- 10.5 **Corrective Action.** During the Warranty Period, if Company believes that there has been a warranty breach, Company will specify such breach in writing. Preferred Provider will promptly investigate and either provide information satisfactory to Company that no warranty breach occurred, or, at no additional charge to Company, promptly take action to remedy the breach. If such remedial action would consist of Services or re-performing Services but Preferred Provider is unwilling or unable to perform or re-perform such Services, Company will have the right to perform such remedial action at Preferred Provider's expense.
- 10.6 **Disclaimer.** EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, PREFERRED PROVIDER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, REGARDING ANY MATTER, INCLUDING FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY, NON-INFRINGEMENT, OR RESULTS TO BE DERIVED FROM THE USE OF SERVICES PROVIDED UNDER THIS AGREEMENT.
- 10.7 **Survival.** Warranties will survive Company's inspection of, Acceptance of, payment for, and use of the Services.

11. DAMAGES, LIMITATION OF DAMAGES

- 11.1 **Delay Damages.** The Parties may agree in an SOW or an Order to a schedule of liquidated damages for Preferred Provider's failure to provide Services within the time periods specified therein. If so agreed, Preferred Provider's payment of liquidated damages to Company shall be Company's sole and exclusive financial remedy regarding a Preferred Provider failure to provide Services within such time periods.
- 11.2 **LIABILITY AND LIMITATION OF LIABILITY.** NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, ALL LIABILITY OF A PARTY UNDER THIS AGREEMENT SHALL BE LIMITED TO PROVEN DIRECT DAMAGES. THE PARTIES MAY AGREE IN AN ORDER OR STATEMENT OF WORK TO CAP THE LIABILITY OF EITHER PARTY WITH RESPECT TO ITS ACTIONS OR OMISSIONS UNDER THAT PARTICULAR ORDER OR STATEMENT OF WORK. SUBJECT TO CLAUSE 12.3 BELOW, NEITHER PARTY WILL BE LIABLE TO THE OTHER FOR CONSEQUENTIAL, INDIRECT, INCIDENTAL, PUNITIVE, OR SPECIAL DAMAGES, OR FOR LOST PROFITS OR REVENUE OR LOST DATA IN CONNECTION WITH THE PERFORMANCE OF OR FAILURE TO PERFORM THIS AGREEMENT, REGARDLESS OF THE LEGAL THEORY ON WHICH SUCH LIABILITY ARISES.
- 11.3 THE FOREGOING SHALL NOT LIMIT EITHER PARTY'S LIABILITY FOR A BREACH OF A CONFIDENTIALITY OBLIGATION OR AN INFRINGEMENT OF AN INTELLECTUAL OR OTHER PROPRIETARY RIGHT NOR PREFERRED PROVIDER'S INDEMNIFICATION OBLIGATIONS SPECIFIED IN ARTICLE 13 (Indemnification) OF THIS AGREEMENT.

12. INDEMNIFICATION

- 12.1 **General.** Preferred Provider shall indemnify, hold harmless, and defend Company and its Affiliates, agents, and employees against any Loss resulting from, arising out of or relating to any allegation, threat, demand, claim or lawsuit ("**Claim**") for:
- 12.1.1 Preferred Provider's or a Subcontractor's liability resulting from personal injury or death; damage to real property; damage to or theft of tangible personal property; or labor.
- 12.1.2 infringement of any patent, copyright, trade mark, service mark, trade secret, or other intellectual property right (including direct, contributory and active inducement infringement) in connection with the Services, including any Claim of infringement based on:
- a) making, repair, receipt, use, importing, sale or disposal (and offers to do any of the foregoing) of Services, or
- b) use of Services in combination with products, systems, services, processes or methods not furnished by Preferred Provider, including use in the form of the making or using of an apparatus or system, or the making or practicing of a process or method (a "**Combination Claim**"); and
- 12.1.3 misappropriation of any trade secret, proprietary or non-public information in connection with the Services;
- 12.1.4 Preferred Provider's or a Subcontractor's failure to comply with a Law; or
- 12.1.5 Preferred Provider's or a Subcontractor's breach of a warranty or representation set forth in this Agreement.
- 12.2 **Notice.** Company will promptly notify Preferred Provider of any Loss for which Preferred Provider may be obligated to indemnify and Preferred Provider will be allowed to control the defense or settlement. A delay in Company's provisions of such a notice will excuse Preferred Provider's obligation only if Preferred Provider can show prejudice caused by the delay. Company will provide reasonable cooperation in connection with Preferred Provider's defense of a claim. Preferred Provider will not agree to settlement of a claim without Company's prior written consent which shall not be unreasonably withheld.
- 12.3 In the event Company and/or Customer is unable to use the Services due to reasons attributable to the actions or omissions of any telecommunications carrier, Preferred Provider will return to Company any charges in respect of telecommunication lines to the extent Preferred Provider receives such charges from such telecommunications carrier.
- 12.4 Company will defend, indemnify and hold harmless Preferred Provider and its agents, Affiliates and employees against any Loss arising out of or relating to a Customer claim arising from or relating solely and exclusively to Company's acts or omissions, including breaches of any warranty for services that Company provides to such Customer (other than a Company-to-Customer service level referenced in Section 6.1.1) that are in addition to those provided by Preferred Provider to Company hereunder.
- 12.5 **Continued Use of Services Subject to Non-Combination Claims.** If, as a result of a third party claim other than an Combination Claim, (i) Company's rights under this Agreement are restricted or diminished, (ii) an injunction is sought or is likely (in Preferred Provider's judgment) to be issued against Company's use of Services, or (iii) Services are likely (in Preferred Provider's judgment) to become the subject of a claim of infringement, then, in addition to its other obligations set forth in this Section, Preferred Provider, at its sole expense and at no loss, cost or damage to Company or the Customers, shall obtain for Company the right to continue using or conducting other activities with respect to the Services; provided that if Preferred Provider is unable to obtain such right, Preferred Provider shall, after consulting with and obtaining the written approval of Company, provide modified or replacement non-infringing Services that are equally suitable and functionally equivalent while retaining the quality of the original Services

13. TERMINATION

13.1 Scope

- 13.1.1 **For Convenience.** Company shall have the right at any time during the Initial Term to terminate this Agreement for convenience (a) in whole provided Company pays Preferred Provider an amount of JPY 90 million, and (b) in part provided Company pays Preferred Provider the amounts set forth in clauses (ii) and (iii) of Section 14.2.1.
- 13.1.2 **For Anticipated Delay.** Company shall have the right to terminate an Order in whole or in part, and without obligation or liability (including for termination fees) immediately after receipt of Preferred Provider's notice of an anticipated delay in delivering Services, provided Company is not the cause of such delay. If Company or a third party is the cause of such delay the Parties will negotiate an extension of time for Preferred Provider's performance and responsibility for any additional costs relating to such delay.
- 13.1.3 **For Uncured Material Breach.** If either Party fails to perform any of its material obligations and such failure is not cured within 30 days after notice is given to the other Party specifying the nature of the default, then such first Party may, upon further notice to the defaulting Party, terminate in whole or part any Order (or all Orders) as of the date specified in such notice of termination; provided, however, that if the defaulting Party has promptly commenced to cure the default and, if after the defaulting Party's reasonable efforts such default could not be cured within such 30-day period, the defaulting Party may give notice to the non-defaulting Party by the end of such 30-day period and in such case the defaulting Party's time to cure such default shall extend for up to 15 days from the end of such 30-day period; provided, further, that the defaulting Party continues to use reasonable efforts to cure such default during such 15-day period.

If the breach (x) consists of a failure to comply with Laws, (y) a Party is placed under judicial management or final or provisional liquidation or passes a resolution for its voluntary winding up, or (z) the breach is of a nature that cannot be cured, the termination will be effective on the date the defaulting Party receives the breach notice.

13.2 Payment Obligations by Company on Termination

- 13.2.1 Except as otherwise expressly provided in this Agreement, if Company terminates an Order or the Agreement in part other than pursuant to Section 14.1.3, Company will pay Preferred Provider for (i) all costs reasonably incurred in returning Services to Preferred Provider (and, if applicable, to the distributor or if such return is not allowed by the distributor), or if the applicable invoiced fees for Services ordered by Company prior to termination; and (ii) the pro-rated Services Charges for the terminating Services performed through the effective date of termination; and (iii) any termination charges as may be set forth in a Statement of Work. This shall not apply to the termination of the Agreement as a whole.
- 13.2.2 **Refund.** If Company has already paid for any Service being terminated, Preferred Provider will promptly refund to Company a pro-rated amount for the portion of such Service that Preferred Provider would have performed after the termination date. Notwithstanding the foregoing, if Preferred Provider is purchasing any element of such Service from a third party, Preferred Provider will seek a pro-rated refund of such third-party service element and, upon, receipt thereof, refund such amount to Company.
- 13.3 **Effects of Termination or Expiration.** Termination or expiration of an Order will not affect any other Order then in effect. Termination in whole of this Agreement by Company pursuant to Sections 14.1.3 and 14.1.1 will terminate all Orders then in effect (unless Company specifies to Preferred Provider in writing the Order(s) that Company requires Preferred Provider to complete, in which case the terms and conditions of this Agreement will continue to govern the specified Order(s) through Preferred Provider's completion of performance of the Services thereunder.

If this Agreement expires or is terminated other than pursuant to Section 14.1.3 and 14.1.1, the Orders then in effect will continue in effect, governed through Preferred Provider's completion of performance of the Services thereunder by the terms and conditions of this Agreement.

- 13.4 **Termination Notices.** A Party terminating this Agreement in whole or in part will send all termination notices to the other Party (and any Affiliate that is a party to any Order being terminated).

14. TERMINATION ASSISTANCE SERVICES

- 14.1 **Termination Assistance Services.** Preferred Provider shall, upon AT&T's request from time to time after a determination is made by AT&T that there will be a termination or expiration of this Agreement, provide the Termination Assistance Services at **[charges to be discussed]** except to the extent that personnel resources included in the Service Charge being paid by AT&T to Preferred Provider after such expiration or termination can be used to provide the Termination Assistance Services. The quality and level of performance of Preferred Provider during the Termination Assistance Period shall not be degraded. During the 150 days immediately following the expiration of the Termination Assistance Period, experienced, qualified Preferred Provider personnel shall (i) answer questions from AT&T regarding the Services on an "as needed" basis on terms no less favorable than those prevailing as of the Effective Date, and (ii) deliver to AT&T any remaining AT&T-owned reports and documentation still in Preferred Provider's possession.
- 14.2 **Exit Rights.** Upon the later of (1) the expiration or termination of this Agreement or the applicable portion of this Agreement and (2) the last day of the Termination Assistance Period:
- 14.2.1 Preferred Provider shall deliver to AT&T, at no cost to AT&T, a current copy of any AT&T proprietary or third-party software in the form in use as of the End Date, in each case being used by Preferred Provider to provide the Services.
- 14.2.2 Upon AT&T's request, with respect to any Preferred Provider proprietary or third party software used to provide the Services, Preferred Provider shall, at no cost to AT&T or any replacement service provider, transfer, assign or sublicense software to AT&T or such provider.
- 14.2.3 Upon AT&T's request, with respect to (i) any agreements for maintenance, disaster recovery services or any other necessary third party services being used by Preferred Provider to provide the Services as of the End Date and (ii) the Assigned Agreements, Preferred Provider shall transfer or assign such agreements to AT&T or its replacement or other service provider, on terms and conditions acceptable to all of the applicable parties.
- 14.2.4 Upon AT&T's request, Preferred Provider shall sell to AT&T or its replacement or other service provider (i) any Preferred Provider equipment primarily being used by Preferred Provider to perform the Services as of the End Date and (ii) any assets previously transferred by AT&T to Preferred Provider, free and clear of all liens (except permitted liens), security interests or other encumbrances, at the lesser of the fair market value, as shall be determined in an agreed-upon appraisal, and the book value; provided however in the case of a partial termination the forgoing shall apply only to the extent such equipment are used solely in connection with the terminated work.

15. ESCALATION

- 15.1 **Escalation.** In the event the Parties are unable to informally and expeditiously resolve any dispute that arises under this Agreement, the Parties shall adhere to the following procedure:
- 15.1.1 Either Party may notify the other Party in writing of a formal dispute, including details of such dispute (e.g., a description of how the performance of the other Party is deficient). The employees of the Parties who have overall responsibility for the Parties' performance under this Agreement (the "**Project Executives**") shall meet in person or by telephone within seven days of the date of the written notice of the dispute in order to reach an agreement resolving such dispute (including as to any corrective action required to be taken by either Party). The Project Executives shall memorialize the nature of the dispute and their efforts to resolve it (including any agreed resolution).
- 15.1.2 If the Project Executives are unable to resolve the dispute (including agreeing on a written plan of any necessary corrective action) within five (5) Business Days, or if a Party fails to complete any corrective action by the agreed upon completion date therefor, the Project Executives shall immediately refer such dispute to the managers to whom they report ("**Management Representatives**"). The Parties' Management Representatives shall meet in person or by telephone within seven days of the date of such referral in order to reach an agreement resolving such dispute (including as to any corrective action required to be taken by either Party). The Parties' Management Representatives shall memorialize the nature of the dispute and their efforts to resolve it (including any agreed resolution).
- 15.1.3 If the Parties' Management Representatives are unable to resolve the dispute (including agreeing upon a written plan of any necessary corrective action) within five (5) Business Days, or if a Party fails to complete any corrective action by the agreed upon completion date therefor, the Management Representatives shall immediately refer the dispute to an "**Executive Review Committee**" comprising two (2) appropriate high level executives of each Party.
- 15.1.4 If the Executive Review Committee is unable to resolve the dispute (including agreeing upon a written plan of any necessary corrective action within five (5) Business Days, or if a Party fails to complete any necessary corrective action by the agreed upon completion date therefor, either Party may, immediately thereafter take action to enforce its rights under this Agreement, including the termination of this Agreement for breach when so permitted by its terms. Except as otherwise specifically provided in this Agreement, neither Party shall terminate this Agreement for breach or initiate legal action unless and until such Party has followed the dispute resolution procedure set forth in this Section 16 (or the other Party has waived adherence to such procedure in writing).
- 15.1.5 As of the Effective Date, the following individuals shall serve as the Project Executives and Management Representatives for purposes of dispute resolution:

	Company	Preferred Provider
Project Executive	<u>Shingo Masumitsu,</u> <u>WCS Manager</u>	<u>Toshihide Muneyuki,</u> <u>Director, Project Office</u>
Management Representatives	<u>Manabu Oka,</u> <u>President</u> <u>Atsushi Yamamoto,</u> <u>Director</u>	<u>Tomofumi Sekiyama,</u> <u>Vice President, Business Operations</u>

Each Party may, at any time, change its Project Executive or Management by notifying the other Party of such change.



Exhibit 1.1(d)¹ to the Stock Purchase Agreement

LLC Terms of Business Transfer

These Terms of Business Transfer (“**Terms of Business Transfer**”) describe the principal terms and conditions of the purchase by Newco from Seller of certain assets and assumption of certain Liabilities relating to the business which is carried on by Seller as of the date of the LLC Business Transfer Agreement (defined below) using the Transferred Assets (defined below) and the Transferred Liabilities (defined below) (“**Transferred Business**”). These terms and conditions are to be incorporated, substantially in the form set forth below, in a definitive agreement (to be called a “**LLC Business Transfer Agreement**”). The LLC Business Transfer Agreement shall be entered into between Seller and Newco substantially concurrently with the Closing.

Unless otherwise defined in these Terms of Business Transfer, capitalized terms used in these Terms of Business Transfer have the meaning given to them in Article 1 of the certain Stock Purchase Agreement dated ■ (“**SPA**”).

1. PURCHASE AND SALE OF ASSETS

At the closing of the Business Transfer (“**Business Transfer Closing**”), Seller will sell and assign to Newco, and Newco will purchase and assume from Seller, certain assets and Liabilities relating to the Transferred Business on the terms and conditions set forth in the LLC Business Transfer Agreement.

2. TRANSFERRED ASSETS

At the Business Transfer Closing, Seller transfers to Newco all of the following assets owned, leased or held by Seller (“**Transferred Assets**”) as of the Business Transfer Closing Date²:

- (a) all property plant and equipment comprised of machinery, equipment, tools, furniture, office equipment, computer hardware, software, supplies, materials and other items of tangible personal property summarized in Annex 2(a)(i) and listed in Annex 2(a)(ii), together with any express or implied warranty by the manufacturers, sellers or lessors of any item or component part thereof, and all maintenance records and other related documents;
- (b) all trade accounts receivable, including billed accounts receivable, unbilled accounts receivable, unapplied cash, allowances for doubtful accounts receivable as reflected in the balance sheet summary attached as Annex 2(b)(i) and comprised of the following line items each as set out in the corresponding tab of Annex 2(b) as listed below:
 - (i) billed accounts receivable (set out in Annex 2(b)(ii));
 - (ii) unbilled accounts receivable (set out in Annex 2(b)(iii));
 - (iii) unapplied cash (set out in Annex 2(b)(iv)); and
 - (iv) contra revenue and bad debt (set out in Annex 2(b)(v)).
- (c) all of the rights of Seller under the contracts set out in Annex 2(c), and all outstanding offers or solicitations made by or to Seller to enter into any contract primarily relating to the other Transferred Assets described in this Section 2;
- (d) all rights in respect of the leased real property set out in Annex 2(d), to the extent that such rights may be transferred under applicable Law;

¹ In connection with, and to facilitate, the Business Transfer, Seller has established a new Delaware limited liability company that is a wholly-owned subsidiary of Seller. This new entity is called AT&T Global Services Japan LLC. Seller intends to transfer the retained employees to this entity prior to the Closing.

² The assets lists attached as Annexes 2(a)(i), 2(a)(ii), 2(b), 2(b)(i), 2(b)(ii), 2(b)(iii), 2(b)(iv), 2(b)(v), 2(c), 2(d) 2(f)(i), 2(f)(ii) and 2(i) are as of the date of execution of the SPA and are to be updated to reflect changes in the ordinary course of business during the period between signing of the SPA and Closing. In updating the lists, Seller and Newco shall adopt the same methodology used to create the lists attached at the date of execution of the SPA. The Transferred Assets will be recorded at fair market value on the Newco balance sheet in accordance with GAAP.

- (e) (Intentionally left blank)
- (f) other assets (including deferred costs and prepaid items relating to the transferred contracts) set out in [Annex 2\(f\)\(i\)](#), [Annex 2\(f\)\(ii\)](#) and [Annex 4\(c\)](#);
- (g) all records primarily relating to (i) the other Transferred Assets described in this Section 2 and the Transferred Liabilities, and (ii) the assets and liabilities transferred pursuant to the Split Agreement (to the extent Seller has such records), and copies of all personnel records with respect to the Transferred Employees of Seller, all to the extent Seller is legally permitted to provide copies of such records to Newco. Notwithstanding the forgoing, Seller will provide records for the past three years and use commercially reasonable efforts to transfer prior data if it is readily identifiable and available;
- (h) all claims, rights and defenses of the members of Seller against third parties to the extent relating to any of the other Transferred Assets described in this Section 2 or Transferred Liabilities, whether choate or inchoate, known or unknown, contingent or non-contingent, including all attorney work-product protections, attorney-client privileges and other legal protections and privileges to which Seller may be entitled in connection with any of the other Transferred Assets or Transferred Liabilities; and
- (i) inventory, if any, related to the Transferred Customers as set out in [Annex 2\(i\)](#).

3. EXCLUDED ASSETS

All assets of Seller that are not specifically set out in Section 2 do not transfer to Newco and will remain the property of Seller (“**Excluded Assets**”)³. For the avoidance of doubt, the Excluded Assets include:

- (a) all cash or temporary investments;
- (b) all inter-entity accounts receivable;
- (c) all long-term notes receivable; and
- (d) all security deposits (*shikikin*) relating to the leased real property included in the Transferred Assets, including all of Seller’s rights to claim a refund of such security deposits.

4. TRANSFERRED LIABILITIES

At the Business Transfer Closing, Newco assumes and pays or performs and discharges when due any and all of the Liabilities of Seller to the extent related to the Transferred Assets or Transferred Employees of Seller, whether arising on, prior to or following the date of the Business Transfer Closing (“**Business Transfer Closing Date**”) in each case other than the Retained Liabilities, set forth in Section 5 and specifically Sections 5(n) and 5(o) (collectively, the “**Transferred Liabilities**”). The Transferred Liabilities include the following:

- (a) all trade accounts payable primarily relating to the Transferred Contracts as of the Business Transfer Closing Date, as summarized in [Annex 4\(a\)\(i\)](#) and listed in [Annex 4\(a\)\(ii\)](#);
- (b) all accrued invoices primarily relating to the Transferred Contracts as of the Business Transfer Closing Date, as set out in [Annex 4\(b\)\(i\)](#), [Annex 4\(b\)\(ii\)](#), [Annex 4\(b\)\(iii\)](#), [Annex 4\(b\)\(iv\)](#), and [Annex 4\(b\)\(v\)](#)⁴;
- (c) all AGN circuit accruals primarily relating to the JNOS Services (including Secure IP WAN services) as of the Business Transfer Closing Date, as set out in [Annex 4\(c\)](#);
- (d) all advanced billing and other deferred payments primarily relating to the Transferred Contracts as of the Business Transfer Closing Date, as set out in [Annex 4\(d\)](#);

³ Final version may include list of specifically identified Excluded Assets (but these would not include any of the assets within the description of Transferred Assets in Section 2 hereof).

⁴ The lists attached as Annexes 4(a)(i), 4(a)(ii), 4(b)(i), 4(b)(ii), 4(b)(iii), 4(b)(iv), 4(b)(v), 4(c) and 4(d) are as of the date of execution of the SPA and are to be updated to reflect changes in the ordinary course of business during the period between signing of the SPA and Closing. In updating the list, Seller and Newco shall adopt the same methodology used to create the list attached at the date of execution of the SPA.

- (e) all Liabilities of Seller arising on, prior to or following the Business Transfer Closing Date under the contracts set out in Annex 2(c) included in the Transferred Assets;
- (f) all Liabilities associated with the leased real property set out in Annex 2(d) included in the Transferred Assets arising on, prior to or following the Business Transfer Closing Date except as otherwise set forth in Section 5(n);
- (g) all Liabilities relating to or arising out of environmental matters, including those arising under any Environmental Law; and
- (h) all other Liabilities arising out of, relating to or incurred in connection with the Transferred Assets or Transferred Employees of Seller including (i) the operation of the Transferred Business after the Business Transfer Closing Date, (ii) any other condition arising on, prior to or following the Business Transfer Closing Date with respect to the Transferred Assets, and (iii) accrued compensation absences set out in Annex 4(c).

5. RETAINED LIABILITIES

The Retained Liabilities will remain the sole responsibility of and will be retained, paid, performed and discharged solely by Seller and accordingly Newco agrees not to claim any tax deduction for Japanese income tax purposes with respect to any portion of the Retained Liabilities. "Retained Liabilities" will mean every Liability of Seller other than the Transferred Liabilities, including:

- (a) any Liability to the extent arising out of or relating to any Excluded Asset;
- (b) all Liabilities arising out of Seller's activities relating to, and asserted by or on behalf of one or more of, the Target Employees of Seller who do not transfer;
- (c) all Liabilities arising out of or relating to the Seller Pension Plans;
- (d) all Liabilities arising out of or relating to that certain executive incentive plan maintained by Seller for the benefit of certain of the Executives as set out in Annex 4(c);
- (e) (Intentionally left blank);
- (f) all accrued Liabilities arising out of or relating to employee incentive awards maintained by the Seller;
- (g) all accrued Liabilities arising out of or relating to unit performance awards maintained by the Seller;
- (h) all accrued Liabilities arising out of or relating to year-end employee bonuses maintained by the Seller;
- (i) all accrued Liabilities arising out of or relating to local country income taxes withheld;
- (j) all accrued Liabilities arising out of or relating to local country workers compensation;
- (k) all accrued Liabilities arising out of or relating to consumption tax collected from local customers;
- (l) all accrued Liabilities arising out of or relating to the asset retirement obligation maintained by the Seller;
- (m) all other Liabilities relating to wage, salary and other benefit for Transferred Employees of Seller accrued prior to the Business Transfer Closing Date;
- (n) in relation to the leased real property included in the Transferred Assets, all Liabilities arising out of Seller's obligation to reinstate the leased premises to the original condition (up to the Reserved Reinstatement Amount);
- (o) all Liabilities accrued on or before December 31, 2007; and
- (p) any Liabilities that either (i) gave rise to a deduction, expense or loss claimed on any U.S. tax return for the 2008 tax year or (ii) were incurred outside of the ordinary course of business and which give rise to a deduction, expense or loss for the 2009 and 2010 taxable year.

6. PURCHASE PRICE

- (a) The purchase price for transfer of the Transferred Assets and assumption of the Transferred Liabilities (“**Business Transfer Purchase Price**”) is ¥■ (excluding consumption tax). On the Business Transfer Closing Date, Newco will issue a note in favor of Seller in the amount of the Business Transfer Purchase Price. Seller will contribute the Note to Newco, and Newco will issue and allot 10 ordinary shares in Newco to Seller, by way of contribution-in-kind (*genbutsu shusshi*).
- (b) Newco shall pay in cash consumption tax [leviable on the Business Transfer] to the Seller within ■ days of the Business Transfer Closing Date. Seller and Newco will cooperate and agree on the amount of consumption tax to be paid within 14 days after the Business Transfer Closing Date. Seller will be permitted to offset against any other amounts as may be due to Newco if Newco fails to make this payment when due.

7. REQUIRED PROCEDURES

Newco and Seller shall conduct all required procedures in accordance with applicable Laws, including, with respect to Newco, approval of a shareholders meeting in accordance with Item 5, Section 2 of Article 467 (*Jigo-Setsuristu*) of the Companies Act of Japan.

8. EMPLOYEE MATTERS

Employees of Seller will become employees of Newco in the manner and on such terms and conditions as are set forth in the SPA.

9. TRANSFER VOID AB INITIO

In the event that the Closing does not occur, any purported transfer of the Transferred Assets and assumption of the Transferred Liabilities under the LLC Business Transfer Agreement shall be void *ab initio* and Newco shall acquire no rights in such Transferred Assets nor assume any obligations relating to such Transferred Liabilities. In the event that the Closing does not occur, Seller shall immediately return to Newco the note or the shares referred to at Section 6(a).

10. GOVERNING LAW

The LLC Business Transfer Agreement will be governed by and construed under the laws of Japan, without regard to conflicts of laws principles that would require the application of any other law.

11. JURISDICTION

All disputes, controversies, or differences which may arise between the parties out of or in relation to or in connection with the LLC Business Transfer Agreement, or of the breach thereof, will be subject to the exclusive jurisdiction of the Tokyo District Court.

**Exhibit 1.1(e)¹ to the Stock Purchase Agreement
LTD Terms of Business Transfer**

These Terms of Business Transfer ("**Terms of Business Transfer**") describe the principal terms and conditions of the purchase by Newco from AT&T Japan Ltd. of certain assets and assumption of certain Liabilities relating to the business which is carried on by Seller as of the date of the LTD Business Transfer Agreement (defined below) using the Transferred Assets (defined below) and the Transferred Liabilities (defined below) ("**Transferred Business**"). These terms and conditions are to be incorporated, substantially in the form set forth below, in a definitive agreement (to be called a "**LTD Business Transfer Agreement**"). The LTD Business Transfer Agreement shall be entered into between AT&T Japan Ltd. and Newco substantially concurrently with the Closing.

Unless otherwise defined in these Terms of Business Transfer, capitalized terms used in these Terms of Business Transfer have the meaning given to them in Article 1 of the certain Stock Purchase Agreement dated ■ ("**SPA**").

1. PURCHASE AND SALE OF ASSETS

At the closing of the Business Transfer ("**Business Transfer Closing**"), AT&T Japan Ltd. will sell and assign to Newco, and Newco will purchase and assume from AT&T Japan Ltd, certain assets and Liabilities relating to the Transferred Business on the terms and conditions set forth in the LTD Business Transfer Agreement.

2. TRANSFERRED ASSETS

At the Business Transfer Closing, AT&T Japan Ltd. transfers to Newco all of the following assets owned, leased or held by AT&T Japan Ltd. ("**Transferred Assets**") as of the Business Transfer Closing Date²:

- (a) all property plant and equipment comprised of [machinery, equipment, tools, furniture, office equipment, computer hardware, software, supplies, materials and other items of tangible personal property listed in Annex 2(a)(i), together with any express or implied warranty by the manufacturers, sellers or lessors of any item or component part thereof, and all maintenance records and other related documents;
- (b) all of the rights of AT&T Japan Ltd. under the contracts set out in Annex 2(b), and all outstanding offers or solicitations made by or to AT&T Japan Ltd. to enter into any contract primarily relating to the other Transferred Assets described in this Section 2;
- (c) other assets (including prepaid items relating to the Transferred Employees of AT&T Japan Ltd.) set out in Annex 2(c)(i);
- (d) all records primarily relating to the other Transferred Assets described in this Section 2 and the Transferred Liabilities, and copies of all personnel records with respect to the Transferred Employees of AT&T Japan Ltd., all to the extent AT&T Japan Ltd. is legally permitted to provide copies of such records to Newco. Notwithstanding the forgoing, AT&T Japan Ltd. will provide records for the past three years and use commercially reasonable efforts to transfer prior data if it is readily identifiable and available; and
- (e) all claims, rights and defenses of the members of AT&T Japan Ltd. against third parties to the extent relating to any of the other Transferred Assets described in this Section 2 or Transferred Liabilities, whether choate or inchoate, known or unknown, contingent or non-contingent, including all attorney work-product protections, attorney-client privileges and other legal protections and privileges to which AT&T Japan Ltd. may be entitled in connection with any of the other Transferred Assets or Transferred Liabilities.

¹ In connection with, and to facilitate, the Business Transfer, Seller has established a new Delaware limited liability company that is a wholly-owned subsidiary of Seller. This new entity is called AT&T Global Services Japan LLC. Seller intends to transfer the retained employees to this entity prior to the Closing.

² The assets lists attached as Annexes 2(a)(i), 2(b) and 2(c)(i) are as of the date of execution of the SPA and are to be updated to reflect changes in the ordinary course of business during the period between signing of the SPA and Closing. In updating the lists, Seller and Newco shall adopt the same methodology used to create the lists attached at the date of execution of the SPA.

3. EXCLUDED ASSETS

All assets of AT&T Japan Ltd. that are not specifically set out in Section 2 do not transfer to Newco and will remain the property of AT&T Japan Ltd. (“**Excluded Assets**”)³. For the avoidance of doubt, the Excluded Assets include:

- (a) all cash or temporary investments;
- (b) all inter-entity accounts receivable;
- (c) all trade accounts receivable including billed accounts receivable, unbilled accounts receivable, unapplied cash, allowances for doubtful accounts receivable; and
- (d) other intangibles.

4. TRANSFERRED LIABILITIES

At the Business Transfer Closing, Newco assumes and pays or performs and discharges when due any and all of the Liabilities of AT&T Japan Ltd. to the extent related to the Transferred Assets or Transferred Employees of AT&T Japan Ltd., whether arising on, prior to or following the date of the Business Transfer Closing (“**Business Transfer Closing Date**”) in each case other than the Retained Liabilities (collectively, the “**Transferred Liabilities**”). The Transferred Liabilities include the following⁴:

- (a) all trade accounts payable primarily relating to the Transferred Contracts as of the Business Transfer Closing Date, as summarized in Annex 4(a);
- (b) all accrued invoices primarily relating to the Transferred Contracts as of the Business Transfer Closing Date, as set out in Annex 4(b)(i) and Annex 4(b)(ii);
- (c) all Liabilities of AT&T Japan Ltd. arising on, prior to or following the Business Transfer Closing Date under the contracts set out in Annex 2(b) included in the Transferred Assets; and
- (d) all other Liabilities arising out of, relating to or incurred in connection with the Transferred Assets or Transferred Employees of AT&T Japan Ltd. including (i) the operation of the Transferred Business after the Business Transfer Closing Date, (ii) any other condition arising on, prior to or following the Business Transfer Closing Date with respect to the Transferred Assets, and (iii) accrued compensation absences set out in Annex 4(d).

5. RETAINED LIABILITIES

The Retained Liabilities will remain the sole responsibility of and will be retained, paid, performed and discharged solely by AT&T Japan Ltd. and accordingly Newco agrees not to claim any tax deduction for Japanese income tax purposes with respect to any portion of the Retained Liabilities. “**Retained Liabilities**” will mean every Liability of AT&T Japan Ltd. other than the Transferred Liabilities, including:

- (a) any Liability to the extent arising out of or relating to any Excluded Asset;
- (b) all Liabilities arising out of AT&T Japan Ltd.’s activities relating to, and asserted by or on behalf of one or more of, the Target Employees of AT&T Japan LTD. who do not transfer;
- (c) all Liabilities arising out of or relating to the Seller Pension Plans;

³ Final version may include list of specifically identified Excluded Assets (but these would not include any of the assets within the description of Transferred Assets in Section 2 hereof).

⁴ The lists attached as Annexes 4(a), 4(b)(i), 4(b)(ii) and 4(d) are as of the date of execution of the SPA and are to be updated to reflect changes in the ordinary course of business during the period between signing of the SPA and Closing. In updating the list, Seller and Newco shall adopt the same methodology used to create the list attached at the date of execution of the SPA.

- (d) all Liabilities arising out of or relating to that certain executive incentive plan maintained by AT&T Japan Ltd. for the benefit of certain of the Executives as set out in Annex 4(d);
- (e) all accrued Liabilities arising out of or relating to employee incentive awards maintained by AT&T Japan Ltd.;
- (f) all accrued Liabilities arising out of or relating to team awards maintained by AT&T Japan Ltd.;
- (g) all accrued Liabilities arising out of or relating to year-end employee bonuses maintained by AT&T Japan Ltd.;
- (h) all accrued Liabilities arising out of or relating to local country income taxes withheld;
- (i) all accrued Liabilities arising out of or relating to local country workers compensation;
- (j) all accrued Liabilities arising out of or relating to short-term interest payable to affiliates;
- (k) all Liabilities relating to long-term notes and long-term interest payable to affiliates;
- (l) all accrued Liabilities arising out of or relating to income taxes;
- (m) all other Liabilities relating to wage, salary and other benefit for Transferred Employees of AT&T Japan Ltd. prior to the Business Transfer Closing Date; and
- (n) all AGN circuit accruals as of the Business Transfer Closing Date.

6. PURCHASE PRICE

- (a) The purchase price for the transfer of the Transferred Assets and assumption of the Transferred Liabilities (“**Business Transfer Purchase Price**”) is ¥■ (excluding consumption tax). Newco will deliver the Purchase Price plus consumption tax by wire transfer of immediately available funds, to an account to be designated by the Seller.

7. REQUIRED PROCEDURES

Newco and AT&T Japan Ltd. shall conduct all required procedures in accordance with applicable Laws, including, with respect to Newco, approval of a shareholders meeting in accordance with Item 5, Section 2 of Article 467 (*Jigo-Setsuristu*) of the Companies Act of Japan.

8. EMPLOYEE MATTERS

Employees of AT&T Japan Ltd. will become employees of Newco in the manner and on such terms and conditions as are set forth in the SPA.

9. TRANSFER VOID AB INITIO

In the event that the Closing does not occur, any purported transfer of the Transferred Assets and assumption of the Transferred Liabilities under the LTD Business Transfer Agreement shall be void *ab initio* and Newco shall acquire no rights in such Transferred Assets nor assume any obligations relating to such Transferred Liabilities. In the event that the Closing does not occur, AT&T Japan Ltd. shall immediately return to Newco the Business Transfer Purchase Price.

10. GOVERNING LAW

The LTD Business Transfer Agreement will be governed by and construed under the laws of Japan, without regard to conflicts of laws principles that would require the application of any other law.

11. JURISDICTION

All disputes, controversies, or differences which may arise between the parties out of or in relation to or in connection with the LTD Business Transfer Agreement, or of the breach thereof, will be subject to the exclusive jurisdiction of the Tokyo District Court.

[Translation]

Exhibit 1.1(f) to the Stock Purchase Agreement
[English Translation]

Form of Absorption-Type Company Split Agreement

AT&T Japan KK (“Assignor”) and Communications Services KK (“Assignee”) hereby enter into this Company Split Agreement (this “Agreement”) in relation to an absorption-type company split (*kyushu bunkatsu*; the “Split”) under which Assignee will assume certain of the rights and obligations that Assignor has in relation to the Target Business provided for in Article 1.

Article 1 (Absorption-type Company Split)

Assignor will carry out an absorption-type company split in accordance with the provisions of this Agreement in order to cause Assignee to assume the rights and obligations provided under Article 2 in relation to the design, acquisition, installation, operation and management of multi-carrier based networks in Japan, excluding networks that connect to the global network used for the global services, for third party customers that utilize third party circuits, equipment and software applications from other suppliers, as such business is conducted by Assignor as of the date of this Agreement (hereafter the “Target Business”).

Article 2 (Assets, Liabilities, and Other Rights and Obligations)

1. As a result of the Split, Assignee will, to the extent permitted by laws and regulations, assume those assets, liabilities, and other rights and obligations of Assignor (hereafter, the “Rights and Obligations”), all as provided in Exhibit.
2. Assignee will assume any and all liabilities to be succeeded from Assignor in accordance with the immediately preceding section, and Assignor will not be responsible for any of the liabilities assumed by Assignee after the Effective Date (as such term is defined in Article 5).
3. The assets and liabilities to be assumed by Assignee from Assignor will be based on the portion of the balance sheet as of December 31, 2009 that corresponds to the Target Business and other calculations as of the same date, and will be adjusted accordingly to reflect any increase or decrease up to the day before Effective Date (as defined in Article 5).

Article 3 (Shareholder Approval)

- Assignor will, pursuant to Section 3 of Article 784 of the Companies Act (the “Act”), omit the resolution of the shareholders at a general meeting to obtain approval for this Agreement, as required by Section 1 of Article 783 of the Act.
2. Assignee shall hold a meeting of shareholders on August 30, 2010 to approve this Agreement and related matters as necessary or advisable to implement the Split; provided, however, that the date of approval may be changed by the date that is one day prior to the Effective Date if necessary to accommodate any issues arising in relation to the procedural progress or for other reasons.

Article 4 (Shares to be Issued on Company Split and Allocation of Shares)

Under the Company Split, Assignee will not issue any shares or deliver cash or any other property to Assignor as a consideration for the Company Split, because both Assignor and Assignee are wholly owned subsidiaries of AT&T Japan LLC, and therefore, there will be no difference in the shareholder composition in each of Assignor or Assignee or in the capital relation among Assignor, Assignee and AT&T Japan LLC after the Company Split, whether the Assignee issues its shares to Assignor as a consideration for the Company Split and Assignor delivers all of such shares to AT&T Japan LLC as the distribution of Assignor's surplus on the Effective Date, or Assignee does not issue any shares or deliver cash or any other property to Assignor as a consideration for the Company Split.

Article 5 (Effective Date)

The Split shall become effective as of August 31, 2010 (hereafter, the "Effective Date"); provided, however, this date may be changed, after mutual consultation between both parties, where necessary to accommodate any issues arising in relation to the procedural progress.

Article 6 (The Stated Capital and Capital Reserve Amounts of Assignee)

The stated capital, the capital reserve and the earned reserve of Assignee shall not be increased upon the Company Split.

Article 7 (Amendment to Split Conditions and Cancellation of the Split)

During the period between the date of execution of this Agreement and the Effective Date, if any significant change occurs to Assignor's or Assignee's property or financial condition due to any natural disaster or other circumstances, if any event presenting a material hindrance to the execution of this Split occurs, or otherwise if any event resulting in difficulty in achieving the purpose of this Split occurs Assignor and Assignee may change the terms of this Agreement, or cancel the Split by an agreement between both parties through mutual discussions.

Article 8 (Transfer of Rights and Obligations)

1. Assignor shall deliver the Rights and Obligations upon the Effective Date in accordance with the process agreed between Assignor and Assignee.
2. Assignor shall promptly take filings, registrations or recordings necessary to make a transfer of rights effective or enforceable against a third party and Assignee shall cooperate with Assignor in such filings, registrations or recordings.

Article 9 (Effect of the Agreement)

In the event that the approval of the general meeting of shareholders provided under Article 3, or approval, etc. of relevant government authorities, etc. required by laws and regulations has not been obtained by the Effective Date, this Agreement will lose its effect.

Article 10 (Governing Law)

This Agreement shall be governed by and construed in accordance with the laws of Japan.

Article 11 (Matters for Consultation)

Any matters not set forth herein or any other matters required for the Split shall be determined after mutual consultation in good faith between Assignor and Assignee in accordance with the intent of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed two (2) original copies of this Agreement by placing their signatures or seals thereon, and each party shall retain one (1) original each.

Date July 28, 2010

Assignor: Shin-Nikko Building
10-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
AT&T Japan KK
Representative Director, Toshinori Iwasawa

Assignee: Shin-Nikko Building
10-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Communications Services KK
Representative Director, Toshinori Iwasawa

TRANSITION SERVICES AGREEMENT (Newco to Seller)

This Transition Services Agreement (this "**Agreement**"), dated as of September 1, 2010, is made by and between AT&T Japan LLC, a Delaware limited liability company ("**Seller**"), and Communications Services KK, a Japanese Kabushiki Kaisha ("**Newco**"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Stock Purchase Agreement described below.

WHEREAS, Internet Initiative Japan Inc., a Japanese corporation ("**Buyer**") and Seller have entered into that certain Stock Purchase Agreement, dated as of June 1, 2010 (the "**Stock Purchase Agreement**");

WHEREAS, pursuant to the Stock Purchase Agreement, Seller has agreed to sell, and Buyer has agreed to purchase, the Newco Shares;

WHEREAS, as of or immediately prior to the Closing Date, Seller, together with its wholly-owned subsidiary, AT&T Japan KK (collectively, the "**Operating Companies**") are engaged in the Business;

WHEREAS, Seller desires that Newco (through its Affiliates and/or agents, as applicable) provide the certain services, including the services described in the **Schedules** attached hereto (the "**Transition Services**") for a transition period following the Closing Date; and

WHEREAS, the Stock Purchase Agreement requires that, as a condition to Closing, Seller and Newco enter into this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1

AGREEMENT TO SELL AND BUY

1.1 **Provision of Services.** Newco shall provide (or cause its Affiliates or agents to provide) to Seller the Transition Services for the time periods and on the terms set forth herein and in the Schedules. Any time period listed in the Schedules may be extended at the request of Seller for a period of time to be agreed upon by the parties, but not to exceed two (2) thirty (30) -day extensions from the date of expiration of the relevant time period, and such request shall not be declined by Newco, if at the expiration of such time period (i) no material breach by Seller of the terms of this Agreement exists and (ii) such request is not made in bad faith or as a result of Seller's lack of good faith efforts to complete the assumption of the Transition Services; *provided, however*, Newco may decline Seller's request to extend any time period listed in the Schedules if (a) Newco has previously granted the two extensions noted above and (b) Newco determines that this Agreement is no longer accomplishing its intended effect or the extension of the time period would not further increase the effectiveness of this Agreement. Unless otherwise noted in the Schedules, Seller shall reimburse Newco for actual out-of-pocket expenses incurred in the provision of the Transition Services during any such extension period only. Each party agrees that the actual out-of-pocket expenses shall not include severance or redundancy payments. In every case, all of the Transition Services shall be provided in accordance with the terms, limitations and conditions set forth herein and in the Schedules.

1.2 Books and Records. Newco shall keep books and records of the Transition Services provided and, with respect to and during the time periods for which Newco is receiving payments or reimbursements hereunder, supporting documentation of all out-of-pocket costs incurred in providing the Transition Services, and shall make such books and records available to Seller for inspection and audit by mutually acceptable independent auditors, upon reasonable notice, at Newco's reasonable convenience and during normal business hours. Such books and records shall be made available to Seller at Newco's place of business, unless Newco, in its sole discretion, determines to deliver such books and records to Seller. The cost of making the books and records available shall be borne by Seller.

SECTION 2

SERVICES; PAYMENT; INDEPENDENT CONTRACTOR

2.1 Services to be Provided.

(a) Unless otherwise set forth or contemplated by the Schedules or as agreed in writing by the parties, Newco shall, to the extent applicable, provide the Transition Services to Seller in substantially the same manner, having the same quality and in accordance with the same standards as the Transition Services were performed by or for the Operating Companies prior to the Closing Date; *provided, however*, Newco shall have no obligation to provide Transition Services which require Newco to utilize additional resources beyond those needed to perform the Transition Services immediately prior to the Closing, to the extent applicable.

(b) Nothing contained herein or in the Schedules shall constitute or be deemed to constitute a partnership, joint venture or agency relationship between Seller and Newco. Newco shall not have any right or authority, and shall not attempt to enter into any contract, commitment, or agreement or incur any debt or liability, of any nature, in the name of Seller. Newco shall act under this Agreement solely as an independent contractor and not as an agent of Seller. Nothing contained herein shall constitute or be deemed to constitute an employment relationship between Seller and the employees of Newco engaged in the providing of Transition Services. Newco shall be solely responsible for the payment of compensation and benefits to its employees and any payments or withholdings to governmental agencies relating to its employees, and shall make all staffing decisions and direct the performance of the Transition Services.

(c) Newco shall have the right to suspend the provision of relevant Transition Services at any time it or any of its Affiliates has to shut down temporarily for maintenance purposes the operation of the facilities providing any Transition Service whenever, in its reasonable discretion, such action is necessary; *provided* that Newco shall (i) give Seller as much advance notice as is reasonably practicable of any shutdown of the facilities providing any Transition Services and (ii) use reasonable efforts to schedule maintenance in consultation with Seller so as not unreasonably to interfere with Seller's business. Where feasible, Newco's notice of any shutdown shall be given in writing. Where written notice is not feasible, oral notice shall be given and promptly confirmed in writing. Newco shall be relieved of its obligations to provide the Transition Services during the period that it or its Affiliates' facilities are so shut down but shall use reasonable efforts to minimize each period of shutdown for such purpose and to schedule such shutdown so as not to inconvenience or disrupt the operations of Seller.

(d) Each of Seller and Newco appoint the following individuals, who shall serve as the coordinator for purposes of communicating with the other party regarding this Agreement and who shall be authorized to act on behalf of his or her respective party as to matters pertaining to this Agreement:

For Seller:	For Newco:
Name: Atsushi Yamamoto	Name: Tomofumi Sekiyama
Title: Director – Global Operations	Title: Vice President, Business Operation
Company: AT&T Japan	Company: IJ Global Solutions
Phone: 03-5545-9847	Phone: 03-5545-9655
E-mail address: ay1725@att.com	E-mail address: tomofumi.sekiyama@ijglobal.co.jp

The coordinator shall coordinate with contact person(s) set out in the Schedules, as necessary. Each party shall notify the other in writing as to the name, address and telephone number of any replacement for such designated coordinator, and such contact person(s) set out in the Schedules.

2.2 Payment. Any statements that may be rendered by Newco to Seller during any extension period of the Transition Services pursuant to Section 1.1 will be rendered each month for Transition Services delivered during the preceding month, and each such statement shall set forth in reasonable detail a description of such Transition Services and the costs to be reimbursed therefor (and shall include reasonable documentation evidencing any amount included therein for costs and expense, as contemplated by Section 1.1) and shall be payable net forty-five (45) days after the date thereof, unless otherwise noted in the Schedules. Statements shall be in Japanese yen. Statements not paid by Seller within such 45-day period shall be subject to late charges for each month or portion thereof the statement is overdue, at a rate of interest per month equal to 1.0%.

2.3 Priorities. In providing the Transition Services, Newco shall accord Seller substantially the same priority and level of Transition Services that Seller afforded the Operating Companies prior to Closing, to the extent applicable.

2.4 Disclaimer of Warranty. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE TRANSITION SERVICES TO BE PROVIDED UNDER THIS AGREEMENT ARE FURNISHED AS IS, WHERE IS, WITH ALL FAULTS AND WITHOUT WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE AND WITHOUT ANY WARRANTY THAT ANY TRANSITION SERVICE COMPLIES WITH ANY LAW, DOMESTIC OR FOREIGN.

2.5 Taxes. All payments by Seller to Newco for the Transition Services under this Agreement shall be increased to cover any applicable sales tax, value-added tax or consumption tax, goods and services tax or similar tax ("Taxes") (but excluding any tax based upon the net income of Newco) payable with respect to the provision by Newco of the Transition Services, and Newco shall be responsible for remitting (or causing its Affiliates and/or agents, as applicable to remit) any such Taxes to the appropriate Governmental Body.

2.6 Use of Transition Services. Newco shall be required to provide the Transition Services only to Seller in connection with the conduct of the Retained Business as it exists as of the Closing Date. Seller shall not, and shall not permit its employees, agents or Affiliates to, resell any Transition Services to any Person or permit the use of the Transition Services by any Person other than in connection with the conduct of the Retained Business in the ordinary course by Seller.

2.7 Title to Intellectual Property. To the extent that Newco uses intellectual property owned by Newco, its Affiliates or a third party in connection with providing the Transition Services, such intellectual property, and any derivative works, additions, modifications or enhancements thereof created during the term hereof, shall remain the sole property of Newco, its Affiliates or the third-party.

SECTION 3

TERM OF PARTICULAR SERVICES

3.1 Term and Termination. The provision of the Transition Services shall commence on the date hereof and each Transition Service shall terminate at the end of the time periods set forth in the Schedules with respect to such Transition Service, unless extended as provided in Section 1.1 above; *provided, however*, that (i) Seller may cancel any Transition Service upon thirty (30) days' written notice to Newco; and (ii) Newco may waive all or any portion of such thirty (30) day notice period that is not necessary for the Newco to effect termination of the Transition Service(s) specified within Seller's written notice.

3.2 Return of Records. Upon the termination of any Transition Service with respect to which Newco or its Affiliates hold books, records or files, including, but not limited to, current and archived copies of computer files, owned by Seller and used by Newco or its Affiliates in connection with the provision of a Transition Service to Seller, Newco will return all of such books, records or files as soon as reasonably practicable, but not later than thirty (30) days after such termination. Newco may make duplicates of such books, records or files for its legal files at its own cost.

SECTION 4

FORCE MAJEURE

4.1 Newco shall not be liable for any interruption of the Transition Services, delay or failure to perform under this Agreement when such interruption, delay or failure results from causes beyond its reasonable control, including but not limited to any strikes, lock-outs or other labor difficulties, acts of any government, riot, insurrection or other hostilities, embargo, fuel or energy shortage, fire, flood, acts of God, wrecks or transportation delays, or inability to obtain necessary labor, materials or utilities (each, a "**Force Majeure Event**"). In any such event, Newco's obligations hereunder shall be postponed for such time as its performance is suspended or delayed on account thereof. Newco will promptly notify Seller, either orally or in writing, upon learning of the occurrence of any Force Majeure Event, and will use reasonable efforts to resume its performance as quickly as commercially reasonable. In the event of a Force Majeure Event, Newco will provide the Transition Services to Seller at the same level it provides such Transition Services to its own business units or Affiliates.

SECTION 5

LIABILITIES

5.1 Consequential and Other Damages. Neither Seller nor Newco shall be liable, whether in contract, in tort (including negligence and strict liability), or otherwise, for any special, indirect, incidental or consequential damages whatsoever, which in any way arise out of, relate to, or are a consequence of, its performance or nonperformance hereunder, or the provision of or failure to provide or receive any Transition Service hereunder, including but not limited to, loss of profits, business interruptions and claims of customers; provided, however, that nothing in this Section 5.1 shall relieve Newco from liability for Seller's losses incurred under or arising from Seller's service obligations to Seller's customers as a result of Newco's failure to provide the Transition Services in accordance with the required performance parameters and service levels set forth in the Schedules.

5.2 Limitation of Liability. The liability of Newco with respect to this Agreement or anything done in connection herewith, including but not limited to the performance or breach hereof, or from the sale, delivery, provision or use of any Transition Service or product provided under or covered by this Agreement, whether in contract, tort (including negligence or strict liability) or otherwise, shall not exceed the actual losses incurred by Seller in remedying the failure of Newco to perform the Transition Services or to perform them in a commercially reasonable manner in accordance with this Agreement, unless such liability is caused by the willful misconduct, fraud or willful refusal of Newco to provide the Transition Services. Notwithstanding the foregoing, if Newco fails to deliver or perform any Transition Service in accordance with the terms of this Agreement, Seller shall provide notice of such failure to Newco, and Newco shall have twenty-one (21) days from the date such notice is given to cure such failure.

5.3 Release and Indemnity. Except as specifically set forth in this Agreement, Seller hereby releases Newco, its Affiliates, employees, agents, officers and directors ("**Newco Indemnitees**"), and agrees to indemnify and hold harmless the Newco Indemnitees, from any and all claims, demands, complaints, liabilities, losses, damages (other than special, indirect, incidental or consequential damages of the Newco Indemnitees), including reasonable costs and attorneys fees, resulting from or caused by the negligence of Seller or its employees or agents, to the extent arising from or relating to the use by Seller of any Transition Service and not arising from the breach of this Agreement by Newco or the willful misconduct or fraud of Newco or its Affiliates.

SECTION 6

TERMINATION

6.1 Termination. This Agreement shall terminate on the earliest to occur of (a) the date on which the provision of all Transition Services has terminated or been cancelled pursuant to Section 3.1, (b) the date on which this Agreement is terminated pursuant to Section 6.2 or (c) without the prior written consent of Newco, which consent shall not be unreasonably withheld, an event constituting a Change of Control of Seller. For the purposes of this Agreement, "Change of Control" shall mean the occurrence of one or more of the following events: (i) any Person (other than the owner or owners of the capital stock of Seller upon the execution of the Stock Purchase Agreement (the "**Seller Group**")) shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Seller; (ii) any sale, lease, conveyance, assignment, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Seller to any Person other than the Seller Group; (iii) the replacement of a majority of the current members of the board of directors of the Seller; or (iv) the establishment of any other agreement, arrangement or understanding pursuant to which any Person (other than the Seller Group) possesses, directly or indirectly through one or more intermediaries, the power to direct or cause the direction of the management and policies of the Seller, whether through the ownership of voting securities, by contract or otherwise.

6.2 Breach of Agreement. If either party shall cause or suffer to exist any material breach of any of its obligations under this Agreement, including but not limited to any failure to make payments when due, and said party does not cure such default within twenty-one (21) days after receiving written notice thereof from the non-breaching party, the non-breaching party may terminate this Agreement, including the provision of the Transition Services pursuant hereto, immediately by providing written notice of termination.

6.3 Sums Due. In the event of a termination or cancellation of this Agreement, Newco shall be entitled to all outstanding amounts due from Seller pro-rated to the date of termination or cancellation, subject to Section 6.4.

6.4 Effect of Termination. Sections 1.2, 2.2, 2.4, 2.5, 2.7, 3.2, 5.1, 5.2, 5.3, 6.3 and this Section 6.4 shall survive any termination of this Agreement.

SECTION 7

MISCELLANEOUS

7.1 Notice. Except as otherwise provided, all notices which are permitted or required under this Agreement shall be in writing and shall be deemed given (a) when delivered personally, (b) if by fax upon transmission with confirmation of receipt by the receiving party's facsimile terminal, (c) if sent by documented overnight delivery service on the date delivered or (d) if sent by mail, five (5) business days after being mailed by registered or certified mail, postage prepaid, addressed as follows, or to such other person or address as may be designated by notice to the other party:

If to Newco, to:

Tomofumi Sekiyama
Vice President, Business Operation
IJJ Global Solutions Inc.
2-10-1, Toranomon, Minato-Ku
Tokyo, 105-0001, Japan
Tel: +81-3-5545-9655
Fax: +81-3-5575-7580
Email: tomofumi.sekiyama@ijjglobal.co.jp

with a copy (which shall not constitute notice) to:

Toshihide Muneyuki
Director, Project Office
IJJ Global Solutions Inc.
2-10-1, Toranomon, Minato-ku
Tokyo, 105-0001, Japan
Tel: +81-3-5545-9685
Fax: +81-3-3589-0629
Email: toshihide.muneyuki@ijjglobal.co.jp

or if to Seller, to:

Chris Cass
Director – Corporate Development
One AT&T Plaza
208 S. Akard; Room 3221
Dallas, TX 75202
Tel: (214) 757-7963
Fax: (214) 746-2216
Email: cc5456@att.com

with a copy (which shall not constitute notice) to:

Bill Caldwell
General Attorney-Mergers & Acquisitions
AT&T Inc.
One AT&T Plaza
208 S. Akard; Room 3214
Dallas, TX 75202
Tel: (214) 757-3488
Fax: (214) 746-2216
email: wc2842@att.com

7.2 Headings. The section or other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

7.3 Entire Agreement. This Agreement and the Stock Purchase Agreement, including all schedules and exhibits attached hereto and thereto, and all certificates and documents executed and delivered in connection with the Stock Purchase Agreement, when executed and delivered, together with the Confidentiality Agreement and the Ancillary Agreements, constitute the entire agreement of the parties, superseding and extinguishing all prior agreements and understandings, representations and warranties, relating to the subject matter hereof.

7.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which when so executed and delivered, shall be an original instrument, but counterparts together shall constitute a single agreement.

7.5 Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by the laws of Japan, without reference to the principles of conflicts of laws. Each of the parties hereby irrevocably agrees that the Tokyo District Court shall have the exclusive jurisdiction for the first instance over any disputes, suit, civil action or other proceeding arising out of, in connection with or with respect to this Agreement, the subject matter hereof, the performance or non-performance of any obligation hereunder, or any of the transactions contemplated hereby (collectively, "Suit"). Each of the parties hereto hereby waives and agrees not to assert by way of motion, as a defense or otherwise in any such Suit, any claim that it is not subject to the jurisdiction of the above courts, that such Suit is brought in an inconvenient forum ("forum non conveniens") or that the venue of such Suit is improper.

7.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties, their successors, permitted assigns and legal representatives. If an assignment occurs, such assignment will not relieve the assigning party from its liabilities or obligations under this Agreement.

7.7 Assignment and Delegation. Seller shall not assign any of its rights or otherwise delegate any of its duties under this Agreement without the prior written consent of Newco. Newco may delegate performance of all or any part of its obligations under this Agreement to (i) any Affiliate of Newco or (ii) third parties to the extent such third parties are routinely used to provide the type of services or operations comprising the Transition Services to other Affiliates or operations of Newco; *provided, however*, if any Newco Affiliate delegates or "outsources" on its own behalf to a third party the performance of one or more of the type of services or operations comprising the Transition Services, then Newco may also delegate to such third party the performance of its obligation(s) under this Agreement to deliver such Transition Service(s) to Seller. Any purported assignment in violation of this Section 7.7 shall be void.

7.8 Modification and Amendment. This Agreement may not be modified or amended except by written agreement specifically referring to this Agreement and signed by the parties hereto.

7.9 Waivers. No waiver of a breach or default hereunder shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

7.10 Severability. Any provision of this Agreement which is invalid or unenforceable shall be ineffective to the extent of such invalidity or unenforceability, *provided* that such invalidity or unenforceability does not deny any party the material benefits of the transactions for which it has bargained, such invalidity or unenforceability shall not affect in any way the remaining provisions hereof.

7.11 Title to Data. Subject to the provisions of the Stock Purchase Agreement and Intellectual Property License Agreement, Seller acknowledges that it will acquire no right, title or interest (including any license rights or rights of use) in any software, and the licenses therefore which are owned by Newco or its Affiliates, solely by reason of Newco or its Affiliates' provision of the Transition Services provided hereunder.

7.12 Further Assurance. Each party covenants and agrees to (i) execute and deliver such additional documents as may be reasonably requested by the other party, (ii) make available on a timely basis such additional information and materials as may be reasonably be requested by the other party, (iii) work together in good faith to expand the Transition Services if a material service necessary for the Retained Business following the Closing Date, consistent with the intent of this Agreement has not been included in the Schedules and (iv) take such other actions as may be reasonably requested by the other party, in order to make the Transition Services available to Seller in accordance with the terms and conditions hereof and to otherwise implement or give effect to this Agreement and the matters contemplated hereby.

7.13 Due Execution and Delivery. Each of the parties covenants that its execution and delivery of this Agreement has been duly authorized, that the Agreement has been duly executed and delivered and that it has the full power and authority to perform its obligations hereunder.

7.14 Confidentiality. Each of the parties undertakes to keep the other party's information relating to the Retained Business or the Transition Services confidential and not to disclose it without the prior written consent of the other party.

7.15 Specific Performance. Each party agrees that the other party would be damaged irreparably if any provision of this Agreement is not performed in accordance with its terms or otherwise is breached, so that a party shall be entitled to injunctive relief to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in addition to any other remedy to which such Party may be entitled, at law or in equity.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

AT&T Japan LLC

By: _____

Name: Chris F. Cass

Title: Authorized Signatory of AT&T Japan LLC

Communications Services KK

By: _____

Name: Toshinori Iwasawa

Title: President, CEO

TRANSITION SERVICES AGREEMENT (Seller to Newco)

This Transition Services Agreement (this "**Agreement**"), dated as of September 1, 2010, is made by and between AT&T Japan LLC, a Delaware limited liability company ("**Seller**"), and Communications Services KK, a Japanese Kabushiki Kaisha ("**Newco**"). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Stock Purchase Agreement described below.

WHEREAS, Internet Initiative Japan Inc., a Japanese corporation ("**Buyer**") and Seller have entered into that certain Stock Purchase Agreement, dated as of June 1, 2010 (the "**Stock Purchase Agreement**");

WHEREAS, pursuant to the Stock Purchase Agreement, Seller has agreed to sell, and Buyer has agreed to purchase, the Newco Shares;

WHEREAS, as of or immediately prior to the Closing Date, Seller, together with its wholly-owned subsidiary, AT&T Japan KK (collectively, the "**Operating Companies**") are engaged in the Business;

WHEREAS, Newco desires that Seller (through its Affiliates and/or agents, as applicable) continue to provide certain services including the services described in the **Schedules** attached hereto (the "**Transition Services**") for a transition period following the Closing Date; and

WHEREAS, the Stock Purchase Agreement requires that, as a condition to Closing, Seller and Newco enter into this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1

AGREEMENT TO SELL AND BUY

1.1 Provision of Services. Seller shall provide (or cause its Affiliates or agents to provide) to Newco the Transition Services for the time periods and on the terms set forth herein and in the Schedules. Any time period listed in the Schedules may be extended at the request of Newco for a period of time to be agreed upon by the parties, but not to exceed two (2) thirty (30) -day extensions from the date of expiration of the relevant time period, and such request shall not be declined by Seller, if at the expiration of such time period (i) no material breach by Newco of the terms of this Agreement exists and (ii) such request is not made in bad faith or as a result of Newco's lack of good faith efforts to complete the assumption of the Transition Services; *provided, however*, Seller may decline Newco's request to extend any time period listed in the Schedules if (a) Seller has previously granted the two extensions noted above and (b) Seller determines that this Agreement is no longer accomplishing its intended effect or the extension of the time period would not further increase the effectiveness of this Agreement. Unless otherwise noted in the Schedules, Newco shall reimburse Seller for actual out-of-pocket expenses incurred in the provision of the Transition Services during any such extension period only. Each party agrees that the actual out-of-pocket expenses shall not include severance or redundancy payments. In every case, all of the Transition Services shall be provided in accordance with the terms, limitations and conditions set forth herein and in the Schedules.

1.2 Books and Records. Seller shall keep books and records of the Transition Services provided and, with respect to and during the time periods for which Seller is receiving payments or reimbursements hereunder, supporting documentation of all out-of-pocket costs incurred in providing the Transition Services, and shall make such books and records available to Newco for inspection and audit by mutually acceptable independent auditors, upon reasonable notice, at Seller's reasonable convenience and during normal business hours. Such books and records shall be made available to Newco at Seller's place of business, unless Seller, in its sole discretion, determines to deliver such books and records to Newco. The cost of making the books and records available shall be borne by Newco.

SECTION 2

SERVICES: PAYMENT: INDEPENDENT CONTRACTOR

2.1 Services to be Provided.

(a) Unless otherwise set forth or contemplated by the Schedules or as agreed in writing by the parties, Seller shall, to the extent applicable, provide the Transition Services to Newco in substantially the same manner, having the same quality and in accordance with the same standards as the Transition Services were performed by or for the Operating Companies prior to the Closing Date; *provided, however*, Seller shall have no obligation to provide Transition Services which require Seller to utilize additional resources beyond those needed to perform the Transition Services immediately prior to the Closing, to the extent applicable.

(b) Nothing contained herein or in the Schedules shall constitute or be deemed to constitute a partnership, joint venture or agency relationship between Seller and Newco. Seller shall not have any right or authority, and shall not attempt to enter into any contract, commitment, or agreement or incur any debt or liability, of any nature, in the name of Newco. Seller shall act under this Agreement solely as an independent contractor and not as an agent of Newco. Nothing contained herein shall constitute or be deemed to constitute an employment relationship between Newco and the employees of Seller engaged in the providing of Transition Services. Seller shall be solely responsible for the payment of compensation and benefits to its employees and any payments or withholdings to governmental agencies relating to its employees, and shall make all staffing decisions and direct the performance of the Transition Services.

(c) Seller shall have the right to suspend the provision of relevant Transition Services at any time if or any of its Affiliates has to shut down temporarily for maintenance purposes the operation of the facilities providing any Transition Service whenever, in its reasonable discretion, such action is necessary; *provided* that Seller shall (i) give Newco as much advance notice as is reasonably practicable of any shutdown of the facilities providing any Transition Services and (ii) use reasonable efforts to schedule maintenance in consultation with Newco so as not unreasonably to interfere with Newco's business. Where feasible, Seller's notice of any shutdown shall be given in writing. Where written notice is not feasible, oral notice shall be given and promptly confirmed in writing. Seller shall be relieved of its obligations to provide the Transition Services during the period that it or its Affiliates' facilities are so shut down but shall use reasonable efforts to minimize each period of shutdown for such purpose and to schedule such shutdown so as not to inconvenience or disrupt the operations of Newco.

(d) Each of Seller and Newco appoint the following individuals, who shall serve as the coordinator for purposes of communicating with the other party regarding this Agreement and who shall be authorized to act on behalf of his or her respective party as to matters pertaining to this Agreement:

For Seller:	For Newco:
Name: Atsushi Yamamoto	Name: Tomofumi Sekiyama
Title: Director – Global Operations	Title: Vice President, Business Operation
Company: AT&T Japan	Company: IJ Global Solutions
Phone: 03-5545-9847	Phone: +81-3-5545-9655
E-mail address: ay1725@att.com	E-mail address: tomofumi.sekiyama@ijglobal.co.jp

The coordinator shall coordinate with contact person(s) set out in the Schedules, as necessary. Each party shall notify the other in writing as to the name, address and telephone number of any replacement for such designated coordinator, and such contact person(s) set out in the Schedules.

2.2 Payment. Any statements that may be rendered by Seller to Newco during any extension period of the Transition Services pursuant to Section 1.1 will be rendered each month for Transition Services delivered during the preceding month, and each such statement shall set forth in reasonable detail a description of such Transition Services and the costs to be reimbursed therefor (and shall include reasonable documentation evidencing any amount included therein for costs and expense, as contemplated by Section 1.1) and shall be payable net forty-five (45) days after the date thereof, unless otherwise noted on Schedule I. Statements shall be in Japanese yen. Statements not paid by Newco within such 45-day period shall be subject to late charges for each month or portion thereof the statement is overdue, at a rate of interest per month equal to 1.0%.

2.3 Priorities. In providing the Transition Services, Seller shall accord Newco substantially the same priority and level of Transition Services that Seller afforded the Operating Companies prior to Closing, to the extent applicable.

2.4 Disclaimer of Warranty. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, THE TRANSITION SERVICES TO BE PROVIDED UNDER THIS AGREEMENT ARE FURNISHED AS IS, WHERE IS, WITH ALL FAULTS AND WITHOUT WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE AND WITHOUT ANY WARRANTY THAT ANY TRANSITION SERVICE COMPLIES WITH ANY LAW, DOMESTIC OR FOREIGN.

2.5 Taxes. All payments by Newco to Seller for the Transition Services under this Agreement shall be increased to cover any applicable sales tax, value-added tax or consumption tax, goods and services tax or similar tax ("Taxes") (but excluding any tax based upon the net income of Seller) payable with respect to the provision by Seller of the Transition Services, and Seller shall be responsible for remitting (or causing its Affiliates and/or agents to remit) any such Taxes to the appropriate Governmental Body.

2.6 Use of Transition Services. Seller shall be required to provide the Transition Services only to Newco in connection with the conduct of the Transferred Business as it exists as of the Closing Date. Newco shall not, and shall not permit its employees, agents or Affiliates to, resell any Transition Services to any Person or permit the use of the Transition Services by any Person other than in connection with the Transferred Business in the ordinary course by Newco.

2.7 Title to Intellectual Property. To the extent that Seller uses intellectual property owned by Seller, its Affiliates or a third party in connection with providing the Transition Services, such intellectual property, and any derivative works, additions, modifications or enhancements thereof created during the term hereof, shall remain the sole property of Seller, its Affiliates or the third-party.

SECTION 3

TERM OF PARTICULAR SERVICES

3.1 Term and Termination. The provision of the Transition Services shall commence on the date hereof and each Transition Service shall terminate at the end of the time periods set forth in the Schedules with respect to such Transition Service, unless extended as provided in Section 1.1 above; *provided, however*, that (i) Newco may cancel any Transition Service upon thirty (30) days' written notice to Seller; and (ii) Seller may waive all or any portion of such thirty (30) day notice period that is not necessary for the Seller to effect termination of the Transition Service(s) specified within Newco's written notice.

3.2 Return of Records. Upon the termination of any Transition Service with respect to which Seller or its Affiliates hold books, records or files, including, but not limited to, current and archived copies of computer files, owned by Newco and used by Seller or its Affiliates in connection with the provision of a Transition Service to Newco, Seller will return all of such books, records or files as soon as reasonably practicable, but not later than thirty (30) days after such termination. Seller may make duplicates of such books, records or files for its legal files at its own cost.

SECTION 4

FORCE MAJEURE

4.1 Seller shall not be liable for any interruption of the Transition Services, delay or failure to perform under this Agreement when such interruption, delay or failure results from causes beyond its reasonable control, including but not limited to any strikes, lock-outs or other labor difficulties, acts of any government, riot, insurrection or other hostilities, embargo, fuel or energy shortage, fire, flood, acts of God, wrecks or transportation delays, or inability to obtain necessary labor, materials or utilities (each, a "**Force Majeure Event**"). In any such event, Seller's obligations hereunder shall be postponed for such time as its performance is suspended or delayed on account thereof. Seller will promptly notify Newco, either orally or in writing, upon learning of the occurrence of any Force Majeure Event, and will use reasonable efforts to resume its performance as quickly as commercially reasonable. In the event of a Force Majeure Event, Seller will provide the Transition Services to Newco at the same level it provides such Transition Services to its own business units or Affiliates.

SECTION 5

LIABILITIES

5.1 Consequential and Other Damages. Neither Seller nor Newco shall be liable, whether in contract, in tort (including negligence and strict liability), or otherwise, for any special, indirect, incidental or consequential damages whatsoever, which in any way arise out of, relate to, or are a consequence of, its performance or nonperformance hereunder, or the provision of or failure to provide or receive any Transition Service hereunder, including but not limited to, loss of profits, business interruptions and claims of customers; provided, however, that nothing in this Section 5.1 shall relieve Seller from liability for Newco's losses incurred under or arising from Newco's service obligations to Newco's customers as a result of Seller's failure to provide the Transition Services in accordance with the required performance parameters and service levels set forth in the Schedules.

5.2 Limitation of Liability. The liability of Seller with respect to this Agreement or anything done in connection herewith, including but not limited to the performance or breach hereof, or from the sale, delivery, provision or use of any Transition Service or product provided under or covered by this Agreement, whether in contract, tort (including negligence or strict liability) or otherwise, shall not exceed the actual losses incurred by Newco in remedying the failure of Seller to perform the Transition Services or to perform them in a commercially reasonable manner in accordance with this Agreement, unless such liability is caused by the willful misconduct, fraud or willful refusal of Seller to provide the Transition Services. Notwithstanding the foregoing, if Seller fails to deliver or perform any Transition Service in accordance with the terms of this Agreement, Newco shall provide notice of such failure to Seller, and Seller shall have twenty-one (21) days from the date such notice is given to cure such failure.

5.3 Release and Indemnity. Except as specifically set forth in this Agreement, Newco hereby releases Seller, its Affiliates, employees, agents, officers and directors ("**Seller Indemnitees**"), and agrees to indemnify and hold harmless the Seller Indemnitees, from any and all claims, demands, complaints, liabilities, losses, damages (other than special, indirect, incidental or consequential damages of the Seller Indemnitees), including reasonable costs and attorneys fees, resulting from or caused by the negligence of Newco or its employees or agents, to the extent arising from or relating to the use by Newco of any Transition Service and not arising from the breach of this Agreement by Seller or the willful misconduct or fraud of Seller or its Affiliates.

SECTION 6

TERMINATION

6.1 Termination. This Agreement shall terminate on the earliest to occur of (a) the date on which the provision of all Transition Services has terminated or been cancelled pursuant to Section 3.1, (b) the date on which this Agreement is terminated pursuant to Section 6.2 or (c) without the prior written consent of Seller, which consent shall not be unreasonably withheld, an event constituting a Change of Control of Newco. For the purposes of this Agreement, "Change of Control" shall mean the occurrence of one or more of the following events: (i) any Person (other than the owner or owners of the capital stock of Newco upon the execution of the Stock Purchase Agreement (the "Newco Group")) shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Newco; (ii) any sale, lease, conveyance, assignment, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Newco to any Person other than the Newco Group; (iii) the replacement of a majority of the current members of the board of directors of the Newco; or (iv) the establishment of any other agreement, arrangement or understanding pursuant to which any Person (other than the Newco Group) possesses, directly or indirectly through one or more intermediaries, the power to direct or cause the direction of the management and policies of the Newco, whether through the ownership of voting securities, by contract or otherwise.

6.2 Breach of Agreement. If either party shall cause or suffer to exist any material breach of any of its obligations under this Agreement, including but not limited to any failure to make payments when due, and said party does not cure such default within twenty-one (21) days after receiving written notice thereof from the non-breaching party, the non-breaching party may terminate this Agreement, including the provision of the Transition Services pursuant hereto, immediately by providing written notice of termination.

6.3 Sums Due. In the event of a termination or cancellation of this Agreement, Seller shall be entitled to all outstanding amounts due from Newco pro-rated to the date of termination or cancellation, subject to Section 6.4.

6.4 Effect of Termination. Sections 1.2, 2.2, 2.4, 2.5, 2.7, 3.2, 5.1, 5.2, 5.3, 6.3 and this Section 6.4 shall survive any termination of this Agreement.

SECTION 7

MISCELLANEOUS

7.1 Notice. Except as otherwise provided, all notices which are permitted or required under this Agreement shall be in writing and shall be deemed given (a) when delivered personally, (b) if by fax upon transmission with confirmation of receipt by the receiving party's facsimile terminal, (c) if sent by documented overnight delivery service on the date delivered or (d) if sent by mail, five (5) business days after being mailed by registered or certified mail, postage prepaid, addressed as follows, or to such other person or address as may be designated by notice to the other party:

If to Seller, to:

Chris Cass
Director – Corporate Development
One AT&T Plaza
208 S. Akard; Room 3221
Dallas, TX 75202
Tel: (214) 757-7963
Fax: (214) 746-2216
Email: cc5456@att.com

with a copy (which shall not constitute notice) to: Bill Caldwell

General Attorney-Mergers & Acquisitions
AT&T Inc.
One AT&T Plaza
208 S. Akard; Room 3214
Dallas, TX 75202
Tel: (214) 757-3488
Fax: (214) 746-2216
email: wc2842@att.com

or if to Newco, to:

Tomofumi Sekiyama
Vice President, Business Operation
IJJ Global Solutions Inc.
2-10-1, Toranomom, Minato-ku
Tokyo, 105-0001, Japan
Tel: +81-3-5545-9655
Fax: +81-3-5575-7580
Email: tomofumi.sekiyama@ijjglobal.co.jp

with a copy (which shall not constitute notice) to:

Toshihide Muneyuki
Director, Project Office
IJJ Global Solutions Inc.
2-10-1, Toranomom, Minato-ku
Tokyo, 105-0001, Japan
Tel: +81-3-5545-9685
Fax: +81-3-3589-0629
Email: toshihide.muneyuki@ijjglobal.co.jp

7.2 Headings. The section or other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

7.3 Entire Agreement. This Agreement and the Stock Purchase Agreement, including all schedules and exhibits attached hereto and thereto, and all certificates and documents executed and delivered in connection with the Stock Purchase Agreement, when executed and delivered, together with the Confidentiality Agreement and the Ancillary Agreements, constitute the entire agreement of the parties, superseding and extinguishing all prior agreements and understandings, representations and warranties, relating to the subject matter hereof.

7.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which when so executed and delivered, shall be an original instrument, but counterparts together shall constitute a single agreement.

7.5 Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by the laws of Japan, without reference to the principles of conflicts of laws. Each of the parties hereby irrevocably agrees that the Tokyo District Court shall have the exclusive jurisdiction for the first instance over any disputes, suit, civil action or other proceeding arising out of, in connection with or with respect to this Agreement, the subject matter hereof, the performance or non-performance of any obligation hereunder, or any of the transactions contemplated hereby (collectively, "Suit"). Each of the parties hereto hereby waives and agrees not to assert by way of motion, as a defense or otherwise in any such Suit, any claim that it is not subject to the jurisdiction of the above courts, that such Suit is brought in an inconvenient forum ("forum non conveniens") or that the venue of such Suit is improper.

7.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties, their successors, permitted assigns and legal representatives. If an assignment occurs, such assignment will not relieve the assigning party from its liabilities or obligations under this Agreement.

7.7 Assignment and Delegation. Newco shall not assign any of its rights or otherwise delegate any of its duties under this Agreement without the prior written consent of Seller. Seller may delegate performance of all or any part of its obligations under this Agreement to (i) any Affiliate of Seller or (ii) third parties to the extent such third parties are routinely used to provide the type of services or operations comprising the Transition Services to other Affiliates or operations of Seller; *provided, however*, if any Seller Affiliate delegates or "outsources" on its own behalf to a third party the performance of one or more of the type of services or operations comprising the Transition Services, then Seller may also delegate to such third party the performance of its obligation(s) under this Agreement to deliver such Transition Service(s) to Newco. Any purported assignment in violation of this Section 7.7 shall be void.

7.8 Modification and Amendment. This Agreement may not be modified or amended except by written agreement specifically referring to this Agreement and signed by the parties hereto.

7.9 Waivers. No waiver of a breach or default hereunder shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

7.10 Severability. Any provision of this Agreement which is invalid or unenforceable shall be ineffective to the extent of such invalidity or unenforceability, *provided* that such invalidity or unenforceability does not deny any party the material benefits of the transactions for which it has bargained, such invalidity or unenforceability shall not affect in any way the remaining provisions hereof.

7.11 Title to Data. Subject to the provisions of the Stock Purchase Agreement and Intellectual Property License Agreement, Newco acknowledges that it will acquire no right, title or interest (including any license rights or rights of use) in any software, and the licenses therefor which are owned by Seller or its Affiliates, solely by reason of Seller or its Affiliates' provision of the Transition Services provided hereunder.

7.12 Further Assurance. Each party covenants and agrees to (i) execute and deliver such additional documents as may be reasonably requested by the other party, (ii) make available on a timely basis such additional information and materials as may be reasonably be requested by the other party, (iii) work together in good faith to expand the Transition Services if a material service necessary for the transition of the Transferred Business from Seller to Newco consistent with the intent of this Agreement has not been included on Schedule I and (iv) take such other actions as may be reasonably requested by the other party, in order to make the Transition Services available to Newco in accordance with the terms and conditions hereof and to otherwise implement or give effect to this Agreement and the matters contemplated hereby.

7.13 Due Execution and Delivery. Each of the parties covenants that its execution and delivery of this Agreement has been duly authorized, that the Agreement has been duly executed and delivered and that it has the full power and authority to perform its obligations hereunder.

7.14 Confidentiality. Each of the parties undertakes to keep the other party's information relating to the Transferred Business or the Transition Services confidential and not to disclose it without the prior written consent of the other party.

7.15 Specific Performance. Each party agrees that the other party would be damaged irreparably if any provision of this Agreement is not performed in accordance with its terms or otherwise is breached, so that a party shall be entitled to injunctive relief to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in addition to any other remedy to which such Party may be entitled, at law or in equity.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

AT&T Japan LLC

By: _____

Name: Chris F. Cass

Title: Authorized Signatory of AT&T Japan LLC

Communications Services KK

By: _____

Name: Toshinori Iwasawa

Title: President, CEO

Solutions Engagement Agreement

Agreement # 4910016297.0

This Base Agreement ("**Base Agreement**") between IBM Japan Ltd. ("**Buyer**") and Communications Services KK, a joint stock corporation (*kabushiki kaisha*) ("**Supplier**"), is entered into as of May 31, 2010 (the "**Execution Date**").

This Agreement establishes the basis for a procurement relationship under which Supplier will provide the Deliverables and Services for (A) the Existing Customers set forth on Schedule 1 hereto described in (i) SOWs and/or WAs in place under this Agreement as of the Effective Date and set forth on Schedule 2 hereto and (ii) SOWs and/or WAs issued under this Base Agreement after the Effective Date and (B) New Customers. Prior to the Effective Date, the parties agree that the Existing Customers set forth on Schedule 1 hereto and the SOWs and/or WAs set forth on Schedule 2 hereto shall be (x) verified by Buyer and Supplier during the thirty day period after the Execution Date and (y) updated by Buyer and Supplier immediately prior to the Effective Date.

The following provisions of this Agreement shall automatically become effective without further action by either party ("**Effective Date**") upon the completion of the purchase by Internet Initiative Japan Inc. of Supplier pursuant to a Stock Purchase Agreement dated June 1, 2010 between AT&T Japan LLC and Internet Initiative Japan Inc. (the "**Closing**").

This Base Agreement will remain in effect until terminated in accordance with its terms.

1.0 Definitions

"**Affiliates**" means entities that control, are controlled by, or are under common control with, a party to this Agreement.

"**Agreement**" means this Base Agreement and any relevant Statements of Work ("**SOW**"), Work Authorizations ("**WA**"), and other attachments, schedules or appendices specifically referenced in and incorporated into this Agreement.

"**Business Downturn**" means a decrease in the Buyer's or Customer's purchases of Services and Deliverables in a single Contract Year from the previous year due to general business conditions, and not due to the self provision of such Services or Deliverables or the selection of another supplier to fulfill the requirements expressed herein.

"**Competitor of Supplier**" means a provider of substantially similar goods or services as those offered by Supplier. For example, as of the Execution Date, Nippon Telegraph and Telephone Corporation and KDDI Corporation compete with Supplier.

"**Customer**" means any entity (excluding Buyer and Buyer's Affiliates) receiving Services or Deliverables through Buyer and authorized by Buyer to receive the Services or Deliverables.

"**Customer Cause**" means, with respect to a SOW and/or WA (i) the receipt by Buyer from Customer of a notice of intent to terminate such Customer's agreement with Buyer, such termination notice a result of a failure by Supplier to comply with the provisions of this Agreement; or (ii) the occurrence of at least two instances in any combination of the following with respect to a Service or Deliverable in such SOW and/or WA: (i) an interruption, (ii) a failure to meet a specification or (iii) a failure to meet a Service Level, within a thirty (30) day period and in a manner and to a degree that materially adversely affects Buyer's or Customer's use of such Service or Deliverable, such as where there are two outages within a period of thirty days in respect of a Service as set forth in the applicable SOW and / or WA.

"**Contract Year**" means each twelve month period including and following the Effective Date of the Base Agreement or the execution date of a SOW, as applicable.

"**Deliverables**" means items that Supplier prepares for or provides to Buyer, Buyer Affiliate or Customer as described in a SOW and/or WA, including Equipment, Program Products, Developed Works, Preexisting Materials and Tools, if any.

"**Developed Works**" means all work product (including software and its Externals) developed in the performance of this Agreement as described in a SOW and/or WA. Developed Works do not include Preexisting Materials, Tools, Program Products, or items specifically excluded in a SOW and/or WA.

"**Electronic Self-Help**" means a process where Supplier electronically disables, removes, or otherwise prevents the use of its software product without the Buyer's or Buyer's Customer's cooperation or consent. Electronic Self-Help could be done through electronic or other means (for example: remotely through "back doors" or hidden entrances in the software or through hidden shut-down commands in the software that can be activated by phone or in other ways).

"**Equipment**" means a machine, its features elements, cables, or accessories, including the documentation required to install, support, use, and maintain it.

"**Existing Customer**" shall mean a Customer for which there is an SOW or WA in place as of the Effective Date and which is listed on Schedule 1.

"**Externals**" means any pictorial, graphic, audiovisual works, reports or data generated by execution of code and any programming interfaces, languages or protocols implemented in the code to enable interaction with other computer programs or end users. Externals do not include the code that implements them.

"**Inventions**" means ideas, designs, concepts, techniques, inventions, discoveries or improvements, whether or not patentable, conceived or reduced to practice by Supplier or Supplier Personnel in performance of this Agreement.

"**Joint Inventions**" means Inventions made by Supplier or Supplier Personnel with Buyer Personnel.

"**Key Personnel**" means those Supplier Personnel listed in Attachment KP who are substantially dedicated to the provision of Service to Buyer and perform the functions described in Attachment KP (Key Personnel).

"**Losses**" means all losses, liabilities, damages, and claims (including taxes), and all related costs and expenses (including any and all reasonable attorneys' fees and reasonable costs of investigation, settlement, judgment, interest and penalties).

"**Malicious Code**" means (a) any code, program, or sub-program whose knowing or intended purpose is (i) to damage or interfere with the operation of the computer system or network containing the code, program, or sub-program, or (ii) to halt, disable, or interfere with the operation of software, code, programs, sub-programs, itself, or any device, or (b) any method or token that permits any user to circumvent the normal security of the software, network, or system containing such code, program, or sub-program.

"**New Customer**" shall mean a Customer other than an Existing Customer.

"**Pass-Through Expenses**" means the actual expenses incurred by Supplier for certain equipment, materials, supplies, and other services provided to Buyer under this Agreement, which expenses Buyer has agreed to pay directly to, or to reimburse Supplier for, under this Agreement. Pass-Through Expenses shall not include Supplier overhead, sales, general and administrative expenses (G&A), or similar costs, or any other expense, profit, or mark-up, except as agreed by the parties in writing. The Pass-Through Expenses, if any, will be identified in an SOW or WA.

"**Personal Data**" means any information regarding a living natural person that may identify a specific individual by his/her name, birth date and other descriptions contained therein (including one easy to correlate with other information and thereby identify a specific individual).

"Personnel" means agents, employees or subcontractors engaged or appointed by Buyer or by Supplier in the provision of the Services or Deliverables. Buyer Personnel shall include Buyer's Affiliates and its Personnel. Supplier Personnel shall include Supplier's Affiliates and its Personnel.

"Preexisting Materials" means items including their Externals, contained within a Deliverable, in which the copyrights are owned by a third party or that Supplier prepared or had prepared outside the scope of this Agreement. Preexisting Materials exclude Program Products and Tools, but may include material that is created by the use of Tools.

"Prices" means the agreed upon payment for Deliverables and Services, exclusive of Taxes but including all applicable fees and payments, as specified in the relevant SOW and/or WA.

"Program Products" means Supplier's commercially available software and the documentation required to install, support, use, and maintain it.

"Services" means services that Supplier performs for Buyer, Buyer Affiliate or Customer as described in a SOW and/or WA.

"Service Level" means a specific measurable level of Service (e.g., availability, response times for emergency and routine outages and interruptions; credits for such outages and interruptions; data transmission accuracy), if any, set forth in an SOW and/or WA.

"Statement of Work" or "SOW" means any document that:

1. identifies itself as a statement of work; including an exhibit, or a schedule of rates and charges;
2. is signed by both parties;
3. incorporates by reference the terms and conditions of this Base Agreement; and
4. describes the Deliverables and Services, including any requirements, specifications or schedules.

"Taxes" means any and all applicable taxes, charges, fees, levies or other assessments imposed or collected by any governmental entity worldwide or any political subdivision thereof and however designated or levied on sales of Deliverables or Services, or sales, use, transfer, goods and services or value added tax or any other duties or fees related to any payment made by Buyer to Supplier for Deliverables and/or Services provided by Supplier to Buyer under or pursuant to this Agreement; exclusive, however, of any taxes imposed upon the net income or capital of Supplier, any taxes in lieu of such net income taxes and any other taxes which are to be borne by Supplier under law.

"Tools" means software that is not commercially available, and its Externals, required for the development, maintenance or implementation of a software Deliverable other than a Program Product.

"Work Authorization" or "WA" means Buyer's authorization in either electronic or written form for Supplier to conduct transactions under this Agreement in accordance with the applicable SOW (i.e., a purchase order, bill of lading, or other Buyer designated document). A SOW is a WA only if designated as such in writing by Buyer.

1.0 Continuity of Services and Personnel

1.1 Continuity of Services

(a) Supplier agrees to perform the services, functions, responsibilities and other components of work being performed by AT&T Japan LLC in providing the Services to the Buyer during the twelve (12) months preceding the Effective Date, using the same methods used by the employees of AT&T Japan LLC to provide such services, functions, responsibilities and other components of work.

(b) Buyer agrees to continue to provide, in connection with the receipt and use of the Services and Deliverables, the functions related to ordering, provisioning and trouble shooting provided by Buyer to AT&T Japan LLC (under and in connection with the Local Services Agreement originally executed by and between IBM Japan Ltd. and AT&T Global Network Services Japan LLC dated January 1, 2005, as amended through the Execution Date) during the twelve (12) months preceding the Effective Date, using the same methods used by the employees of Buyer to provide such functions, until such time as Buyer and Supplier establish their own operations and procedures for such functions provided by Buyer.

(c) At Buyer's sole discretion, Buyer may upon fourteen (14) days prior notice renew each WA for an Existing Customer set forth on Schedule 2 upon its expiration after the Effective Date (at the then current price in such WA, and at Service Levels at least as competitive as in such WA), for as many times as Buyer desires, provided, however, that Buyer may not renew such WA once the total renewal period for such WA, irrespective of number of times renewed, collectively totals six (6) months. By way of example, if a WA expires on November 1, 2010, Buyer may at its sole discretion issue a renewal of the WA through February 1, 2011 on fourteen (14) days prior notice. Buyer may at its sole discretion issue another Renewal of the WA through May 1, 2011 on fourteen (14) days prior notice. However, Buyer may only upon mutual agreement of Supplier issue a renewal of such WA through August 1, 2011. For the avoidance of doubt, WA as used in this subsection 1.1(b) shall not include SOWs even if an SOW is designated as a WA in writing by Buyer.

1.2 Adequate Personnel

(a) Supplier shall ensure that an adequate number of appropriately qualified and trained personnel, including the Key Personnel identified in Attachment KP (Key Personnel), are employed and available at all times: (i) to provide and support Buyer's and Customers' use of the Service in accordance with the terms of this Agreement; and (ii) to ensure that the specifications as set forth in an SOW and/or WA are met. Supplier shall use reasonable efforts to accommodate Buyer's request during the first Contract Year that Transferring Personnel, which are not also Key Personnel, remain support the Services and Deliverables under this Agreement.

(b) If Supplier Personnel are reassigned during the execution of a project, Supplier shall ensure a smooth transition, including cooperation between the replaced and the newly-assigned personnel or, where appropriate, an overlap in the assignment of such personnel to Buyer and for which Buyer shall not be charged for such overlap.

1.3 Key Personnel

(a) The parties agree that within three (3) days of the Closing, Supplier shall submit to Buyer a list of individuals who as of the Closing became Supplier Personnel ("Transferring Personnel"). Upon notification to Supplier, unless prohibited by law, Buyer, in its sole discretion, may designate up to fifteen (15) Transferring Personnel as Key Personnel. Within thirty (30) days Buyer's notification to Supplier, the parties shall execute an amendment to this Agreement updating Attachment KP to include such Key Personnel. During Contract Year 1, Supplier shall make no substitutions, additions, or eliminations to the Key Personnel as set forth in Attachment KP (Key Personnel) without Buyer's consent unless such substitution or reassignment is necessitated by illness, death, termination by such employee or by Supplier of his/her employment, or other circumstances beyond Supplier's reasonable control. In addition, during Contract Year 1, Supplier may implement a bona fide promotion of any Key Personnel provided that the promoted Key Personnel conducts a reasonable training and transfer of responsibility to the approved replacement, prior to such Key Personnel leaving the Buyer account. If any of these events shall occur, Supplier shall promptly notify Buyer in writing. After Contract Year 1, Buyer shall be provided prior notice of all proposed additions to or substitutions or eliminations of Key Personnel that account for more than twenty-five percent (25%) of all Key Personnel in any twelve (12) month period provided, however, Supplier is not required to get Buyer's approval regarding such proposed additions to or substitutions or eliminations.

(b) At least thirty (30) days prior to a reassignment or departure of any Key Personnel, Supplier shall notify Buyer of the change. Supplier shall promptly fill vacancies in the Key Personnel positions.

1.4 Project Executives, Project Office and Review Board

(a) Buyer and Supplier agree that no later than ten (10) days after the Effective Date each party shall appoint a "Project Executive". Each Project Executive shall have direct access to the officers or other key decision makers in his or her respective organization, and shall call upon the experience, expertise, and resources of such organization to ensure proper performance of this Agreement. The Project Executive of each party shall designate personnel to staff an office to be the primary working interface between the parties with respect to the implementation of the parties' agreements and the ongoing provision of the Service (the "Project Office"). Project Office personnel shall have the level and breadth of skill and authority necessary to implement and manage the day-to-day working relationship between the parties, including contract administration, post-contract administrative support, marketing, operations, finance, and legal, and including the change control procedures to be used as appropriate, with the understanding that where the Agreement specifies services at no charge, change control procedures shall apply where appropriate. Project Office personnel shall work together to develop the processes and procedures to be followed by the parties in their day-to-day working relationship. The Project Office shall document these processes and procedures in an operations and procedures manual.

(b) Project Office personnel shall meet at least weekly to review the status of the implementation of orders for Services or Deliverables or changes thereto. On a periodic basis reasonably agreed to by the parties, Supplier shall supply Buyer with reports measuring the progress of the orders. Buyer may require more frequent meetings or status reports if Supplier fails to meet the scheduled installation date for any order.

(c) The Project Executives shall designate a subgroup of the Project Office personnel as the formal crisis management group responsible for expeditiously addressing critical situations that may arise in the parties' working relationship.

(d) Within ten (10) days of the Effective Date, the Project Executives shall establish the respective boards made up of appropriate line and staff representatives (e.g., technical, marketing, finance, legal, procurement) from each party. Such board will be co-chaired by the parties' Project Executives, and shall consist of such other Buyer personnel and Supplier Personnel as the parties' Project Executives designate. The role of such boards will be to review: (i) the parties' mutual implementation of the objectives of this Agreement; (ii) performance of the Service under this Agreement; (iii) the Service Levels under this Agreement; (iv) Supplier's recommendations concerning Buyer's network design; and (v) any anticipated new work, service upgrades, or changes that would improve the performance of or reduce Buyer's costs for the Service. The applicable board shall propose to Supplier and Buyer any revisions that may from time to time be justified by changes in technology and attainable Service Levels and whether Supplier Personnel dedicated to providing and supporting the provision of the Services have sufficient skills to provide and support the provision of such Services.

2.0 Statement of Work and Acceptance Testing

2.1 Supplier will provide Deliverables and Services as specified in the relevant SOW and/or WA. Supplier will begin work only after receiving a WA duly issued by authorized personnel of the Buyer. Supplier agrees that it will not be entitled to any payment for any work performed by it, regardless of whether such work was ordered by Buyer's personnel, unless the work was performed pursuant to a duly issued WA by authorized personnel of the Buyer. Supplier agrees to waive all rights that it may have under this Agreement or applicable laws for payment of work done without a duly issued WA (including without limitation claims based on tort, breach of contract, unjust enrichment and all other causes of action). Buyer may request changes to a SOW and/or WA and Supplier will submit to Buyer the impact of such changes. Changes accepted by Buyer will be specified in an amended SOW and/or WA or change order signed by both parties. Supplier agrees to accept all WA's that conform with the terms and conditions of this Agreement.

2.2 Upon the installation, repair, or restoration of a Service or Deliverable that is subject to a performance metric, Supplier shall conduct appropriate tests to establish that it performs in accordance with the applicable Service Levels. Upon the installation, repair, or restoration of a Service or Deliverable that is not subject to a performance metric, such Service or Deliverable will perform in accordance with the specifications of such Service or Deliverable. The test results shall promptly be provided to Buyer in writing in an agreed upon form. Supplier shall tender Deliverables to Buyer in sufficient time to permit Buyer to conduct its own acceptance tests and accept the Deliverables no later than the scheduled installation date.

2.3 If Supplier's test results under Subsection 2.2 above establish that a newly-installed, repaired, or restored dedicated Service or Deliverable performs in accordance with the applicable Service Levels, and Buyer reports to Supplier via Buyer's on line tool which shall be made available to Supplier at no cost (based either upon its own tests or upon its review of Supplier's test results) that it accepts Supplier's test results, the Service or Deliverable shall be deemed to be accepted by Buyer ("Acceptance"). After Acceptance, Supplier may begin to invoice Buyer for a newly-installed Service or Deliverable effective the day (or in the case of a restored or repaired Service or Deliverable, the time at which) Buyer was notified that installation was complete and that the Service or Deliverable was available for use in the ordinary course of Buyer's business.

2.4 If Supplier's tests establish that a newly-installed, repaired, or restored Service or Deliverable does not perform in accordance with the applicable Service Levels, or Buyer reports to Supplier within the applicable acceptance period set forth in Subsection 2.5 below that it is not performing in accordance with the Service Levels, Supplier shall immediately commence and diligently and continuously pursue efforts to bring it into compliance with the Service Levels. Supplier shall pay Buyer the applicable Service Level credits, if any, set forth in an SOW or WA, until Acceptance. Upon completion of such efforts, Supplier shall tender the Service or Deliverable to Buyer, which shall again be subjected to the acceptance procedures set forth in Subsection 2.2 above.

2.5 If Buyer is performing testing, Buyer will promptly perform acceptance test on Deliverables and/or Services and notify Supplier upon acceptance.

2.6 Even after Deliverables has been deemed accepted, if a defect is identified within one year after acceptance of such Deliverable, Buyer may request Supplier to correct such defect at no charge or to replace Deliverables or to deduct a relevant amount from the Prices. Such request shall not change Buyer's right to claim Supplier's liability for the damages caused.

3.0 Business Downturn

In the event the Buyer or Customer experiences a Business Downturn, Buyer has the right to decrease its consumption of the Services and Deliverables without termination liability or any other liability other than for Services previously consumed and other than as set forth in an SOW or WA with respect to actual payments that cannot be cancelled or waived without penalty that Supplier must make to third parties as a result of Buyer's decrease in the consumption of such Services and Deliverables, provided Supplier shall use its commercially reasonable efforts to minimize any such payments.

4.0 Pricing

Supplier will provide Deliverables and Services to Buyer for the Prices. The Prices (including any Pass-Through Amounts and One Time Charges) for Deliverables and Services specified in a SOW and/or WA and accepted by Buyer plus the payment of applicable Taxes will be the only amount due to Supplier from Buyer.

5.0 Taxes

Supplier's invoices shall state all applicable Taxes, if any, by tax jurisdiction and with a proper breakdown between taxable and non-taxable Deliverables and Services. Supplier assumes responsibility to timely remit all Tax payments to the appropriate governmental authority in each respective jurisdiction. Supplier and Buyer agree to cooperate to minimize, wherever possible and appropriate, any applicable Taxes and provide reasonable notice and cooperation in connection with any audit by a third party taxing authority. Supplier shall also bear sole responsibility for all taxes, assessments, or other levies on its own income, leased or purchased property, equipment or software. If Buyer provides a direct pay certificate, certification of an exemption from Tax or reduced rate of Tax imposed by an applicable taxing authority, then Supplier agrees not to invoice or pay any such Tax unless and until the applicable taxing authority assesses such Tax, at which time Supplier shall invoice and Buyer agrees to pay any such Tax that is legally owed.

Buyer shall withhold taxes as required under applicable law on payments made to Supplier hereunder and shall be required to remit to Supplier only the net proceeds thereof. Buyer agrees to remit in a timely manner all taxes withheld to the appropriate government authority in each respective jurisdiction. Upon Buyer request, Supplier will deliver the appropriate documentation as required by the corresponding jurisdictional tax laws, within 15 business days from such request.

Supplier will reimburse Buyer for any claims by any jurisdiction relating to Taxes paid by Buyer to Supplier; and for any penalties, fines, additions to Tax or interest thereon imposed as a result of Supplier's failure to timely remit the Tax payment to the appropriate governmental authority in each respective jurisdiction. Supplier shall also reimburse Buyer for any claims made by a taxing jurisdiction for penalties, fines, additions to Tax and the amount of interest thereon imposed with respect to Supplier's failure to invoice Buyer for the correct amount of Tax.

6.0 Payment

6.1 Payments

All items on an invoice that are not the subject of a bona fide dispute ("Undisputed Amounts") shall be due and payable by Buyer within sixty (60) days after Buyer's receipt of an invoice which is in compliance with Section 6.4 (Form of Invoice). Billing disputes shall be resolved pursuant to the procedures set out in Section 21.3 (Dispute Resolution). Buyer will make payment, by bank-transfer to an account specified by Supplier (as such account may be changed by submitting a request to Buyer in a format provided by Buyer).

All travel expenses required for execution of Services shall be included in the Prices. Provided, however, Buyer will reimburse Supplier for the following reasonable and actual travel expenses, provided they are incurred in the performance of this Agreement and with Buyer's prior written approval: (i) air transportation at the economy, tourist or coach class rate for the most direct route of a scheduled airline; (ii) reasonable lodging charges commensurate with the average rates charged for the immediate area; and (iii) public transportation fee. Any exception to the foregoing guidelines must be approved by Buyer prior to travel. Supplier must submit an invoice listing all travel expenses, and all applicable receipts for lodging, travel to Buyer. Buyer will not reimburse Supplier for personal expenses.

6.2 Waived Charges

Supplier shall waive the following expedite and installation charges (collectively, "One Time Charges"):

- (1) all expedite charges for New Customers, and for Services or Deliverables for Existing Customers not ordered as of the Effective Date, unless otherwise set forth in an SOW or WA or which are not Expedited Service Requests; and
- (2) all installation charges for New Customers, and for Services or Deliverables for Existing Customers not ordered as of the Effective Date, unless otherwise set forth in an SOW or WA provided that the Service is not disconnected within the shorter of (i) the first six (6) months following installation or (ii) the number of months between the installation and the expiration or termination of the SOW, WA or Agreement.

The parties acknowledge and agree that Buyer and its Customers, from time to time, will require Service on an expedited basis to meet business requirements. Such service requests may include (i) the ordering of new circuits, (ii) increases in committed data rates, or (iii) other requests required on an expedited basis ("Expedited Service Requests"). Such requests will be processed by Supplier within twenty-four (24) hours following Supplier's receipt of the Expedited Service Request. Supplier and Buyer will cooperate in developing procedures for handling such Expedited Service Requests. The parties acknowledge that Expedited Service Requests require case by case consideration. Generally, Supplier will not charge any surcharge or additional expenses for Expedited Service Requests, but may do so if Supplier notifies Buyer promptly upon receipt of such Expedited Service Request that Supplier will incur additional out of pocket or third party expenses, or unreasonable Supplier expenses, to comply with such Expedited Service Request, and obtains Buyer's written agreement to pay Supplier the designated amount for such actual and reasonable additional expenses.

6.3 Surcharges

Supplier has the right to change rates as a result of "governmental charges or fees imposed in connection with the provision of Services". Such right shall apply only with respect to Universal Service Fund (or similar funding mechanisms, however designated) charges or similar fees imposed by a governmental entity in connection with the provision of such governmental regulated Services. The surcharge or increase applicable to Buyer shall be at a rate which does not exceed the applicable Universal Service Fund contribution factor(s) paid by Supplier and shall in no event include any administrative, management, handling, or overhead charges of any nature. Supplier shall only apply such governmental surcharge to those Services specified by the applicable governmental entity and such surcharges shall be invoiced to Buyer as a Pass-Through Expense. For clarity, in no event shall Supplier impose any administrative, management, handling, or overhead charges of any nature in connection with governmental charges.

6.4 Form of Invoice

Invoices will list each Service location and type, and will list any permissible surcharges, fees or Taxes as separate line items. Additionally, the Buyer may require a separate invoice for each Customer, with the same level of detail.

6.5 Limitation of Invoices and Claims and Credits

- (i) Buyer will not be liable for (and Supplier shall not impose on Buyer) any charge for a Service or Deliverable that is first billed six (6) months or more after the end of the month in which the charge was incurred and
- (ii) Supplier shall not be liable for any credits that are first requested by Buyer twelve (12) months or more after the end of the month in which such credit was accrued or due and payable to Buyer.
- (iii) The provisions in clauses (i) and (ii) shall not apply to the Parties right to invoice or seek credits for any charges or fees applied by regulatory agencies, such as taxes, Universal Service Fund, or surcharges, which shall be governed by the time periods permitted by applicable law, or to any other sections expressly refuting this Section 6.5.

6.6 Harmful Code

Supplier shall take commercially reasonable actions and precautions to prevent the introduction and proliferation of any Malicious Code into Buyer's or Customers' operating environment. Without limiting Supplier's other obligations under this Agreement, Supplier agrees that, as and when any Malicious Code is found in the systems used to provide the Service, (i) if such Malicious Code originated in the equipment, software, or other resources provided by Supplier under this Agreement, Supplier shall remove such Malicious Code at its expense and indemnify Buyer for all losses reasonably incurred by Buyer as a result of such Malicious Code, and (ii) in any case (wherever such Malicious Code originated), Supplier shall exercise all commercially reasonable efforts at no additional charge to eliminate, and reduce the effects of, the Malicious Code and, if the Malicious Code causes a loss of operational efficiency or loss of data, to mitigate such losses and restore such data with generally accepted data restoration techniques.

7.0 Electronic Commerce

To the extent permitted by local law, the parties will conduct transactions using an electronic commerce approach under which the parties will electronically transmit and receive legally binding purchase and sale obligations ("Documents"), including electronic credit entries transmitted by Buyer to the Supplier account specified in the relevant SOW and/or WA. The parties will enter into a separate agreement governing the transmission of such electronic transactions and associated responsibilities of the parties.

8.0 Service Level Agreements

Service Level Agreement(s) ("SLA"), if applicable, shall be included in each SOW and/or WA.

9.0 Outage & Interruption Credits

The Supplier will credit the Buyer for any outages or interruptions as specified in the SOW or WA, if any. Such credits will be applied to the next invoice period. Should there be any credits remaining at the termination of this Agreement, such credits will be refunded to Buyer.

10.0 Regulatory Compliance

Supplier agrees that it shall take all necessary steps to ensure that the Service, and the rates, terms, and conditions set forth in this Agreement, remain in full compliance with all applicable laws, statutes, ordinances, directives, rules, regulations, licenses, permissions, and orders of any court or regulatory authority of competent jurisdiction. Supplier shall use all reasonable efforts to prevent the adoption or application of any ruling, order or determination by a regulatory authority that could adversely affect its ability to provide the Services under the terms and conditions set forth herein or, should such a ruling, order or determination take effect, avoid its application to the provision of the Services to Buyer.

- (i) If any directive, ruling, permission, policy, determination, or order of any court or regulatory authority of competent jurisdiction shall adversely affect Supplier's ability to offer the Service under the rates, terms and conditions set forth herein, Supplier shall provide service to Buyer under other arrangements with rates, terms, and conditions no less favorable to Buyer than those set forth in this Agreement.
- (ii) Supplier shall promptly notify Buyer in writing if a charge of noncompliance with any applicable laws, statutes, ordinances, directives, rules, regulations, licenses, permissions, or orders in any country in which Service is provided is filed against Supplier in connection with the Service.
- (iii) To the extent legally permissible, Supplier shall indemnify and hold Buyer harmless from any direct, out-of-pocket costs (including reasonable attorneys' fees) incurred as a result of any finding or ruling by a court or agency of competent jurisdiction, or any other competent regulatory authority, that the provision of the Service violates any law, statute, ordinance, directive, rule, regulation, license, permission, or order applicable to the provision of Service, including any rules and regulations promulgated by a court or agency of competent jurisdiction or any other competent regulatory authority having jurisdiction over the Service or any portion of it.

11.0 Price Review

11.1 Request for Review of Prices for Existing Customers

During the term of an SOW or WA in place for an Existing Customer as of the Effective Date, Buyer may request Supplier to review Prices in such SOW or WA. Supplier shall review such Prices for such Existing Customer(s) and determine whether any downward adjustment shall be made to Prices as a result of such review. If the Supplier decides not to adjust the Prices downward, Supplier shall provide Buyer the rationale supporting Supplier's decision. If Supplier agrees to adjust the Prices downward, such adjustment shall be reflected in the Prices in the applicable SOW or WA.

11.2 Rate Cards

- A. On an on-going basis, Supplier will monitor, track and record, in a single repository, the rates and charges offered for the Services by Supplier to Buyer categorized by Service and in a format as provided by Buyer (the "**Rate Card**").
 - B. The Rate Card shall apply to the following:
 1. New Customers and
 2. Existing Customers that are adding new Services or Deliverables to an SOW or WA in place as of the Effective Date.
 - C. Supplier shall provide Buyer with a soft and hardcopy of such Rate Card within ninety (90) days of the Effective Date and upon any mutually agreed to updates thereof, but in no event less than one time each Contract Year.
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12.0 Warranties

12.1 Ongoing Warranties

Supplier makes the following ongoing representations and warranties:

1. it has the right to enter into this Agreement and its performance of this Agreement will comply, at its own expense, with any law, regulation or ordinance to which it is or becomes subject; and will ensure that the non-compliance by Supplier with the terms of any contract obligations between Supplier and any third parties will not affect the Services or Deliverables;
 2. it is incorporated or organized as a joint stock corporation (*kabushiki kaisha*);
 3. no claim, lien, or action exists or is threatened against Supplier that would interfere with Supplier's performance of its obligations under this Agreement;
 4. Supplier is in compliance with all licensing agreements related to third party code, if any, included in or provided in connection with Deliverables;
 5. Deliverables and Services do not infringe any privacy, publicity, reputation or intellectual property right of a third party;
 6. all authors have agreed not to assert their moral rights (personal rights associated with authorship of a work under applicable law) in the Deliverables, to the extent permitted by law;
 7. Deliverables, except for Program Products, are free from defects in material and workmanship for one year from the date of acceptance. Except for this one year limitation that applies to defects in material and workmanship, Deliverables and Services will conform to the warranties, specifications and requirements in this Agreement;
 8. it will not engage in Electronic Self-Help;
 9. Deliverables are safe for use consistent with the warranties, specifications (as set forth in an SOW or WA, and as may be supplemented by the relevant portion of Supplier's publicly available service guide relating to such Deliverable, but only to the extent such specifications for such Deliverable are not set forth in an SOW or WA) and requirements in this Agreement;
 10. Intentionally Omitted;
 11. Services will be performed using reasonable care and skill and in accordance with the relevant SOW and/or WA;
 12. it is knowledgeable with, and is and will remain in full compliance with all applicable export and import laws, regulations, orders, and policies;
 13. upon Buyer's request, it will promptly provide all information necessary to export and import Deliverables under this Agreement, including, as applicable, the Export Control Classification Numbers (ECCN) and subheadings or munitions list category number, and will notify Buyer in writing of any changes to the information provided by Supplier to export and import Deliverables under this Agreement; With regard to the WAs and SOWs in existence as of the Effective Date for Existing Customers, Supplier may pass through to Buyer any associated third party charges by itemizing them on the invoice for the applicable Deliverable and attaching supporting documentation.
 14. unless authorized by applicable government license or regulation, including but not limited to any U.S. authorization, Supplier will not directly or indirectly export or re-export, at any time, any technical information, technology, software, or other commodity furnished or developed under this, or any other, agreement between the parties, or any other product that is developed or produced from or using Buyer's technical information, technology, software, or other commodity provided under this Agreement to any prohibited country (including release of such technical information, technology, software, or other commodity to nationals, wherever they may be located, of any prohibited country) as specified in applicable export, embargo, and sanctions regulations;
 15. it will not use, disclose, or transfer across borders any Personal Data that is processed for Buyer, except to the extent necessary to perform under this Agreement; and
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16. it will comply with all applicable data privacy laws and regulations, will implement and maintain appropriate technical and organizational measures and other protections for the Personal Data, (including, without limitation, not loading any Personal Data provided to Supplier on (a) any laptop computers or (b) any portable storage media that can be removed from Supplier's premises unless, in each case, (i) such data has been encrypted and (ii) such data is loaded onto portable storage media solely for the purpose of moving such data to off-site storage). Further, it will report to Buyer any breaches of security of Personal Data immediately after discovery thereof if the Personal Data was, or could be, accessed, used or acquired by an unauthorized person or compromised in any way and will cooperate fully with Buyer in investigating any such breaches or compromises, will cooperate fully with Buyer's requests for access to, correction of, and destruction of Personal Data in Supplier's possession, and will comply with all instructions or other requirements provided or issued by Buyer from time to time relating to Personal Data.

17. it is familiar with all local laws and regulations pertaining to bribery, corruption and prohibited business practices and has not and will not partake in any actions in relation to the transactions contemplated herein in violation of such laws;

18. it and its Affiliates has not and will not offer, promise or make or agree to make payments or gifts (of money or anything of value) directly or indirectly to anyone for the purpose of influencing or inducing anyone to influence decisions in favor of Buyer;

19. unless expressly disclosed to Buyer in writing prior to the execution of this Agreement, it does not know nor has reason to believe that any of the owners, principals or senior management of Supplier, its Affiliates (1) are or were persons acting in an official capacity for or on behalf of a government; or (2) have a familial relationship to persons acting in an official capacity for or on behalf of a government.

12.2 Standard warranties

Buyer may pass Supplier's standard warranty for Equipment or Program Products through to the Customer. The Customer may deal directly with Supplier under such warranty and in the event Supplier's standard warranty is more favorable than the warranties in this Agreement, Supplier's standard warranty will apply. If Supplier is not the original manufacturer of the Equipment, Supplier will pass through to Buyer or Customer all warranties provided by the original Equipment manufacturer to the extent permitted. In the event of a conflict between the Supplier's standard warranties, original Equipment manufacturer's warranties and the warranties in this Agreement, the warranties more favorable to Buyer or Customer apply.

12.3 Acknowledgement

THE WARRANTIES IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER WARRANTIES AND CONDITIONS, EXPRESS OR IMPLIED, INCLUDING THOSE WARRANTIES OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE AND ALL SUCH OTHER WARRANTIES ARE EXPRESSLY EXCLUDED.

12.4 Warranty Redemption

Subject to the Section titled Supplier Liability for Third Party Claims, if Deliverables or Services do not comply with the warranties in this Agreement, Supplier will repair or replace Deliverables or re-perform Services, without charge and in a timely manner. If Supplier fails to do so, Buyer or Customer may repair or replace Deliverables or re-perform Services and Supplier will reimburse Buyer for actual and reasonable expenses.

12.5 Buyer Warranties

Buyer makes the following ongoing representations and warranties:

1. it has the right to enter into this Agreement and its performance of this Agreement will comply, at its own expense, with any law, regulation or ordinance to which it is or becomes subject;
2. it is incorporated or organized as a limited liability company;
3. no claim, lien, or action exists or is threatened against Supplier that would interfere with Supplier's performance of its obligations under this Agreement; and
4. it is knowledgeable with, and is and will remain in full compliance with all applicable export and import laws, regulations, orders, and policies.

12.6 Mutual Warranties

Each party makes the following ongoing representations and warranties:

In the performance of its obligations under this Agreement, each party represents and warrants that it shall act fairly and in good faith. Where notice, approval or similar action by a party is permitted or required by any provision of this Agreement, such action shall not be unreasonably delayed or withheld.

13.0 Non-Interruption of Service

A. Supplier acknowledges and agrees that any material breach (or attempt or threat to breach) by Supplier of any of the terms of this Agreement relating to Supplier's delivery of Services to Buyer (including any failure to ensure continuity of Service during any Transition Period) will cause irreparable injury to Buyer for which an adequate remedy at law will not be available. In such a circumstance, Buyer may proceed directly to court without going through the procedures or waiting periods set forth in Section 21.3 (Dispute Resolution). Supplier therefore agrees that without any additional findings of irreparable injury or other conditions to injunctive relief (unless the court requires posting of a bond or similar security), it shall not oppose the entry of an injunction, restraining order, order compelling specific performance of such terms, or other equitable relief from any court or regulatory authority of competent jurisdiction compelling performance by Supplier and restraining it from committing any further breaches (or attempted or threatened breaches).

B. Supplier shall not deny, withdraw, or restrict Supplier's provision of the Service to Buyer under this Agreement, except as specifically and expressly agreed in writing by Supplier and Buyer or as expressly provided in this Section 13.0 (Non-Interruption of Service).

C. Pending the resolution of any dispute under this Agreement Supplier shall continue to perform its obligations under this Agreement, and shall not discontinue, disconnect, or in any other fashion cease to provide, lower the quality of, or provide reduced levels of support for, all or any portion of the Service unless directed to do so by Buyer or permitted to do so under Subsections (E) and (F) below.

D. Supplier acknowledges and agrees that, subject to Subsections (E) and (F) below, Buyer and Customer shall not be left without the Service or suffer reduced levels of Service quality or support unless and until Supplier has complied fully with the terms and requirements of Section 13.1 (Transition Period).

E. Supplier may suspend, deny, or restrict the provision of the applicable portion of the Service if Supplier has notified Buyer in writing that Buyer is causing harm to Supplier's network(s) and Buyer does not promptly cease and desist from the allegedly harmful activity, provided that Supplier must limit any such action to the affected locations, Service or Deliverable, and time periods. Supplier shall promptly restore the Service or, at Buyer's option, cooperate with Buyer to effect an orderly transition to substitute service from Supplier or another service provider, as soon as practicable after Buyer ceases doing harm to Supplier's network.

F. Supplier may suspend, deny, or restrict the provision of the applicable portion of the Service if a governmental authority of competent jurisdiction determines that Buyer is making unlawful use of the Service or a portion of it and Buyer does not promptly cease and desist such use, provided that Supplier must limit any such action to the affected locations, Service or Deliverable, and time periods. Supplier shall not urge a governmental authority to make such a determination with respect to Buyer. Supplier may, however, seek orders or regulations of general application to all of its customers. Supplier shall promptly restore the Service, or, at Buyer's option, cooperate with Buyer to effect an orderly transition to substitute service from Supplier or another service provider, as soon as practicable after such requirement expires or is removed.

G. Supplier shall not deny, restrict or withdraw the Service or any portion of it when any payment is past due, provided that, if such payments are more than ninety (90) days past due, Supplier may notify Buyer of its intention to terminate all of the affected Services and Deliverables in all affected SOWs and/or WAs for Cause under Section 20.0 and Supplier may require reasonable security from Buyer for any unpaid Undisputed Amounts, which security may, by agreement of the Parties, take the form of a deposit, payment in escrow, standby letter of credit or other agreeable form of security. For purposes of this subsection 13.0 G, Cause shall exist with respect to Buyer (with no grace period or notice requirement except as set forth in this Subsection 13.0 G) if Buyer shall have failed to make a material payment under Section 6.0 (Payment), adjusted as provided hereunder, within ninety (90) days of the date such payment is due, and such payment is not the subject of a bona fide dispute between Buyer and Supplier, provided that Buyer shall have thirty (30) days from the time it receives notice from Supplier of nonpayment to cure any such default. If Buyer fails to cure the default, Supplier may on five (5) days' notice to Buyer initiate proceedings to recover such payment, but may not deny or restrict the affected Service pending the outcome of such proceedings.

13.1 Transition Period

A. Supplier recognizes that the Services are vital to Buyer and Customer and must be continued without interruption and that upon the termination of this Agreement or termination or expiration of an SOW or a WA, a successor vendor may be retained to provide such services. For the avoidance of doubt, upon the termination of this Agreement all SOWs and WAs shall automatically terminate, provided, however, such termination shall not relieve Supplier of its obligation to provide Termination Assistance Services to Buyer with respect to such SOWs and WAs.

The Supplier agrees to:

(1) maintain at least the level and quality of Services in effect during the ninety (90) days prior to expiration or termination and perform the Termination Assistance Service with the same degree of accuracy, quality, completeness, timeliness, responsiveness, and cost-effectiveness as it was required to provide the same or similar Service prior to expiration or termination; and (2) subject to mutual agreement by the parties as to the amount of assistance and the amount of any compensation to be paid by Buyer to Supplier for such assistance, cooperate in an orderly and efficient transition to any successor vendor and, (i) assist IBM in developing a written Termination Assistance Plan for the transition of the Service to IBM or IBM's designee, which plan shall include capacity planning, facilities planning, human resources planning, telecommunications planning, and other planning necessary to effect the transition (the "Termination Assistance Plan"); (ii) provide reasonable consulting services as requested to assist in implementing the Termination Assistance Plan; (iii) train a reasonable number of personnel designated by IBM in the use of any Equipment, Service Software, Materials, or processes to be transferred; (iv) catalog all IBM data, software, and Equipment used to provide the Service; (v) assist in the execution of a parallel operation and testing process until the transition to IBM or IBM's designee has been successfully completed; (vi) provide a complete and up-to-date, electronic copy of any documentation relating to operations and procedures materials; (vii) explain the Service and answer any reasonable questions IBM or IBM's designees may have pertaining thereto; and (viii) provide other reasonable technical assistance as requested by IBM. (collectively, "Termination Assistance Services"); provided, however, that Buyer acknowledges Supplier will not be required to transfer or disclose to any third party, any Supplier "Information" (as defined in Attachment PAECI) without an appropriate confidentiality agreement, provided, however, further that Supplier will not be required to transfer or disclose to any third party Supplier's software and tools used to provide the Service. Notwithstanding the foregoing Supplier agrees to provide sufficient access to Customer specific information reasonably required to allow Customer to transition to a different Supplier. Supplier shall provide Termination Assistance Service to Buyer or its designee regardless of the reason for the expiration or termination; provided that if any or all SOWs and/or WAs are terminated by Supplier for failure by Buyer to pay undisputed amounts, Supplier may require Buyer to pay in advance for Termination Assistance Service provided or performed under this Section.

B. Supplier agrees to furnish the Services for the lesser of (1) up to eighteen (18) months after the expiration or the termination of this Agreement, or any SOW and or WA, or (2) such time as Buyer requires to complete its transition to a successor vendor ("Transition Period"), provided that Buyer shall use all reasonable efforts to complete transition of the Service to Buyer or Buyer's designees expeditiously, consistent with Buyer's and Customers' reasonable business requirements. For avoidance of doubt, Buyer shall continue to pay for such Services during the Transition Period.

C. In the event of any termination of this Agreement (or upon the date on which no SOWs or WAs are outstanding under this Agreement), Buyer shall purchase for a price equal to the then-current fair market value any customer premises equipment owned by Supplier that is dedicated exclusively to providing Service to Buyer at the time of termination of this Agreement or upon the date on which no SOWs or WAs are outstanding under this Agreement. In the event that the parties are unable to agree on the then-current fair market value of any such equipment or assets, the parties shall agree on an impartial third party appraiser to determine the fair market value of the equipment or assets. The cost for such third party appraisal shall be borne equally by the parties. Supplier shall provide Buyer with a warranty of title and a warranty that such equipment or assets are free and clear of all liens and encumbrances. All equipment and other assets purchased by Buyer pursuant to this Subsection (C) shall be transferred in good working condition, reasonable wear and tear excepted.

D. For all equipment or other tangible assets owned by Supplier that are used by Supplier primarily to provide Service (but are not dedicated to the provision of Service) to Buyer, the parties shall agree whether and on what terms such equipment or other tangible assets will be transferred to Buyer.

E. Upon termination of this Agreement (or upon the date on which no SOWs or WAs are outstanding under this Agreement), Buyer shall provide Supplier with reasonable access to Buyer and Customer facilities to remove any property owned or leased by Supplier or its agents, contractors or subcontractors that Supplier has installed on Buyer's or Customer's premises which Buyer elects not to purchase or lease from Buyer as permitted in this Section (except where such equipment or assets are still being provided by Supplier to perform the Services under an SOW or WA that survives termination of this Agreement). Buyer shall not be responsible for any Supplier property left more than sixty (60) days after Supplier's receipt of a written request for its removal.

13.2 Termination Fees / Wind Down Costs

(a) In conjunction with the termination (but not expiration) of a SOW or WA in existence on the Effective Date all of the Services and Deliverables in respect of an Existing Customer SOW or WA (each an "Eligible Contract"), Supplier shall provide Buyer with its accounting of actual and reasonable wind down costs for such contract (the "WDCA"). If Supplier does not recover all of such wind down costs from Buyer for such Eligible Contract, then upon Supplier's written request Buyer will provide Supplier with Buyer's actual and reasonable wind down costs for such contract.

(b) If, (i) an Eligible Contract provides for Buyer to charge the customer termination fees or wind down costs, (ii) Buyer collects such fees or costs (the "Recovery"), and (iii) such Recovery is sufficient to recover both Buyer's and Supplier's wind down costs in the WDCAs, then Buyer shall pay Supplier an amount equal to the sum of Supplier's wind down costs in the WDCA when Buyer receives the Recovery from the Customer.

(c) If Buyer does not obtain a sufficient Recovery to pay both Buyer's and Supplier's wind down costs in the WDCAs, then Buyer and Supplier shall share in the Recovery on a pro-rata basis, using the ratio of their customer revenues as the method for allocation. In connection with such sharing of the Recovery, upon Supplier's request Buyer will share with Supplier the relevant language regarding Buyer's ability to recover termination fees and wind down costs to the extent Buyer is contractually permitted to do so, and if Buyer is not contractually permitted to do so, then upon Supplier's request Buyer will engage a public accounting firm agreed to by the parties to review the Eligible Contract language regarding Buyer's ability to recover termination fees and wind down costs and confirm to Supplier that Supplier's share of the Recovery has been calculated correctly. The parties shall each pay fifty percent (50%) of the costs of such review and confirmation until five consecutive reviews confirm that Supplier's share of the Recovery has been calculated correctly. Thereafter Supplier shall pay 100% of such costs until such time as a review indicates that Supplier's share of the Recovery has not been calculated correctly in which case the provisions in the immediately preceding sentence again shall apply.

(d) If, (i) an Eligible Contract provides for Buyer to charge the customer termination fees or wind down costs and (ii) Buyer foregoes collecting all or any part thereof in circumstances in which Buyer IBM is entitled to such fees or costs, then unless the parties agree that forgoing collecting all or any part of such fees or costs is appropriate, Buyer shall pay Supplier an amount equal to the amount AT&T would have been entitled to receive under either Section 13.2(b) or 13.2(c) had Buyer IBM in fact collected such termination fees and wind down costs.

(e) In no event shall Supplier receive any payments in excess of the sum of Supplier's AT&T's wind down costs in the WDCA. In no event will Supplier receive any wind down costs if Supplier becomes the provider of more than fifty percent (50%) of the terminated Services or Deliverable in an Eligible Contract (measured by revenue on an annualized basis) in a direct or indirect contractual relationship with the customer immediately subsequent to the applicable termination.

(f) If Supplier is evaluating an incremental investment for an Eligible Contract which is not otherwise required by the Agreement and which would create fixed costs that would be exposed to loss in the event of termination of the applicable Service and/or Deliverables, Supplier will provide Buyer in writing Supplier's termination charge or wind down cost requirements to protect such incremental investment. Buyer will attempt to negotiate with the Existing Customer SOW or WA terms that include such Supplier termination charges or wind down costs. After Buyer has negotiated in its sole discretion the best such contract terms it believes are practicable in the circumstances, Supplier will in its sole discretion determine whether such terms adequately protect its proposed incremental investment and will provide such determination to Buyer in writing. If Supplier determines that such terms adequately protect its proposed investment, Buyer shall execute such terms with the Existing Customer SOW or WA and execute such terms with Supplier and Supplier shall proceed with its incremental investment. If Supplier determines that such terms do not adequately protect its proposed investment, Supplier shall not be required to proceed with such incremental investment.

14.0 Delivery/Risk of Loss

Each party shall be responsible for risk of loss of or damage to any Equipment, software, or other materials in its possession related to the use or provision of Services.

Supplier will deliver Deliverables to Buyer and/or complete Services with Buyer-designated delivery slip (including electronic slip) at its delivery date specified in the relevant SOW and/or WA. Deliverables or Services will be delivered as specified in the relevant SOW and/or WA. Buyer may cancel or reschedule the delivery date or change the delivery point as specified in the relevant SOW and/or WA. Risk of loss and title to any tangible property will pass to Buyer or Buyer's Customer at the delivery point. If Supplier cannot comply with a delivery commitment, Supplier will promptly notify Buyer of a revised delivery date and Buyer may: 1. accept the revised delivery date; or 2. cancel without charge Deliverables or Services not yet delivered and exercise all other remedies provided at law, in equity and in this Agreement.

Where article 2, subsection 8 of the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Law No. 120 of 1956) ("Subcontract Act") is applicable to Supplier, Buyer shall cancel or reschedule the delivery date or change the delivery point in compliance with the Subcontract Act, when Buyer exercises the right pursuant to this Section 14.0.

15.0 Intellectual Property

15.1 Work Made for Hire

All Developed Works belong exclusively to Buyer or Customer and are works made for hire. If any Developed Works are not considered works made for hire owned by operation of law, Supplier assigns the ownership of copyrights in such works to Buyer or Customer. The term "the ownership of copyrights" will include the rights specified in Articles 27 and 28 of the Japanese Copyrights law.

15.2 Preexisting Materials

Supplier will not include any Preexisting Materials in any Deliverable unless they are listed in the relevant SOW and/or WA. If Supplier includes any Preexisting Materials in a Deliverable whether or not listed in the relevant SOW and/or WA, Supplier grants or will obtain for Buyer the following rights: a nonexclusive, worldwide, perpetual, irrevocable, paid-up, license to prepare and have prepared derivative works of such Preexisting Materials and to use, have used, execute, reproduce, transmit, display, perform, transfer, distribute, and sublicense such Preexisting Materials or their derivative works, and to grant others the rights granted in this Subsection.

15.3 Tools

Supplier will not include Tools in Deliverables unless they are listed in the relevant SOW and/or WA. If Supplier includes any Tools in a Deliverable whether or not listed in the relevant SOW and/or WA, Supplier grants or will obtain for Buyer the following rights: a nonexclusive, worldwide, perpetual, irrevocable, paid-up, license to prepare and have prepared derivative works of such Tools, and to use, have used, execute, reproduce, transmit, display and perform such Tools or their derivative works, and to grant others the rights granted in this Subsection.

15.4 Invention Rights

Supplier owns Inventions. Supplier grants to Buyer and Customer an irrevocable, nonexclusive, worldwide, perpetual, paid-up license under Inventions (including any patent applications filed on or patents issued claiming Inventions). The license scope is to make, have made, use, have used, sell, license or transfer items and to practice and have practiced methods.

15.5 Joint Invention Rights

The parties will jointly own all Joint Inventions and resulting patents. Either party may license others under Joint Inventions (including any patent applications filed on or patents issued claiming Joint Inventions) without accounting to or consent from the other.

15.6 Perfection of Copyrights

Upon request, Supplier will provide to Buyer a "Certificate of Originality" or equivalent documentation to verify authorship of Deliverables. Supplier will confirm assignment of copyright for Developed Works using the "Confirmation of Assignment of Copyright" form and will assist Buyer in perfecting such copyrights.

15.7 Perfection of Invention Rights

Supplier will identify all countries in which it will seek patent protection for each Invention. Supplier authorizes Buyer to act as its agent in obtaining patent protection for the Inventions in countries where Supplier does not seek patent protection. Supplier will, at Buyer's expense, assist in the filing of patent applications on Inventions and have required documents signed.

15.8 Trademarks

This Agreement does not grant either party the right to use the other party's or their Affiliates' trademarks, trade names or service marks.

15.9 Patents

For the purpose of supporting the Customer as specified in the relevant SOW and/or WA, Supplier grants to Buyer a nonexclusive, worldwide, perpetual, irrevocable, and paid-up license under any patents and patent applications licensable by Supplier to make, have made, use, have used, import, export, sell, and otherwise transfer the Deliverables and use the Services to the extent authorized in this Base Agreement and any relevant Statements of Work and Work Authorizations.

15.10 Program Products

Customer will receive a license agreement from Buyer or Supplier for Program Products, to which Buyer is not a party nor liable for violations. If a Program Product is available under an existing Buyer agreement, the terms of that agreement will control distribution of that Program Product. Buyer may install and test Program Products for Customer without charge. For recurring charge licenses, Buyer will notify Supplier when to begin invoicing Customer, if applicable.

16.0 Supplier Liability for Third Party Claims

16.1 General Indemnification

- (a) Supplier and Buyer shall defend, indemnify, and hold each other harmless against all liability, loss, damage, and expense (including actual legal fees) resulting from injury to or death of any person (including injury to or death of their respective Agents) or loss of or damage to tangible real or tangible personal property or the environment, to the extent that such liability, loss, damage, or expense was proximately caused by any act or omission by the party from whom indemnity is sought, or its Agents in connection with the provision or use of the Service, or which arose or is alleged to have arisen as a result of acts or omissions under this Agreement.
- (b) Supplier will defend, indemnify, and hold Buyer harmless against all Losses resulting from third party claims that arise, or are alleged to have arisen, out of acts or omissions of Supplier or breach by Supplier of any term of this Agreement, provided that in its contracts with such third parties, Buyer has reasonably limited its liability to such third parties, for example, by excluding any liability for any loss of interest, profit or revenue or for any consequential, indirect, incidental, special, punitive or exemplary damages, and provided further that Supplier shall not be responsible for defending, indemnifying and holding Buyer harmless with respect to performance credits awarded Customers unless it participated in establishing the levels of such credits and the circumstances in which they would be awarded. The parties will work together to allocate liability for such performance credits with respect to Customers as of the Effective Date.
- (c) If Supplier fails to perform any of its obligations to third parties in connection with the Service, then Buyer shall have the right, in its sole discretion, to withhold out of any payment to Supplier (final or otherwise, and even though such payments have already been certified as due) such sums as are reasonably necessary or appropriate to protect Buyer against delay or loss against which it is entitled to be indemnified hereunder or to enable Buyer to assume the payment of claims of third parties. Any such withheld amount shall be applied by Buyer in such manner as may be deemed reasonably necessary to secure such protection or satisfy such claims. All sums so applied shall be deducted from payments to Supplier.
- (d) Buyer's failure to withhold from its payments otherwise due hereunder, final or otherwise, a sum for any of the above contingencies, even though such contingency has occurred at the time of such payment, shall not be construed as a waiver by Buyer of its rights with respect to such contingency. Neither the rights of Buyer to withhold and apply monies nor any exercise of, attempted exercise of, or omission to exercise such rights by Buyer shall create or place on Buyer any obligation of any kind to any third party.

16.2 Intellectual Property Indemnification

Supplier will defend, or at Buyer's option cooperate in the defense of, hold harmless and indemnify, including actual legal fees, Buyer and Customer from third party claims that Supplier's Deliverables or Services infringe the intellectual property rights of a third party. In addition, if such a claim is or is threatened to be made, Supplier will, at its own expense, exercise the first of the following remedies that is practicable:

1. obtain for Buyer and Customer the right to continue to use, sell and license the Deliverables and Services consistent with this Agreement;
2. modify Deliverables and Services so they are non-infringing and in compliance with this Agreement;
3. replace the Deliverables and Services, or other affected Deliverables or Services, with non-infringing ones that comply with this Agreement; or
4. at Buyer's request, accept the cancellation of infringing Deliverables and Services without Buyer having any cancellation liability and the return of the infringing Deliverables at Supplier's expense and refund any amount paid.

Buyer will give Supplier prompt notice of third party claims against Buyer or a Customer of which Buyer is aware, and Buyer will cooperate, and request Customer to cooperate, in the investigation, settlement and defense of such claims.

16.3 Exceptions to Indemnification

Supplier will have no obligation to indemnify Buyer or Customer for claims that Supplier's Deliverables or Services infringe the intellectual property rights of a third party to the extent such claims arise as a result of:

1. the combination of Deliverables or Services other than by Supplier or Supplier Personnel with other products or services not reasonably foreseeable by Supplier and such infringement or claim would have been avoided in the absence of such combination;
2. Supplier's implementation of any specification or designs provided by Buyer and such infringement or claim would have been avoided in the absence of such implementation; or
3. the modification of the Deliverables or Services other than by Supplier or Supplier Personnel and such infringement or claim would have been avoided in the absence of such modification.

17.0 Limitation of Liability between Supplier and Buyer

Except as otherwise provided in this Section 17, Supplier's and Buyer's liability to each other during the Term for all injuries, damages, or Losses shall not exceed the following (the "Liability Cap");

(i) For the first Contract Year from the Effective Date of this Base Agreement the aggregate amount of charges paid by Buyer under this Agreement during the twelve (12) months immediately preceding the occurrence of the event, act or omission, provided that if twelve (12) months have not elapsed since the Effective Date, such total aggregate liability shall not exceed twelve (12) times the average monthly charges for the elapsed period of the term of this Base Agreement; and

(ii) For the second Contract Year from the Effective Date and beyond, two times the aggregate amount of charges paid by Buyer under this Agreement during the twelve (12) months immediately preceding the occurrence of the event, act or omission, provided that if twenty-four (24) months have not elapsed since the Effective Date, such total aggregate liability shall not exceed twenty-four (24) times the average monthly charges for the elapsed period of the term of this Base Agreement.

The following shall not count towards, or be subject to, the Liability Cap: (i) amounts expended by or for Supplier to remedy any non-conforming aspect of the Service or any Deliverable, including the application of credits or refunds owed by Supplier under this Agreement; (ii) amounts withheld by Buyer in accordance with this Agreement due either to incorrect charges by Supplier or to any non-conforming aspect of the Service or any Deliverable; (iii) payment owed by Buyer for the Service and Deliverables; (iv) claims involving Supplier's or Buyer's gross negligence (where and to the extent that it is unlawful for a party to limit its liability for gross negligence) or willful misconduct; (v) indemnification obligations set forth in this Agreement; (vi) claims for bodily injury or death to any person, or real or tangible property damage, negligently caused by a party or its agents; and (vii) claims based on a violation of the confidentiality obligations set forth in this Agreement and Attachment PAECI. In no event will either party be liable to the other for any lost revenues, lost profits, incidental, indirect, consequential, special, or punitive damages regardless of the form of action whether in contract, indemnity, warranty, strict liability, or tort (including negligence of any kind with regard to the Service or other conduct) under this Agreement. This exclusion shall not apply to (i) claims based on a violation of the confidentiality obligations set forth in this Agreement and Attachment PAECI, (ii) indemnification obligations set forth in Section 16.1 (General Indemnification) for injury to persons or damage to property and Section 16.2 (Intellectual Property Indemnification) for intellectual property infringement and/or, or (iii) claims based on a violation of applicable data protection laws.

18.0 Supplier and Supplier Personnel

Supplier is an independent contractor and this Agreement does not create an agency, partnership, or joint venture relationship between Buyer and Supplier or Supplier Personnel. Buyer assumes no liability or responsibility for Supplier Personnel. Supplier will:

1. ensure Supplier Personnel are in compliance with all laws, regulations, ordinances, and licensing requirements;
 2. be responsible for the compensation, withholdings, health and safety of Supplier Personnel;
 3. inform Buyer if a former employee of Buyer will be assigned work under this Agreement during the period twelve (12) months after such employee of Buyer ceases being employed by Buyer, such assignment subject to Buyer approval; provided, however, that such notification by Supplier and approval by Buyer shall not apply to any Supplier Personnel assigned to work under this Agreement (or under the existing agreements between the Parties) as of the Execution Date.
 4. not discriminate against any employees, applicants for employment, or any entity engaged in its procurement practices because of race, color, religion, sex, age, national origin, or any other legally protected status;
 5. (a) be solely responsible for, and fully and properly complete and submit to the relevant government immigration authority, all required immigration forms and documents for all Supplier Personnel performing Services hereunder, maintain such forms and documents as required by law and, subject to applicable laws (in particular laws regarding data privacy), make such forms and documents available to Buyer upon request, and
(b) ensure that Supplier Personnel who do not meet all immigration requirements do not perform Services under this Agreement;
 6. not assign to work under this Agreement any Supplier Personnel that are subject to any restrictive covenants that could limit such Supplier Personnel from performing the Services;
 7. remove from any assignment under this Agreement, at Buyer's request in its sole discretion, any Supplier Personnel that it finds unacceptable for any lawful reason, provided, however, Buyer shall be required to provide fifteen (15) days notice to the extent such removal would materially adversely impact Supplier's provision of Services;
 8. comply, at its own expense, government sponsored programs or initiatives relating to verification of employment eligibility for Personnel to which it is or becomes subject to and verify employment eligibility of all Supplier Personnel performing Services for, or providing Deliverables to, Buyer and/or its Customers through such programs, as applicable; and
 9. upon Buyer's request, provide documentation to verify compliance with this Section titled "Supplier and Supplier Personnel".
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18.1 General Business Activity Restrictions

(a) Supplier will ensure that Supplier Personnel assigned to work on Buyer's or Customer's premises will not:

1. conduct any non-Service or Deliverable related business activities (such as interviews, hirings, dismissals or personal solicitations) on Buyer's or Customer's premises;
2. conduct Supplier's Personnel training on Buyer's or Customer's premises, except for on-the-job training;
3. attempt to participate in Buyer or Customer benefit plans or activities;
4. send or receive non-Services or Deliverable related mail through Buyer's or Customer's mail systems; and
5. sell, advertise or market any products or distribute printed, written or graphic materials on Buyer's or Customer's premises without Buyer's written permission.

(b) Supplier will, for Supplier Personnel assigned to work on Buyer's or Customer's premises:

1. obtain for each person a valid identification badge from Buyer and return identification badges upon completion or termination of Supplier Personnel assignments;
2. ensure that each person with regular access to Buyer's and Customer's premises complies with all parking restrictions and with vehicle registration requirements if any; and
3. ensure that each person remains in authorized areas only (limited to the work locations, cafeterias, rest rooms, and, in the event of a medical emergency, Buyer's or Customer's medical facilities).

18.2 Buyer's Safety and Security Guidelines

Supplier will ensure that Supplier Personnel assigned to work on Buyer's or Customer's premises:

1. do not bring weapons of any kind onto Buyer's or Customer's premises;
2. do not manufacture, sell, distribute, possess, use or be under the influence of controlled substances (for nonmedical reasons) or alcoholic beverages while on Buyer's or Customer's premises;
3. do not have in their possession hazardous materials of any kind on Buyer's or Customer's premises without Buyer's authorization.

Supplier will promptly notify Buyer of any accident or security incidents (such as those involving loss or misuse of, or damage to, Buyer's Assets (as defined below), physical altercations, assaults or harassment) and provide Buyer with a copy of any accident or incident report involving the above and at Buyer's request, faithfully discuss on removing a person from Buyer's or Customer's premises and not reassigning such person to work on Buyer's or Customer's premises (Buyer shall provide a security-related reasons for such request).

18.3 Asset Control

For purposes of this Subsection, the term "Buyer Assets" means information, information assets, supplies or other property, including property owned by third parties (such as Buyer Customers) that is accessed by Buyer Personnel or provided to Supplier Personnel by (or on behalf of) Buyer. Supplier Personnel will:

1. not remove Buyer Assets from Buyer's or Customer's premises without Buyer's authorization;
 2. use Buyer Assets only for purposes of this Agreement and reimburse Buyer for any unauthorized use;
 3. only connect with, interact with or use programs, tools or routines that Buyer agrees are needed to provide Services;
 4. not, other than in connection with the provision of the Services or any Deliverables and pursuant to the provisions of Section 21.7 Exchange of Information, share or disclose user identifiers, passwords, cipher keys or computer dial port telephone numbers;
 5. not copy, disclose or leave such assets unsecured or unattended, in the event the Buyer Assets are confidential; and
 6. immediately notify Buyer of any security incidents involving Buyer Assets and provide Buyer with a copy of any accident or incident report involving the above.
- Buyer may periodically audit Supplier's data residing on Buyer Assets.

18.4 Supervision of Supplier Personnel

(a) Supplier will:

1. provide consistent and effective supervision and control of its Personnel provided under this Agreement, at no additional cost to Buyer;
2. conduct orientation sessions with its Personnel before placement on an assignment with Buyer and identify and provide contact information (which shall be updated by Supplier as necessary) for all supervisor(s) for its Personnel;
3. instruct its Personnel that employment related issues should be brought forward to Supplier (and not Buyer). Where such issues relate to actions which are alleged to have been taken by Buyer or Buyer Personnel, Supplier will notify Buyer immediately in order that appropriate investigative action be taken.

(b) Supplier's supervisor(s) shall:

1. exercise full supervisory authority over all day-to-day employment relationship decisions relating to Supplier Personnel, including those decisions relating to: wages, hours, terms and conditions of employment, hiring, discipline, performance evaluations, termination, counseling and scheduling; and
2. know each work location's planned holiday (and other closing) schedules and the impacts all such schedules have on Supplier Personnel.

(c) Notwithstanding any other language or agreement to the contrary, Supplier agrees that Buyer has no responsibility to approve, and that Buyer will not approve, timesheets for any Supplier Personnel. If Buyer should review, sign and/or submit timesheets for Supplier Personnel, whether manually or electronically, as part of Buyer's billing verification processes, the parties acknowledge and agree that such review, signature and/or submission shall in no way constitute concurrence or approval of such timesheets, nor create any other commitment or obligation on the part of Buyer to Supplier or Supplier Personnel.

19.0 Insurance

Supplier will maintain at its expense:

1. commercial general or public liability insurance including products liability and completed operations with a minimum limit per occurrence or accident of 450,000,000 yen;
2. workers' compensation and employer's liability insurance as required by local law, such policies waiving any subrogation rights against Buyer; and
3. automobile liability insurance as required by local statute but not less than 450,000,000 yen if a vehicle will be used in the performance of this Agreement.

Insurance required under clauses (1) and (3) above must:

- (a) name Buyer as an additional insured with respect to Buyer's insurable interest;
- (b) be primary or non-contributory regarding insured damages or expenses; and
- (c) be purchased either: (i) from insurers domiciled in the US with an AM Best Rating of A- or better and a financial class rating of 7 or better, or (ii) from non US carriers with a Standard & Poor's rating of BBB or greater and 450,000,000 yen in policy holder's surplus.

Upon Buyer's request, Supplier will provide to Buyer certificate(s) of insurance to verify compliance with the terms and conditions above.

20.0 Termination

20.1 Termination of this Base Agreement

Either party may terminate this Base Agreement, without any cancellation charge, for Cause, to the extent permitted by law. Such termination will be effective at the end of a thirty (30) day written notice period if the Cause remains uncured. Either party may terminate this Base Agreement without Cause when there are no outstanding SOWs or WAs.

"Cause" shall mean, with respect to a party:

- (i) a material breach of the Agreement by the other party,
 - (ii) becomes insolvent,
 - (iii) files or has filed against it a petition in bankruptcy, arrangement, special liquidation, corporate reorganization, or receivership,
 - (iv) a preservation or confiscation order of the assets of the party has been issued against it due to non-payment of tax and levy, or
 - (v) the other party become unable to perform any of one's material obligations under this Agreement due to substantial change in asset, creditworthiness, sales and marketing organization and structure. Notwithstanding the foregoing, Supplier recognizes and agrees that Buyer may immediately terminate this Agreement for Cause by written notice to Supplier in the case that Supplier breaches the Ongoing Warranties pertaining to bribery listed above.
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20.2 Termination of a SOW or WA

Buyer may, upon written notice to Supplier, terminate a SOW and/or WA (a) for Customer Cause or (b) if Customer terminates, for any reason, the services in its agreement with IBM that relate to the Services being provided under the SOW and/or WA, provided, however, such termination under subsection (a) or (b) will be effective at the end of a thirty (30) day written notice period if the Cause remains uncured.

Upon termination, in accordance with Buyer's written direction, Supplier will immediately:

1. cease work;
2. prepare and submit to Buyer an itemization of all completed and partially completed Deliverables and Services;
3. deliver to Buyer Deliverables satisfactorily completed up to the date of termination at the agreed upon Prices in the relevant SOW and/or WA; and
4. deliver upon request any work in process.

In the event Buyer terminates without Cause, Buyer will compensate Supplier for the actual and reasonable expenses incurred by Supplier for work in process up to and including the date of termination provided Supplier uses reasonable efforts to mitigate Buyer's liability under this Subsection by, among other actions, accepting the return of, returning to its suppliers, selling to others, or otherwise using the canceled Deliverables (including raw materials or work in process) and provided such expenses do not exceed the Prices.

B. Upon the effective date of any type of termination, the transition period procedure specified in Section 13.1 (Transition Period) will commence and the Services will continue at the same rates and under the same terms and conditions as those in effect at the time of the termination.

21.0 General

21.1 Amendments

This Agreement may only be amended by a writing specifically referencing this Agreement which has been signed by authorized representatives of the parties.

21.2 Assignment

Neither party will assign their rights or delegate or subcontract their duties under this Agreement to third parties or Affiliates without the prior written consent of the other party, such consent not to be withheld unreasonably, except that (1) either party may assign this Agreement in conjunction with the sale of a substantial part of its business utilizing this Agreement and (2) Supplier may delegate or subcontract its duties under this Agreement to any Affiliate that is 100% owned by Supplier, provided Supplier remains responsible for performance of the duties Supplier delegates or subcontracts under this Agreement. Any unauthorized assignment of this Agreement is void.

Notwithstanding the foregoing, in case Supplier is a subcontractor defined in the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, Supplier is allowed to assign its accounts receivable to credit guarantee corporations or financial institutes defined in Article 1-2 of the enforcement order for the Small Business Credit Insurance Law (Cabinet Order No.350 of 1950).

21.3 Dispute Resolution.

The following procedure shall be adhered to in all disputes that arise under this Agreement that the Parties cannot resolve informally.

- (a) Either party to this Agreement must notify the other party in writing of the nature of the dispute with as much detail as possible about the deficient performance of the other party. The Project Executives shall meet in person or by telephone within seven (7) days of the date of the written notification to reach an agreement about the nature of the deficiency and the corrective action to be taken. The Project Executives shall memorialize the nature of the dispute and their efforts to resolve it.
 - (b) If the Project Executives are unable to agree on corrective action, they shall notify the respective managers to whom they report ("Management") of that inability, and the parties' Managements shall meet within fourteen (14) days of the date of such notification to try to reach an agreement.
 - (c) Intentionally Omitted
 - (d) If the parties' Managements cannot resolve the dispute in accordance with this Section 21.3, either party may take action to enforce its rights under this Agreement, including the termination of this Agreement for breach when so permitted by its terms. Except as otherwise specifically provided, neither party shall terminate this Agreement for breach or initiate legal action unless and until this dispute resolution procedure has been employed or waived.
 - (e) Attachment DR identifies the individuals that serve as Project Executives and Management in the dispute resolution process.
- This Agreement and the performance of transactions under this Agreement will be governed by the laws of Japan. The parties expressly waive any right to a jury trial regarding disputes related to this Agreement. Unless otherwise provided by local law without the possibility of contractual waiver or limitation, any legal or other action related to this Agreement must be commenced no later than two (2) years from the date on which the cause of action arises. All disputes arising under or in connection with this Agreement shall be settled before the Tokyo District Court, Japan.

21.4 Communications

All communications between the parties regarding this Agreement will be conducted through the parties' representatives as specified in the relevant SOW and/or WA. All notices required in writing under this Agreement will be made to the appropriate contact(s) listed in the relevant SOW and/or WA and will be effective upon actual receipt. Notices may be transmitted electronically, by registered or certified mail, or courier. All notices, with the exception of legal notices, may also be provided by facsimile. Any notices or communications required or permitted to be given or delivered under this Agreement for which a recipient is not specified in the relevant SOW and/or WA shall be provided as set forth above (except notices applicable to Cause or Customer Cause shall be sufficiently given if delivered personally or delivered by prepaid overnight express service) to the following:

In the case of Buyer: Aya Suzuki

With copies to:
Hitoshi Yamada

In the case of Supplier: Toshinori Iwasawa

With copies to:
Toshihide Muneyuki

Either party may from time to time designate another address or other addressees by notice to the other party in compliance with this Section.

21.5 Counterparts

This Agreement may be signed in one or more counterparts, each of which will be deemed to be an original and all of which when taken together will constitute the same Agreement. Any copy of this Agreement made by reliable means (for example, photocopy or facsimile) is considered an original.

21.6 Ethical Dealings

Supplier will be familiar and will strictly comply with all laws and regulations on bribery, corruption, and prohibited business practices. Supplier and its Affiliates have not and will not, for the purpose of influencing or inducing anyone to influence decisions in favor of Buyer or any of its Affiliates, offer, promise or make or agree to make, directly or indirectly, (a) any political contributions of any kind or any payment to or for the benefit of any public official, whether elected or appointed, (b) any payments for gifts, meals, travel or other value for a government employee or his/her family members or (c) any payments or gifts (of money or anything of value) to anyone. Buyer shall not reimburse Supplier for any such political contributions, payments or gifts.

21.7 Exchange of Information

All information exchanged is non confidential unless it is made under Attachment PAECI; provided that the provisions of this Agreement and the SOWs and WAs are confidential information and shall not be disclosed by the parties other than to its employees and agents and subcontractors on a need to know basis provided, however, such agents and subcontractors execute a non-disclosure agreement substantially in the form of Attachment PAECI (the period of confidentiality to be between two (2) and five (5) years, as reasonably agreed between parties) and the party making such disclosure shall be responsible for the protection of such information notwithstanding such disclosure. The parties will not publicize the terms of this Agreement, or the relationship, in any advertising, marketing or promotional materials without prior written consent of the other party except as may be required by law, provided the party publicizing gives the other party reasonable prior notice to allow the other party a reasonable opportunity to obtain a protective order. Supplier will use information regarding this Agreement only in the performance of this Agreement. Any contacts with government employees by Supplier on Buyer's behalf may only be for the purpose of providing Services under this Agreement. For any Personal Data relating to Supplier Personnel that Supplier provides to Buyer, Supplier has obtained the agreement of the Supplier Personnel to release the information to Buyer and to allow Buyer to use, disclose and transmit such information in connection with this Agreement. Notwithstanding anything to the contrary in the first paragraph of the Section entitled "Exchange of Information", Supplier shall store Customer's Personal Data or any information that is created from or includes some of Customer's Personal Data information as confidential for an indefinite period and as otherwise set forth in Memorandum for Disclosure of Personal Information and/or Memorandum for Disclosure of Personal Information Supplement for Disclosure, and pay attention for preventing any theft, loss, destruction, damage or leakage of the following information to any third party. Supplier shall cease using Customer's Personal Data which becomes no longer necessary due to termination of the Services or other reasons, and shall return to the Buyer, or destroy in a secure manner pursuant to the Buyer's instructions, all media containing Customer's Personal Data or any copies thereof.

21.8 Freedom of Action

This Agreement is nonexclusive and either party may design, develop, manufacture, acquire or market competitive products or services. Buyer will independently establish prices for resale of Deliverables or Services and is not obligated to announce or market any Deliverables or Services and does not guarantee the success of its marketing efforts, if any.

21.9 Force Majeure

Neither party will be in default or be liable for any delay or failure to comply with this Agreement due to any act beyond the control of the affected party, excluding labor disputes, provided such party immediately notifies the other.

21.10 Intentionally Omitted

21.11 Prior Communications and Order of Precedence

This Agreement replaces any prior oral or written agreements or other communication between the parties with respect to the subject matter of this Agreement. In the event of any conflict in these documents, the order of precedence will be:

1. the quantity, payment and delivery terms of the relevant WA;
2. the relevant SOW;
3. this Base Agreement; and
4. the remaining terms of the relevant WA.

21.12 Record Keeping and Audit Rights

A. Supplier will maintain (and provide to Buyer upon request) records and supporting documentation sufficient to document the Services, the charges paid or payable by Buyer under this Agreement, for seven (7) years following creation. All accounting records will be maintained in accordance with generally accepted accounting principles.

B. Subject to Supplier's reasonable security requirements, Buyer may audit Supplier's books, records, and other documents to assess Supplier's compliance with this Agreement (including the accuracy of invoices, the provision of Service in accordance with the SLA) once in each Contract Year. Buyer may employ such assistance other than the assistance of a Competitor of Supplier, as it deems desirable to conduct such audits. Buyer shall cause any person or firm retained for this purpose to execute a non-disclosure agreement in favor of Supplier substantially in the form of Attachment PAECI (the period of confidentiality to be between two (2) and five (5) years, as reasonably agreed between parties). Such audit shall take place at a time and place agreed upon by the parties no later than thirty (30) days after notice thereof to Supplier. Supplier may redact from its books, records, and other documents provided to Buyer or its auditor any information that reveals the identity or confidential information of other customers of Supplier. In no event shall Buyer have access to Supplier or Supplier's subcontractors' costs, or proprietary or confidential information.

C. Supplier shall promptly correct any failure to comply with this Agreement that is revealed in an audit, including correcting any failure to comply with the SLA and refunding any overpayment by Buyer in the form of a credit on the invoice for the first full billing cycle after the parties receive the audit results.

21.13 Severability

If any term in this Agreement is found by competent judicial authority to be unenforceable in any respect, the validity of the remainder of this Agreement will be unaffected, provided that such unenforceability does not materially affect the parties' rights under this Agreement. Supplier and Buyer shall negotiate in good faith to substitute for such invalid, illegal, or unenforceable provision a mutually acceptable provision consistent with the original intention of the parties.

21.14 Supplier Conduct Principles

Supplier will comply with the Supplier Conduct Principles Letter Agreement ("SCPLA") and the terms and conditions of the SCPLA applies to this Agreement.

21.15 Survival

The provision Schedules

s set forth in the following Sections and Subsections of this Base Agreement will survive after termination or expiration of this Agreement and will remain in effect until fulfilled: "Pricing", "Payments and Acceptance", "Taxes", "Ongoing Warranties", "Intellectual Property", "Supplier Liability for Third Party Claims", "Limitation of Liability between Supplier and Buyer", "Non-Interruption of Service", "Record Keeping and Audit Rights", "Choice of Law; Waiver of Jury Trial; Limitation of Action", "Exchange of Information", "Survival" and "Prior Communications and Order of Precedence" and any other provisions of this Agreement that by their nature are intended to survive shall survive the expiration or termination of this Agreement or any part of it.

21.16 Waiver

An effective waiver under this Agreement must be in writing signed by the party waiving its right. A waiver by either party of any instance of the other party's noncompliance with any obligation or responsibility under this Agreement will not be deemed a waiver of subsequent instances.

21.17 Prevention of Unauthorized Use

- (a) Supplier may monitor the Services to the extent permitted by applicable law in order to detect unauthorized use of, or access to, the Services. If, in the exercise of its reasonable judgment, Supplier detects unauthorized use, it will take steps to prevent such unauthorized use and promptly notify Buyer of such unauthorized use.
- (b) Except as may be specifically set forth in an SOW, or as otherwise specifically set forth in this Agreement, Supplier does not guarantee network security, the encryption employed by any Service, the integrity of any data that is sent, backed up, stored or subject to load balancing, or that Supplier's security procedures will prevent the loss of, alteration of, or improper access to, Buyer's or a Customer's data and information.
- (c) General. Buyer and Supplier shall cooperate reasonably to prevent and cure unauthorized use of the Services provided hereunder by expeditiously informing each other of suspected abuse and, when known, the identity of the responsible individuals. Supplier shall, upon Buyer's request, advise Buyer regarding methods to minimize Buyer's and its Affiliates' exposure to misuse and abuse of the voice Services resulting from the operation of customer-provided systems, equipment, facilities or services interconnected with the voice Services. Appropriate representatives of Supplier and Buyer shall meet at the reasonable request of Buyer to establish appropriate fraud control procedures.
- (d) Threatening or Abusive Communications. Upon receipt of a request from Buyer, Supplier shall use reasonable efforts to promptly identify and report to appropriate law enforcement authorities the origin of any threatening or abusive communication transmitted to Buyer or a Customer; provided, that (i) such origin can be reasonably derived from Supplier's records kept in the ordinary course of business, (ii) Buyer or a Customer has reported such communication to appropriate law enforcement officials, and (iii) relevant information is made available to Supplier as soon as practicable following the threatening or abusive communication. For the purposes of this Agreement, relevant information shall consist of the number on which the call was received, the translated number if the call was received on a toll free number, the circuit number, date and time of call, call duration, switch identification, and identification of trunk type. Buyer acknowledges that the likelihood that the originating number or address of the threatening or abusive communication will be successfully identified is significantly diminished with the passage of time.
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- (e) Law Enforcement Assistance. Supplier and Buyer shall, upon request, assist each other reasonably in the preparation and presentation of relevant information to all applicable governmental entities and officials for the purpose of prosecuting those individuals responsible for the abuse or misuse of the Services provided hereunder. The parties shall also assist each other reasonably in all legal actions that one or both of them may bring against third parties responsible for the abuse or misuse of the Services provided hereunder.
- (f) Contacts. Upon execution of this Agreement, each party shall provide the other with the names, telephone and pager numbers of the individuals who will serve as points of contact for notifications permitted or required under this Section. A party may change its designated contact(s) using the procedures agreed to by the parties.
- (g) Subsections 21.17(c)-(f) (Prevention of Unauthorized Use) shall apply to Services only.

21.18 No Third Party Beneficiaries.

Except as expressly specified in (i) this Agreement, (ii) a renewal of an SOW or WA for an Existing Customer in existence as of the Effective Date, or (iii) the SOW or WA for a New Customer, the parties do not intend to grant, nor shall any clause be interpreted to grant, any agents, Customers, or other third party rights of any kind to enforce any provision of this Agreement against either Supplier or Buyer. No third party is to be deemed or become a third party beneficiary under this Agreement, notwithstanding any agreements contained herein that may operate to the benefit of such third party, and notwithstanding any status that Supplier or Buyer may have as a third party beneficiary with respect to any such agreements.

21.19 Translation

Upon mutual agreement of the parties, the Agreement will be translated into Japanese.

ACCEPTED AND AGREED TO:

IBM Japan Ltd.

By:

Buyer Signature _____ Date _____

Printed Name _____

Title & Organization _____

Buyer Address: _____

ACCEPTED AND AGREED TO:

Communications Services KK

By:

Supplier Signature _____ Date _____

Printed Name _____

Title & Organization _____

Supplier Address: _____

Schedules

Schedule A Existing Customers*

Schedule B Work Authorization list*

*Schedules, annexes and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K. IJJ agrees to furnish supplementary copies of the omitted schedules, annexes and similar attachments to the SEC upon request.

Internet Initiative Japan Inc.

CONFIDENTIAL

June 1, 2010

IBM Japan Ltd.
19-21 Nihonbashi Hakozaki-cho
Chuo-ku, Tokyo 103-8510

Guaranty Letter Related to
The Solutions Engagement Agreement between IBM Japan Ltd and Communications Services KK

Ladies and Gentlemen:

Reference is made to the Solutions Engagement Agreement between IBM Japan Ltd. ("IBM Japan") and Communications Services KK ("Supplier") dated as of June 1, 2010 (the "**Agreement**"), Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Agreement.

WHEREAS the Supplier is a wholly owned subsidiary of Internet Initiative Japan Inc. (the "**Parent**");

WHEREAS the Parent hereby acknowledges the financial and other obligations imposed upon the Supplier by the Agreement;

WHEREAS the Parent also hereby acknowledges IBM Japan's reliance on this letter (this "**Guaranty Letter**") for purposes of entering into the Agreement.

NOW, THEREFORE, for good and valuable consideration, including the inducement of IBM Japan to consummate the transactions contemplated by the Agreement, the parties hereto agree as follows:

1. Guaranty. The Parent hereby irrevocably guarantees to IBM Japan (a) the full and prompt payment, within 20 days after written demand therefor is delivered to the Parent by IBM Japan, of (i) the Supplier's obligations to make payment pursuant to Section 6 of the Agreement, subject to the procedures and limitations set forth therein, (ii) the Supplier's indemnification obligations under Section 16 of the Agreement, and (iii) all other monetary obligations of the Supplier to IBM Japan under the Agreement and (b) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Supplier under or pursuant to the Agreement (all the monetary obligations described in the preceding clauses (a) through (b) being collectively called the "**Obligations**"); provided, however, that the Parent's Obligations under this Guaranty Letter shall (A) only apply with respect to (a) those Obligations requiring performance by the Supplier during the first 12 months after the Effective Date, and (b) those payments required to be made by the Supplier during first 12 months after the Effective Date, and (B) be subject to any and all rights of set-off, counterclaim, deduction, defense or other procedural or substantive rights of any kind that the Supplier have or may hereafter have under the Agreement, other than any rights or defenses premised, directly or indirectly, on the financial resources or condition of any Supplier. The Parent agrees that its guaranty constitutes a guarantee of payment when due and not of collection. For the avoidance of doubt, nothing in this Guaranty Letter is intended to (i) expand or contract the liabilities and obligations of the Supplier under the Agreement or (ii) impose any liability or financial obligation on the Parent beyond that or less than that which is owed by the Supplier to IBM Japan pursuant to the terms of the Agreement.

2. **Obligations Not Waived.** To the fullest extent permitted by law, the Parent waives presentment to, demand of payment from and protest to any of the Obligations, and also waives notice of acceptance of its guarantee and notice of protest for nonpayment. To the fullest extent permitted by law, the obligations of the Parent hereunder shall not be affected by (a) the failure of IBM Japan to assert any claim or demand or to enforce or exercise any right or remedy against the Supplier under the provisions of the Agreement or otherwise, (b) any rescission, waiver, amendment or modification of, or any release from, any of the terms or provisions of this Guaranty Letter, the Agreement or any other agreement or (c) any liquidation, dissolution, bankruptcy, insolvency or other similar event relating to the Supplier.

3. **Representations and Warranties.** The Parent hereby represents and warrants to IBM Japan that:

(a) The Parent has the requisite corporate power and authority to execute and deliver this Guaranty Letter, to consummate the transactions contemplated hereby and to comply with the provisions of this Guaranty Letter. The execution, delivery and performance of this Guaranty Letter by the Parent, the consummation by the Parent of the transactions contemplated hereby and the compliance by the Parent with the provisions of this Guaranty Letter have been duly authorized by all necessary corporate action on the part of the Parent and no other corporate proceedings on the part of the Parent are necessary to authorize this Guaranty Letter or to consummate the transactions contemplated hereby. This Guaranty Letter has been duly executed and delivered by the Parent and constitutes a valid and binding obligation of the Parent, enforceable against the Parent in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization or other similar laws now or hereafter in effect relating to creditor's rights generally, and general equitable principles (regardless of whether enforcement is considered in equity or at law; and

(b) The execution and delivery of this Guaranty Letter and the consummation of the transactions contemplated hereby and the compliance by the Parent with the provisions of this Guaranty Letter do not and will not conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation or to a loss of a material benefit under, or result in the creation of any lien in or upon any of the properties or assets of the Parent under, or give rise to any increased, additional, accelerated or guaranteed rights or entitlements under, any provision of (i) the certificate of incorporation or bylaws of the Parent, (ii) any contract to which the Parent or any of its subsidiaries is a party or by which any of their respective properties or assets is bound or (iii) subject to the governmental filings, any law, in each case applicable to the Parent or any of its subsidiaries or any of their respective properties or assets, other than, in the case of clauses (ii) and (iii), any such conflicts, violations, breaches, defaults, rights, losses, liens or entitlements that individually or in the aggregate would not reasonably be expected to impair in any material respect the ability of the Parent to perform its obligations under this Guaranty Letter.

4. **Subrogation.** Upon payment by the Parent of any sums to IBM Japan, all rights of the Parent against the Supplier arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations. In addition, any indebtedness of the Supplier or any of its subsidiaries now or hereafter owed to the Parent or any of its subsidiaries (other than subsidiaries of the Supplier) is hereby subordinated in right of payment to the prior payment in full of the Obligations.

5. Notices. Any and all notices required or permitted to be given to a party pursuant to the provisions of this Guaranty Letter will be in writing and will be effective and deemed to provide such party sufficient notice under this Guaranty Letter on the earliest of the following: (a) at the time of delivery, if delivery is in person or by prepaid express courier, with a record of receipt; (b) at the time of transmission by facsimile, addressed to such party at its facsimile number specified herein, with confirmation of receipt made by both telephone and printed confirmation sheet verifying successful transmission of the facsimile.

All notices for delivery outside Japan will be sent by facsimile or by prepaid express courier. All notices shall be properly addressed to the party to be notified at the address or facsimile number as follows, or at such other address or facsimile number as such other party may designate by one of the indicated means of notice herein to the other parties hereto, as follows:

if to IBM Japan, to:

IBM Japan, Ltd.
Attention: Aya Suzuki – Director of Procurement
Address: 19-21 Nihonbashi Hakozaki-cho, Chuo-ku, Tokyo 103-8510
Facsimile No.: +81-3-3664-4785
e-mail address: ayas@jp.ibm.com

with a copy to:

IBM Japan, Ltd.
Attention: Brian Chi – Assistant General Council
Address: 19-21 Nihonbashi Hakozaki-cho, Chuo-ku, Tokyo 103-8510
Facsimile No.: +81-3-3664-4580
e-mail address: brianchi@jp.ibm.com

if to the Parent, to:

Internet Initiative Japan Inc.
Attention: Akihisa Watai - CFO
Address: 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
Facsimile No.: +81-3-5205-6441
e-mail address: watai@ij.ad.jp

With a copy also, which shall not constitute notice for this purpose, to:

Internet Initiative Japan Inc.
Attention: Akira Sumiya - Manager Legal Division
Address: 1-105 Kanda Jinbo-cho, Chiyoda-ku, Tokyo 101-0051, Japan
Facsimile No.: +81-3-5205-6411
e-mail address: sumiya@ij.ad.jp

6. Expiry. This Guaranty Letter will expire and cease to have any force or effect on and from the first anniversary of the Effective Date.

Please indicate your acceptance of the terms hereof by signing in the appropriate space below and returning to us the enclosed duplicate originals (or facsimiles) hereof, whereupon this Guaranty Letter shall become a binding agreement between us.

Very truly yours,

Internet Initiative Japan Inc.

By:

Name: Koichi Suzuki

Title: President, Representative Director and CEO

Accepted and agreed to as of
the date first above written:

IBM Japan Ltd.

By:

Name: Aya Suzuki

Title: Director of Procurement

CERTIFICATIONS

I, Koichi Suzuki, certify that:

1. I have reviewed this annual report on Form 20-F of Internet Initiative Japan Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 28, 2010

Internet Initiative Japan Inc.

/s/ Koichi Suzuki

Name: Koichi Suzuki

Title: President, Chief Executive Officer and Representative Director

CERTIFICATIONS

I, Akihisa Watai, certify that:

1. I have reviewed this annual report on Form 20-F of Internet Initiative Japan Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: September 28, 2010

Internet Initiative Japan Inc.

/s/ Akihisa Watai

Name: Akihisa Watai

Title: Director, Chief Financial Officer and Chief Accounting Officer

CERTIFICATIONS
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Internet Initiative Japan Inc. (the "Company") hereby certifies, to such officer's knowledge, that the Company's annual report on Form 20-F for the year ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2010

Internet Initiative Japan Inc.

/s/ Koichi Suzuki

Name: Koichi Suzuki

Title: President, Chief Executive Officer and Representative Director

CERTIFICATIONS
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Internet Initiative Japan Inc. (the "Company") hereby certifies, to such officer's knowledge, that the Company's annual report on Form 20-F for the year ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 28, 2010

Internet Initiative Japan Inc.

/s/ Akihisa Watai
Name: Akihisa Watai
Title: Director, Chief Financial Officer and Chief Accounting Officer