COGENT COMMUNICATIONS GROUP INC
Form S-1
February 14, 2005

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As filed with the Securities and Exchange Commission on February 14, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

COGENT COMMUNICATIONS GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	4813	52-2337274
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Number)	(IRS Employer Identification No.)

1015 31st Street N.W.
Washington, D.C. 20007
Tel: (202) 295-4200
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Dave Schaeffer
Chief Executive Officer
Cogent Communications Group, Inc.
1015 31st Street N.W.
Washington, D.C. 20007
Tel: (202) 295-4200
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(a)(b)**	**Amount of Registration Fee**
Common stock, $0.001 par value	$86,250,000	$10,151.63(c)

(a) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) promulgated under the Securities Act of 1933.

(b) Including shares of common stock which may be purchased by the underwriters pursuant to their option to purchase additional shares.

(c) Pursuant to Rule 457(p) the entire amount of this fee is offset by a filing fee of $10,928 previously paid by Cogent Communications Group, Inc. in connection with a registration statement on Form S-1 (333-115589) originally filed on May 18, 2004.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state or jurisdiction where the offer or sale is not permitted.

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Subject to Completion, dated February 14, 2005

PROSPECTUS

Shares

Common Stock

We are offering shares of our common stock to the public.

Our common stock is traded on the American Stock Exchange under the symbol "COI." The last reported sale price of our common stock on February 11, 2005 was $0.72 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Per Share	Total
Public offering price	$	$
Underwriting discounts		
Proceeds to us (before expenses)		

We have granted the underwriters a 30-day option to purchase up to an additional shares from us on the same terms and conditions as set forth above if the underwriters sell more than of common stock in this offering.

Neither the Securities and Exchange Commission nor any state or foreign securities commission or regulatory authority has approved or disapproved of these securities, or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about , 2005.

LEHMAN BROTHERS **THOMAS WEISEL PARTNERS LLC**

CIBC WORLD MARKETS **FRIEDMAN BILLINGS RAMSEY**

, 2005

You should rely only on the information contained in this prospectus. We and the underwriters have not authorized anyone to provide you with different or additional information. This prospectus is not an offer to sell or a solicitation of an offer to buy our common stock in any jurisdiction where it is unlawful to do so. The information contained in this prospectus is accurate only as of its date, regardless of the date of delivery of this prospectus or of any sale of our common stock.

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PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements and notes thereto appearing elsewhere in this prospectus. Before you decide to invest in our common stock, you should read the entire prospectus carefully, including the risk factors and financial statements and related notes included in this prospectus. All references to "we," "us," "our" or "Cogent" refer to Cogent Communications Group, Inc. and its consolidated subsidiaries.

Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and Internet Protocol communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by our competitors, thus giving us clear cost and performance advantages in our industry. According to third party data, we are among the top ten facilities-based Internet service providers in the world. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through over 8,700 customer connections in North America and Europe.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and intercity transport facilities. Our network serves over 75 metropolitan markets in North America and Europe and encompasses:

- over 800 multi-tenant office buildings strategically located in commercial business districts;
- over 200 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings;
- over 150 intracity networks consisting of over 8,400 fiber miles;
- an intercity network of more than 21,000 fiber route miles; and
- three leased high-capacity circuits providing a transatlantic link between the North American and European portions of our network.

We have created our network by purchasing optical fiber from carriers with large amounts of unused fiber and directly connecting Internet routers to the existing optical fiber national backbone. We have expanded our network through key acquisitions of financially distressed companies or their assets at a significant discount to their original cost. Due to our network design and acquisition strategy, we believe we are positioned to grow our revenue and increase profitability with minimal incremental capital expenditures.

Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. This allows us to earn much higher gross profit margins on our on-net business. Our typical customers in multi-tenant office buildings are law firms, financial services firms, advertising and marketing firms and other professional services businesses. We also provide on-net Internet access at a speed of one Gigabit per second and greater to certain bandwidth-intensive users such as universities, other ISPs and commercial content providers. During the nine months ended September 30, 2004, our on-net customers generated 65.7% of our total net service revenue.

In addition to providing our on-net services, we also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the "last mile" portion of the link from our customers' premises to our network. Customers of our off-net services are primarily small and medium-sized businesses. During the nine months ended September 30, 2004, our off-net customers generated 22.7% of our total net service revenue.

We also operate 30 data centers comprising over 330,000 square feet throughout North America and Europe that allow customers to colocate their equipment and access our network, and from which we provide wholesale dial-up Internet service.

Our net service revenue has grown from $3.0 million for the year ended December 31, 2001 to $59.4 million for the year ended December 31, 2003 and from $44.9 million for the nine months ended September 30, 2003 to $63.1 million for the same period in 2004. We have grown our gross profit from negative $17.0 million for the year ended December 31, 2001 to $12.4 million for the year ended December 31, 2003 and from $10.0 million for the nine months ended September 30, 2003 to $19.8 million for the same period in 2004. Our gross profit margin has expanded from 22% for the nine months ended September 30, 2003 to 31% for the same period in 2004. We determine gross profit by subtracting cost of network operations from our net service revenue (exclusive of amortization of deferred compensation). However, since we initiated operations in 2000, we have generated increasing operating losses, had negative cash flows and as of September 30, 2004 had an accumulated deficit of $123.5 million. No single customer accounts for greater than 1% of our net service revenues.

Competitive Advantages

We believe we address many of the IP data communications needs of small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations by offering them high-quality Internet service at attractive prices.

Low Cost of Operation. Our network operating expenses are significantly lower than most of our competitors whose networks are not designed specifically to carry IP traffic. Our low cost of operation gives us greater pricing flexibility and an advantage in an competitive environment characterized by falling Internet access prices.

Independent Network. Our on-net service does not rely on infrastructure controlled by local incumbent telephone companies. This gives us more control over our service, quality and pricing and allows us to provision services more quickly and efficiently.

High Quality, Reliable Service. Our network is designed with dedicated intracity bandwith for each customer. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission. During 2004, our network averaged 99.99% customer connection availability.

Low Capital Cost to Grow Our Business. We have incurred relatively minimal indebtedness in growing our business because of our network design of using Internet routers without additional legacy equipment and our strategy of acquiring optical fiber from the excess capacity in existing networks.

Experienced Management Team. The members of our senior management team have an average of 19 years of experience in the telecommunications industry. They have designed and built our network, led the integration of our 13 acquisitions and guided us through the recent telecommunications industry downturn.

Our Strategy

We intend to become the leading provider of high-quality Internet access and IP communications services and to increase our profitability and cash flow. The principal elements of our strategy include:

Focus on Providing Low-Cost, High-Speed Internet Access and IP Connectivity. We intend to further load our high-capacity network to respond to the growing demand for high-speed Internet service generated by bandwith-intensive applications, such as streaming media, online gaming, IP telephony, remote data storage, distributed computing and virtual private networks.

Pursuing On-Net Customer Growth. We intend to increase usage of our network and operational infrastructure by adding customers in our existing on-net buildings and by adding buildings to our network, particularly in Europe.

Selectively Pursuing Acquisition Opportunities. In addition to adding customers through our sales and marketing efforts, we will continue to seek out acquisition opportunities that increase our customer base, allowing us to take advantage of the unused capacity of our network and add revenues with minimal incremental costs. We may also make additional acquisitions to add network assets at attractive prices.

Recent Developments and Estimated Results of Operations

We estimate that for the year ended December 31, 2004, our net service revenue increased by 53% to $91.2 million and our adjusted EBITDA deficit decreased by 11% to $(12.6) million, compared to $59.4 million and $(14.2) million, respectively, for the year ended December 31, 2003. We have not yet finalized our Annual Report on Form 10-K for the year ended December 31, 2004, and our independent registered public accounting firm has not completed its audit of our financial statements for the year. Our preliminary operating results are subject to completion; accordingly, our actual results for 2004 could differ from our estimated results.

We estimate that our net service revenue for the three months ending March 31, 2005 will be between $32 million and $35 million and that our adjusted EBITDA will be between $0.1 million and $1.2 million compared to net service revenue of $20.9 million and an adjusted EBITDA deficit of $(4.4) million during the three months ending March 31, 2004. We estimate that our net service revenue for the year ending December 31, 2005 will be between $140 million and $150 million and that our adjusted EBITDA will be between $7 million and $18 million compared to estimated net service revenue of $91.2 million and an estimated adjusted EBITDA deficit of $(12.6) million for the year ending December 31, 2004.

EBITDA represents net (loss) income before income taxes, net interest expense, depreciation and amortization, and amortization of deferred compensation.

EBITDA, as adjusted, represents EBITDA as set forth above, less gains on debt restructurings, the costs associated with our proposed public offering that we terminated in October 2004 and less certain restructuring charges in connection with abandoning leased office space in Paris. We have excluded these expenses from EBITDA, as adjusted, because management believes that such expenses were non-recurring. We have excluded the gains on debt restructurings because they relate to our capital structure and these transactions were not related to our on-going operations. We use EBITDA, as adjusted, in comparing our operating performance from period to period and we believe it is a useful measure of our ability to service debt, fund capital expenditures, expand our business and make bonus determinations for our employees. We also believe EBITDA is a useful measure in comparing performance data of companies in our industry because it reduces performance differences caused by variations in capital structures (which affects interest expense), taxation, and the age and book depreciation of facilities and equipment (which affect relative depreciation expense), all of which may vary among different companies for reasons unrelated to operating performance. We also believe that EBITDA is a frequently used measure by securities analysts, investors, and other interested parties in their evaluation of issuers.

EBITDA is not a recognized term under generally accepted accounting principles in the United States, or GAAP, and accordingly, should not be viewed in isolation or as a substitute for the analysis of results as reported under GAAP, but rather as a supplemental measure to GAAP. For example, EBITDA is not intended to reflect our free cash flow, as it does not consider certain current or future cash requirements, such as capital expenditures, contractual commitments, changes in working capital needs, interest expenses and debt service requirements. Our calculations of EBITDA and EBITDA, as adjusted, may also differ from the calculation of EBITDA and EBITDA, as adjusted, by our competitors and other companies and as such, its utility as a comparative measure is limited.

Our EBITDA and EBITDA, as adjusted, are calculated in the table below. Estimates for EBITDA and EBITDA, as adjusted, for 2005 are based on the midpoints of our estimated ranges described above.

	Year Ended December 31,			Three Months Ended March 31,	
	2003 Audited	**2004**	**2005**	**2004**	**2005**
		Unaudited			
		(Estimated)			(Estimated)
			(in thousands)		
Net service revenue	$ 59,422	$ 91,200	$ 145,000	$ 20,945	$ 33,500
EBITDA (including debt restructuring gains):					
Net income (loss)	140,743	(89,500)	(66,400)	(24,170)	(20,450)
Add Back:					
Interest expense, net	18,264	11,000	11,900	2,231	4,300
Depreciation and amortization	48,387	55,000	55,100	14,536	13,800
Amortization of deferred compensation	18,675	12,300	11,900	3,032	3,000
EBITDA (including debt restructuring gains)	226,069	(11,200)	12,500	(4,371)	650
Terminated public offering costs		800			
Restructuring charges		1,800			
Gains debt restructurings	(240,234)	(4,000)			
EBITDA, as adjusted	$ (14,165)	$ (12,600)	$ 12,500	$ (4,371)	$ 650

The estimates set forth above were prepared by our management and rely upon a number of assumptions, estimates, expectations and business decisions that are inherently subject to changing economic conditions and competitive uncertainties and contingencies, many of which are beyond our control. You should understand that important factors, including those discussed elsewhere in this prospectus, could cause our actual results to differ from our estimates and those differences may be material. Our estimated results assume, among other things, that the trends reflected in our results of operations for the last several periods will continue, that we will realize planned cost savings related to our recent acquisitions, and that there will be no material adverse changes affecting our business or our industry. In addition, our estimates for future periods do not account for the effect of additional acquisitions that we may make in the future, the impact of which could cause our estimates to differ materially from actual results. We do not intend to update or otherwise revise the estimates to reflect future events, unless otherwise required to do so by applicable securities regulations.

The estimates set forth above constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Important factors that could cause our actual results to differ materially from our estimates are discussed in detail in "Risk Factors," and most notably include: failure to achieve expected increases in sales and customer growth; failure to achieve planned cost savings; greater than expected customer churn rates; greater than expected competition, which could result in greater than anticipated market price declines; and higher than expected bad debt expense. For more information relating to these estimates, see "Forward-Looking Statements" and "Risk Factors Information contained herein regarding our results for the quarter and year ended December 31, 2004, and our projected results for the quarter ending March 31, 2005 and the year ending December 31, 2005 is based on our estimates and it may prove inaccurate."

The Equity Conversion and Reverse Stock Split

In February 2005, the holders of our preferred stock elected to convert all of their shares of preferred stock into approximately 631 million shares of our common stock, which we refer to as the equity conversion. As a result of the equity conversion and without regard to the shares to be issued in this offering, we will have approximately 648 million shares of common stock outstanding and no shares of preferred stock outstanding. Additionally, we will implement a 1-for- reverse stock split prior to this offering, pursuant to which the outstanding shares of our common stock will be converted into shares of our common stock. We refer to this as the reverse stock split.

Industry Data

Information contained in this prospectus about our position in our industry is based on market studies published by several independent third parties. These studies indicate that we are ranked among the top ten Internet service providers in the world based on network capacity, IP address control and peering arrangements, ranked sixth in U.S. collocation facility connections and ranked 11th worldwide in autonomous system connections. While we believe that this data is reliable, we have not independently verified the industry data provided by these third party sources.

Company Information

We were incorporated in Delaware in August 1999. In February 2002, in connection with our merger with Allied Riser Communications Corporation, shares of our common stock started public trading on the American Stock Exchange and we became subject to, and commenced reporting under, the Securities Exchange Act of 1934. Our principal executive offices are located at 1015 31st Street N.W., Washington, D.C. 20007. Our telephone number is (202) 295-4200 and our web site address is www.cogentco.com. The information contained, referenced or incorporated in our web site is not a part of this prospectus.

The Offering

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the proceeds that we receive from this offering to repay our $17.0 million of indebtedness to Cisco, to fund the expansion of our sales and marketing efforts, to connect additional buildings to our network and for general corporate purposes, which may include potential acquisitions. See "Use of Proceeds."
American Stock Exchange symbol	"COI"

The number of shares of our common stock that will be outstanding after this offering is based on our shares outstanding as of December 31, 2004 and includes:

- 16,549,748 shares of our common stock outstanding;
- 631,390,999 shares of our common stock issuable as a result of the equity conversion; and
- shares of our common stock to be issued in this offering.

The number of shares of our common stock that will be outstanding after this offering excludes:

- 103,776 shares of our common stock issuable upon exercise of outstanding common stock warrants;
- 21,329 shares of our common stock issuable upon conversion of our $7^1/_2$% Convertible Subordinated Notes Due 2007;
- 21,227,654 shares of our common stock issuable upon the exercise of outstanding stock options issued by us under our stock-based employee compensation plans; and
- 6,294,654 additional shares of our common stock reserved for future grants under our stock-based employee compensation plans.

Unless we specifically state otherwise, all information in this prospectus assumes:

- the underwriters do not exercise their option to purchase up to additional shares.
- the completion of the equity conversion.

Risk Factors

You should carefully read and consider the information set forth in "Risk Factors" and all other information set forth in this prospectus before investing in our common stock.

Summary Consolidated Financial and Other Data

The following summary historical and pro forma financial information should be read in conjunction with "Selected Consolidated Financial and Other Data," "Unaudited Condensed Pro Forma Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical financial statements and other related notes included elsewhere in this prospectus. The period-to-period comparability of our historical results is materially affected by several significant acquisitions. These acquisitions and their effect on our business are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions."

The pro forma statement of operations data and other financial data presented below give effect to the acquisition of Firstmark Communications Participations S.à r.l. as if it had occurred as of January 1, 2003. The Firstmark acquisition was consummated on January 5, 2004. Because the Firstmark results of operations for the period from January 1, 2004 through January 4, 2004 are not material, a pro forma statement of operations for the nine months ended September 30, 2004 is not required to be presented.

	Year Ended December 31,			Pro Forma	Nine Months Ended September 30,	
	2001	2002	2003	Year Ended December 31, 2003	2003	2004
				(unaudited)	(unaudited)	
	(in thousands, except operating data)					
Statement of Operations Data:						
Net service revenue	$ 3,018	$ 51,913	$ 59,422	$ 85,953	$ 44,899	$ 63,068
Operating expenses:						
Network operations	19,990	49,091	47,017	59,910	34,927	43,311
Amortization of deferred compensation cost of network operations	307	233	1,307	1,307	161	633
Selling, general, and administrative	27,322	33,495	26,570	48,719	20,014	28,208
Amortization of deferred compensation selling, general, and administrative	2,958	3,098	17,368	17,368	2,141	8,404
Asset impairment and loss				3,279		
Terminated public offering costs						779
Restructuring charge						1,396
Gain on settlement of vendor litigation		(5,721)				
Depreciation and amortization	13,535	33,990	48,387	55,835	35,006	41,654
Total operating expenses	64,112	114,186	140,649	186,418	92,249	124,385
Operating loss	(61,094)	(62,273)	(81,227)	(100,465)	(47,350)	(61,317)
Gains on debt extinguishment			240,234	345,517	240,234	
Settlement of noteholder litigation		(3,468)				
Interest income (expense) and other, net	(5,819)	(34,545)	(18,264)	(26,493)	(17,304)	(8,119)
(Loss) income before extraordinary item	(66,913)	(100,286)	140,743	218,559	175,580	(69,436)
Extraordinary gain Allied Riser merger		8,443				
Net (loss) income before cumulative effect of accounting change	(66,913)	(91,843)	140,743	218,559	175,580	(69,436)
Cumulative effect on prior years SFAS 143				(289)		
Net (loss) income	(66,913)	(91,843)	140,743	218,270	175,580	(69,436)
Beneficial conversion of preferred stock	(24,168)		(52,000)	(54,575)	(52,000)	(25,483)
Net (loss) income applicable to common stock	$ (91,081)	$ (91,843)	$ 88,743	$ 163,695	$ 123,580	$ (94,919)

				Pro Forma	Nine Months Ended September 30,	
Other Financial Data:						
Capital expenditures	$ 118,020	$ 75,214	$ 24,016		21,068	$ 6,555
Net cash used in operating activities	(46,786)	(41,567)	(27,357)		(23,479)	(21,865)
Net cash (used in) provided by investing activities	(131,652)	(19,786)	(25,316)		$ (26,784)	27,286
Net cash provided by (used in) financing activities	161,862	51,694	20,562		21,455	(4,424)

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	As of and for the Year Ended December 31,			As of and for the Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
				(unaudited)	
Operating Data:					
Percent of revenue on-net	59.7%	31.9%	55.6%	53.8%	65.7%
Percent of revenue off-net	40.3%	40.7%	26.4%	26.9%	22.7%
Percent of revenue non-core		27.4%	18.0%	19.3%	11.6%
On-net customer connections	189	881	1,649	1,424	2,496
On-net buildings	127	511	813	785	961

	September 30, 2004	
	Actual	As Adjusted(1)
	(unaudited) (in thousands)	
Balance Sheet Data:		
Cash and cash equivalents and short-term investments ($601, restricted)	$ 9,397	$ 61,946
Working capital (deficit)	(9,648)	42,901
Property and equipment, net	339,627	339,627
Total assets	373,263	425,812
Capital lease obligations	108,754	108,754
Long term notes payable (net of discount of $5,326)	22,707	4,865
Convertible preferred stock	122,211	
Stockholders' equity	209,780	280,171

(1) The as adjusted balance sheet data presented above gives effect to the equity conversion and to the completion of this offering and the application of proceeds as set forth in "Use of Proceeds" as if each had occurred as of September 30, 2004.

RISK FACTORS

Investing in our common stock involves risk. You should carefully consider the following risks as well as the other information contained in this prospectus, including our financial statements and the related notes, before investing in our common stock. The occurrence of any of the risks identified below could have a material adverse effect on our business, results of operations and financial condition and could cause sharp declines in the price of our common stock.

Risks Related to Our Business

If our operations do not produce positive cash flow to pay for our growth or meet our operating and financing obligations, and we are unable to otherwise raise additional capital to meet these needs, our ability to implement our business plan will be materially and adversely affected.

Until we can generate positive cash flow from our operations, we will continue to rely on our cash reserves and, potentially, additional equity and debt financings to meet our cash needs. Our future capital requirements likely will increase if we acquire or invest in additional businesses, assets, services or technologies and to implement our plans to grow our business. We may also face unforeseen capital requirements for new technology required to remain competitive, for unforeseen maintenance of our network and facilities, and for other unanticipated expenses associated with running our business. We cannot assure you that we will have access to necessary capital, nor can we assure you that any such financing will be available on terms that are acceptable to us or our stockholders. If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result. If we do not add customers, we may be required to raise additional funds through the issuance of debt or equity.

We need to retain existing customers and continue to add new customers in order to become profitable and cash-flow positive.

In order to become profitable and cash flow positive, we need to both retain existing customers and continue to add a large number of new customers. The precise number of additional customers required to become profitable and cash flow positive is dependent on a number of factors, including the turnover of existing customers and the revenue mix among customers. We may not succeed in adding customers if our sales and marketing plan is unsuccessful. In addition, many of our target customers are existing businesses that are already purchasing Internet access services from one or more providers, often under a contractual commitment, and it has been our experience that such target customers are often reluctant to switch providers due to costs associated with switching providers.

We have historically incurred operating losses and these losses may continue for the foreseeable future.

Since we initiated operations in 2000, we have generated increasing operating losses and these losses may continue for the foreseeable future. In 2001, we had an operating loss of $61.1 million, in 2002 we had an operating loss of $62.3 million, in 2003 we had an operating loss of $81.2 million, and during the first nine months of 2004, we had an operating loss of $61.3 million. As of September 30, 2004, we had an accumulated deficit of $123.5 million. Continued losses may prevent us from pursuing our strategies for growth or may require us to seek unplanned additional capital and could cause us to be unable to meet our debt service obligations, capital expenditure requirements or working capital needs.

We are experiencing rapid growth of our business and operations and we may not be able to efficiently manage our growth.

We have rapidly grown our company through acquisitions of companies, assets and customers as well as implementation of our own network expansion and sales efforts. Our expansion places significant strains on our management, operational and financial infrastructure. Our ability to manage our growth will be particularly dependent upon our ability to:

- develop and retain an effective sales force and qualified personnel;
- maintain the quality of our operations and our service offerings;
- enhance our system of internal controls to ensure timely and accurate compliance with our regulatory reporting requirements; and
- expand our accounting and operational information systems in order to support our growth.

We may have to make significant capital expenditures to address these issues, which could negatively impact our financial position. If we fail to implement these measures, our ability to manage our growth will be impaired.

We may experience difficulties in implementing our business plan in Europe and may incur related unexpected costs.

During the first quarter of 2004, we completed our acquisitions of Firstmark, the parent holding company of LambdaNet Communications France SAS, or LambdaNet France, and LambdaNet Communications Espana SA, or LambdaNet Spain, and have obtained the rights to certain dark fiber and other network assets that were once part of Carrier 1 International S.A. in Germany. Prior to these transactions, we had only minimal European operations. If we are not successful in developing our market presence in Europe, our operating results could be adversely affected.

LambdaNet France and LambdaNet Spain operated a combined telecommunications network and shared operations systems with a formerly affiliated entity, LambdaNet Germany. We did not acquire LambdaNet Germany and we are currently separating the operations of LambdaNet Germany from the LambdaNet companies we acquired, which includes settling claims for intercompany receivables due to and from LambdaNet France and LambdaNet Spain. Our failure to efficiently accomplish this task would subject us to additional expenses.

We may experience delays and additional costs in expanding our on-net buildings in Europe.

We plan to add approximately 100 carrier-neutral facilities and other on-net buildings to our network in Europe. We may be unsuccessful at identifying appropriate buildings or negotiating favorable terms for acquiring access to such buildings, and consequently, may experience difficulty in adding customers to our European network and fully using the network's capacity.

We may not successfully make or integrate acquisitions or enter into strategic alliances.

As part of our growth strategy, we intend to pursue selected acquisitions and strategic alliances. We have already completed thirteen acquisitions, including ten in the last two years. We compete with other companies for these opportunities and we cannot assure you that we will be able to effect future acquisitions or strategic alliances on commercially reasonable terms or at all. Even if we enter into these transactions, we may experience:

- delays in realizing the benefits we anticipate or we may not realize the benefits we anticipate;
- difficulties or higher-than-anticipated costs associated with integrating any acquired companies, products or services into our existing business;
- attrition of key personnel from acquired businesses;
- unexpected costs or charges; or

- unforeseen operating difficulties that require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations.

In the past, our acquisitions have often included assets, service offerings and financial obligations that are not compatible with our core business strategy. We have expended management attention and other resources to the divestiture of assets, modification of products and systems as well as restructuring financial obligations of acquired operations. In most acquisitions, we have been successful in renegotiating long-term agreements that we have acquired relating to long distance and local transport of data and IP traffic. If we are unable to satisfactorily renegotiate such agreements in the future or with respect to future acquisitions, we may be exposed to large claims for payment for services and facilities we do not need.

Consummating these transactions could also result in the incurrence of additional debt and related interest expense, as well as unforeseen contingent liabilities, all of which could have a material adverse effect on our business, financial condition and results of operations. Because we have purchased financially distressed companies or their assets, and may continue to do so in the future, we have not had, and may not have, the opportunity to perform extensive due diligence or obtain contractual protections and indemnifications that are customarily provided in corporate acquisitions. As a result, we may face unexpected contingent liabilities arising from these acquisitions. We may also issue additional equity in connection with these transactions, which would dilute our existing shareholders.

Revenues generated by the customer contracts that we have acquired have accounted for a substantial portion of our historical growth in net service revenue. However, in connection with each of our acquisitions in which we have acquired customer contracts, some portion of these customers have elected not to continue purchasing services from us. Accordingly, historical operating results from the acquired businesses or assets have not been indicative of our combined results as we have experienced, and expect to continue to experience, material erosion of revenue from these sources.

We depend upon our key employees and may be unable to attract or retain sufficient qualified personnel.

Our future performance depends upon the continued contribution of our executive management team and other key employees, in particular, our Chairman and Chief Executive Officer, Dave Schaeffer. As founder of our company, Mr. Schaeffer's knowledge of our business combined with his engineering background and industry experience make him particularly well-suited to lead our company.

Our European operations expose us to economic, regulatory and other risks.

The nature of our European business involves a number of risks, including:

- fluctuations in currency exchange rates;
- exposure to additional regulatory requirements, including import restrictions and controls, exchange controls, tariffs and other trade barriers;
- difficulties in staffing and managing our foreign operations;
- changes in political and economic conditions; and
- exposure to additional and potentially adverse tax regimes.

As we continue to expand our European business, our success will depend, in part, on our ability to anticipate and effectively manage these and other risks. Our failure to manage these risks and grow our European operations may have a material adverse effect on our business and results of operations.

Fluctuations in foreign exchange rates may adversely affect our financial position and results of operations.

Our European operations expose us to currency fluctuations and exchange rate risk. For example, while we record revenues and financial results from our European operations in euros, these results are reflected in our consolidated financial statements in U.S. dollars. Therefore, our reported results are exposed to fluctuations in the exchange rates between the U.S. dollar and the euro. In particular, we fund the euro-based operating expenses and associated cash flow requirements of our European operations, including IRU obligations, in U.S. dollars. Accordingly, in the event that the euro strengthens versus the dollar to a greater extent than we anticipate, the expenses and cash flow requirements associated with our European operations may be significantly higher in U.S.-dollar terms than planned.

Our business could suffer delays and problems due to the actions of network providers on whom we are partially dependent.

Our off-net customers are connected to our network by means of communications lines that are provided as services by local telephone companies and others. We may experience problems with the installation, maintenance and pricing of these lines and other communications links, which could adversely affect our results of operations and our plans to add additional customers to our network using such services. We have historically experienced installation and maintenance delays when the network provider is devoting resources to other services, such as traditional telephony. We have also experienced pricing problems when a lack of alternatives allows a provider to charge high prices for services in an area. We attempt to reduce this problem by using many different providers so that we have alternatives for linking a customer to our network. Competition among the providers tends to improve installation, maintenance and pricing.

If the information systems that we depend on to support our customers, network operations, sales and billing do not perform as expected, our operations and our financial results may be adversely affected.

We rely on complex information systems to operate our network and support our other business functions. Our ability to track sales leads, close sales opportunities, provision services and bill our customers for those services depends upon the effective integration of our various information systems. If our systems, individually or collectively, fail or do not perform as expected, our ability to process and provision orders, to make timely payments to vendors and to ensure that we collect revenue owed to us would be adversely affected. Migration of acquired operations onto our information systems is an ongoing process that we have been able to manage with minimal negative impact on our operations or customers. However, due to the greater variance between non-U.S. information systems and our primary systems, the integration of our new European operations could increase the likelihood that these systems do not perform as desired. Such failures or delays could result in increased capital expenditures, customer and vendor dissatisfaction, loss of business or the inability to add new customers or additional services, all of which would adversely affect our business and results of operations.

Our business could suffer from an interruption of service from our fiber providers.

Our intercity and intracity dark fiber is maintained by the carriers from whom it has been obtained. While we have not experienced material problems with interruption of service in the past, if these carriers fail to maintain the fiber or disrupt our fiber connections for other reasons, such as business disputes with us or governmental takings, our ability to provide service in the affected markets or parts of markets would be impaired. We may incur significant delays and costs in restoring service to our customers, and we may lose customers if delays are substantial.

Our business depends on license agreements with building owners and managers, which we could fail to obtain or maintain.

Our business depends upon our in-building networks. Our in-building networks depend on access agreements with building owners or managers allowing us to install our in-building networks and provide our services in the buildings. These agreements typically have terms of five to ten years. Any deterioration in our existing relationships with building owners or managers could harm our marketing efforts and could substantially reduce our potential customer base. We expect to enter into additional access agreements as part of our growth plan. Current federal and state regulations do not require building owners to make space available to us or to do so on terms that are reasonable or nondiscriminatory. While the FCC has adopted regulations that prohibit common carriers under its jurisdiction from entering into exclusive arrangements with owners of multi-tenant commercial office buildings, these regulations do not require building owners to offer us access to their buildings. Building owners or managers may decide not to permit us to install our networks in their buildings or may elect not to renew or amend our access agreements. The initial term of most of our access agreements will conclude in the next several years. Most of these agreements have one or more automatic renewal periods and others may be renewed at the option of the landlord. While no single building access agreement is material to our success, the failure to obtain or maintain certain of these agreements would reduce our revenue, and we might not recover our costs of procuring building access and installing our in-building networks.

We may not be able to obtain or construct additional building laterals to connect new buildings to our network.

In order to connect a new building to our network we need to obtain or construct a lateral from our metropolitan network to the building. We may not be able to obtain fiber in an existing lateral at an attractive price from a provider and may not be able to construct our own lateral due to the cost of construction or municipal regulatory restrictions. Failure to obtain fiber in an existing lateral or to construct a new lateral could keep us from adding new buildings to our network and from increasing our revenues.

Impairment of our intellectual property rights and our alleged infringement on other companies' intellectual property rights could harm our business.

We are aware of several other companies in our and other industries that use the word "Cogent" in their corporate names. One company has informed us that it believes our use of the name "Cogent" infringes on their intellectual property rights in that name. If such a challenge is successful, we could be required to change our name and lose the goodwill associated with the Cogent name in our markets.

The sector in which we operate is highly competitive, and we may not be able to compete effectively.

We face significant competition from incumbent carriers, Internet service providers and facilities-based network operators. Relative to us, many of these providers have significantly greater financial resources, more well-established brand names, larger customer bases, and more diverse strategic plans and service offerings.

Intense competition from these traditional and new communications companies has led to declining prices and margins for many communications services, and we expect this trend to continue as competition intensifies in the future. Decreasing prices for high-speed Internet services have somewhat diminished the competitive advantage that we have enjoyed as a result of our service pricing.

Our quarterly operating results are subject to substantial fluctuations and you should not rely on them as an indication of our future results.

In the past our quarterly operating results have fluctuated dramatically based largely on one-time events, such as acquisitions, gains from debt restructurings, other initiatives and the erosion of non-core revenues. Some of these fluctuations were predictable, but some were unforeseen. During the seven quarters ended September 30, 2004, our net service revenues, operating loss and net income (loss) varied significantly as illustrated in the following table.

	Three Months Ended						
Operating Measure	**March 31, 2003**	**June 30, 2003**	**September 30, 2003**	**December 31, 2003**	**March 31, 2004**	**June 30, 2004**	**September 30, 2004**
Net service revenue	$ 14,233	$ 15,519	$ 15,148	$ 14,522	$ 20,945	$ 20,387	$ 21,736
Operating loss	$ (14,880)	$ (16,568)	$ (15,901)	$ (33,878)	$ (21,939)	$ (19,218)	$ (20,160)
Net income (loss)	$ 1,914	$ (22,796)	$ 196,462	$ (34,837)	$ (24,170)	$ (22,225)	$ (23,041)

The factors that have caused, and that may in the future cause, such quarterly variances are numerous and may work in combination to cause such variances. These factors include:

- demand for our services;
- the impact of acquisitions, including the ability to achieve planned cost reductions;
- our ability to meet the demand for our services;
- changes in pricing policies by us and our competitors;
- increased competition;
- network outages or failures;
- erosion of non-core revenues;
- delays, reductions or interruptions from suppliers; and
- changes in the North American or European economy.

Many of these factors are beyond our control. Accordingly, our quarterly operating results may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful and should not be relied upon as indicators of our full year performance or future performance. Our share price may be subject to greater volatility due to these fluctuations in our operating results.

Information contained herein regarding our results for the quarter and year ended December 31, 2004, and our projected results for the quarter ending March 31, 2005 and the year ending December 31, 2005 is based on our estimates and it may prove inaccurate.

The financial information for the quarter and year ended December 31, 2004, the quarter ending March 31, 2005 and the year ending December 31, 2005 set forth in "Summary Recent Developments and Estimated Results of Operations" is based upon our assumptions and estimates. While we believe these assumptions and estimates to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. You should understand that important factors, including those discussed elsewhere in this prospectus, could cause our actual results to differ from our expectations and those differences may be material. No independent expert participated in the preparation of the estimates. The estimates should not be regarded as a representation by us as to our results of operations during such periods as there can be no assurance that any of the estimates will be realized. In light of the foregoing, we caution you not to place undue reliance on the estimates. The estimates constitute forward-looking statements. See "Forward-Looking Statements."

Our connections to the Internet require us to establish and maintain relationships with other providers, which we may not be able to maintain.

The Internet is composed of various public and private network providers who operate their own networks and interconnect them at public and private interconnection points. Our network is one such network. In order to obtain Internet connectivity for our network, we must establish and maintain relationships with other providers and incur the necessary capital costs to locate our equipment and connect our network at these various interconnection points.

By entering into what are known as settlement-free peering arrangements, providers agree to exchange traffic between their respective networks without charging each other. Our ability to avoid the higher costs of acquiring dedicated network capacity and to maintain high network performance is dependent upon our ability to establish and maintain peering relationships. We cannot assure you that we will be able to continue to establish and maintain those relationships. The terms and conditions of our peering relationships may also be subject to adverse changes, which we may not be able to control. If we are not able to maintain or increase our peering relationships in all of our markets on favorable terms, we may not be able to provide our customers with high performance or affordable services, which could have a material adverse effect on our business.

We make some of these connections pursuant to agreements that make data transmission capacity available to us at negotiated rates. In some instances these agreements have minimum and maximum volume commitments. If we fail to meet the minimum, or exceed the maximum, volume commitments, our rates and costs may rise.

Network failure or delays and errors in transmissions expose us to potential liability.

Our network uses a collection of communications equipment, software, operating protocols and proprietary applications for the high-speed transportation of large quantities of data among multiple locations. Given the complexity of our network, it is possible that data will be lost or distorted. Delays in data delivery may cause significant losses to one or more customers using our network. Our network may also contain undetected design faults and software bugs that, despite our testing, may not be discovered in time to prevent harm to our network or to the data transmitted over it. The failure of any equipment or facility on the network could result in the interruption of customer service until we effect necessary repairs or install replacement equipment. Network failures, delays and errors could also result from natural disasters, power losses, security breaches, computer viruses, denial of service attacks and other natural or man-made events. Our off-net services are dependent on the network of other providers or on local telephone companies. Network failures, faults or errors could cause delays or service interruptions, expose us to customer liability or require expensive modifications that could have a material adverse effect on our business.

As an Internet access provider, we may incur liability for information disseminated through our network.

The law relating to the liability of Internet access providers and on-line services companies for information carried on or disseminated through their networks is unsettled. As the law in this area develops and as we expand our international operations, the potential imposition of liability upon us for information carried on and disseminated through our network could require us to implement measures to reduce our exposure to such liability, which may require the expenditure of substantial resources or the discontinuation of certain products or service offerings. Any costs that are incurred as a result of such measures or the imposition of liability could harm our business.

Our relationship with LNG Holdings may expose us to its liabilities and claims by its minority shareholders.

Our acquisition of Firstmark was accomplished in a series of transactions that, in one particular step, involved the purchase of approximately 90% of the equity of Firstmark's parent company, LNG Holdings, by an entity owned and controlled by our Chief Executive Officer, Dave Schaeffer. Mr. Schaeffer continues to hold this equity interest in LNG Holdings. Additionally, in connection with the acquisition, we agreed to indemnify LNG Holdings' former stockholders against certain claims. Although we do not anticipate that any material liabilities affecting us could arise either through Mr. Schaeffer's role in the transaction or his continued ownership of LNG Holdings, our transactions with LNG Holdings, or through our indemnification of the former LNG Holdings stockholders, we cannot assure you that any liabilities that might arise would not have a material adverse affect on our business, results of operations and financial condition.

Legislation and government regulation could adversely affect us.

As an enhanced service provider, we are not subject to substantial regulation by the FCC or the state public utilities commissions in the United States. Internet service is also subject to minimal regulation in Europe and in Canada. If we decide to offer traditional voice services or otherwise expand our service offerings to include services that would cause us to be deemed a common carrier, we will become subject to additional regulation. Additionally, if we offer voice service using IP (voice over IP) or offer certain other types of data services using IP we may become subject to additional regulation. This regulation could impact our business because of the costs and time required to obtain necessary authorizations, the additional taxes than we may become subject to or may have to collect from our customers, and the additional administrative costs of providing voice services, and other costs. All of these could inhibit our ability to remain a low cost carrier.

Much of the law related to the liability of Internet service providers remains unsettled. For example, many jurisdictions have adopted laws related to unsolicited commercial email or "spam" in the last several years. Other legal issues, such as the sharing of copyrighted information, transborder data flow, universal service, and liability for software viruses could become subjects of additional legislation and legal development. We cannot predict the impact of these changes on us. Regulatory changes could have a material adverse effect on our business, financial condition or results of operations.

Recent terrorist activity throughout the world and military action to counter terrorism could adversely impact our business.

The September 11, 2001 terrorist attacks in the United States and the continued threat of terrorist activity and other acts of war or hostility have had, and may continue to have, an adverse effect on business, financial and general economic conditions internationally. Effects from these events and any future terrorist activity, including cyber terrorism, may, in turn, increase our costs due to the need to provide enhanced security, which would adversely affect our business and results of operations. These circumstances may also damage or destroy the Internet infrastructure and may adversely affect our ability to attract and retain customers, our ability to raise capital and the operation and maintenance of our network access points. We are particularly vulnerable to acts of terrorism because our largest customer concentration is located in New York and we are headquartered in Washington, D.C., cities that have historically been primary targets for such terrorist attacks.

Risks Related to Our Common Stock and this Offering

We cannot assure you that an active trading market will develop for our stock.

The portion of our common stock that is currently publicly traded on the American Stock Exchange represents less than 3.0% of our issued and outstanding capital stock on a fully diluted basis.

Additionally, since shares of our common stock started trading on the American Stock Exchange in February 2002, trading volume in shares of our common stock has remained relatively low with an average daily volume since January 1, 2003 of less than 55,000 shares. While this offering will greatly increase the number of our shares of common stock that are publicly tradable, we cannot assure you that an active public market for our common stock will develop or be sustained after this offering. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you or at all.

You will incur immediate and substantial dilution.

The public offering price of our common stock will be substantially higher than the net tangible book value per share of our outstanding common stock. Accordingly, if you purchase common stock in this offering, you will suffer immediate and substantial dilution of your investment. Based upon the issuance and sale of million shares of common stock by us at an assumed offering price of $ per share, you will incur immediate dilution of approximately $ in the net tangible book value per share.

After the offering, our affiliates will continue to hold a sufficient number of shares of our common stock to control all matters requiring a stockholder vote and, as a result, could prevent or delay any strategic transaction.

After the offering, our executive officers, certain entities affiliated with members of our board of directors, our existing greater-than-five-percent stockholders and their affiliates will in the aggregate beneficially own approximately % of our common stock, which is sufficient to decide the outcome of all matters requiring a stockholder vote, including director elections, amendments to our certificate of incorporation and bylaws, mergers and other significant corporate transactions. The concentration of our stock ownership could have the effect of preventing or delaying a change of control, which in turn could negatively impact the market price of our common stock and prevent our stockholders from realizing a takeover premium over the market price for their shares of common stock.

Future sales of shares of our common stock by existing stockholders in the public market, or the possibility or perception of such future sales, could adversely affect the market price of our stock.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for you to sell your shares of common stock at a time and at a price which you deem appropriate.

As of December 31, 2004, there were 16,549,748 shares of our common stock outstanding. The million shares of common stock sold in this offering (million shares if the underwriters exercise their option to purchase additional shares in full) will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended, by persons other than our affiliates within the meaning of Rule 144 under the Securities Act.

Following this offering, our executive officers, directors and persons who purchased our preferred shares, will own million shares of our common stock, or shares if the underwriters exercise their option to purchase additional shares in full. Each of these persons will be able to sell shares in the public market from time to time, subject to certain limitations on the timing, amount and method of those sales imposed by SEC regulations. These persons and the underwriters have agreed to a "lock-up" period, meaning that they may not sell any of their shares after the offering without the prior consent of Lehman Brothers Inc. for at least 180 days after the date of this prospectus, with ten percent of the shares being released from lock-up on such date and an additional percentage of shares being released each 90 days thereafter as follows, until all shares are released: 15 percent after 270 days, 20 percent after 360 days, 25 percent after 450 days and 30 percent after 540 days. These affiliates also have the right to cause us to register the sale of shares of common stock that they own and to include such shares in future registration statements relating to our securities. If these affiliates were to sell a large number of their shares, the market price of our stock could decline significantly. In addition, the perception in the public markets that sales by these affiliates might occur could also adversely affect the market price of our common stock.

Although there is no present intention or arrangement to do so, all or any portion of the shares may be released from the restrictions in the lock-up agreements and those shares would then be available for resale in the market. Any release would be considered on a case-by-case basis.

Recently enacted and proposed changes in securities laws are likely to increase our costs.

The Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC, have required changes in some of our corporate governance and accounting practices. We expect these laws, rules and regulations to increase our legal and financial compliance costs and to make some activities more difficult, time consuming and costly. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur significantly higher costs to obtain coverage. These new laws, rules and regulations could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

The market price of our common stock may be volatile, which could cause the value of your investment to decline.

Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly. You may be unable to resell your shares of our common stock at or above the public offering price.

Because we do not intend to pay dividends, stockholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, to finance the further expansion and continued growth of our business and do not expect to pay any cash dividends in the foreseeable future. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

We may apply the net proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

Our board and management will have considerable discretion in the application of the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess how the proceeds will be used. The net proceeds may be used for corporate purposes that do not improve our operating results or market value, and you will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

Our reported financial results may be adversely affected by changes in U.S. GAAP.

We prepare our financial statements in conformity with U.S. GAAP which is subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.

Arthur Andersen LLP, the auditor for our audited financial statements for the year ended December 31, 2001 and for the audited financial statements of our subsidiary Allied Riser for the years ended 1999, 2000 and 2001 that are included in this prospectus, has been found guilty of federal obstruction of justice charges and you are unlikely to be able to exercise effective remedies against them in any legal action.

On June 15, 2002, a jury in Houston, Texas found our former independent public accountant, Arthur Andersen LLP, guilty of federal obstruction of justice charges arising from the federal government's investigation of Enron Corp. As a result, Arthur Andersen has ceased practicing before the SEC and substantially all of Arthur Andersen's personnel have left the firm, including the individuals responsible for auditing our financial statements for the year ended December 31, 2001 and the audited financial statements of our subsidiary Allied Riser for the years ended December 31, 1999, 2000 and 2001 that are included in this prospectus. Arthur Andersen was our independent auditor for the years ended 1999 through 2001, and Allied Riser's independent auditor for the years ended 1996 through 2001. However, on July 10, 2002, we dismissed Arthur Andersen and appointed Ernst & Young LLP as our independent registered public accounting firm. Arthur Andersen is currently in the process of liquidating its assets. The ability of Arthur Andersen to satisfy any judgments obtained against them is in great doubt and, therefore, you are unlikely to be able to exercise effective remedies or collect judgments against them.

Moreover, as a public company, we are required to file with the SEC financial statements audited or reviewed by an independent public accountant. The SEC issued a statement that it will continue to accept financial statements audited by Arthur Andersen on an interim basis if Arthur Andersen is able to make certain representations to its clients concerning audit quality controls. Arthur Andersen has made such representations to us in the past. However, for the reasons noted above, Arthur Andersen will be unable to make these representations in the future or to provide other information or documents that would customarily be received by us or the underwriters in connection with this offering, including consents and "comfort letters." In addition, Arthur Andersen will be unable to perform procedures to assure the continued accuracy of its report on our audited financial statements included in this prospectus. Arthur Andersen will be unable to provide such information and documents and perform such procedures in future financings and other transactions. As a result, we may encounter delays, additional expense and other difficulties in this offering, future financings or other transactions.

In reliance on Rule 437a under the Securities Act, we have not filed a written consent of Arthur Andersen to the inclusion in this prospectus of their reports regarding our financial statements for the year ended December 31, 2001 nor the financial statements of Allied Riser for the years ended December 31, 1999, 2000 and 2001. Because we have not filed the written consent of Arthur Andersen with respect to the inclusion of their reports in this prospectus, you may not be able to recover against Arthur Andersen under Section 1 of the Securities Act for any untrue statements of material fact contained in the financial statements audited by Arthur Andersen or any omissions to state a material fact required to be stated therein.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act relating to our operations that are based on current estimates, expectations and projections. Words such as "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," and "anticipates" are used to identify many of these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and assumptions that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. The reasons for this include changes in general economic conditions or the factors described under "Risk Factors."

SPECIAL NOTE REGARDING ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act provides that if any part of a registration statement at the time it becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement or as having prepared or certified any report or valuation which is used in connection with the registration statement with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

Arthur Andersen LLP audited our financial statements for the period from August 9, 1999 to December 31, 1999 and the years ended December 31, 2000 and 2001 and the financial statements of our subsidiary Allied Riser for the years ended December 31, 1999, 2000 and 2001. Prior to the date of this prospectus, the Arthur Andersen partners who audited those financial statements resigned from Arthur Andersen. As a result, after reasonable efforts, we have been unable to obtain Arthur Andersen's written consent to the inclusion in this registration statement of its audit reports with respect to our financial statements for the year ended December 31, 2001 and to the financial statements of Allied Riser for the years ended December 31, 1999, 2000 and 2001. Under these circumstances, Rule 437a under the Securities Act permits us to file this registration statement without written consents from Arthur Andersen. Accordingly, Arthur Andersen may not be liable to you under Section 11(a) of the Securities Act because it has not consented to being named as an expert in the registration statement.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $69.5 million, after deducting underwriting discounts and commissions and other estimated expenses of $5.5 million payable by us. We will not receive any of the proceeds from the sale of shares by the selling stockholders, if any, pursuant to the underwriters' option to purchase additional shares. We will use a portion of the net proceeds of this offering to repay all of our Cisco indebtedness, which was $17.0 million as of September 30, 2004. When the indebtedness under the Amended and Restated Cisco Note begins to accrue interest in 2006, interest accrues at the 90-day LIBOR rate plus 4.5% until maturity on February 1, 2008.

We intend to use the remaining $52.5 million of net proceeds that we receive from this offering to fund the expansion of our sales and marketing efforts, to connect additional buildings to our network, primarily in Europe, and for general corporate purposes, which may include potential acquisitions of complementary businesses.

COMMON STOCK PRICE RANGE

Our common stock is currently traded on the American Stock Exchange under the symbol "COI." Prior to February 5, 2002, no established public trading market for our common stock existed.

The table below shows, for the quarters indicated, the reported high and low trading prices of our common stock on the American Stock Exchange. The trading prices presented below have not been adjusted to give effect to the reverse stock split.

	Year Ended December 31,							
	2002		2003		2004		2005(1)	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$ 5.05	$ 2.70	$ 0.94	$ 0.40	$ 2.74	$ 1.10	$ 1.10	$ 0.60
Second Quarter	3.20	1.30	3.23	0.32	2.19	0.27		
Third Quarter	1.43	0.95	2.39	0.80	0.40	0.23		
Fourth Quarter	1.39	0.27	1.98	0.95	2.00	0.28		

(1) Represents high and low through February 11, 2005.

The last reported sale price of our common stock on the American Stock Exchange on February 11, 2005 was $0.72 per share.

DIVIDEND POLICY

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then-existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2004:

- on an actual basis; and
- on an as adjusted basis, to give effect to the equity conversion and the application of the net proceeds of this offering as described in "Use of Proceeds" as if each had occurred on September 30, 2004.

You should read this table in conjunction with our unaudited condensed consolidated financial statements and the related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds" included elsewhere in this prospectus.

	As of September 30, 2004	
	Actual	**As Adjusted(1)**
	(unaudited and in thousands)	
Cash, cash equivalents and short-term investments (includes $601 restricted)	$ 9,397	$ 61,946
Debt (including current maturities):		
Amended and Restated Cisco Note	$ 17,842	$
Capital lease obligations	108,754	108,754
$7^{1}/_{2}$% Convertible Subordinated Notes Due 2007 (net of discount of $5,326)	4,865	4,865
Total debt	131,461	113,619
Stockholders' equity:		
Common stock, par value $0.001 per share; 600,000,000 shares authorized; 16,338,992 shares outstanding; shares authorized and outstanding as adjusted	16	
Series F participating convertible preferred stock, par value $.001 per share; 11,000 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	10,904	
Series G participating convertible preferred stock, par value $.001 per share; 41,030 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	40,787	
Series H participating convertible preferred stock, par value $.001 per share; 84,001 shares authorized; 46,499 shares issued and outstanding; no shares authorized, issued and outstanding as adjusted	45,039	
Series I participating convertible preferred stock, par value $.001 per share; 3,000 shares authorized 2,575 shares issued and outstanding; no shares authorized, issued and outstanding as adjusted	2,545	
Series J participating convertible preferred stock, par value $.001 per share; 3,891 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	19,421	
Series K participating convertible preferred stock, par value $.001 per share; 2,600 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	2,588	
Series L participating convertible preferred stock, par value $.001 per share; 185.4 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	927	
Additional paid-in capital	236,179	
Deferred compensation	(26,412)	(26,412)
Stock purchase warrants	764	764
Accumulated other comprehensive income	572	572
Treasury stock, 1,229,235 shares	(90)	(90)
Accumulated deficit	(123,460)	(122,618)
Total stockholders' equity	209,780	280,171

	As of September 30, 2004	
Total capitalization	$ 341,241	$ 393,790

(1) Excludes:

114,709,492 shares of common stock that will be issued upon the conversion of our Series M preferred stock into common stock at the time of the equity conversion;

options to acquire 121,500 shares of common stock at a weighted-average exercise price of $0.45 per share;

options to acquire shares of our Series H preferred stock that at the time of the equity conversion will convert into options to acquire an aggregate of 21,106,154 shares of common stock at a weighted-average exercise price of $0.11 per share;

shares of our Series H preferred stock available for issuance as restricted stock grants or as stock options that will convert into 4,926,154 shares of common stock at the time of the equity conversion;

103,776 shares of common stock issuable upon exercise of outstanding common stock warrants; and

and 21,329 shares of our common stock issuable upon conversion of our $7^1/_2$% Convertible Subordinated Notes Due 2007.

DILUTION

Dilution is the amount by which the offering price paid by the purchasers of the common stock to be sold in this offering exceeds the net tangible book value per share of common stock after this offering. The net tangible book value per share is determined at any date by subtracting our total liabilities from the total book value of our tangible assets (total assets less intangible assets) and dividing the difference by the number of shares of our common stock outstanding at that date.

Our pro forma net tangible book value as of September 30, 2004 was $206.7 million, or $0.39 per share. Our pro forma net tangible book value as of September 30, 2004 gives effect to the equity conversion. After giving effect to the receipt of approximately $69.5 million of estimated net proceeds from our sale of million shares of common stock in this offering at an assumed offering price of $ per share, our pro forma as adjusted net tangible book value as of September 30, 2004 would have been approximately $277.1 million, or $ per share. This represents an immediate increase in net tangible book value of $ per share to existing shareholders and an immediate dilution of $ per share to new investors purchasing shares of our common stock in this offering. The following table illustrates this substantial and immediate per share dilution to new investors:

	Per Share	
Assumed offering price per share		$
Pro forma net tangible book value before the offering	$	0.39
Increase per share attributable to investors in the offering		
Pro forma as adjusted net tangible book value after the offering		
Dilution per share to new investors		$

The following table gives effect to the equity conversion and summarizes on a pro forma as adjusted basis as of September 30, 2004:

- the total number of shares of common stock purchased from us;
- the total consideration paid to us; and
- the average price per share paid by our stockholders prior to this offering and by those purchasing shares in this offering.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
			(in thousands)		
Pre-offering stockholders	16,338,992		$ 199,177	56.6%	$ 12.19
Converting preferred stockholders	517,344,578		77,586	22.1%	0.15
Investors in the offering			75,000	21.3%	
Total		100.0%	$ 351,763	100.0%	$

The tables and calculations above exclude:

- 114,709,492 shares of common stock that will be issued upon the conversion of our Series M preferred stock into common stock at the time of the equity conversion;

options to acquire 121,500 shares of common stock at a weighted-average exercise price of $0.45 per share;

options to acquire shares of our Series H preferred stock that at the time of the equity conversion will convert into options to acquire an aggregate of 21,106,154 shares of common stock at a weighted-average exercise price of $0.11 per share;

shares of our Series H preferred stock available for issuance as restricted stock grants or as stock options that will convert into 4,926,154 shares of common stock at the time of the equity conversion;

103,776 shares of common stock issuable upon exercise of outstanding common stock warrants;

and 21,329 shares of our common stock issuable upon conversion of our $7^{1}/_{2}$% Convertible Subordinated Notes Due 2007.

UNAUDITED CONDENSED PRO FORMA FINANCIAL STATEMENTS

The following unaudited condensed pro forma financial statements ("the pro forma financial statements") and explanatory notes have been prepared to give effect to the following transactions: (1) our acquisition of Firstmark on January 5, 2004, (2) the equity conversion, (3) the receipt of estimated net proceeds of $69.5 million from our sale of common stock in this offering and (4) the repayment of $17.0 million of our indebtedness under the Amended and Restated Cisco Note with a part of the proceeds from this offering. The pro forma balance sheet as of September 30, 2004, assumes that each of these transactions except for the Firstmark acquisition occurred on September 30, 2004. The impact of the Firstmark acquisition is already reflected in our historical September 30, 2004 condensed consolidated balance sheet. The pro forma statement of operations assumes that each of these transactions occurred on January 1, 2003. Because Firstmark's results for the period from January 1, 2004 to January 4, 2004 are not material and Firstmark's results are combined with our results from the acquisition date, a pro forma statement of operations for the nine months ended September 30, 2004 is not required to be presented.

The following pro forma financial statements have been prepared based upon our historical financial statements and those of Firstmark. The pro forma financial statements should be read in conjunction with our historical consolidated financial statements as of December 31, 2002 and 2003 and as of September 30, 2004 and, for the years ended December 31, 2001, 2002 and 2003 and the three and nine months ended September 30, 2003 and September 30, 2004, and the historical consolidated financial statements and related notes thereto of Firstmark for the years ended December 31, 2002 and 2003, included in this prospectus.

The pro forma financial statements are provided for illustrative purposes only and are not necessarily indicative of the operating results or financial position that would have occurred if these transactions had been consummated at the beginning of the period or on the date indicated, nor are they necessarily indicative of any future operating results or financial position. Management believes that the pro forma adjustments are reasonable.

Unaudited Condensed Pro Forma As Adjusted Balance Sheet
As of September 30, 2004
(dollars in thousands)

	Cogent Historical	Equity Conversion and Offering Adjustments	Cogent Pro Forma As Adjusted
Assets			
Current assets:			
Cash and cash equivalents	$ 8,796	$ 69,549 (a)	$ 61,345
		(17,000)(b)	
Short-term investments, $601 restricted	601		601
Accounts receivable, net of allowance for doubtful accounts of $3,408	10,582		10,582
Accounts receivable, related party	1,709		1,709
Prepaid expenses and other current assets	3,952		3,952
Total current assets	25,640	52,549	78,189
Property and equipment, net	339,627		339,627
Intangible assets, net	3,047		3,047
Other assets ($1,564 restricted)	4,949		4,949
Total assets	$ 373,263	$ 52,549	$ 425,812
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 13,014		$ 13,014
Accounts payable related party	1,409		1,409
Accrued liabilities	15,066		15,066
Current maturities of capital lease obligations	5,799		5,799
Total current liabilities	35,288		35,288
Long-term liabilities:			
Capital lease obligations, net of current maturities	102,955		102,955
Amended and Restated Cisco Note	17,842	(17,842)(b)	
Convertible notes, net of discount of $5,326	4,865		4,865
Other long term liabilities	2,533		2,533
Total liabilities	163,483	(17,842)	145,641
Stockholders' equity:			
Convertible preferred stock, Series F	10,904	(10,904)(c)	
Convertible preferred stock, Series G	40,787	(40,787)(c)	
Convertible preferred stock, Series H	45,039	(45,039)(c)	
Convertible preferred stock, Series I	2,545	(2,545)(c)	
Convertible preferred stock, Series J	19,421	(19,421)(c)	
Convertible preferred stock, Series K	2,588	(2,588)(c)	
Convertible preferred stock, Series L	927	(927)(c)	
Common stock	16	(a)	
		(c)	
Additional paid-in capital	236,179	(a)	
		(c)	
Stock purchase warrants	764		764
Deferred compensation	(26,412)		(26,412)
Accumulated other comprehensive income	572		572
Treasury stock	(90)		(90)
Accumulated deficit	(123,460)	842 (b)	(122,618)

	Cogent Historical	Equity Conversion and Offering Adjustments	Cogent Pro Forma As Adjusted
Total stockholders' equity	$ 209,780		280,171
Total liabilities and stockholders' equity	$ 373,263		425,812

Unaudited Condensed Pro Forma Statement of Operations
For the Year Ended December 31, 2003
(in thousands, except share and per share data)

	Historical Cogent	Historical Firstmark	Acquisition Adjustments	Equity Conversion and Offering Adjustments	Pro Forma As Adjusted
Net service revenue	$ 59,422	$ 24,423	$		$ 83,845
Revenue with affiliated companies		2,108			2,108
Total service revenue	59,422	26,531			85,953
Operating expenses:					
Cost of network services, exclusive of amounts shown separately	48,324	5,026			53,350
Cost of revenue from affiliated companies		7,867			7,867
Selling, general & administrative	43,938	22,149			66,087
Impairment and loss on assets		3,279			3,279
Depreciation & amortization	48,387	16,764	(9,316)(d)		55,835
Total operating expenses	140,649	55,085			186,418
Operating loss	(81,227)	(28,554)			(100,465)
Gains on debt extinguishments	240,234	105,283			345,517
Interest expense	(19,776)	(8,309)			(28,085)
Interest income and other	1,512	80			1,592
Net income before cumulative effect of accounting change	140,743	68,500			218,559
Cumulative effect on prior years of applying SFAS 143		(289)			(289)
Net income	$ 140,743	$ 68,211			$ 218,270
Beneficial conversion charge	(52,000)				(52,000)
Net income available to common shareholders	$ 88,743	$ 68,211			$ 166,270
<u>Earnings Per Share</u>					
Basic and diluted net income per common share	$ 0.89				
Beneficial conversion charge	(0.33)				
Basic and diluted net income per common share available to common shareholders	$ 0.56				
				(f)	
Weighted average common shares:					
Basic	158,717,021		15,962,585 (e)	464,455,743 (g)	
				(f)	
Diluted	158,777,953				

Notes to the Unaudited Condensed Pro Forma Financial Statements

(a) Represents the estimated net proceeds of $69.5 million from the sale of million shares of our common stock for $ per share.

(b) Represents the repayment of $17.0 million of our indebtedness to Cisco with a portion of the proceeds from this offering and the resulting gain of $0.8 million. The gain of approximately $0.8 million has not been reflected in our pro forma statement of operations as it is a one time event in connection with the offering.

(c) Represents the impact of the conversion of our Series F, Series G, Series H, Series I, Series J, Series K, and Series L preferred stock into common stock.

(d) Represents the reduction to depreciation and amortization expense of approximately $9.5 million from the allocation of negative goodwill to property and equipment and intangible assets and the increase to amortization expense of $0.2 million from the amortization of acquired intangible assets. Acquired intangibles include customer contracts and will be amortized over their estimated useful lives of two years. The purchase price of Firstmark was approximately $78.9 million which includes the fair value of our Series I preferred stock of $2.6 million and assumed liabilities of $76.3 million. The fair value of assets acquired was approximately $155.5 million which then gave rise to negative goodwill of approximately $76.6 million. Negative goodwill was allocated to long-lived assets, resulting in recorded assets acquired of $78.9 million.

(e) Represents the increase in diluted shares outstanding due to the issuance of the Series I preferred stock. Our Series I preferred stock is convertible into 15,962,585 shares of our common stock.

(f) Represents the impact on our basic and diluted weighted average common shares due to the issuance of shares of our common stock in this offering to the extent that the proceeds are used to retire debt.

(g) Represents the impact of the conversion of our Series F, Series G, Series H, Series J, Series K, Series L and Series M preferred shares into 615,428,414 common shares.

Reflected below is the impact of the equity conversion and the offering to the extent that the proceeds are used to retire debt on our per share net loss for the nine months ended September 30, 2004.

Pro Forma Per-Share Information	**Nine months ended September 30, 2004**
Basic and diluted net loss applicable to common stock	($6.38)
Basic and diluted weighted average common shares outstanding	14,882,754
Pro forma as adjusted basic and diluted net loss per common share	
Pro forma as adjusted basic and diluted weighted average common shares outstanding	

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected historical consolidated financial data for the periods indicated. We derived the selected consolidated financial data presented below as of December 31, 2003 and for each of the four years then ended and the period from August 9, 1999 to December 31, 1999 from our audited consolidated financial statements. We were incorporated on August 9, 1999, accordingly, no financial information prior to August 9, 1999 is available. We derived our consolidated statement of operations data presented below for the years ended December 31, 2003 and 2002, and our balance sheet data as of December 31, 2003 and 2002 from our consolidated financial statements. We derived our consolidated statement of operations data presented below for the years ended December 31, 2001, 2000 and for the period from August 9, 1999 to December 31, 1999 and our balance sheet data as of December 31, 2001, 2000 and 1999 from our consolidated financial statements, which were audited by Arthur Andersen LLP, our independent auditor during those periods. We derived the selected financial data as of and for the nine months ended September 30, 2004 and 2003 from our unaudited interim condensed consolidated financial statements included elsewhere in this prospectus. In our opinion, the unaudited interim condensed consolidated interim financial statements have been prepared on a basis consistent with the audited financial statements and include all adjustments, which are normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the unaudited periods presented.

The period-to-period comparability of our historical results is materially affected by several significant acquisitions. These acquisitions and their effect on our business are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions." Partly as a result of the impact of these acquisitions, our historical results are not necessarily indicative of future operating results. You should read the information set forth below in conjunction with "Unaudited Condensed Pro Forma Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	August 9, 1999 to December 31, 1999	Year Ended December 31,				Nine Months Ended September 30,	
		2000	2001	2002	2003	2003	2004
						(unaudited)	
	(in thousands, except share and per share data)						
Statement of Operations Data:							
Net service revenue	$	$	$ 3,018	$ 51,913	$ 59,422	$ 44,899	$ 63,068
Operating expenses:							
Cost of network operations		3,040	19,990	49,091	47,017	34,927	43,311
Amortization of deferred compensation cost of network operations			307	233	1,307	161	633
Selling, general, and administrative	82	10,845	27,322	33,495	26,570	20,014	28,208
Amortization of deferred compensation selling, general and administrative			2,958	3,098	17,368	2,141	8,404
Terminated public offering costs							779
Restructuring charge							1,396
Gain on settlement of vendor litigation				(5,721)			
Depreciation and amortization		338	13,535	33,990	48,387	35,006	41,654
Total operating expenses	82	14,223	64,112	114,186	140,649	92,249	124,385
Operating loss	(82)	(14,223)	(61,094)	(62,273)	(81,227)	(47,350)	(61,317)
Gain Allied Riser note exchange					24,802	24,802	
Gain Cisco debt restructuring					215,432	215,432	
Settlement of noteholder litigation				(3,468)			
Interest income (expense) and other, net		2,462	(5,819)	(34,545)	(18,264)	(17,304)	(8,119)
(Loss) income before extraordinary item	$ (82)	$ (11,761)	$ (66,913)	$ (100,286)	$ 140,743	$ 175,580	$ (69,436)
Extraordinary gain Allied Riser merger				8,443			
Net (loss) income	$ (82)	$ (11,761)	$ (66,913)	$ (91,843)	$ 140,743	$ 175,580	$ (69,436)
Beneficial conversion of preferred stock	$	$	$ (24,168)	$	$ (52,000)	$ (52,000)	$ (25,483)
Net (loss) income applicable to common stock	$ (82)	$ (11,761)	$ (91,081)	$ (91,843)	$ 88,743	$ 123,580	$ (94,919)

						Nine Months Ended September 30,	
Net (loss) income per common share available to common stockholders:							
Basic	$ (0.06)	$ (8.51)	$ (64.78)	$ (28.22)	$ 0.56	$ 1.43	$ (6.38)
Diluted	$ (0.06)	$ (8.51)	$ (64.78)	$ (28.22)	$ 0.56	$ 1.43	$ (6.38)
Weighted-average common shares:							
Basic	1,360,000	1,382,360	1,406,007	3,254,241	158,717,021	86,301,503	14,882,754
Diluted	1,360,000	1,382,360	1,406,007	3,254,241	158,777,953	86,363,131	14,882,754

	August 9, 1999 to December 31, 1999	As of and for the Year Ended December 31,				As of and for the Nine Months Ended September 30,	
		2000	2001	2002	2003	2003	2004
						(unaudited)	
	(dollars in thousands)						
Operating Data (unaudited):							
On-net revenue			59.7%	31.9%	55.6%	53.8%	65.7%
Off-net revenue			40.3%	40.7%	26.4%	26.9%	22.7%
Non-core revenue				27.4%	18.0%	19.3%	11.6%
On-net customer connections			189	881	1,649	1,424	2,496
On-net buildings			127	511	813	785	961
Other Financial Data:							
Capital expenditures	$	$ 80,989	$ 118,020	$ 75,214	$ 24,016	$ 21,068	$ 6,335
Net cash used in operating activities	(75)	(16,370)	(46,786)	(41,567)	(27,357)	(23,479)	(21,865)
Net cash (used in) provided by investing activities		(80,989)	(131,652)	(19,786)	(25,316)	(26,784)	27,286
Net cash provided by (used in) financing activities	75	162,952	161,862	51,694	20,562	21,455	(4,424)

	As of December 31,					As of September 30,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands)					(unaudited)	
Balance Sheet Data:							
Cash, cash equivalents and short-term investments[1]	$	$ 65,593	$ 50,763	$ 42,829	$ 11,990	$ 19,562	$ 9,397
Working capital (deficit)	17	52,621	46,579	(229,056)	(866)	6,545	(9,648)
Property and equipment, net		111,653	235,782	322,780	314,406	320,828	339,627
Total assets	25	187,740	319,769	407,677	344,440	364,207	373,623
Capital lease obligations		10,697	21,158	58,785	61,753	61,256	108,754
Notes payable (net of discount)		67,239	181,312	289,145	21,949	21,744	22,707
Convertible preferred stock		115,901	177,246	175,246	97,681	51,691	122,211
Stockholders' equity	18	104,248	110,214	32,626	244,754	263,071	209,780

(1) Includes $0, $0, $0, $1,281, $753, $456 and $601 restricted, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with "Selected Consolidated Financial and Other Data" and our consolidated financial statements and related notes included in this prospectus. The discussion in this prospectus contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this prospectus should be read as applying to all related forward-looking statements wherever they appear in this prospectus. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed in "Risk Factors," as well as those discussed elsewhere. You should read "Risk Factors" and "Cautionary Notice Regarding Forward-Looking Statements."

General Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by our competitors, thus giving us clear cost and performance advantages in our industry. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through over 8,700 customer connections in North America and Europe. Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and intercity transport facilities. The network is physically connected entirely through our facilities to over 980 buildings in which we provide our on-net services, including over 800 multi-tenant office buildings. We also provide on-net services in carrier-neutral colocation facilities, data centers and single-tenant office buildings. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. In addition to providing our on-net services, we also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the last mile portion of the link from our customers' premises to our network. We emphasize the sale of on-net services because sales of these services generate higher gross profit margins.

We believe our key opportunity is provided by our high-capacity network, which provides us with the opportunity to add a significant number of customers to our network with minimal incremental costs. Our greatest challenge is adding customers to our network in a way that maximizes its use and at the same time provides us with a customer mix that produces strong profit margins. We are responding to this challenge by increasing our sales and marketing efforts. We expect to use a portion of the proceeds of this offering to expand our sales and marketing efforts. The amount and timing of these expenditures will be dependent on the progress and success of these efforts.

We also expect to use a portion of the proceeds of this offering to expand our network to locations that can be economically integrated and represent significant concentrations of Internet traffic. We believe that the relative maturities of our North American and European operations will result in the majority of this expansion occurring in Europe. We may identify locations that we desire to serve with our on-net product but cannot be cost effectively added to our network. The key to developing a profitable business will be to carefully match the expense of extending our network to reach new customers with the revenue generated by those customers.

We believe the two most important trends in our industry are the continued growth in Internet traffic and a corresponding decline in Internet access prices. As Internet traffic continues to grow and prices per unit of traffic continue to decline, we believe our ability to load our network and gain market share from less efficient network operators will expand. However, continued erosion in Internet access prices will likely have a negative impact on our results of operations.

We have grown our net service revenue from $3.0 million for the year ended December 31, 2001 to $59.4 million for the year ended December 31, 2003 and from $15.1 million for the three months ended September 30, 2003 to $21.7 million for the three months ended September 30, 2004. Net service revenue is determined by subtracting our allowances for sales credit adjustments and unfulfilled purchase obligations from our gross service revenue. We have generated our revenue growth through the strategic acquisitions of communications network assets and customers, primarily from financially distressed companies, and the continued expansion of our network of on-net buildings.

Our net service revenue is derived from our on-net, off-net and non-core services, which comprised 55.0%, 28.4% and 16.6% of our net service revenue, respectively, for the three months ended September 30, 2003 and 65.7%, 23.5% and 10.8% for the three months ended September 30, 2004. Our on-net service consists of high-speed Internet access and IP connectivity ranging from 0.5 Megabits per second to several Gigabits per second of bandwidth. We offer our on-net services to customers located in buildings that are physically connected to our network. Off-net services are sold to businesses that are connected to our network primarily by means of T1, T3, E1 and E3 lines obtained from other carriers. Our wholesale dial-up product helps to further load our network. Our non-core services, which consist of legacy services of companies whose assets or businesses we have acquired, include email, retail dial-up Internet access, shared web hosting, managed web hosting, managed security, voice services (only provided in Toronto, Canada), point to point private line services provided by UFO, and services provided to LambdaNet Germany under a network sharing arrangement as discussed below. We do not actively market these non-core services and expect the net service revenue associated with them to continue to decline.

We have grown our gross profit from a negative $17.0 million for the year ended December 31, 2001 to $12.4 million for the year ended December 31, 2003 and from $10.0 million for the nine months ended September 30, 2003 to $19.8 million for the nine months ended September 30, 2004. Our gross profit margin has expanded from 22% in 2003 to 31% for the nine months ended September 30, 2004. We determine gross profit by subtracting network operation expenses from our net service revenue (other than amortization of deferred compensation). The amortization of deferred compensation classified as cost of network services was $0.3 million, $0.2 million and $1.3 million for the years ended December 31, 2001, 2002 and 2003, respectively, and $0.2 million and $0.6 million for the nine months ended September 30, 2003 and 2004, respectively. We believe that our gross profit will benefit from the limited incremental expenses associated with providing service to new on-net customers. We have not allocated depreciation and amortization expense to our network operations expense.

Due to our strategic acquisitions of network assets and equipment, we believe we are positioned to grow our revenue base and profitability without significant additional capital investments. We continue to deploy network equipment to other parts of our network to maximize the utilization of our assets without incurring significant additional capital expense. As a result, our future capital expenditures will be based primarily on our planned expansion of on-net buildings and the growth of our customer base. We currently intend to expand our on-net buildings by approximately 100, primarily by adding carrier-neutral facilities in Europe, over the next 12 months. Accordingly, we anticipate that our future capital expenditure rate will be significantly less than our historical capital expenditure rate.

Historically, our operating expenses have exceeded our net service revenue resulting in operating losses of $61.1 million, $62.3 million and $81.2 million in 2001, 2002 and 2003, respectively, and

$47.4 million and $61.3 million for the nine months ended September 30, 2003 and September 30, 2004, respectively. In each of these periods, our operating expenses consisted primarily of the following:

Network operations expenses consist primarily of the cost of leased circuits, sites and facilities; telecommunications license agreements, network maintenance expenses, salaries of, and expenses related to, employees who are directly involved with maintenance and operation of our network, who we refer to as network employees; and software license fees.

Selling general and administrative expenses consist primarily of salaries, bonuses and related benefits paid to our non-network employees and related selling and administrative costs.

Depreciation and amortization expenses result from the depreciation of our property and equipment, including the assets and capitalized expenses associated with our network and the amortization of our intangible assets.

Amortization of deferred compensation that results from the expense of amortizing over the vesting period the fair value of our stock options and restricted stock granted to our employees.

Acquisitions

Since our inception, we have consummated thirteen acquisitions through which we have generated revenue growth, expanded our network and customer base and added strategic assets to our business. We have accomplished this primarily by acquiring financially distressed companies or their assets at a significant discount to their original cost. The overall impact of these acquisitions on the operation of our business has been to extend the physical reach of our network in both North America and Europe, expand the breadth of our service offerings, and increase the number of customers to whom we provide our services. The overall impact of these acquisitions on our balance sheet and cash flows has been to significantly increase the assets on our balance sheet, including cash in the case of the Allied Riser merger, increase our indebtedness and increase our cash flows from operations due to our increased customer base. Net service revenue generated by the customer contracts that we have acquired has accounted for a substantial portion of our historical growth in net service revenue. However, historically we have experienced material erosion of revenue generated by acquired customer contracts and may experience such erosion in the future.

Acquisition of Verio Customers

In December 2004, we acquired most of the off-net Internet access customers of Verio Inc., a leading global IP provider and subsidiary of NTT Communications Corp. The acquired assets included over 3,700 customer connections located in 23 of our U.S. markets, customer accounts receivable and certain network equipment. We assumed the liabilities associated with providing services to these customers including vendor relationships, accounts payable, and accrued liabilities. We intend to integrate these acquired assets into our operations and onto our network.

Acquisition of Aleron Broadband Services

In October 2004, we acquired certain assets of Aleron Broadband Services, formally known as AGIS Internet, and $18.5 million in cash, in exchange for 3,700 shares of our Series M preferred stock, which will convert into approximately 114.7 million shares of our common stock in the equity conversion. We acquired Aleron's customer base and network, as well as Aleron's Internet access and wholesale dial-up services. We are currently completing the migration of these customers and integration of these assets onto our network.

Acquisition of Global Access

In September 2004, we issued 185.4 shares of our Series L preferred stock in exchange for the majority of the assets of Global Access Telecommunications Inc. The Series L preferred stock issued in the transaction will convert into approximately 5.7 million shares of our common stock in the equity conversion. Global Access provided Internet access and other data services in Germany. We acquired over 350 customers in Germany as a result of the acquisition and have completed the process of migrating these customers onto our network.

Acquisition of UFO Group, Inc.

In August 2004, we acquired certain assets of Unlimited Fiber Optics, Inc., or UFO, and $1.9 million in cash, for 2,600 shares of our Series K preferred stock. The preferred stock issued in the merger will convert into approximately 16.1 million shares of our common stock in the equity conversion. Among these assets are UFO's customer base, which is comprised of data service customers and its network, which is comprised of fiber optic facilities located in San Francisco, Los Angeles and Chicago. The acquired assets also included net cash of approximately $1.9 million and customer accounts receivable. We are in the process of integrating these acquired assets into our operations and onto our network, which we expect to complete in the second quarter of 2005.

Acquisition of European Network

In 2004 we expanded our operations into Europe through a series of acquisitions in which we acquired customers and extended our network, primarily in France, Spain, and Germany.

In September 2003, we began exploring the possibility of acquiring LNG Holdings SA, an operator of a European telecommunications network that was on the verge of insolvency. We determined that an acquisition of LNG in whole was not advisable at that time; however, the private equity funds that owned LNG refused to consider a transaction in which we would acquire only parts of the network. In order to prevent LNG from liquidating and to preserve our ability to structure an acceptable acquisition, in November 2003, our Chief Executive Officer formed a corporation that acquired a 90% interest in LNG in return for a commitment to cause at least $2 million to be invested in LNG's subsidiary LambdaNet France and an indemnification of LNG's selling stockholders by us and the acquiring corporation. In November 2003, we reached an agreement with investment funds associated with BNP Paribas and certain of our existing investors regarding the acquisition of the LNG network in France, Spain and Germany.

We completed the first step of the European network acquisition in January 2004. The investors funded a corporation that they controlled with $2.5 million and acquired Firstmark Communications Participation S.à r.l., now named Cogent Europe S.à r.l., the parent holding company of LambdaNet France and LambdaNet Spain, from LNG for one euro. As consideration, the investors, through the corporation they controlled, entered into a commitment to use reasonable efforts to cause LNG to be released from a guarantee of certain obligations of LambdaNet France and a commitment to fund LambdaNet France with $2.0 million. That corporation was then merged into one of our subsidiaries in a transaction in which the investors received 2,575 shares of Series I preferred stock that will convert into approximately 16.0 million shares of our common stock in the equity conversion.

The planned second step of the transaction was the acquisition of the German network of LNG. We attempted to structure an acceptable acquisition that would have entailed using $19.5 million allocated by the investors to restructure the existing bank debt of LambdaNet Germany; however, we subsequently concluded that it was unlikely that we could structure an acceptable acquisition of LambdaNet Germany and we began to seek an alternative German network acquisition in order to complete the European portion of our network and meet the conditions required to cause the investors to fund $19.5 million.

In March 2004, we identified network assets in Germany formerly operated as part of the Carrier 1 network as an attractive acquisition opportunity. Pursuant to the November commitment, the investors funded a newly-formed Delaware corporation with $19.5 million, and the corporation through a German subsidiary acquired the rights to certain assets of the Carrier 1 network in return for 2.3 million euros. That corporation then was merged into one of our subsidiaries in a transaction in which the investors received shares of our Series J preferred stock that will convert into approximately 120.6 million shares of our common stock in the equity conversion.

Acquisition of Assets of Fiber Network Services

In February 2003, we acquired the principal assets of Fiber Network Services, Inc., or FNSI, an Internet service provider in the midwestern United States, in exchange for options to purchase 120,000 shares of our common stock and the assumption of certain of FNSI's liabilities.

Acquisition of PSINet Assets

In April 2002, we purchased the principal U.S. assets of PSINet, Inc. out of bankruptcy in exchange for $9.5 million and the assumption of certain liabilities. With the acquisition of PSINet assets we began to offer our off-net service and acquired significant non-core services.

Allied Riser Merger

In February 2002, we acquired Allied Riser Communications Corporation, a facilities-based provider of broadband data, video and voice communications services to small and medium-sized businesses in the United States and Canada in exchange for the issuance of approximately 2.0 million shares of our common stock. As a result of the merger, Allied Riser became a wholly-owned subsidiary of ours. In connection with the merger, we became co-obligor under Allied Riser's $7^1/_2$% Convertible Subordinated Notes Due 2007.

Acquisition of NetRail Assets

In September 2001, we purchased for $11.7 million the principal assets of NetRail, Inc. out of bankruptcy. The assets included certain customer contracts and the related accounts receivable, circuits, network equipment, and settlement-free peering agreements with Tier-1 Internet service providers.

Results of Operations

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality of and potential variability of our net service revenues and cash flows. These key performance indicators include:

- net service revenues, which are an indicator of our overall business growth;
- gross profit, which is an indicator of both our service offering mix, competitive pressures and the cost of our network operations;
- growth in our on-net customer base, which is an indicator of the success of our on-net focused sales efforts;
- growth in our on-net buildings; and
- distribution of revenue across our service offerings.

Nine Months Ended September 30, 2003 Compared to the Nine Months Ended September 30, 2004

The following summary table presents a comparison of our results of operations for the nine months ended September 30, 2003 and 2004 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Percent Change
	(unaudited) (in thousands)		
Net service revenue	$ 44,899	$ 63,068	40.5%
Network operations expenses(1)	34,927	43,311	24.0%
Selling, general, and administrative expenses(2)	20,014	28,208	40.9%
Restructuring charge		1,396	
Terminated public offering costs		779	
Depreciation and amortization expenses	35,006	41,654	19.0%
Gain Cisco troubled debt restructuring	215,432		
Gain Allied Riser note exchange	24,802		
Net income (loss)	175,580	(69,436)	(139.5)%

(1) Excludes amortization of deferred compensation of $161 and $633 in the nine months ended September 30, 2003 and 2004, respectively, which, if included would have resulted in a period-to-period change of 25.2%.

(2) Excludes amortization of deferred compensation of $2,141 and $8,404 in the nine months ended September 30, 2003 and 2004, respectively, which, if included would have resulted in a period-to-period change of 65.3%.

Net Service Revenue. Our net service revenue increased 40.5% from $44.9 million for the nine months ended September 30, 2003 to $63.1 million for the nine months ending September 30, 2004. The $18.2 million increase in net service revenue is primarily attributable to $16.9 million of net service revenue from the customers acquired in the Cogent Europe, UFO and Global Access acquisitions and a $10.5 million increase in organic revenue. We define organic revenue as revenue derived from contracts obtained as a result of our sales efforts. These increases were partially offset by an $8.6 million decrease in revenue from the loss of customers acquired from PSINet and FNSI, although many of these customers re-signed their contracts with us once their existing PSINet or FNSI contracts expired and as such, the revenue of these contracts is reflected in the increase in organic revenue mentioned above. For the nine months ended September 30, 2003 and 2004, on-net, off-net and non-core services represented 53.8%, 26.9% and 19.3% and 65.7%, 22.7% and 11.6% of our net service revenues, respectively.

Our net service revenue related to our acquisitions is included in our statements of operations from the acquisition dates. Net service revenue from our January 5, 2004 Cogent Europe acquisition totaled approximately $16.1 million for the nine months ended September 30, 2004. Approximately $1.6 million of the Cogent Europe net service revenue during the period was derived from services rendered to LambdaNet Communications Deutschland AG, or LambdaNet Germany. LambdaNet Germany was majority-owned by LNG Holdings until April 2004 when it was sold to an unrelated third party. We are in the process of renegotiating LambdaNet Germany's service contracts and may lose some or all of this revenue. Net service revenue from our August 12, 2004 UFO acquisition totaled approximately $0.6 million for the nine months ended September 30, 2004. Net service revenue from our September 15, 2004, Global Access acquisition totaled approximately $0.2 million for the nine months ended September 30, 2004. Net service revenue from the acquired PSINet and FNSI legacy customer contracts totaled approximately $15.9 million for the nine months ended September 30, 2003 and $7.3 million for the nine months ended September 30, 2004.

Network Operations Expenses. Our network operations expenses, excluding the amortization of deferred compensation, increased 24.0% from $34.9 million for the nine months ended September 30, 2003 to $43.3 million for the nine months ended September 30, 2004. The increase is primarily attributable to $11.0 million of costs incurred in connection with the operation of our European network after our Cogent Europe acquisition. The increase was partly offset by a $0.7 million reduction in the cost of network operations due to the settlement of a vendor dispute for a payment less than the amount recorded as accounts payable and a reduction in circuit costs associated with the reduction in the number of off-net customers acquired from PSINet and FNSI. For the nine month period ended September 30, 2004, Cogent Europe recorded $1.6 million costs associated with using the LambdaNet Germany network. We are in the process of renegotiating the LambdaNet Germany service contracts. Our total cost of network operations for the nine months ended September 30, 2003 and September 30, 2004 includes approximately $0.2 million and $0.6 million, respectively, of amortization of deferred compensation expense classified as cost of network operations.

Selling, General, and Administrative Expenses. Our SG&A expenses, excluding the amortization of deferred compensation, increased 40.9% from $20.0 million for the nine months ended September 30, 2003 to $28.2 million for the nine months ended September 30, 2004. SG&A expenses increased primarily from the $8.0 million of SG&A expenses associated with our operations in Europe after our Cogent Europe and Global Access acquisitions. Our SG&A expenses for the nine month period ended September 30, 2004 includes a $0.6 million expense related to the settlement of a dispute with a landlord over a lease acquired in the Allied Riser merger. Our total SG&A expenses for the nine months ended September 30, 2003 and September 30, 2004 include $2.1 million and $8.4 million, respectively, of amortization of deferred compensation.

Amortization of Deferred Compensation. The total amortization of deferred compensation increased from $2.3 million for the nine months ended September 30, 2003 to $9.0 million for the nine months ending September 30, 2004. The increase is attributed to the amortization of deferred compensation related to restricted shares of Series H preferred stock granted to our employees primarily in October 2003 under our 2003 Incentive Award Plan and the amortization of $4.7 million of deferred compensation related to options for shares of Series H preferred stock granted to our employees in the third quarter of 2004 with an exercise price on an as-converted basis below the trading price of our common stock on the grant date. We amortize deferred compensation costs on a straight-line basis over the service period.

Restructuring charge. In July 2004, we abandoned an office in Paris obtained in the Cogent Europe acquisition and relocated operations to another Cogent Europe facility. We recorded a restructuring charge of approximately $1.4 million related to the discounted remaining $3.4 million commitment on the lease less our estimated sublease income.

Withdrawal of Public Offering. In 2004, we filed a registration statement to sell shares of common stock in a public offering. In October 2004, we withdrew the registration statement and expensed the associated deferred costs of approximately $0.8 million in the three months ended September 30, 2004.

Depreciation and Amortization Expenses. Our depreciation and amortization expense increased 19.0% from $35.0 million for the nine months ended September 30, 2003 to $41.7 million for the nine months ended September 30, 2004. Of this increase, $4.8 million resulted from depreciation and amortization of assets acquired in our Cogent Europe acquisition. Additionally, we had more capital equipment and IRUs in service in 2004 than in the same period in 2003. We will begin to depreciate our capital assets once the related assets are placed in service.

Gain on Cisco credit facility restructuring. The restructuring of our Cisco credit facility on July 31, 2003 resulted in a gain of approximately $215.4 million. The gain resulting from the retirement of the amounts outstanding under the credit facility was determined as follows (in thousands):

Cash paid	$	20,000
Issuance of Series F preferred stock		11,000
Amended and Restated Cisco Note, principal plus future interest		17,842
Transaction costs		1,167
Total Consideration	$	50,009
Amount outstanding under Cisco credit facility		(262,812)
Interest accrued under the Cisco credit facility		(6,303)
Book value of cancelled warrants		(8,248)
Book value of unamortized loan costs		11,922
Total Indebtedness prior to recapitalization	$	(265,441)
Gain from recapitalization	$	215,432

Gain on Allied Riser Note Exchange. In connection with the exchange and settlement related to our $7^1/_2$% Convertible Subordinated Notes Due 2007 we recorded a gain of approximately $24.8 million during the nine months ended September 30, 2003. This gain results from the difference between the $36.5 million net book value of the notes ($106.7 million face value less the related unamortized discount of $70.2 million) and $2.0 million of accrued interest, the cash consideration of $5.0 million and the $8.5 million estimated fair market value for the Series D and Series E preferred stock issued to the noteholders less approximately $0.2 million of transaction costs. The estimated fair market value for the Series D and Series E preferred stock was determined by using the price per share of our Series C preferred stock, which represented our most recent equity transaction for cash.

Net Income (Loss). As a result of the foregoing, net income was $175.6 million for the nine months ended September 30, 2003 as compared to a net loss of $69.4 million for the nine months ended September 30, 2004.

Year Ended December 31, 2002 Compared to the Year Ended December 31, 2003

The following summary table presents a comparison of our results of operations for the years ended December 31, 2002 and 2003 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Year Ended December 31, 2002	Year Ended December 31, 2003	Percent Change
	(in thousands)		
Net service revenue	$ 51,913	$ 59,422	14.5%
Network operations expenses(1)	49,091	47,017	(4.2)%
Selling, general, and administrative expenses(2)	33,495	26,570	(20.7)%
Depreciation and amortization expenses	33,990	48,387	42.4%
Interest income and other	1,739	1,512	(13.1)%
Interest expense	36,284	19,776	(45.5)%
Net (loss) income	(91,843)	140,743	253.2%

(1) Excludes amortization of deferred compensation of $233 and $1,307 in the years ended December 31, 2002 and 2003, respectively, which, if included, would have resulted in a period-to-period change of (2.0)%.

(2) Excludes amortization of deferred compensation of $3,098 and $17,368 in the years ended December 31, 2002 and 2003, respectively, which, if included, would have resulted in a period-to-period change of 20.1%.

Net Service Revenue. Our net service revenue increased 14.5% from $51.9 million for the year ended December 31, 2002 to $59.4 million for the year ended December 31, 2003. This increase was primarily attributable to a $16.5 million, or a 99.5% increase in revenue from a 87.2% increase in customers purchasing our on-net Internet access service offerings, and a $3.7 million increase in off-net revenue attributable to the customers acquired in the FNSI acquisition. FNSI revenue is included in our consolidated net service revenue since the closing of the acquisition on February 28, 2003. The increase was partially offset by a $15.5 million, or 50.9% decline in net service revenue derived from customers acquired in our April 2, 2002 acquisition of certain PSINet customer accounts, although many of these customers re-signed their contracts with us once their existing PSINet contracts expired and as such, the revenue of these contracts is reflected in the increase in net service revenue.

Network Operations Expenses. Our network operations expenses, excluding the amortization of deferred compensation, decreased 4.2% from $49.1 million for the year ended December 31, 2002 to $47.0 million for the year ended December 31, 2003. This decrease was primarily due to a $2.0 million decrease during the year ended December 31, 2003 in recurring and transitional PSINet circuit fees associated with providing our off-net services compared to the year ended December 31, 2002. This decrease in circuit fees was primarily driven by a reduction in the number of off-net customers that we served during 2003 and the termination of the transitional fees related to the PSINet acquisition.

Selling, General, and Administrative Expenses. Our SG&A expenses, excluding the amortization of deferred compensation, decreased 20.7% from $33.5 million for the year ended December 31, 2002 to $26.6 million for the year ended December 31, 2003. SG&A for the years ended December 31, 2002 and December 31, 2003 included approximately $3.2 million and $3.9 million, respectively, of expenses related to our allowance for uncollectable accounts. The decrease in SG&A expenses was due to a reduction in transitional activities associated with the Allied Riser, PSINet and FNSI acquisitions and a decrease in headcount during 2003 as compared to 2002.

Amortization of Deferred Compensation. The amortization of deferred compensation increased from $3.3 million for the year ended December 31, 2002 to $18.7 million for the year ending December 31, 2003. The increase is attributed to the amortization of deferred compensation related to restricted shares of Series H preferred stock granted to our employees primarily in October 2003 under our 2003 Incentive Award Plan.

Depreciation and Amortization Expenses. Our depreciation and amortization expenses increased 42.4% from $34.0 million for the year ended December 31, 2002 to $48.4 million for the year ended December 31, 2003. This increase occurred primarily because we had more capital equipment and IRUs in service in 2003 than in the 2002. The increase was also attributable to an increase in amortization expense in the 2003 period over 2002. Amortization expense increased because we had more intangible assets during 2003 than in 2002.

Interest Income and Other. Our interest income decreased by 13.1% from $1.7 million for the year ended December 31, 2002 to $1.5 million for the year ended December 31, 2003, resulting from a decrease in marketable securities and a reduction in interest rates.

Interest Expense. Our interest expense decreased by 45.5% from $36.3 million for the year ended December 31, 2002 to $19.8 million for the year ended December 31, 2003, resulting primarily from (1) the closing of the Allied Riser note settlement and exchange during the first quarter of 2003 and the related cancellation of $106.7 million in principal amount of our 7$^1/_2$% Convertible Subordinated Notes Due 2007 under the 2003 settlement and exchange, (2) the July 31, 2003 restructuring of our previous Cisco credit facility, which eliminated the amortization of our deferred financing costs and significantly reduced our indebtedness to Cisco Capital and (3) to a lesser extent, a reduction in interest rates.

Settlement of Allied Riser Noteholder Litigation and Gain on Note Exchange. In connection with the note exchange and settlement that is discussed in greater detail below in "Liquidity and Capital Resources," we recorded a gain of approximately $24.8 million recorded during the year ended December 31, 2003. The gain resulted from the difference between the $36.5 million net book value of the notes ($106.7 million face value less an unamortized discount of $70.2 million) and $2.0 million of accrued interest and the consideration of approximately $5.0 million in cash and the $8.5 million estimated fair market value for the Series D and Series E preferred stock issued to the noteholders less approximately $0.2 million of transaction costs.

Gain on Cisco Recapitalization. The restructuring of our previous Cisco credit facility on July 31, 2003 resulted in a gain of approximately $215.4 million. On a basic income and diluted income per share basis the gain was $27.82 and $1.36 for the year ended December 31, 2003, respectively.

Net (Loss) Income. As a result of the foregoing, we incurred a net loss of $(91.8) million for the year ended December 31, 2002 and net income of $140.7 million for the year ended December 31, 2003.

Year Ended December 31, 2001 Compared to the Year Ended December 31, 2002

The following summary table presents a comparison of our results of operations for the years ended December 31, 2001 and 2002 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Year Ended December 31,		
	2001	**2002**	**Percent Change**
	(in thousands)		
Net service revenue	$ 3,018	$ 51,913	1,620.1%
Network operations expenses(1)	19,990	49,091	145.6%
Selling, general, and administrative expenses(2)	27,322	33,495	22.6%
Depreciation and amortization expenses	13,535	33,990	151.1%
Interest income and other	2,126	1,739	(18.2)%
Interest expense	7,945	36,284	356.7%
Net loss	(66,913)	(91,843)	37.3%

(1) Excludes amortization of deferred compensation of $307 and $233 in the years ended December 31, 2001 and 2002, respectively, which, if included, would have resulted in a period-to-period change of 143.0%.

(2) Excludes amortization of deferred compensation of $2,958 and $3,098 in the years ended December 31, 2001 and 2002, respectively, which, if included, would have resulted in a period-to-period change of 20.8%.

Net Service Revenue. Our net service revenue increased 1,620.1% from $3.0 million for the year ended December 31, 2001 to $51.9 million for the year ended December 31, 2002. This increase was primarily attributable to an increase in our customers purchasing our service offerings from 210 customers at December 31, 2001 to approximately 4,200 customers at December 31, 2002, including customers acquired in our Allied Riser merger and our PSINet acquisition.

Network Operations Expenses. Our network operations expenses, excluding the amortization of deferred compensation increased 145.6% from $20.0 million for the year ended December 31, 2001 to $49.1 million for the year ended December 31, 2002. This increase was primarily due to an increase during 2002 of approximately $16.2 million of circuit and transition fees primarily related to the PSINet customers acquired, an increase of approximately $2.1 million in maintenance fees on our IRUs and network equipment, and an increase of approximately $3.0 million in fees from an increase in the number of telecommunications license agreements, including the telecommunications license agreements acquired in the February 2002 Allied Riser merger. This increase was partially offset by the elimination of temporary leased transmission capacity charges of $1.3 million in 2002.

Selling, General, and Administrative Expenses. Our SG&A expenses excluding the amortization of deferred compensation increased 22.5% from $27.3 million for the year ended December 31, 2001 to $33.5 million for the year ended December 31, 2002. This increase was primarily attributable to expenses incurred as a result of our expanded selling efforts and our support of our increasing customer base and headcount during 2002. The increase was also partially attributable to the $2.7 million increase in the expense related to our allowance for doubtful accounts.

Amortization of Deferred Compensation. The amortization of deferred compensation was approximately $3.3 million for both the year ending December 31, 2001 and the year ended December 31, 2002.

Gain on Settlement of Vendor Litigation. In December 2002, we reached an agreement with a vendor to settle the litigation brought by that vendor. Under this settlement, we agreed to pay the vendor approximately $1.6 million in 2003. The settlement amount resulted in a gain of $5.7 million that was recorded in December 2002.

Depreciation and Amortization Expenses. Our depreciation and amortization expenses increased 151.1% from $13.5 million for the year ended December 31, 2001 to $34.0 million for the year ended December 31, 2002. This increase occurred primarily because we had more capital equipment and IRUs in service in 2002 than in the 2001. The increase was also attributable to an increase in amortization expense in the 2002 period over 2001. Amortization expense increased because we had more intangible assets during 2002 than in 2001.

Interest Income and Other. Our interest income decreased by 18.2% from $2.1 million for the year ended December 31, 2001 to $1.7 million for the year ended December 31, 2002, resulting from a decrease in marketable securities and a reduction in interest rates.

Interest Expense. Our interest expense increased by 356.7% from $7.9 million for the year ended December 31, 2001 to $36.3 million for the year ended December 31, 2002. The increase resulted primarily from an increase in borrowings under our previous Cisco Capital credit facility, an increase in the number of capital leases and the interest expense associated with our 7$^1/_2$% Convertible Subordinated Notes Due 2007. The increase was partially offset by a reduction in interest rates.

Net Loss. As a result of the foregoing, our net loss of $66.9 million for the year ended December 31, 2001 increased to a net loss of $91.8 million for the year ended December 31, 2002.

Liquidity and Capital Resources

In assessing our liquidity, our management reviews and analyzes our current cash on-hand, our accounts receivable, foreign exchange rates, capital expenditure commitments, and our required debt payments and other obligations.

During 2003, we engaged in two transactions pursuant to which we significantly reduced our indebtedness and improved our liquidity. Prior to July 31, 2003 we were party to a $409 million credit facility with Cisco Systems Capital Corporation which we refer to as our previous Cisco credit facility. During the third quarter of 2003, we entered into agreements with Cisco Capital and certain of our existing investors pursuant to which, among other things: (1) Cisco Capital agreed to cancel the $269.1 million in principal amount of then-outstanding indebtedness and accrued interest and to return warrants exercisable for the purchase of 0.8 million shares of our common stock in exchange for a cash payment of $20.0 million, the issuance of 11,000 shares of our Series F preferred stock, which are convertible into approximately 68.2 million shares of our common stock and the issuance of an Amended and Restated Promissory Note for the aggregate principal amount of $17.0 million, and (2) we sold to certain of our then-existing investors preferred stock convertible into approximately 254.9 million shares of our common stock, in exchange for $41.0 million in cash, a portion of which was used to make the $20.0 million cash payment to Cisco Capital.

In the first quarter of 2003, we entered an agreement with the holders of approximately $106.7 million in face value of 7$^1/_2$% Convertible Subordinated Notes Due 2007 issued in September 2000 by our subsidiary Allied Riser, pursuant to which the noteholders agreed (1) to surrender their notes, including accrued and unpaid interest, in exchange for a cash payment of $5.0 million and the issuance of 3.4 million shares of our Series D preferred stock and 3.4 million shares of our Series E preferred stock, which shares were converted into a total of 342,629 shares of our common stock in the Cisco recapitalization, and (2) to dismiss with prejudice their litigation against Allied Riser, in exchange for a cash payment of $4.9 million.

Cash Flows

The following table sets forth our consolidated cash flows for the years ended December 31, 2001, 2002, and 2003 and the nine months ended September 30, 2003 and 2004.

	Year Ended December 31,			Nine Months Ended September 30,	
	2001	2002	2003	2003	2004
				(unaudited)	
			(in thousands)		
Net cash used in operating activities	$ (46,786)	$ (41,567)	$ (27,357)	$ (23,479)	$ (21,865)
Net cash (used in) provided by investing activities	(131,652)	(19,786)	(25,316)	(26,784)	27,286
Net cash provided by (used in) financing activities	161,862	51,694	20,562	21,455	(4,424)
Effect of exchange rates on cash		(44)	672	525	(76)
Net (decrease) increase in cash and cash equivalents during period	$ (16,576)	$ (9,703)	$ (31,439)	$ (28,283)	$ 921

Net Cash Used in Operating Activities. Net cash used in operating activities was $23.5 million for the nine months ended September 30, 2003 compared to $21.9 million for the same period during 2004. Our primary sources of cash are receipts from our customers who are billed on a monthly basis for our services. Our primary uses of cash are payments made to our vendors and employees. Our net income was $175.6 million for the nine months ended September 30, 2003 compared to a net loss of $69.4 million for the nine months ended September 30, 2004. Net income for the nine months ended September 30, 2003 included a non-cash gain of $24.8 million related our settlement with certain Allied Riser note holders and a non-cash gain of $215.4 million related to the restructuring of our Cisco credit facility. Depreciation and amortization, including the amortization of deferred compensation and the debt discount on the Allied Riser notes was $40.3 million for the nine months ended September 30, 2003, and $51.4 million for the nine months ended September 30, 2004. Changes in assets and liabilities resulted in an increase to operating cash of $0.9 million for the nine months ended September 30, 2003 and a decrease in operating cash of $3.1 million for the nine months ended September 30, 2004.

Net cash used in operating activities was $41.6 million for the year ended December 31, 2002 compared to $27.4 million for the year ended December 31, 2003. Net loss was $91.8 million for the year ended December 31, 2002. Net income was $140.7 million for the year ended December 31, 2003. Our net loss for the year ended December 31, 2002 includes an extraordinary gain of $8.4 million related to the Allied Riser merger. Net income for the year ended December 31, 2003 includes a non-cash gain of $215.4 million related to the restructuring of our credit facility with Cisco Capital and a $24.8 million non-cash gain related to the exchange of Allied Riser subordinated convertible notes. Depreciation and amortization including amortization of debt discount and deferred compensation was $45.9 million for the year ended December 31, 2002 and $70.2 million for the year ended December 31, 2003. Net changes in current assets and liabilities added back to the net loss to arrive at cash used in operating activities resulted in an increase to operating cash of $18.5 million for the year ended December 31, 2002 and $1.9 million for the year ended December 31, 2003. A $15.8 million and $12.0 million increase in accrued interest was included in the change in assets and liabilities for the years ended December 31, 2002 and 2003, respectively. Payments for accounts payable and accrued liabilities exceeded collections of accounts receivable by $12.8 million for the year ended December 31, 2002. Payments for accounts payable and accrued liabilities approximated collections of accounts receivable for the year ended December 31, 2003.

Net cash used in operating activities was $46.8 million for the year ended December 31, 2001 compared to $41.6 million for the year ended December 31, 2002. The net loss was $66.9 million for the year ended December 31, 2001 and increased to $91.8 million for the year ended December 31, 2002. Included in these net losses were depreciation and amortization, including amortization of debt discount and deferred compensation of $16.9 million for the year ended December 31, 2001, and $45.9 million for the year ended December 31, 2002. Net changes in assets and liabilities added back to the net loss to arrive at cash used in operating activities were $3.3 million for the year ended December 31, 2001 and $18.5 million for the year ended December 31, 2002. Payments for accounts payable and accrued liabilities approximated collections of accounts receivable for each period. A $15.8 million increase in accrued interest was included in the change in assets and liabilities for the year ended December 31, 2002. Net cash used in operating activities includes an extraordinary gain of $8.4 million and a gain on the settlement of vendor litigation of $5.7 million for the year ended December 31, 2002.

Net Cash (Used in) Provided By Investing Activities. Net cash used in investing activities was $26.8 million for the nine months ended September 30, 2003 compared to net cash provided by investing activities of $27.3 million for the same period during 2004. Our primary sources of cash provided by investing activities during the first nine months of 2004 was cash acquired of $4.7 million, $19.4 million and $1.9 million from our acquisition of Cogent Europe in January 2004, our merger with Symposium Omega in March 2004, and our merger with UFO Group in September 2004, respectively. Our purchases of property and equipment were $21.1 million for the nine months ended September 30, 2003 and $6.3 million for the nine months ended September 30, 2004. Our purchases of short-term investments were $5.0 million for the nine months ended September 30, 2003 and maturities of short-term investments were $3.5 million for the nine months ended September 30, 2004. Net cash provided by investing activities for the nine months ended September 30, 2004 also included proceeds from the sale of warrants for $3.4 million.

Net cash used in investing activities was $131.7 million for the year ended December 31, 2001, $19.8 million for the year ended December 31, 2002 and $25.3 million for the year ended December 31, 2003. Our primary uses of cash during 2001 were $118.0 million for the purchase of property and equipment in connection with the deployment of our network, $11.9 million for the purchase of intangible assets in connection with the NetRail acquisition and $1.8 million for purchases of short term investments. Our primary uses of cash during 2002 were $75.2 million for the purchase of property and equipment in connection with the deployment of our network, $9.6 million for the purchase of intangible assets in connection with our PSINet acquisition, $3.6 million in connection with our acquisition of the minority interest in Cogent Canada, Inc. and $1.8 million for purchases of short term investments. Cash expenditures were partially offset during 2002 by the $70.4 million of cash and cash equivalents that we acquired in connection with the Allied Riser merger. Our primary use of cash during 2003 was $24.0 million for the purchase of property and equipment in connection with the deployment of our network.

Net Cash Provided by (Used in) Financing Activities. Financing activities provided net cash of $21.5 million for the nine months ended September 30, 2003 and used net cash of $4.4 million for the nine months ended September 30, 2004. Net cash provided by financing activities during the first nine months of 2003 resulted principally from proceeds from the issuance of Series G preferred stock of $40.6 million and proceeds from borrowings under the previous Cisco credit facility of $8.0 million offset by a $20.0 million payment for the restructuring of our Cisco credit facility, a $5.0 million payment related to the Allied Riser note exchange and principal payments under our capital leases of $2.2 million. Net cash used in financing activities during the first nine months of 2004 were from a $1.2 million payment to LNG Holdings and $3.2 million for principal payments under our capital leases.

Financing activities provided net cash of $161.9 million for the year ended December 31, 2001, $51.7 million for the year ended December 31, 2002 and $20.6 million for the year ended December 31, 2003. Net cash provided by financing activities during 2001 resulted principally from borrowings under our previous Cisco credit facility of $107.6 million and net proceeds of $61.3 million from the sale of our Series C preferred stock, partially offset by $12.8 million in capital lease repayments. Net cash provided by financing activities during 2002 resulted principally from borrowings under our previous Cisco credit facility of $54.4 million, partially offset by $2.7 million in capital lease repayments. Net cash provided by financing activities during 2003 resulted principally from borrowings under our previous Cisco credit facility of $8.0 million and net proceeds of $40.6 million from the sale of our Series G preferred stock, partially offset by a $5.0 million payment related to the Allied Riser note exchange, a $20.0 million payment to Cisco Capital in connection with the Cisco recapitalization and $3.1 million in capital lease repayments.

Cash Position and Indebtedness

Our total indebtedness, net of discount, at December 31, 2001, 2002 and 2003 was $202.5 million, $347.9 million and $83.7 million, respectively. During the year ended December 31, 2003, the Allied Riser note exchange and related agreement and the Cisco recapitalization in particular had a significant impact on our liquidity and our level of indebtedness. At September 30, 2004, our total cash and cash equivalents were $9.4 million and our total indebtedness was $131.4 million. Total indebtedness includes $108.8 million of capital lease obligations for dark fiber primarily under 15-25 year IRUs. Of this $108.8 million, approximately $5.8 million is considered a current liability.

In October 2004, in connection with the Aleron acquisition, we merged with Cogent Potomac, Inc. We issued 3,700 shares of our Series M preferred stock that will convert into approximately 114.7 million shares of our common stock in the equity conversion in exchange for all of the outstanding common shares of Potomac. Potomac had net cash of approximately $18.5 million.

Accounts Receivable Line of Credit

We are currently in negotiations with a lender relating to a loan facility that, if consummated, will provide us with a line of credit. We refer to this facility as our line of credit. We anticipate that the annual interest rate applicable to loans under the line of credit would initially be the prime rate plus 1.5% and may, in certain circumstances, be reduced to the prime rate plus 0.5%. Our obligations under the line of credit will be secured by a first priority lien in certain of our accounts receivable and will be guaranteed by all of our material domestic subsidiaries. We anticipate that the agreements governing the line of credit will contain certain customary representations and warranties, covenants, notice provisions and events of default.

Columbia Ventures Subordinated Note

We are currently in negotiations with one of our stockholders, Columbia Ventures Corporation, regarding the issuance of a subordinated note in the principal amount of $10.0 million. We refer to this note as the subordinated note. We anticipate that the maturity date of the subordinated note will be approximately five years from the date of issuance; however, we anticipate that the terms of the subordinated note will require that it be repaid upon the consummation of this offering.

Amended and Restated Cisco Note and Second Amended and Restated Cisco Note

In connection with the Cisco recapitalization, we amended our credit agreement with Cisco Capital. The Amended and Restated Credit Agreement became effective at the closing of the recapitalization on July 31, 2003. Our remaining $17.0 million of indebtedness to Cisco is evidenced by a promissory note, which we refer to as the Amended and Restated Cisco Note. The Amended and Restated Cisco Note eliminated the covenants related to our financial performance. Cisco Capital retained its senior security interest in substantially all of our assets, except that we are permitted to subordinate Cisco Capital's security interest in our accounts receivable. We plan to pay this note with the proceeds from this offering.

The Cisco recapitalization was considered a troubled debt restructuring under Statement of Financial Accounting Standards (SFAS) No. 15, *Accounting by Debtors and Creditors of Troubled Debt Restructurings.* Under SFAS No. 15, the Amended and Restated Cisco Note was recorded at its principal amount of $17.0 million plus the estimated future interest payments of $0.8 million.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments as of September 30, 2004:

	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in thousands)				
Long term debt	$ 28,033	$	$ 22,939	$ 5,094	$
Capital lease obligations	176,970	15,640	28,416	24,524	108,390
Operating leases(1)	164,970	24,284	37,402	25,769	77,515
Unconditional purchase obligations	3,360	224	448	448	2,240
Total contractual cash obligations	$ 373,333	$ 40,148	$ 89,205	$ 55,835	$ 188,145

(1) These amounts include $99.3 million of operating lease and license agreement obligations and $68.3 million of maintenance and connectivity obligations reduced by sublease agreements of approximately $2.6 million.

Capital Lease Obligations. The capital lease obligations above were incurred in connection with our IRUs for intercity and intracity dark fiber underlying substantial portions of our network. These capital leases are presented on our balance sheet at the net present value of the future minimum lease payments, or $108.8 million at September 30, 2004. These leases generally have terms of 15 to 25 years.

Future Capital Requirements

We believe that our cash on hand, together with cash flows from operations, will be adequate to meet our working capital, capital expenditure, debt service and other cash requirements for the foreseeable future if we execute on our business plan, which assumes, among other things, the following:

- our ability to maintain or increase the size of our current customer base;
- our ability to achieve expected cost savings as a result of the integration of our recent acquisitions into our business;
- certain asset dispositions; and
- the availability of the line of credit and the subordinated note.

Additionally, any future acquisitions, other significant unplanned costs or cash requirements may require that we raise additional funds through the issuance of debt or equity. We cannot assure you that such financing will be available on terms acceptable to us or our stockholders, or at all. Insufficient funds may require us to delay or scale back the number of buildings that we serve or require us to restructure our business.

If additional funds are raised by issuing equity securities, substantial dilution to existing stockholders may result.

Because of our history of operating losses and our current cash resources, we believe that our independent registered public accounting firm may include a going concern modification in its audit report regarding our consolidated financial statements for the year ended December 31, 2004. Although no assurances are possible, we believe that based upon our discussions with potential lenders for an accounts receivable credit line and subordinated note discussed further in "Liquidity and Capital Resources", these additional cash resources together with our cash on hand and cash flows from operations will, assuming we execute on our current business plan, be sufficient to meet our funding requirements through December 31, 2005 or until cash generated from operations exceeds our funding requirements.

We may elect to purchase or otherwise retire the remaining $10.2 million face value of Allied Riser notes with cash, stock or assets from time to time in open market or privately negotiated transactions, either directly or through intermediaries where we believe that market conditions are favorable to do so. Such purchases may have a material effect on our liquidity, financial condition and results of operations.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates including those related to allowances for doubtful accounts, revenue allowances, long-lived assets, contingencies and litigation, and the carrying values of assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies we believe to be most critical to understanding our financial results and condition and that require complex, significant and subjective management judgments are discussed below. We have not experienced significant revisions to our assumptions except to the extent that they result from (1) variations in the trading price of our common stock which has caused us to revise the assumptions that we use in determining deferred compensation, (2) changes in the amount and aging of our accounts receivable which have caused us to revise the assumptions that we use in determining our allowance for doubtful accounts and (3) changes in interest rates which have caused us to revise the assumptions that we use in determining the present value of future minimum lease payments.

Revenue Recognition

We recognize service revenue when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collection is probable. Service discounts and incentives offered to certain customers are recorded as a reduction of revenue when granted or ratably over the estimated customer life. Fees billed in connection with customer installations and other upfront charges are deferred and recognized ratably over the estimated customer life. We determine the estimated customer life using a historical analysis of customer retention. If our estimated customer life increases, we will recognize installation revenue over a longer period. We expense direct costs associated with sales and new customer setup as incurred.

Allowances for Sales Credits and Unfulfilled Purchase Obligations

We have established allowances to account for sales credit adjustments and unfulfilled contractual purchase obligations.

Our allowance for sales credit adjustments is designed to account for reductions to our service revenue that occur when customers are granted a termination of service adjustment for amounts billed in advance, a service level agreement credit or discount. This allowance is provided for by reducing our gross service revenue and is determined by actual credits granted during the period and an estimate of unprocessed credits. At any point in time this allowance is determined by the amount and nature of credits granted prior to the balance sheet date.

Our allowance for unfulfilled contractual purchase obligations is designed to account for non-payment of amounts under agreements that we have with certain of our customers that place minimum purchase obligations on them. Although we vigorously seek payments due pursuant to these purchase obligations, we have historically collected only approximately 4% of these payments. In order to allow for this we reduce our gross service revenue by the amount that has been invoiced to these customers. We reduce this allowance and recognize the related service revenue only upon the receipt of cash payments in respect of these invoices. At any point in time this allowance is determined by the amount of unfulfilled contractual purchase obligations invoiced to our customers and with respect to which we are continuing to seek payment. Once we submit these accounts receivable to a third party collection agency, this allowance is reduced.

Valuation Allowances for Doubtful Accounts Receivable and Deferred Tax Assets

We have established allowances that we use in connection with valuing expense charges associated with uncollectible accounts receivable and our deferred tax assets.

Our valuation allowance for uncollectible accounts receivable is designed to account for the expense associated with writing off accounts receivable that we estimate will not be collected. We provide for this by increasing our selling, general and administrative expenses by the amount of receivables that we estimate will not be collected. We assess the adequacy of this allowance monthly by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit-worthiness of our customers. We also assess the ability of specific customers to meet their financial obligations to us and establish specific allowances based on the amount we expect to collect from these customers. As of December 31, 2001, 2002 and 2003 and September 30, 2004, respectively, our allowance for doubtful accounts receivable comprised, 8.8%, 26.8%, 36.1% and 24.4% of our total accounts receivable. For the years ended December 31, 2001, 2002 and 2003 and the nine months ended September 30, 2004, our allowance for doubtful accounts expense accounted for 1.6%, 8.8%, 8.8% and 6.7% of our total SG&A expenses, respectively.

Our valuation allowance for our net deferred tax asset is designed to take into account the uncertainty surrounding the realization of our net operating losses and our other deferred tax assets in the event that we record positive income for income tax purposes. For federal and state tax purposes, our net operating loss carry-forwards, including those that we have generated through our operations and those acquired in the Allied Riser merger could be subject to significant limitations on annual use. To account for this uncertainty we have recorded a valuation allowance for the full amount of our net deferred tax asset. As a result the value of our deferred tax assets on our balance sheet is zero.

Impairment of Long-Lived Assets

We review our long-lived assets, including property and equipment, and intangible assets with definite useful lives to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Pursuant to SFAS No. 144, impairment is determined by comparing the carrying value of these long-lived assets to our best estimate of future undiscounted cash flows expected to result from the use of the assets and their eventual disposition over the remaining useful life of the primary asset in the asset group. As of December 31, 2002 and December 31, 2003, we tested our long-lived assets for impairment. In the event that there are changes in the planned use of our long-lived assets, or our expected future undiscounted cash flows are reduced significantly, our assessment of our ability to recover the carrying value of these assets under SFAS No. 144 could change. Because our best estimate of undiscounted cash flows generated from these assets exceeds their carrying value for each of the periods presented, no impairment pursuant to SFAS No. 144 exists. However, because of the significant difficulties confronting the telecommunications industry, we believe that currently the fair value of our long-lived assets including our network assets and IRUs are significantly below the amounts we originally paid for them and may be less than their current depreciated cost basis. Our best estimate of future undiscounted cash flows is sensitive to changes in our estimated cash flows and any change in the lease period or in the designation of our primary asset in the asset group.

Business Combinations

We account for our business combinations pursuant to SFAS No. 141, *Business Combinations*. Under SFAS No. 141 we allocate the cost of an acquired entity to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. Intangible assets are recognized when they arise from contractual or other legal rights or if they are separable as defined by SFAS No. 141. We determine estimated fair values using quoted market prices, when available, or the using present values determined at appropriate current interest rates. Consideration not in the form of cash is measured based upon the fair value of the consideration given.

Goodwill and Other Intangibles

We account for our intangible assets pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142 we determine the useful lives of our intangible assets based upon the expected use of the intangible asset, contractual provisions, obsolescence and other factors. We amortized our intangible assets on a straight-line basis. We presently have no intangible assets that are not subject to amortization.

Other Accounting Policies

We record assets and liabilities under capital leases at the lesser of the present value of the aggregate future minimum lease payments or the fair value of the assets under lease.

We capitalize the direct costs incurred prior to an asset being ready for service as construction-in-progress. Construction-in-progress includes costs incurred under the construction contract, interest, and the salaries and benefits of employees directly involved with construction activities. Our capitalization of these costs is sensitive to the percentage of time and number of our employees involved in construction activities.

We estimate the fair market value of our Series H preferred stock based upon the number of common shares the Series H preferred stock converts into and the trading price of our common stock on the grant date. The fair market value of our Series H preferred stock is sensitive to changes in the trading price of our common stock.

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46) to clarify the conditions under which assets, liabilities and activities of another entity should be consolidated into the financial statements of a company. FIN 46 requires the consolidation of a variable interest entity by a company that bears the majority of the risk of loss from the variable interest entity's activities, is entitled to receive a majority of the variable interest entity's residual returns, or both. The adoption of FIN 46 did not have an impact on our financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*, which expands previously issued accounting guidance and disclosure requirements for certain guarantees. The Interpretation requires an entity to recognize an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. In November 2003 we provided an indemnification to certain shareholders discussed in Note 9 to our December 31, 2003 financial statements. Under the Interpretation, in 2003 we have recorded a long-term liability and corresponding asset of approximately $167,000 for the estimated fair value of this obligation.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: (a) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (b) in connection with other board projects dealing with financial instruments, and (c) regarding implementation issues raised in relation to the application of the definition of derivative. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of the provisions of SFAS No. 149 did not have an impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. The provisions of SFAS No. 150 became effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that existed as of July 1, 2003. We do not have any financial instruments that meet the provisions of SFAS No. 150, therefore, adopting the provisions of SFAS No. 150 did not have an impact on our results of operations or financial position.

In November 2002, the FASB's Emerging Issues Task Force reached a final consensus on Issue No. 00-21. *Accounting for Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), which is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Under the EITF 00-21, revenue arrangements with multiple deliverables are required to be divided into separate units of accounting under certain circumstances. The adoption of EITF 00-21 did not have a material effect on our consolidated financial statements.

In December 2003, the SEC issued Staff Accounting Bulletin No. 104, *Revenue Recognition*, which updates the guidance in SAB No. 101, integrates the related set of Frequently Asked Questions, and recognizes the role of EITF 00-21. The adoption of SAB No. 104 did not have a material effect on our consolidated financial statements.

In March 2004, the FASB ratified the consensuses reached by Emerging Issues Task Force in Issue No. 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128* ("EITF 03-06"). EITF 03-06 clarifies the definitional issues surrounding participating securities and requires companies to restate prior earnings per share amounts for comparative purposes upon adoption. We adopted the provisions of EITF 03-06 in the second quarter of 2004, and restated our previously disclosed basic earnings per share amounts to include our participating securities in basic earnings per share when including such shares would have a dilutive effect. As a result of the adoption and for comparative purposes, basic income per share available to common shareholders decreased from $0.55 to $0.14 for the quarter ended March 31, 2003, from $13.59 to $0.63 for the quarter ended September 30, 2003, and from $11.46 to $0.56 for the year ended December 31, 2003.

In December 2004, the FASB issued Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of stock options, to be recognized in the statement of operations based upon their fair values. We currently disclose the impact of valuing grants of stock options and recording the related compensation expense in a pro-forma footnote to our financial statements. Under SFAS 123R this alternative is no longer available. We will be required to adopt SFAS 123R in the third quarter of 2005 and as a result will record additional compensation expense in our statements of operations. The impact of the adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net (loss) income in the notes to the consolidated financial statements for the year ended December 31, 2003.

Quantitative And Qualitative Disclosures About Market Risk

All of our financial instruments that are sensitive to market risk are entered into for purposes other than trading. Our primary market risk exposure is related to our marketable securities. We place our marketable securities investments in instruments that meet high credit quality standards as specified in our investment policy guidelines. Marketable securities were approximately $9.4 million at September 30, 2004, $8.8 million of which are considered cash equivalents and mature in 90 days or less and $0.6 million are short-term investments that are restricted for collateral against letters of credit. We also own commercial paper investments and certificates of deposit totaling $1.6 million that are classified as other long-term assets. These investments are also restricted for collateral against letters of credit.

If market rates were to increase immediately and uniformly by 10% from the level at September 30, 2004, the change to our interest sensitive assets and liabilities would have an immaterial effect on our financial position, results of operations and cash flows over the next fiscal year. A 10% increase in the weighted-average interest rate for the nine months ended September 30, 2004 would have increased our interest expense for the period by approximately $0.9 million.

Interest on the Second Amended and Restated Cisco Note will not accrue until February 2006, unless we default under the terms of the note. When the note accrues interest, interest accrues at the 90-day LIBOR rate plus 4.5%.

BUSINESS

Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by our competitors, thus giving us clear cost and performance advantages in our industry. According to third party data, we are among the top ten facilities-based providers in the world. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through over 8,700 customer connections in North America and Europe.

Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. This allows us to earn much higher gross profit margins on our on-net business. Our typical customers in multi-tenant office buildings are law firms, financial services firms, advertising and marketing firms and other professional services businesses. We also provide on-net Internet access at a speed of one Gigabit per second and greater to certain bandwidth-intensive users such as universities, other ISPs and commercial content providers. During nine months ended September 30, 2004, our on-net customers generated 65.7% of our total net service revenue.

In addition to providing our on-net services, we also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the "last mile" portion of the link from our customers' premises to our network. During the nine months ended September 30, 2004, our off-net customers generated 22.7% of our total net service revenue.

We also operate 30 data centers comprising over 330,000 square feet throughout North America and Europe that allow customers to colocate their equipment and access our network, and from which we provide wholesale dial-up Internet service.

Competitive Advantages

We believe we address many of the IP data communications needs of small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations by offering them high-quality Internet service at attractive prices.

Low Cost of Operation. We offer a streamlined set of products on an integrated network that operates on a single protocol. Our network design allows us to avoid many of the costs associated with circuit-switched networks related to provisioning, monitoring and maintaining multiple transport protocols. Our low cost of operation gives us greater pricing flexibility and an advantage in an competitive environment characterized by falling Internet access prices.

Independent Network. Our on-net service does not rely on infrastructure controlled by local incumbent telephone companies. We provide the entire network, including the last mile and the in-building wiring to the customer's suite. This gives us more control over our service, quality and pricing and allows us to provision services more quickly and efficiently. We are typically able to activate customer services in one of our on-net buildings in fewer than nine days.

High Quality, Reliable Service. We are able to offer high-quality Internet service due to our network, which was designed solely to transmit IP data, and dedicated intracity bandwidth for each customer. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission. During 2004, our network averaged 99.99% customer connection availability.

Low Capital Cost to Grow Our Business. We have incurred relatively minimal indebtedness in growing our business because of our network design of using Internet routers without additional legacy equipment and our strategy of acquiring optical fiber from the excess capacity in existing networks.

Experienced Management Team. Our senior management team is composed of seasoned executives with extensive expertise in the telecommunications industry as well as knowledge of the markets in which we operate. The members of our senior management team have an average of 19 years of experience in the telecommunications industry. Our senior management team has designed and built our network, led the integration of our network assets, customers and service offerings we acquired through 13 acquisitions and guided us through the recent telecommunications industry downturn.

Our Strategy

We intend to become the leading provider of high quality Internet access and IP communications services and to increase our profitability and cash flow. The principal elements of our strategy include:

Focus on Providing Low-Cost, High-Speed Internet Access and IP Connectivity. We intend to further load our high-capacity network to respond to the growing demand for high-speed Internet service generated by bandwidth-intensive applications such as streaming media, online gaming, IP telephony, remote data storage, distributed computing and virtual private networks. We intend to do so by continuing to offer our high-speed and high-capacity services at competitive prices.

Pursuing On-Net Customer Growth. We intend to increase usage of our network and operational infrastructure by adding customers in our existing on-net buildings, as well as adding buildings to our network, particularly in Europe.

Selectively Pursuing Acquisition Opportunities. In addition to adding customers through our sales and marketing efforts, we will continue to seek out acquisition opportunities that increase our customer base, allowing us to take advantage of the unused capacity of our network and add revenues with minimal incremental costs. We may also make additional acquisitions to add network assets at attractive prices.

Our Network

Our network is comprised of in-building riser facilities, metropolitan optical networks, metropolitan traffic aggregation points and intercity transport facilities. We deliver a high level of technical performance because our network is optimized for Internet protocol traffic. It is more reliable and less costly for IP traffic than networks built as overlays to traditional telephone networks.

Our network serves over 75 metropolitan markets in North America and Europe and encompasses:

- over 800 multi-tenant office buildings strategically located in commercial business districts;
- over 200 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings;
- over 150 intracity networks consisting of over 8,400 fiber miles;
- an intercity network of more than 21,000 fiber route miles; and
- three leased high-capacity circuits providing a transatlantic link between the North American and European portions of our network.

We have created our network by purchasing optical fiber from carriers with large amounts of unused fiber and directly connecting Internet routers to the existing optical fiber national backbone. We have expanded our network through key acquisitions of financially distressed companies or their assets at a significant discount to their original cost. Due to our network design and acquisition strategy, we believe we are positioned to grow our revenue and increase profitability with minimal incremental capital expenditures.

Intercity Networks

The North American portion of our inter-city network consists of two strands of optical fiber that we have acquired from WilTel Communications and 360networks under pre-paid IRUs. The WilTel fiber route is approximately 12,500 miles in length and runs through all of the metropolitan areas that we serve with the exception of Toronto, Ontario. We have the right to use the WilTel fiber through 2020 and may extend the term for two five-year periods without additional payment. To serve the Toronto market, we lease two strands of optical fiber under pre-paid IRUs from affiliates of 360networks. This fiber runs from Buffalo to Toronto. The 360networks IRUs expire in 2020, after which title to the fiber is to be transferred to us. While the IRUs are pre-paid, we pay WilTel and affiliates of 360networks to maintain their respective fibers during the period of the IRUs. We own and maintain the electronic equipment that transmits data through the fiber. That equipment is located approximately every 40 miles along the network and in our metropolitan aggregation points and the on-net buildings we serve.

In Spain we have approximately 1,300 route miles of fiber secured from La Red Nacional de los Ferrocarriles Espanoles. We have the right to use this fiber pursuant to an IRU that expires in 2012. In France, the United Kingdom, Belgium, the Netherlands and Switzerland, we have approximately 5,400 route miles of fiber secured from Neuf Telecom and Telia. We have the right to use the Neuf Telecom fiber pursuant to an IRU that expires in 2020. In Germany and Austria, we have approximately 1,800 route miles of fiber secured from MTI and Telia. We have the right to use the MTI fiber pursuant to an IRU that expires in 2019. We have the right to use all of our Telia fiber pursuant to an IRU expiring in 2011 with an option to extend to 2019.

Intracity Networks

In each North American metropolitan area in which we provide high-speed on-net Internet access service, the backbone network is connected to a router connected to one or more metropolitan optical networks. These metropolitan networks also consist of optical fiber that runs from the central router in a market into routers located in on-net buildings. The metropolitan fiber runs in a ring architecture, which provides redundancy so that if the fiber is cut data can still be transmitted to the central router by directing traffic in the opposite direction around the ring. The router in the building provides a connection to each on-net customer.

The European intracity networks for Internet access service use essentially the same architecture as in North America, with fiber rings connecting routers in each on-net building we serve to a central router. While these intracity networks were originally built as legacy networks providing point-to-point services, we are using excess capacity on these networks to implement our IP network.

Within the North American cities where we offer off-net Internet access service, we lease circuits, typically T1 lines, from telecommunications carriers, primarily local telephone companies, to provide the last mile connection to the customer's premises. Typically, these circuits are aggregated at various locations in those cities onto higher-capacity leased circuits that ultimately connect the local aggregation route to our network. In Europe, we offer off-net Internet access service through leased E1 lines and we have begun to deploy off-net aggregation equipment across our network.

In-Building Networks

We connect our routers to a cable containing 12 to 288 optical fiber strands that typically run from the basement of the building through the building riser to the customer location. Service for customers is initiated by connecting a fiber optic cable from a customer's local area network to the infrastructure in the building riser. The customer then has dedicated and secure access to our network using an Ethernet connection. Ethernet is the lowest cost network connection technology and is used almost universally for the local area networks that businesses operate.

Internetworking

The Internet is an aggregation of interconnected networks. We interconnect our network with over 420 other ISPs at approximately 40 locations. We interconnect our network through public and private peering arrangements. Public peering is the means by which ISPs have traditionally connected to each other at central, public facilities. Larger ISPs also exchange traffic and interconnect their networks by means of direct private connections referred to as private peering.

Peering agreements between ISPs are necessary in order for them to exchange traffic. Without peering agreements, each ISP would have to buy Internet access from every other ISP in order for its customer's traffic, such as email, to reach and be received from customer's of other ISPs. We are considered a Tier 1 ISP and, as a result, have settlement-free peering arrangements with most other providers. This allows us to exchange traffic with those ISPs without payment by either party. In such arrangements, each party exchanging traffic bears its own cost of delivering traffic to the point at which it is handed off to the other party. We also engage in public peering arrangements in which each party also pays a fee to the owner of routing equipment that operates as the central exchange for all the participants. We do not treat our settlement-free peering arrangements as generating revenue or expense related to the traffic exchanged. Where we do not have a public or private settlement-free peering connection with an ISP, we exchange traffic through an intermediary, whereby such intermediary receives payment from us. Less than 2% of our traffic is handled this way.

Network Management and Control

Our primary network operations centers are located in Washington, D.C. and Frankfurt. These facilities provide continuous operational support in both North America and Europe. Our network operations centers are designed to immediately respond to any problems in our network. To ensure the quick replacement of faulty equipment in the intracity and long-haul networks, we have deployed field engineers across North America and Europe. In addition, we have maintenance contracts with third party vendors that specialize in optical and routed networks.

Our Services

We offer high-speed Internet access and IP connectivity to small and medium-sized businesses, communications providers and other bandwidth-intensive organizations located in North America and Europe.

The table below shows our primary service offerings:

On-Net Services	**Bandwidth (Mbps)**
Fiber500	0.5
Two Meg	2.0
Fast Ethernet	100
Gigabit Ethernet	1,000 and up
Colocation with Internet Access	2 to 1,000
Point-to-Point	1.5 to 10,000
Off-Net Services	
T1 or E1	1.5 or 2.0
T3 or E3	45 or 34
Other Services	
Wholesale Dial-Up	NA

We offer on-net services in 31 metropolitan markets and over 980 buildings of which more than 880 are located in North America and more than 90 in Europe. Our most popular on-net service in North America is our Fast Ethernet service. We offer our Fast Ethernet service at $1,000 a month to our small and medium-sized business customers. We believe that, on a per-Megabit basis, this service offering is one of the lowest priced in the marketplace. The European portion of our network was historically used to offer point-to-point services. We acquired and re-architected this network to begin offering our IP-based services in Europe. We also offer colocation services in 30 locations in North America and Europe. This on-net service offers Internet access combined with equipment rack space in a Cogent facility, allowing the customer to locate a server or other equipment at that location and connect to our Internet service. We emphasize the sale of on-net services because sales of these services generate higher gross profit margins.

We offer off-net services to customers not located in our on-net buildings. These services are provided in 36 metropolitan markets in North America and Europe. These services are generally provided to small and medium-sized businesses.

We offer customers point-to-point connection in North America and Europe that allow customers to connect geographically dispersed local area networks in a seamless manner. This is called Layer 2 service in the industry.

In North America we offer wholesale dial-up Internet access. This service is offered to larger businesses and other Internet service providers that serve individuals that dial in to the Internet. The business or ISP is our customer for this service. Individuals make use of the dial-in access through arrangements with the business or ISP.

We support a number of non-core services assumed with certain of our acquisitions. These services include email service, dial-up Internet, shared web hosting and voice services in Toronto, Canada, managed web hosting, point-to-point services. For the nine months ended September 30, 2004, these services accounted for approximately 11.6% of our revenue; however, we do not actively market all such non-core services because these services do not take advantage of our network assets. We expect the revenue from these non-core services to decline. We expect the growth of our on-net and off-net Internet services to compensate for this loss.

Sales and Marketing

We employ a relationship-based sales and marketing approach. We believe this approach and our commitment to customer service increases the effectiveness of our sales efforts. We market our services through four primary sales channels as summarized below:

Direct Sales. As of January 15, 2005, our direct sales force included 66 full-time employees focused solely on acquiring and retaining on-net customers. Each member of our direct sales force is assigned a specific market or territory, based on customer type and geographic location. Of these direct sales force employees, 54 have individual quota responsibility. Direct sales personnel are compensated with a base salary plus quota-based commissions and incentives. Each carrier sales professional is assigned all of the on-net carrier-neutral facilities in a major metropolitan area. We use a customer relationship management system to efficiently track activity levels and sales productivity in particular geographic areas. Furthermore, our sales personnel work through direct face-to-face contact with potential customers in, or intending to locate in, on-net buildings. Through agreements with building owners, we are able to initiate and maintain personal contact with our customers by staging various promotional and social events in our on-net buildings.

Telesales. As of January 15, 2005, we employed 14 full-time outbound telemarketing sales personnel in Herndon, Virginia. Of these telesales employees, 12 have individual quota responsibility and two are assigned to customer retention. Telesales personnel are compensated with a base salary plus quota-based commissions and incentives.

Agent Program. In the fall of 2004, we launched an agent program as an alternate channel to distribute our products and services. The agent program consists of value-added resellers, IT consultants, and smaller telecom agents, who are managed by our direct sales personnel, and larger national or regional companies whose primary business is to sell telecommunications, data, and Internet services. The agent program includes over 60 agents and started generating revenues for us towards the end of 2004.

Marketing. As a result of our direct sales approach, we have generally not spent funds on television, radio or print advertising. Our marketing efforts are designed to drive awareness of our products and services, identify qualified leads through various direct marketing campaigns and provide our sales force with product brochures, collateral materials and relevant sales tools to improve the overall effectiveness of our sales organization. In addition, we conduct public relations efforts focused on cultivating industry analyst and media relationships with the goal of securing media coverage and public recognition of our Internet communications services. Our marketing organization also is responsible for our product strategy and direction based upon primary and secondary market research and the advancement of new technologies.

Competition

We face competition from incumbent carriers, Internet service providers and facilities-based network operators, many of whom are much bigger than us, have significantly greater financial resources, better-established brand names and large, existing installed customer bases in the markets in which we compete. We also face competition from other new entrants to the communications services market. Many of these companies offer products and services that are similar to our products and services, and we expect the level of competition to intensify in the future. Unlike some of our competitors, we do not have title to most of the dark fiber that makes up our network. Our interests in that dark fiber are in the form of long-term leases or IRUs obtained from their title holders. We are reliant on the maintenance of such dark fiber to provide our on-net services to customers. We are also dependent on third-party providers, some of whom are our competitors, for the provision of T1 or E1 lines to our off-net customers.

We believe that competition is based on many factors, including price, transmission speed, ease of access and use, breadth of service availability, reliability of service, customer support and brand recognition. Because our fiber optic networks have been recently installed compared to those of the incumbent carriers, our state-of-the-art technology may provide us with cost, capacity, and service quality advantages over some existing incumbent carrier networks; however, our network may not support some of the services supported by these legacy networks, such as circuit-switched voice and frame relay. While the Internet access speeds offered by traditional ISPs typically do not match our on-net offerings, these slower services usually are priced lower than our offerings and thus provide competitive pressure on pricing, particularly for more price-sensitive customers. Additionally, some of our competitors have recently emerged from bankruptcy. Because the bankruptcy process allows for the discharge of debts and rejection of certain obligations, we may have less of an advantage with respect to these competitors. These and other downward pricing pressures have diminished, and may further diminish, the competitive advantages that we have enjoyed as the result of our service pricing.

Employees

As of January 15, 2005, we had 298 employees. Twenty three of our employees in France are represented by a works counsel and a union. We believe at this time that we have satisfactory relations with our employees.

Properties

We own no material real property in North America. We lease our headquarters facilities consisting of approximately 15,370 square feet in Washington, D.C. We also lease approximately 262,000 square feet of space in 42 locations to house our colocation facilities, regional offices and operations centers. The lease for our headquarters is with an entity controlled by our Chief Executive Officer. The lease is year-to-year on market terms, and we anticipate that we will be able to renew this lease on substantially the same terms upon its expiration on August 31, 2006. The terms of our other leases generally are for ten years with two five-year renewal options. We believe that these facilities are generally in good condition and suitable for our operations. In addition to the above leases, we also have, from our acquisitions, leases for approximately 84,000 square feet of office space in 10 locations. Eight of these locations are currently sublet to third parties. Two are currently being marketed for sublease.

Through the acquisition of our French and Spanish subsidiaries in January, 2004, we acquired three properties in France. All three properties are data centers and points-of-presence, or POP, facilities ranging in size from 11,838 to 18,292 square feet. We believe that the current market value of these properties is 5.1 million euros or approximately $6.6 million. One of the three properties, located in Lyon, France, is currently under contract to be sold for 3.9 million euros, or approximately $5.0 million, and is expected to close in mid-2005, subject to the purchaser obtaining the necessary entitlements to redevelop the property. Through our European subsidiaries, we also lease approximately 204,000 square feet of space to house our colocation facilities, regional offices and operations centers. Approximately 174,000 square feet of the total are used for active POP locations, which house our network equipment and provide colocation space for our customers and have an average size of 9,000 square feet. The terms of these leases generally are for nine years with an opportunity to terminate the lease every three years. Much of the general office space and non-active POP locations are currently on the market to be sublet to third parties. We believe that these facilities are generally in good condition and suitable for our operations.

Legal Proceedings

We are involved in legal proceedings in the normal course of our business that we do not expect to have a material adverse affect on our business, financial condition or results of operations.

Regulation

In the United States, the Federal Communications Commission (FCC) regulates common carriers' interstate services and state public utilities commissions exercise jurisdiction over intrastate basic telecommunications services. Our Internet service offerings are not currently regulated by the FCC or any state public utility commission. However, as we expand our offerings we may become subject to regulation in the U.S. at the federal and state levels and in other countries. The offerings of many of our competitors and vendors, especially incumbent local telephone companies, are subject to direct federal and state regulations. These regulations change from time to time in ways that are difficult for us to predict.

There is no current legal requirement that owners or managers of commercial office buildings give access to competitive providers of telecommunications services, although the FCC does prohibit carriers from entering contracts that restrict the right of commercial multiunit property owners to permit any other common carrier to access and serve the property's commercial tenants.

Our subsidiary, Cogent Canada, offers voice and Internet services in Canada. Generally, the regulation of Internet access services and competitive voice services has been similar in Canada to that in the U.S. in that providers of such services face fewer regulatory requirements than the incumbent local telephone company. This may change. Also, the Canadian government has requirements limiting foreign ownership of certain telecommunications facilities in Canada. We are not subject to these restrictions today. We will have to comply with these to the extent these regulations change and to the extent we begin using facilities in a manner that subjects us to these restrictions.

Our newly acquired European subsidiaries operate in a more highly regulated environment for the types of services they provide. In many Western European countries, a national license is required for the provision of data and Internet services. In addition, our subsidiaries operating in member countries of the European Union are subject to the directives and jurisdiction of the European Union. We believe that each of our subsidiaries has the necessary licenses to provide its services in the markets where it operates today. To the extent we expand our operations or service offerings in Europe or other new markets, we may face new regulatory requirements.

The laws related to Internet telecommunications are unsettled and there may be new legislation and court decisions that may affect our services and expose us to liability.

MANAGEMENT

Directors and Executive Officers

The following table sets forth information concerning our directors and executive officers as of January 15, 2005.

Name	Age	Position
Dave Schaeffer	48	Chairman of the Board of Directors and Chief Executive Officer
R. Reed Harrison III	56	President and Chief Operating Officer
Thaddeus Weed	43	Chief Financial Officer
Robert Beury, Jr.	51	Chief Legal Officer
R. Brad Kummer	56	Chief Technology Officer and Vice President of Optical Transport
Timothy O'Neill	48	Vice President of Field Engineering
Mark Schleifer	36	Vice President of IP Engineering
Vincent Teissier	37	Director of European Sales
Jeff Karnes	33	Vice President of Corporate Sales
Andrew Hathaway	39	Vice President of NetCentric Sales
Warren Thrasher	57	Vice President of Global Customer Network Operations and Chief Information Officer
Liran Gordon	45	Vice President of Business Development
Edward Glassmeyer	62	Director
Steven Brooks	52	Director
Kenneth D. Peterson, Jr.	52	Director
Jean-Jacques Bertrand	52	Director
Erel Margalit	41	Director
Michael Carus	38	Director
Timothy Weingarten	29	Director

Dave Schaeffer founded our company in August 1999 and is the Chairman of the board of directors and Chief Executive Officer. Prior to founding the company, Mr. Schaeffer was the founder of Pathnet, Inc., a broadband telecommunications provider, where he served as Chief Executive Officer from 1995 until 1997 and as Chairman from 1997 until 1999. Mr. Schaeffer has been a director since 1999.

R. Reed Harrison III joined us in July of 2004 and serves as President and Chief Operating Officer. Prior to joining us, Mr. Harrison served as Senior Vice President Worldwide Network Engineering and Operations for AT&T, where he held a variety of senior management positions beginning in 1996. During the twelve years prior to that time, Mr. Harrison served in senior management positions, including President of the GTE Global Business Unit for AT&T Network Systems and Bell Laboratories.

Thaddeus Weed joined us in February 2000 and served as Vice President and Controller until May 2004 when he became our Chief Financial Officer. From 1997 to 1999, Mr. Weed served as Senior Vice President of Finance and Treasurer at Transaction Network Services where Mr. Weed undertook a broad range of financial management responsibilities. These responsibilities included financial planning, forecasting, budgeting, financial modeling, acquisition, and international expansion strategies and pro-forma analyses. From 1987 to 1997, Mr. Weed was employed at Arthur Andersen LLP where he served as Senior Audit Manager.

Robert Beury, Jr. joined us in September 2000 and serves as Vice President and General Counsel. His title was changed to Chief Legal Officer in May 2004. Prior to joining us, Mr. Beury served as Deputy General Counsel of Iridium LLC, a mobile satellite service provider, from 1994 to 2000. From

1987 to 1994 Mr. Beury was General Counsel of Virginia's Center for Innovative Technology, a non-profit corporation set up to develop the high tech industry in Virginia.

R. Brad Kummer joined us in February 2000 and serves as Vice President of Optical Transport Engineering and Chief Technology Officer. Mr. Kummer spent the 25 years prior to joining us at Lucent Technologies (formerly Bell Laboratories), where he served in a variety of research and development and business development roles relating to optical fibers and systems. In his most recent work at Lucent, he was responsible for optical fiber systems engineering for long haul and metropolitan dense wavelength division multiplexing systems.

Timothy O'Neill joined us in January 2001 and serves as the Vice President of Field Engineering. He is responsible for network construction and provisioning. From 1999 to 2001, Mr. O'Neill was employed at @Link Networks, Inc. where he served as Chief Network Officer. While at @Link Networks, Inc., Mr. O'Neill was responsible for engineering, implementing and operating an integrated communications network.

Mark Schleifer joined us in October 2000 and serves as Vice President of IP Engineering. From 1994 to 2000, Mr. Schleifer served as Senior Director, Network Engineering at DIGEX/Intermedia, Incorporated, a provider of high-end managed Web and application hosting services. At DIGEX/Intermedia, Mr. Schleifer managed the Network Engineering group, Capacity Planning group, and Research and Development group. He was responsible for all technical aspects of initiating customer service, network troubleshooting, field installations, and new equipment testing for the leased line business. Mr. Schleifer also coordinated peering and backbone circuit deployment to maintain network throughput and availability.

Jeff Karnes joined us in May of 2004 and serves as Vice President of Corporate Sales. Prior to joining us, Mr. Karnes served Vice President of Regional Sales at UUNet division of MCI Communications, where he had served in a number of positions in the sales organization since joining UUNet in 1995.

Andrew Hathaway joined us in June of 2002 and serves as the Vice President of NetCentric Sales. Prior to joining us, Mr. Hathaway served four years as Vice President and General Manager East Region for Teligent, Inc. a fixed wireless facilities based CLEC and 9 years with Metropolitan Fiber Systems, Inc.

Vincent Teissier joined us in January 2004 as Managing Director France and now heads our sales activities in Europe. Prior to that, Mr. Teissier was Managing Director of LambdaNet Communications France, pan-european telecommunications / IP provider, since its inception in January 2000. Mr. Teissier also held various positions within European facilities-base alternative service providers, such as 9 Telecom in France as head of interconnection and otelo in Germany as techincal manager, and with the telecommunications equipment supplier Philips in Nuremberg/Germany as product manager for transmission systems. Vincent Teissier holds an engineering degree in electronics and information technology from TU Munich.

Warren Thrasher joined us in August 2004 and serves as Vice President of Global Customer Network Operations and Chief Information Officer. Prior to joining Cogent, he was Director of Network Engineering and Operations at AT&T, leading the expansion of its Mid-Atlantic network build-out. Mr. Thrasher has over 30 years experience in telecom at AT&T, Qwest, Bell South, and Bellcore (now part of Science Applications International Corporation). As Vice President at AT&T and a General Manager at BellSouth, he planned and executed the restructuring of large multi-functional organizations to reduce costs, improve quality, and shorten cycle times.

Liran Gordon joined us in May 2004 and serves as Vice President of Business Development. He is responsible for revenue-creating initiatives from new sources, including channels, services, and products. Prior to joining us, Mr. Gordon served as Vice President of Business Development and General

Counsel of three venture-funded start-up technology companies: Conxion Corp., Ardent Communications, Inc., and Zephion Networks, which filed for bankruptcy in June 2001. Previously, Mr. Gordon served as Vice President of Business Development at Cable and Wireless USA.

Edward Glassmeyer has served on our board of directors since 2000. Mr. Glassmeyer was with Citicorp Venture Capital from 1968 to 1970 and The Sprout Capital Group, where he was Managing Partner from 1971 to 1974. He co-founded Charter Oak Enterprises, a merchant bank, in 1974. Today, Mr. Glassmeyer serves on the board of directors of a number of portfolio companies of Oak Investment Partners, a venture capital firm that he co-founded in 1978. He was a founding director of the National Venture Capital Association in 1973, and has served two terms as an Overseer of The Amos Tuck School of Business at Dartmouth College since July 1996.

Steven Brooks has served on our board of directors since October 2003. Mr. Brooks currently serves as Managing Partner of BCP Capital Management, which he co-founded in 1999. From 1997 until 1999, Mr. Brooks headed the technology industry mergers and acquisition practice at Donaldson, Lufkin & Jenrette. Previously, Mr. Brooks held a variety of positions in the investment banking and private equity fields, including: Head of Global Technology Banking at Union Bank of Switzerland, Managing Partner of Corporate Finance at Robertson Stephens, founder and Managing Partner of West Coast technology investment banking at Alex Brown & Sons, and Principal at Rainwater, Inc., a private equity firm in Fort Worth, Texas. Mr. Brooks is a member of the Board of Directors of VERITAS Software Corporation, Pharsight Corporation and Proxim Corporation, as well as a number of private companies.

Kenneth D. Peterson, Jr. has served on our board of directors since November 2004. Mr. Peterson has been the Chairman and Chief Executive Officer of Columbia Ventures Corporation since its inception in 1988. Prior to 1988, Mr. Peterson was engaged in private legal practice. He is a member of the board of directors of American Capital Strategies and the non-profit Washington Policy Center.

Jean-Jacques Bertrand has served on our board of directors since April 2004. Mr. Bertrand has been Managing Partner of BNP Private Equity SA since 1998 and led the telecommunications and media group of BNP SA from 1990 to 1998. Prior to that, Mr. Bertrand held senior management functions with France Telecom and was appointed special adviser to the French Minister of Communications. He sits on the board of directors of Group Multitel SA and Musiwave SA.

Erel Margalit has served on our board of directors since 2000. Mr. Margalit has been Managing General Partner of Jerusalem Venture Partners since August 1997. He was a general partner of Jerusalem Pacific Ventures from December 1993 to August 1997. From 1990 to 1993, Mr. Margalit was Director of Business Development of the City of Jerusalem. Mr. Margalit is a director of CyOptics, Inc., Sepaton, Inc., Native Networks, Ltd. and Cyber-Ark Software, Inc. Mr. Margalit, in his capacity as director of a company in Israel, is the subject of a proceeding in which the tax authorities have alleged that the company (which is unrelated to us) failed to pay certain taxes. The proceeding is classified as criminal under the laws of Israel.

Michael Carus has served on our board of directors since October 2003. Mr. Carus has been a general partner of Jerusalem Venture Partners since July 2001. Prior to joining Jerusalem Venture Partners, Mr. Carus served as the Executive Vice President, Chief Operating Officer and Chief Financial Officer at Fundtech, Inc. from May 1997 to July 2001. Prior to that, Mr. Carus held various senior management positions at Geotek Communications, Inc., from May 1995 to May 1997, and he was a CPA and Manager of Business Assurance at Coopers and Lybrand from August 1988 to May 1995. Mr. Carus is a director of Bristol Technology, Inc., Oblicore LTD, Teleknowledge LTD, Sphera, Inc. and Bridgewave Communications, Inc.

Timothy Weingarten has served on our board of directors since October 2003. Mr. Weingarten is a partner at Worldview Technology Partners, and from 1996 to 2000 was a member of the telecom equipment research group at Robertson Stephens and Company. Mr. Weingarten is also a member of the board of directors of Force10 Networks, Visage Mobile, Movaz Networks, and Avvenu Inc.

Each of our directors has been elected as a member of the board of directors pursuant to an agreement among our company and certain of our stockholders who invested in our preferred stock, whereby we have agreed to nominate certain designees to the board of directors and such stockholders have agreed to vote for such designees.

Board of Directors and Officers

Our board of directors currently consists of eight directors, including Mr. Schaeffer. Messrs. Glassmeyer, Margalit, Carus, Bertrand, Peterson, Brooks and Weingarten are independent as the term is defined in Section 121(A) of the listing standards of the American Stock Exchange.

Our directors may be removed either with or without cause at any meeting of our stockholders by a majority vote of those stockholders represented and entitled to vote at such meeting. However, pursuant to our Sixth Amended and Restated Stockholders' Agreement, certain of our stockholders that currently have the voting power to determine the outcome of such a vote have agreed not to vote to remove any member of the board of directors unless the party that designated that member for nomination to the board of directors also votes to remove that member, and in the case that such nominating party votes to remove its designee, such other stockholders have agreed to vote to remove the designee. The stockholders agreement will be terminated at the completion of this offering.

Committees of our Board of Directors

Our board of directors directs the management of our business and affairs, as provided by Delaware law, and conducts its business through meetings of the board of directors and its audit and compensation committees. In addition, from time to time, special committees may be established under the direction of the board of directors when necessary to address specific issues.

Audit Committee. Our board of directors has established an audit committee. The audit committee consists of Messrs. Carus, Glassmeyer and Margalit, each of whom is "independent", as the term is defined in Section 121(A) of the listing standards of the American Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended. Each member of the audit committee is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. Our board of directors has determined that Mr. Carus is "financially sophisticated" as that term is defined in Section 121(A) of the listing standards of the American Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended and is an "audit committee financial expert" as defined by the rules and regulations of the SEC. Our board of directors has adopted an audit committee charter meeting the applicable standards of the American Stock Exchange.

The audit committee meets periodically with management and our independent accountants to review their work and confirm that they are properly discharging their respective responsibilities. The audit committee also:

- appoints the independent auditor to audit our financial statements and perform services related to the audit;
- pre-approves any permitted audit or non-audit services performed by our independent auditor;
- establishes the scope of the audit with management, the independent auditor and the internal auditor;
- reviews with management and the independent auditor the results of the audit, the adequacy of the internal accounting control procedures and any major issues regarding accounting principles;

discusses with the independent auditor any matters required to be discussed pursuant to Statement on Auditing Standards No. 61, "Communication with Audit Committees"; and

confirms the independence of our auditor.

Compensation Committee. The compensation committee, established by our board of directors, currently consists of Messrs. Margalit, Glassmeyer and Brooks, each of whom is independent as the term is defined in Section 121(A) of the listing standards of the American Stock Exchange. The compensation committee administers our stock-based compensation plans, reviews management recommendations with respect to option grants, and takes other actions as may be required in connection with our compensation and incentive plans.

Director Nominations. We did not have a standing nominating committee or a committee performing a similar function in 2004. Historically, the board of directors has not considered a nominating committee necessary in that there have been few vacancies on our board, and vacancies have been filled either through discussions between our Chief Executive Officer and the other members of the board of directors or pursuant to the terms of our stockholders agreement.

Other than pursuant to our stockholders agreement, we have not received director candidate recommendations from our stockholders and we do not have a formal policy regarding consideration of such recommendations. However, any recommendations received from stockholders will be evaluated in the same manner that potential nominees suggested by board members, management or other parties are evaluated. We do not intend to treat stockholder recommendations in any manner different from other recommendations.

Our board of directors has not adopted a policy with respect to minimum qualifications for board members. With respect to each individual vacancy, the board of directors has determined the specific qualifications and skills required to fill that vacancy and to complement the existing qualifications and skills of the other members of the board of directors.

Historically, we have not engaged third parties to assist in identifying and evaluating potential nominees, but would do so in those situations where particular qualifications are required to fill a vacancy and the board of directors is not otherwise able to identify an appropriate pool of candidates.

Director Compensation

We do not compensate our board members for their participation on our board of directors.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers who serve on our board or compensation committee.

Codes of Business Conduct and Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics applicable to all of our officers, directors and employees including our Chief Executive Officer, Chief Financial Officer and other senior financial officers in accordance with applicable rules and regulations of the SEC and the American Stock Exchange.

Executive Compensation

The following table sets forth summary information concerning the cash and non-cash compensation we paid during the fiscal years ended December 31, 2002, 2003 and 2004 to our Chief Executive Officer and each of our other four most highly compensated executive officers whose compensation exceeded $100,000 for fiscal year 2004. We refer to these individuals as our named executive officers.

			Long-Term Compensation Awards	
Name and Principal Position	Year	Annual Compensation (Salary)	Restricted Stock Awards ($)(1)	Securities Underlying Options (#)(2)
Dave Schaeffer	2004	$ 250,000		15,000
Chairman and Chief Executive Officer	2003	250,000	$ 6,377,823	
	2002	250,000		
Mark Schleifer	2004	208,000		250
Vice President, IP Engineering	2003	208,000	105,113	
	2002	208,000		
Robert Beury, Jr.	2004	200,000		350
Chief Legal Officer	2003	200,000	105,113	
	2002	197,333		
R. Brad Kummer	2004	190,000		350
Chief Technology Officer	2003	190,000	105,113	
	2002	190,000		
R. Reed Harrison	2004	187,500		8,427
President and Chief Operating Officer(3)	2003			
	2002			

(1) Restricted stock awards were made pursuant to the 2003 Incentive Award Plan, whereby shares of Series H preferred stock were granted to our employees based upon the number of options held to purchase common stock, as discussed in more detail under "Management Equity Plans." The dollar value of such shares, as reflected here, assumes a per share value of the Series H preferred stock equal to its liquidation value of approximately $169 per share. All shares of Series H preferred stock will be converted to shares of our common stock in the equity conversion and, based on the offering price set forth on the cover of this prospectus, each share of Series H preferred stock would have an approximate value of $.

(2) Options for Series H preferred stock. Each share of Series H preferred stock converts into approximately 769 shares of our common stock.

(3) R. Reed Harrison began employment with us on July 1, 2004 at an annual salary of $275,000. This amount includes his salary from that date plus a $50,000 moving allowance.

2004 Options Values

The following table sets forth information regarding options to purchase our common stock unexercised and outstanding as of December 31, 2004 and options granted to our named executive officers in the year ended December 31, 2004. Our named executive officers did not exercise any options during 2004. Also included is the value and number of unexercised options held as of December 31, 2004 by such named executive officers:

The value of the unexercised options is based on the last reported sale price of our common stock on February 11, 2005 of $0.72 per share.

"Exercise" means an employee's acquisition of shares of common stock which have already vested, "exercisable" means options to purchase shares of common stock which are subject to exercise and "unexercisable" means all other options to purchase shares of common stock.

	Number of Securities Underlying Unexercised Options(#)		Value of Unexercised Options($)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Dave Schaeffer		15,000	$	$ 8,307,542
Mark Schleifer		250	$	$ 138,459
Robert Beury, Jr.		350	$	$ 193,843
R. Brad Kummer		350	$	$ 193,843
R. Reed Harrison III	877	7,550	$ 283,338	$ 2,439,225

2004 Option/SAR Grants

Name	Number of securities underlying option/SARS granted (#)(1)	Percent of total options/SARs granted to employees in fiscal year	Exercise price ($/Share)	Expiration date	Potential Realizable Value At Assumed Annual Rates of Appreciation for Option Term: 5%	10%
Dave Schaeffer(2)	15,000	54.5%	$ 0.01	9/8/2014	$ 6,578,078	$ 10,474,579
Mark Schleifer(3)	250	0.9	0.01	9/8/2014	$ 109,635	$ 174,576
Robert Beury, Jr.(3)	350	1.3	0.01	9/8/2014	$ 153,488	$ 244,407
R. Brad Kummer(3)	350	1.3	0.01	9/8/2014	$ 153,488	$ 244,407
R. Reed Harrison III(4)	8,427	30.6	230.77	7/1/2014	$ 1,223,011	$ 3,099,349

(1) Options for Series H preferred stock. Each share of Series H preferred stock coverts into approximately 769 shares of common stock.

(2) Mr. Schaeffer's options vest fully on November 1, 2006.

(3) Options vest 25% on June 1, 2005 and the remainder vesting in equal amounts monthly over 36 months.

(4) Mr. Harrison's options vest monthly in equal amounts over 48 months starting on August 1, 2004.

Employment Agreements

Dave Schaeffer Employment Agreement. Dave Schaeffer has an employment agreement that provides for a minimum annual salary of $250,000 for his services as Chief Executive Officer. He also receives all of our standard employee benefits and a life insurance policy with a death benefit of $2 million. If he is discharged without cause or resigns for good reason, he is entitled to a lump sum amount equal to his annual salary at the time and continuation of his benefits for one year. If he is subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, he is entitled to additional payment to reimburse him for all taxes, up to a maximum additional payment of 20% of the amount subject to tax. The agreement also provides that failure to elect Mr. Schaeffer's designees to the board of directors, as provided in the Sixth Amended and Restated Stockholder Agreement, constitutes a material breach of his employment agreement. We expect that the stockholder agreement will terminate in connection with this offering. In the event of a change of control, 100% of his then unvested restricted stock and options will vest immediately.

Mark Schleifer Employment Agreement. Mark Schleifer's employment agreement provides for a minimum annual salary of $208,000 for his services as Vice President, IP Engineering. In the event that his employment with us is terminated without cause or constructively terminated without cause, the agreement entitles him to three months of salary and continuation of benefits for six months. In the event of a change of control the vesting of his restricted stock accelerates so that he will be 100% vested in not less than 12 months following the change of control.

In the event of a change of control

resulting in his termination without cause, 100% of his then restricted stock and options will vest immediately.

Robert Beury Employment Agreement. Robert Beury's employment agreement provides for a minimum annual salary of $196,000 for his services as Vice President and General Counsel. The agreement entitles him to six months of salary and six months of benefits in the event that his employment with us is terminated without cause or constructively terminated. In the event of a change of control the vesting of his restricted stock accelerates so that he will be 100% vested in not less than 12 months following the change of control. In the event of a change of control resulting in his termination without cause, 100% of his then restricted stock and options will vest immediately.

R. Brad Kummer Employment Agreement

R. Brad Kummer's employment agreement provides for a minimum annual salary of $190,000 for his services as Chief Technology Officer for Transport Networks and Vice President of Network Transmissions. In the event that his employment with us is terminated without cause or constructively terminated without cause, the agreement entitles him to to three months salary and continuation of benefits for six months. In the event of a change of control the vesting of his restricted stock accelerates so that he will be 100% vested in not less than 12 months following the change of control. In the event of a change in control resulting in his termination without cause, 100% of his then restricted stock and options will vest immediately.

R. Reed Harrison III Employment Agreement

R. Reed Harrison's employment agreement provides for a minimum annual salary of $275,000. The agreement entitles him to six months of salary and six months of benefits in the event that his employment with us is terminated without cause or constructively terminated. In the event of a change of control his options will be 100% vested in not less than 12 months following the change of control. In the event of a change of control resulting in his termination without cause, 100% of his then restricted stock options will vest immediately.

Equity Plans

2000 Equity Incentive Plan. In 1999 we adopted the 2000 Equity Incentive Plan. The principal purpose for the adoption of the 2000 Equity Incentive Plan was to attract, retain, and motivate selected officers, employees, consultants, and directors through the granting of stock-based compensation awards. The 2000 Equity Incentive Plan provides for a variety of compensation awards, including stock options, stock purchase rights and direct stock grants. Our board of directors, through the compensation committee, administers the 2000 Equity Incentive Plan with respect to all awards. The full board administers the 2000 Equity Incentive Plan with respect to options granted to independent directors, if any. Grants of equity compensation under the 2000 Equity Incentive Plan were made both to current and new officers, employees, consultants and directors based on each grantee's contributions the business as well as such grantee's anticipated contributions to our future growth and improvement. As of October 2003, we are no longer granting options under the 2000 Equity Incentive Plan.

2003 Incentive Award Plan and Offer to Exchange. During the third quarter of 2003, we adopted the 2003 Incentive Award Plan. We believed that adoption of the 2003 Award Plan was necessary to permit us to continue to incent our employees, consultants and directors by granting restricted stock awards as part of their overall compensation. The decision to grant shares of restricted preferred stock under the 2003 Award Plan was made in order to allow our management and employees to share in the proceeds of our sale or other liquidation when the amount of the proceeds resulted in a distribution to preferred stockholders under the liquidation provisions of the preferred stock, but were not sufficient to result in distributions to holders of our common stock. We anticipated that this structure would incent our management and employees by providing them with the possibility of reaping an economic benefit in a greater number of scenarios than would be the case if the 2003 Award Plan provided only for common stock grants.

The compensation committee determined that each of our employees would be eligible to receive grants of Series H preferred stock under the 2003 Award Plan pursuant to an arrangement that we refer to as the offer to exchange. The number of shares granted to each employee pursuant to the offer to exchange was based on the number of options to purchase common stock granted to that employee under our 2000 Equity Incentive Plan, and in the case of our Chief Executive Officer, former Chief Financial Officer and our current Chief Financial Officer, the number of options and shares of restricted common stock held by such individuals. As a condition to participating in the offer to exchange, employees were required to relinquish all options to purchase our common stock, and in the case of our Chief Executive Officer, former Chief Financial Officer and our current Chief Financial Officer, options to purchase our common stock and the restricted common stock previously issued to them. Restrictions on transfer of shares of Series H preferred stock granted pursuant to the offer to exchange were removed with respect to 27% of the shares granted upon receipt of the shares and then in equal monthly installments over the subsequent 35 months.

2004 Incentive Award Plan. In 2004, we adopted our 2004 Incentive Award Plan. The 2004 Award Plan is intended to enhance and supplement the 2003 Award Plan and the awards made thereunder by broadening the types of awards that may be granted to employees and consultants and by providing for grants to directors. In addition to awards of restricted shares of Series H preferred stock, the 2004 Award Plan provides us with the ability to award other equity-based incentive compensation, such as options to purchase shares of our Series H preferred stock and common stock, stock appreciation rights, dividend equivalent rights, performance awards, restricted stock units, deferred stock and stock payments to employees, consultants and directors.

The principal purpose for the adoption of the 2004 Award Plan was to promote the success of our business and enhance our value by linking the personal interests of employees, consultants and directors to our success and by providing these individuals with an incentive for outstanding performance. We believe that the 2004 Plan also gives us the flexibility to offer a variety of types of compensation and to remain competitive in recruiting and retaining qualified key personnel.

PRINCIPAL STOCKHOLDERS

The following table provides summary information regarding the beneficial ownership of our outstanding capital stock as of January 15, 2005, after giving effect to the equity conversion, but without giving effect to the underwriters' exercise of the their option to purchase additional shares, for:

- each person or group who beneficially owns more than 5% of our capital stock on a fully diluted basis;
- each of the executive officers named in the Summary Compensation Table;
- each of our directors; and
- all of our directors and executive officers as a group.

Beneficial ownership of shares is determined under the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Except as indicated by footnote, and subject to applicable community property laws, each person identified in the table possesses sole voting and investment power with respect to all shares of common stock held by them. Shares of common stock subject to options currently exercisable or exercisable within 60 days of January 15, 2005 are deemed outstanding for calculating the percentage of outstanding shares of the person holding those options or shares of restricted stock, but are not deemed outstanding for calculating the percentage of any other person. Unless otherwise noted, the address for each director and executive officer is c/o Cogent Communications Group, Inc., 1015 31st Street, N.W., Washington D.C. 20007.

	Beneficial Ownership		
Name of Beneficial Owner	**Number of Shares Prior to this Offering**	**Percentage Prior to this Offering**	**Percentage After this Offering**
Entities affiliated with Jerusalem Venture Partners Building One Mahla, Jerusalem 91487(1)	114,131,687	17.6%	
Entities affiliated with Oak Investment Partners IX, LP One Gorham Island Westport, CT 06880(2)	94,799,971	14.6%	
Entities affiliated with BNP Europe Telecom & Media Fund II, LP(3)	85,554,867	13.2%	
Entities affiliated with Worldview Technology Partners 435 Tasso Street, #120 Palo Alto, CA 94301(4)	69,205,301	10.7%	
Columbia Ventures Corporation	61,996,280	9.6%	
Entities affiliated with BCP Capital (previously Broadview Capital Partners) One Maritime Plaza, Suite 2525 San Francisco, CA 94111(5)	43,330,651	6.7%	
Cisco Systems Capital Corporation	68,199,901	10.5%	
Dave Schaeffer(6)	22,998,064	3.5%	
Erel Margalit(1)	114,131,687	17.6%	
Michael Carus(1)	114,131,687	17.6%	
Edward Glassmeyer(2)	94,799,971	14.6%	
Jean-Jacques Bertrand(3)	85,554,867	13.2%	
Timothy Weingarten(4)	69,205,301	10.7%	
Steven Brooks(5)	43,330,651	6.7%	
Mark Schleifer	310,000	*	
Robert Beury, Jr.	310,000	*	
R. Reed Harrison III(7)	1,215,420	*	

Kenneth Peterson(8)	61,996,280	9.6%
Directors and executive officers as a group (19 persons)(9)	494,783,096	76.2%

* Less than 1%

(1) Includes shares held by entities affiliated with Jerusalem Venture Partners, of which Mr. Margalit is Managing General Partner and Mr. Carus is a General Partner and CFO, including: (a) JVP III, LP, (b) JVP III (Israel) LP, (c) JVP Entrepreneurs Fund LP, (d) JVP IV, LP, (e) JVP-IV-A LP, and (f) JVP IV (Israel) LP. Messrs. Margalit and Carus disclaim beneficial ownership of such shares.

(2) Includes shares held by entities affiliated with Oak Investment Partners, of which Mr. Glassmeyer is a director, including: (a) Oak Investment Partners IX, LP, (b) Oak IX Affiliates Fund, LP, and (c) Oak IX Affiliates (Annex), LP. Mr. Glassmeyer disclaims beneficial ownership of such shares.

(3) Includes shares held by Natio Vie Developpement3, Fonds Communde Placement a Risque, or NVD3, and BNP Europe Telecom & Media Fund II, or BNP ETMF. BNP ETMF may be deemed to beneficially own the shares owned by NVD3 by virtue of their relationship, whereby BNP Private Equity SA, or BNP PE is the management company of NVD 3 and BNP PE shares certain common directors with General Business Finance and Investments Ltd, or GBFI, the general partner of BNP ETMF. Pursuant to the terms of the merger agreement pursuant to which the Series I and Series J preferred stock were issued, Jean Jacques Bertrand became a member of the Company's board of directors. Mr. Bertrand is a member of the board of directors of BNP PE and is a director and one of the shareholders of GBFI. Mr. Bertrand disclaims beneficial ownership of the shares held by NVD3 and BNP ETMF.

(4) Includes shares held by entities affiliated with Worldview Technology Partners, of which Mr. Weingarten is an employee, including: (a) Worldview Technology Partners III, LP, (b) Worldview Technology International III, LP, (c) Worldview Strategy III, LP, (d) Worldview III Carrier Fund, LP, (e) Worldview Technology Partners IV, LP, (f) Worldview Technology International IV, LP, and (g) Worldview Strategic Partners IV, LP. Mr. Weingarten disclaims beneficial ownership of such shares.

(5) Includes shares held by entities affiliated with BCP Capital, of which Mr. Brooks is Managing Director, including: (a) BCI Holdings LP, (b) Broadview Holdings LLP, (c) Broadview BCPSBS Fund, (d) BCP Associates Fund LLC (previously known as Broadview Capital Partners Affiliates Fund LLC), (e) BCP General LLC (previously known as Broadview Capital Partners Management LLC), and (f) BCP Capital QPF, L.P. (previously known as Broadview Capital Partners Qualified Purchaser Fund L.P.). Mr. Brooks disclaims beneficial ownership of such shares.

(6) Includes 295,424 shares of common stock, 160,424 of which are owned directly by Mr. Schaeffer and 135,000 shares of which are held by the Schaeffer Descendant's Trust. Mr. Schaeffer disclaims beneficial ownership of such shares. Also includes 200 shares of Series G preferred stock convertible into 3,923,409 shares of common stock and 24,413 shares of Series H preferred stock, convertible into 18,779,231 shares of common stock.

(7) Includes options for 1,580 shares of Series H preferred stock convertible into 1,215,420 shares of common stock.

(8) Includes shares held by Columbia Ventures Corporation, of which Mr. Peterson is Chief Executive Officer.

(9) See footnotes (1) through (8) above. Consists of Dave Schaeffer, Mark Schleifer, Robert Beury, Jr., Erel Margalit, Edward Glassmeyer, Timothy Weingarten, Steven Brooks, Michael Carus, Jean-Jacques Bertrand, R. Brad Kummer, Timothy O'Neill, R. Reed Harrison III, Warren Thrasher, Jeff Karnes, Andrew Hathaway, Vincent Teissier, Liran Gordon, Thaddeus Weed and Kenneth Peterson.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our Headquarters Lease

We lease office space in Washington, D.C. from a partnership of which our Chairman and Chief Executive Officer, Dave Schaeffer, is the general partner. The annual rent for this space is approximately $369,000 and the lease expires August 31, 2006 with an option to renew. We believe that this lease agreement is on terms at least as favorable to us as could have been obtained from an unaffiliated third party.

Acquisitions

In connection with our acquisition of our European network, we acquired Symposium Gamma, Inc., a corporation owned by certain of our principal stockholders, which held the assets used to establish our network in France and Spain, and Symposium Omega, Inc., a corporation also owned by certain of our principal stockholders, which held the assets used to establish our network in Germany. Immediately prior to our acquisition of Symposium Gamma, it had acquired its network assets from Symposium, Inc., a corporation owned by our Chief Executive Officer David Schaeffer. These transactions are described in more detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions Acquisition of European Network."

Marketing and Service Agreement

We have entered into an agency sales agreement with CTC Communications Corp., a company owned indirectly by one of our directors, Kenneth Peterson. Under the agreement, CTC markets our services and we market CTC's services, which are primarily telephony related. Neither CTC, nor we have received any revenue under this agreement. CTC is a customer of ours and we recorded approximately $70,000 of revenue from CTC for the year ended December 31, 2004.

Transactions with Columbia Ventures Corporation

We plan to obtain a transatlantic fiber optic circuit from a subsidiary of Columbia Ventures Corporation. Columbia Ventures Corporation is owned by one of our directors, Kenneth D. Peterson Jr., and is the holder of approximately 9.6% of our common stock on a fully diluted basis. We expect that the price for the circuit will be less than $30,000 per month and that the term of the service will be one year. We believe that these terms are at least as advantageous to us as those we could receive from an unaffiliated party. We are also currently in negotiations with Columbia Ventures regarding the issuance of a subordinated note in the principal amount of $10.0 million. We anticipate that the maturity date of the subordinated note will be approximately five years from the date of issuance; however, we anticipate that the terms of the subordinated note will require that it be repaid upon the consummation of this offering.

Customer Agreement with Cisco Systems Capital Corporation

In connection with the UFO acquisition we acquired Cisco as a customer. Cisco is a company stockholder and lender. The Company recorded revenue from Cisco of approximately $160,000 for the year ended December 31, 2004.

Nortel Settlement

In mid-2004 we participated with our European subsidiaries and LNG Holdings, S.A., or LNG, an entity controlled by our Chief Executive Officer Mr. Schaeffer, in the settlement of various disputes with Nortel Networks UK Limited and Nortel Networks France SAS, or Nortel. The dispute was regarding payments owed by Cogent France and LNG Holdings, S.A., the former parent company of certain of our European subsidiaries, as well as disputes over ongoing maintenance and software licensing for Nortel equipment deployed in our European operations. We also agreed on terms for the purchase at discounted prices of additional Nortel equipment and services as well as the settlement of a loan obligation of LNG Holdings S.A.

In connection with the settlement, we committed to pay approximately 450,000 euros as settlement in full of all amounts owed to Nortel through June 30, 2004 for services. In addition, we committed to pay approximately 600,000 euros for services to be delivered by Nortel during the second half of 2004 and to enter into a new services agreement to extend certain maintenance and other services arrangements with Nortel through 2007. Under the terms of the settlement, if we terminate this new services agreement before the end of 2007 without cause, we would be required to pay a penalty of 1,000,000 euros.

Another component of the settlement involved our commitment to pay 500,000 euros over three years for right-to-use software licenses for certain Nortel equipment we acquired in Europe through various acquisitions. LNG also committed to pay Nortel approximately 140,000 euros to fully settle LNG's obligations under a loan between Nortel and LNG in the principal amount of 5,000,000 euros. Our board of directors approved these transactions with Mr. Schaeffer abstaining.

Iberbanda Settlement

Cogent Spain and LNG settled a number of disputes between those entities and Iberbanda, a Spanish entity from whom Cogent Spain had been leasing space and obtaining services. In the settlement, LNG released to Iberbanda a 300,000 euro bond that had been put in place by LNG with the Spanish government as part of a bid for the right to construct a wireless network. In consideration for LNG's release of the bond, Iberbanda settled a claim for over 590,000 euros of back rent due on the former Madrid offices of Cogent Spain. In addition, Cogent Spain granted a credit for services to Iberbanda in the amount of 190,000 euros and agreed to pay approximately 80,000 euros in cash over a period of 18 months. Our board of directors approved these transactions with Mr. Schaeffer abstaining.

Reimbursement for Services Provided by LNG Employees

In January 2005, we reimbursed LNG approximately 40,000 euros of the approximate 190,000 euros for salaries paid to two employees of LNG that were providing accounting services to us during 2004. In November 2004, these two employees became employees of Cogent Europe.

Stockholders Agreement

In connection with the equity conversion, the holders of Series F preferred stock, Series G preferred stock, Series I preferred stock, Series J preferred stock, Series K preferred stock, Series L preferred stock and Series M preferred stock entered into a sixth amended and restated stockholders agreement with us, which provides for, among other things, an agreement by the parties to vote shares of common stock held by them for our directors so as to elect as directors persons designated by certain of the parties to such agreement, as well as the right to participate on a proportional basis in any of our future equity offerings. The stockholders agreement will terminate upon consummation of this offering.

Registration Rights Agreement

The holders of the Series F preferred stock, Series G preferred stock, Series I preferred stock, Series J preferred stock, Series K preferred stock, Series L preferred stock and Series M preferred stock are parties to the Seventh Amended and Restated Registration Rights Agreement with us, which provides for, among other things, registration rights with respect to common stock issued to the parties to the agreement. The material terms of this agreement are described in more detail in "Shares Eligible for Future Sale Registration Rights."

Employment Agreements

We have employment agreements with certain of our named executive officers as described in "Executive Compensation Employment Agreements."

Cisco Systems Service Provider Letter Agreement

In connection with the Cisco recapitalization in July 2003, which is described in detail under "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources," we entered into a Service Provider Letter Agreement with Cisco Systems pursuant to which we are required, until August 1, 2005, to make use of Cisco equipment for 80% of the hardware in our network. Any purchases we make to maintain this percentage would be on standard terms that we would expect to obtain from an unaffiliated third party.

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock is only a summary and is qualified in its entirety by reference to the actual terms and provisions of the capital stock contained in our Fifth Amended and Restated Certificate of Incorporation, which will become effective immediately prior to the consummation of this offering, and our bylaws, as they will be amended at the same time.

Our certificate of incorporation will authorize million shares of common stock, par value $.001 per share and shares of preferred stock, par value $.001 per share, the rights and preferences of which may be designated by the board of directors. We plan to effect a 1-for- reverse stock split before the consummation of this offering.

Preferred Stock Conversion

In February 2005, our holders of preferred stock elected to convert all of our currently issued preferred stock to common stock.

Our Common Stock

Voting Rights. The holders of our common stock are entitled to one vote per share on all matters submitted for action by the shareholders. There is no provision for cumulative voting with respect to the election of directors. Accordingly, a holder or group of holders of more than 50% of the shares of our common stock can, if it so chooses, elect all of our directors. In that event, the holders of the remaining shares will not be able to elect any directors.

Dividend Rights. All shares of our common stock are entitled to share equally in any dividends our board of directors may declare from legally available sources, subject to the terms of any then-outstanding preferred stock.

Liquidation Rights. Upon liquidation or dissolution of our company, whether voluntary or involuntary, all shares of our common stock are entitled to share equally in the assets available for distribution to shareholders after payment of all of our prior obligations, including any then-outstanding preferred stock.

Other Matters. The holders of our common stock have no preemptive or conversion rights, and our common stock is not subject to further calls or assessments by us. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of our common stock, including the common stock offered in this offering, are fully paid and non-assessable.

Registration Rights Agreement

The holders of the Series F preferred stock, Series G preferred stock, Series I preferred stock, Series J preferred stock, Series K preferred stock, Series L preferred stock and Series M preferred stock are parties to a Seventh Amended and Restated Registration Rights Agreement with us, which provides for, among other things, registration rights with respect to common stock issued to the parties to the agreement. The material terms of this agreement are described in more detail in "Shares Eligible for Future Sale Registration Rights."

Our Preferred Stock

The board of directors is authorized, subject to certain limitations prescribed by law, without further stockholder approval, to issue from time to time up to an aggregate of shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, including sinking fund provisions, redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of such series. Although we have no present plans to issue any shares of preferred stock, these additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions. One of the effects of the existence of unissued and undesignated preferred stock may be to enable our board of directors to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Certain provisions of our Bylaws and Delaware General Corporation Law

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns or within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's voting stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Transfer Agent and Registrar

Registrar and Transfer Company has been appointed as the transfer agent and registrar for our common stock.

Listing

Our common stock is currently traded on the American Stock Exchange under the symbol "COI."

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO NON-UNITED STATES HOLDERS

The following is a summary of the material U.S. federal income tax consequences to non-U.S. holders of the ownership and disposition of our common stock, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below. This summary is applicable only to non-U.S. holders who hold our common stock as a capital asset (generally, an asset held for investment purposes). We have not sought any ruling from the Internal Revenue Service (the "IRS"), with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies, or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- "controlled foreign corporations," "passive foreign corporations," "foreign personal holding companies" and corporations that accumulate earnings to avoid U.S. federal income tax;
- U.S. expatriates or former long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships which hold our common stock and partners in such partnerships should consult their tax advisors.

You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, you are a non-U.S. holder if you are a holder that, for U.S. federal income tax purposes, is not a U.S. person. For purposes of this discussion, you are a U.S. person if you are:

a citizen or resident of the United States;

- a corporation or other entity taxable as a corporation for U.S. tax purposes or a partnership or entity taxable as a partnership for U.S. tax purposes created or organized in or under the laws of the United States or of any state therein or the District of Columbia, unless in the case of a partnership, U.S. Treasury regulations provide otherwise;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (2) which has made an election to be treated as a U.S. person.

Distributions

If distributions are made on shares of our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

Any dividend paid to you generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable tax treaty. In order to receive a reduced treaty rate, you must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate.

Dividends received by you that are effectively connected with your conduct of a U.S. trade or business (and, where a tax treaty applies, are attributable to a U.S. permanent establishment maintained by you) are exempt from such withholding tax. In order to obtain this exemption, you must provide us with an IRS Form W-8ECI properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, if you are a corporate non-U.S. holder, dividends you receive that are effectively connected with your conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable tax treaty.

If you are eligible for a reduced rate of withholding tax pursuant to a tax treaty, you may obtain a refund of any excess amounts currently withheld if you file an appropriate claim for refund with the IRS.

Gain on Disposition of Common Stock

You generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with your conduct of a U.S. trade or business (and, where a tax treaty applies, is attributable to a U.S. permanent establishment maintained by you);
- you are an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation" for U.S. federal income tax purposes (a "USRPHC") at any time within the shorter of the five-year period preceding the disposition or your holding period for our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if you actually or constructively hold more than 5% of our common stock.

If you are a non-U.S. holder described in the first bullet above, you will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and corporate non-U.S. holders described in the first bullet above may be subject to the branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual non-U.S. holder described in the second bullet above, you will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses. You should consult any applicable income tax treaties that may provide for different rules.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to you, your name and address, and the amount of tax withheld, if any. A similar report is sent to you. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in your country of residence.

Payments of dividends made to you will not be subject to backup withholding if you establish an exemption, for example by properly certifying your non-U.S. status on a Form W-8BEN or another appropriate version of Form W-8. Notwithstanding the foregoing, backup withholding at a rate of up to 28% may apply if either we or our paying agent has actual knowledge, or reason to know, that you are a U.S. person.

Payments of the proceeds from a disposition of our common stock effected outside the United States by a non-U.S. holder made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) will apply to such a payment if the broker is a U.S. person, a controlled foreign corporation for U.S. federal income tax purposes, a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period, or a foreign partnership with certain connections with the United States, unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established.

Payments of the proceeds from a disposition of our common stock by a non-U.S. holder made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies as to its non-U.S. holder status under penalties of perjury or otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may be obtained, provided that the required information is furnished to the IRS in a timely manner.

SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common stock in the public market could adversely affect the market price of our common stock. Furthermore, because only a limited number of shares will be available for sale shortly after this offering due to the contractual and legal restrictions on resale described below, sales of substantial amounts of our common stock in the public market after the restrictions lapse, or the perception that such sales could occur, could adversely affect the prevailing market price and our ability to raise capital in the future.

Upon the closing of this offering, we will have outstanding an aggregate of shares of common stock. Of the outstanding shares, the shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares held by our "affiliates," as that term is defined under Rule 144 of the Securities Act, may be sold only in compliance with the limitations described below. The remaining shares of common stock will be deemed "restricted securities" as defined under Rule 144. Restricted securities may be sold in the public market only in a transaction registered under the Securities Act of 1933 (for example pursuant to the Registration Rights summarized below) or if they qualify for an exemption from registration under Rule 144 or 144(k) under the Securities Act, which rules are summarized below, or another exemption under the Securities Act applies.

Additionally, as described in "Underwriting Lock-up Agreements," we have agreed, along with each of our directors and executive officers and the holders of our preferred stock (which will be converted into shares of our common stock in the equity conversion), that, without the prior written consent of Lehman Brothers Inc., we will not, subject to some exceptions, and limited extensions in certain circumstances, directly or indirectly, offer, pledge, announce the intention to sell, sell, contract to sell, sell an option of contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any common stock or any securities which may be converted into or exchanged for any common stock or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock. As a result of these "lock-up" agreements, the restricted shares will be available for sale in the public market, subject to eligibility for sale under Rules 144 or 144(k) or in a registered transaction and subject to the release from lock-up obligations, as follows:

- 180 days after the date of this prospectus, shares;
- 270 days after the date of this prospectus, shares;
- 360 days after the date of this prospectus, shares;
- 450 days after the date of this prospectus, shares; and
- 540 days after the date of this prospectus, shares.

Each release of shares from the lock-up agreements described above will be extended if:

- during the last 17 days of each of the five periods described above, we issue an earnings release or announce material news or a material event; or
- prior to the expiration of each of these periods, we announce that we will release earnings results during the 16-day period beginning on the last day of such period;

in which case the restrictions described in the immediately preceding two paragraphs will continue to apply to the applicable shares until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Rule 144

In general, under Rule 144, as currently in effect, a person who owns shares that were acquired from us or an affiliate of ours at least one year prior to the proposed sale is entitled to sell, within any 90-day period, upon expiration of any lock-up agreement to which he or she is a party, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering; or

- the average weekly trading volume of the common stock on the American Stock Exchange during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us. Rule 144 also provides that our affiliates who sell shares of our common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares, other than the holding period requirement.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to be, or to have been, one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including in some circumstances the holding period of a prior owner, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Registration Rights

Certain of our preferred stock holders who are subject to the lockup agreements entered into a restated registration rights agreement with us, which provides for, among other things, registration rights with respect to common stock held by such parties. Pursuant to the registration rights agreement, these parties may require us to register upon demand the sale of their shares of common stock on up to three occasions. This requirement is called a demand registration. We are required to pay all registration expenses in connection with any demand registration effected pursuant to a registration right. In addition, if we propose to register the sale of any of our common stock under the Securities Act, whether for our own account or otherwise, those stockholders are entitled to notice of the registration and are entitled to include, subject to certain exceptions, their shares of common stock in that registration with all registration expenses paid by us. Notwithstanding the foregoing, pursuant to their obligations under the lock-up agreements, these parties will unable to exercise a registration right prior to one year after the date of this prospectus.

UNDERWRITING

Lehman Brothers Inc. is acting as representative of the underwriters. Under the terms of an Underwriting Agreement, which is filed as an exhibit to this registration statement, each of the underwriters named below has severally agreed to purchase from us the respective number of common stock shown opposite its name below:

Underwriter	Number of Shares
Lehman Brothers Inc.	
Thomas Weisel Partners LLC	
CIBC World Markets Corp.	
Friedman, Billings, Ramsey & Co., Inc.	

The underwriting agreement provides that the underwriters' obligation to purchase shares of common stock depends on the satisfaction of the conditions contained in the underwriting agreement including:

- the obligation to purchase all of the shares of common stock offered hereby, if any of the shares are purchased;
- the representations and warranties made by us to the underwriters are true;
- there is no material change in the financial markets; and
- we deliver customary closing documents to the underwriters.

Commissions and Expenses

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the initial price to the public and the amount the underwriters pay to us for the shares.

	No Exercise	Full Exercise
Per share		
Total		

The representative of the underwriters has advised us that the underwriters propose to offer the shares of common stock directly to the public at the public offering price on the cover of this prospectus and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of $ per share. The underwriters may allow, and the selected dealers may re-allow, a discount from the concession not in excess of $ per share to other dealers. After the offering, the representative may change the offering price and other selling terms.

The expenses of the offering that are payable by us are estimated to be $ (exclusive of underwriting discounts and commissions).

Option to Purchase Additional Shares

We have granted the underwriters an option exercisable for 30 days after the date of this prospectus, to purchase, from time to time, in whole or in part, up to an aggregate of shares at the public offering price less underwriting discounts and commissions. This option may be exercised if the underwriters sell more than shares in connection with this offering. To the extent that this option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase its pro rata portion of these additional shares based on the underwriter's percentage underwriting commitment in the offering as indicated in the table at the beginning of this Underwriting Section.

Lock-Up Agreements

We, all of our directors and executive officers and the holders of our preferred stock (which will be converted into shares of our common stock in the equity conversion) have agreed that, without the prior written consent of Lehman Brothers Inc., we will not, subject to some exceptions, and limited extensions in certain circumstances, directly or indirectly, offer, pledge, announce the intention to sell, sell, contract to sell, sell an option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any common stock or any securities which may be converted into or exchanged for any common stock or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock.

The shares subject to these lock-up agreements will be released from the agreements in the following increments:

- 10% after 180 days from the date of this prospectus;
- 15% after 270 days from the date of this prospectus;
- 20% after 360 days from the date of this prospectus;
- 25% after 450 days from the date of this prospectus; and
- the remaining 30% after 540 days from the date of this prospectus.

Each release of shares from the lock-up agreements described above will be extended if:

- during the last 17 days of each of the five periods described above, we issue an earnings release or announce material news or a material event; or
- prior to the expiration of each of these periods, we announce that we will release earnings results during the 16-day period beginning on the last day of such period;

in which case the restrictions described in the immediately preceding two paragraphs will continue to apply to the applicable shares until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Indemnification

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization, Short Positions and Penalty Bids

The representative may engage in stabilizing transactions, short sales and purchases to cover positions created by short sales, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Securities Exchange Act of 1934:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

A short position involves a sale by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase in the offering, which creates the syndicate short position. This short position may be either a covered short position or a naked short position. In a covered short position, the number of shares involved in the sales made by the underwriters in excess of the number of shares they are obligated to purchase is not greater than the number of shares that they may purchase by exercising their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares in their option to purchase additional shares. The underwriters may close out any short position by either exercising their option to purchase additional shares and/or purchasing shares in the open market. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through their option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on The American Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the representative will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Electronic Distribution

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representative on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Stamp Taxes

If you purchase shares of common stock offered in this prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus.

Relationships

Certain of the underwriters and their related entities have engaged and may engage in commercial and investment banking transactions with us in the ordinary course of their business. They have received customary compensation and expenses for these commercial and investment banking transactions.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Latham & Watkins LLP, Washington, D.C. Various legal matters relating to this offering will be passed upon for the underwriters by Mayer, Brown, Rowe & Maw LLP, Chicago, IL.

EXPERTS

The consolidated financial statements of Cogent Communications Group, Inc. at December 31, 2003 and 2002, and for each of the two years in the period ended December 31, 2003, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Firstmark Communications Participations S.à r.l. at December 31, 2003 and 2002, and for each of the two years in the period ended December 31, 2003, appearing in this prospectus and registration statement have been audited by Ernst & Young SA, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about Firstmark Communications' ability to continue as a going concern as described in Note 1 to Firstmark Communications' consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Our consolidated financial statements for the year ended December 31, 2001 and for Allied Riser Communications Corporation for the years ended December 31, 2001, 2000 and 1999 appearing in this prospectus and registration statement, were audited by Arthur Andersen LLP. After reasonable efforts, we have not been able to obtain the consent of Arthur Andersen LLP to the incorporation by reference into such this registration statement of Arthur Andersen LLP's audit report regarding such financial statements. Accordingly, Arthur Andersen LLP will not be liable to investors under Section 11(a) of the Securities Act because it has not consented to being named as an expert in this registration statement. Therefore, such lack of consent may limit the recovery by investors from Arthur Andersen LLP.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, referred to as the Securities Act, with respect to the shares of our common stock offered by this prospectus. This prospectus, filed as a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules thereto as permitted by the rules and regulations of the SEC. For further information about us and our common stock, you should refer to the registration statement. This prospectus summarizes provisions that we consider material of certain contracts and other documents to which we refer you. Because the summaries may not contain all of the information that you may find important, you should review the full text of those documents. We have included copies of those documents as exhibits to the registration statement.

We are currently subject to the periodic reporting and other requirements of the Securities Exchange Act of 1934. You may read and copy any document we file or have filed with the SEC, including the registration statement of which this prospectus is a part and the exhibits thereto, may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The registration statement and other information filed by us with the SEC are also available at the SEC's Internet site at *www.sec.gov*. You may request copies of the filing, at no cost, by telephone at (202) 295-4200 or by mail at Cogent Communications Group, Inc., 1015 31st Street N.W., Washington, D.C. 20007.

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COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND SEPTEMBER 30, 2004
(IN THOUSANDS, EXCEPT SHARE DATA)

	December 31, 2003	September 30, 2004
		(Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 7,875	$ 8,796
Short term investments ($753 and $601 restricted, respectively)	4,115	601
Accounts receivable, net of allowance for doubtful accounts of $2,868 and $3,408, respectively	5,066	10,582
Accounts receivable related party		1,709
Prepaid expenses and other current assets	905	3,952
Total current assets	17,961	25,640
Property and equipment:		
Property and equipment	400,097	463,317
Accumulated depreciation and amortization	(85,691)	(123,690)
Total property and equipment, net	314,406	339,627
Intangible assets:		
Intangible assets	26,780	28,549
Accumulated amortization	(18,671)	(25,502)
Total intangible assets, net	8,109	3,047
Other assets ($1,608 and $1,564 restricted, respectively)	3,964	4,949
Total assets	**$ 344,440**	**$ 373,263**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,296	$ 13,014
Accounts payable related party		1,409
Accrued liabilities	7,885	15,066
Current maturities, capital lease obligations	3,646	5,799
Total current liabilities	18,827	35,288
Amended and Restated Cisco Note related party	17,842	17,842
Convertible subordinated notes, net of discount of $6,084 and $5,326	4,107	4,865
Capital lease obligations, net of current	58,107	102,955
Other long-term liabilities	803	2,533
Total liabilities	**99,686**	**163,483**
Commitments and contingencies:		
Stockholders' equity:		
Convertible preferred stock, Series F, $0.001 par value; 11,000 shares authorized, issued, and outstanding; liquidation preference of $29,100	10,904	10,904
Convertible preferred stock, Series G, $0.001 par value; 41,030 shares authorized, issued and outstanding; liquidation preference of $123,090	40,787	40,787
Convertible preferred stock, Series H, $0.001 par value; 84,001 shares authorized; 53,372 and 46,499 shares issued and outstanding, respectively; liquidation preference of $7,845	45,990	45,039

	December 31, 2003	September 30, 2004
Convertible preferred stock, Series I, $0.001 par value; 3,000 shares authorized, 2,575 shares issued and outstanding at September 30, 2004; liquidation preference of $7,725		2,545
Convertible preferred stock, Series J, $0.001 par value; 3,891 shares authorized, issued and outstanding at September 30, 2004; liquidation preference of $58,365		19,421
Convertible preferred stock, Series K, $0.001 par value; 2,600 shares authorized, issued and outstanding at September 30, 2004; liquidation preference of $7,800		2,588
Convertible preferred stock, Series L, $0.001 par value; 185 shares authorized, issued and outstanding at September 30, 2004; liquidation preference of $2,781		927
Common stock, $0.001 par value; 600,000,000 shares authorized; 13,071,340 and 16,338,992 shares outstanding, respectively	14	16
Additional paid-in capital	232,461	236,179
Deferred compensation	(32,680)	(26,412)
Stock purchase warrants	764	764
Treasury stock, 1,229,235 shares	(90)	(90)
Accumulated other comprehensive income	628	572
Accumulated deficit	(54,024)	(123,460)
Total stockholders' equity	244,754	209,780
Total liabilities and stockholders' equity	**$ 344,440**	**$ 373,263**

The accompanying notes are an integral part of these condensed consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2004
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2004
	(Unaudited)	(Unaudited)
Net service revenue (none and $496 from related party, respectively)	$ 15,148	$ 21,736
Operating expenses:		
Network operations (including $53 and $207 of amortization of deferred compensation, respectively, and none and $230 to related party, respectively, exclusive of amounts shown separately)	12,067	14,510
Selling, general, and administrative (including $702 and $2,753 of amortization of deferred compensation, respectively, and $1,025 and $432 of allowance for doubtful accounts expense, respectively)	7,014	11,842
Restructuring charge		1,396
Terminated public offering costs		779
Depreciation and amortization	11,968	13,369
Total operating expenses	31,049	41,896
Operating loss	(15,901)	(20,160)
Gain Cisco credit facility troubled debt restructuring	215,432	
Interest income and other	199	181
Interest expense	(3,268)	(3,062)
Net income (loss)	$ 196,462	$ (23,041)
Beneficial conversion charges	(52,000)	(3,455)
Net income (loss) applicable to common stock	$ 144,462	$ (26,496)
Net income (loss) per common share:		
Basic net income (loss) per common share	$ 0.86	$ (1.43)
Beneficial conversion charges	(0.23)	(0.21)
Basic net income (loss) per common share applicable to common stock	0.63	(1.64)
Diluted net income (loss) per common share	$ 0.86	$ (1.43)
Beneficial conversion charges	(0.23)	(0.21)
Diluted net income (loss) per common share applicable to common stock	0.63	(1.64)

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2004
Weighted-average common shares basic	228,520,340	16,123,018
Weighted-average common shares diluted	228,595,536	16,123,018

The accompanying notes are an integral part of these condensed consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2004
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
	(Unaudited)	(Unaudited)
Net service revenue (none and $1,611 from related party, respectively)	$ 44,899	$ 63,068
Operating expenses:		
Network operations (including $161 and $633 of amortization of deferred compensation, respectively, and none and $1,630 to related party, respectively, exclusive of amounts shown separately)	35,088	43,944
Selling, general, and administrative (including $2,141 and $8,404 of amortization of deferred compensation, respectively, and $3,257 and $2,453 of allowance for doubtful accounts expense, respectively)	22,155	36,612
Restructuring charge		1,396
Terminated public offering costs		779
Depreciation and amortization	35,006	41,654
Total operating expenses	92,249	124,385
Operating loss	(47,350)	(61,317)
Gain Cisco credit facility troubled debt restructuring	215,432	
Gain Allied Riser note exchange	24,802	
Interest income and other	908	1,313
Interest expense	(18,212)	(9,432)
Net income (loss)	$ 175,580	$ (69,436)
Beneficial conversion charges	(52,000)	(25,483)
Net income (loss) applicable to common stock	$ 123,580	$ (94,919)
Net income (loss) per common share:		
Basic net income (loss) per common share	$ 2.03	$ (4.67)
Beneficial conversion charges	(0.60)	(1.71)
Basic net income (loss) per common share applicable to common stock	$ 1.43	$ (6.38)
Diluted net income (loss) per common share	$ 2.03	$ (4.67)
Beneficial conversion charges	(0.60)	(1.71)
Diluted net income (loss) per common share applicable to common stock	$ 1.43	$ (6.38)
Weighted-average common shares basic	86,301,503	14,882,754
Weighted-average common shares diluted	86,363,131	14,882,754

The accompanying notes are an integral part of these condensed consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND SEPTEMBER 30, 2004
(IN THOUSANDS)

	Nine Months Ended September 30, 2003 (Unaudited)	Nine Months Ended September 30, 2004 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 175,580	$ (69,436)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain Cisco credit facility troubled debt restructuring	(215,432)	
Gain Allied Riser note exchange	(24,802)	
Gain sale of warrant		(842)
Depreciation and amortization	35,006	41,654
Amortization of debt costs	1,359	
Amortization of debt discount convertible notes	1,622	758
Amortization of deferred compensation	2,302	9,037
Loss on equipment sale		106
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	84	2,231
Accounts receivable related party		(1,696)
Prepaid expenses and other current assets	(876)	3,176
Other assets	1,001	740
Accounts payable related party		1,401
Accounts payable, accrued and other liabilities	677	(8,994)
Net cash used in operating activities	(23,479)	(21,865)
Cash flows from investing activities:		
Purchases of property and equipment	(21,068)	(6,335)
(Purchases) maturities of short term investments	(5,016)	3,514
Purchases of intangible assets	(700)	(357)
Proceeds from other assets acquired Firstmark acquisition		602
Cash acquired Global Access acquisition		170
Cash acquired UFO acquisition		1,889
Cash acquired Firstmark acquisition		2,159
Cash acquired Gamma acquisition		2,545
Cash acquired Omega acquisition		19,421
Proceeds from sale of equipment		276
Proceeds from sale of warrant		3,402
Net cash (used in) provided by investing activities	(26,784)	27,286
Cash flows from financing activities:		
Borrowings under Cisco credit facility	8,005	
Repayment of advances from LNG Holdings related party		(1,225)
Exchange agreement payment Allied Riser notes	(4,997)	
Exchange agreement payment Cisco credit facility restructuring	(20,000)	
Proceeds from issuance of Series G preferred stock, net	40,630	
Repayments of capital lease obligations	(2,183)	(3,199)
Net cash provided by (used in) financing activities	21,455	(4,424)
Effect of exchange rate changes on cash	525	(76)
Net (decrease) increase in cash and cash equivalents	(28,283)	921
Cash and cash equivalents, beginning of period	39,314	7,875

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
Cash and cash equivalents, end of period	$ 11,031	$ 8,796

Supplemental disclosures of cash flow information:		
Non-cash financing activities Capital lease obligations incurred	$ 4,654	$ 411
Borrowing under credit facility for payment of loan costs and interest	$ 4,502	
Issuance of Series I preferred stock for Gamma common stock		$ 2,575
Issuance of Series J preferred stock for Omega common stock		$ 19,454
Issuance of Series K preferred stock for UFO Group common stock		$ 2,600
Issuance of Series L preferred stock for Global Access assets		$ 927
Exchange agreement with Cisco Capital (See Note 1)		
Global Access acquisition		
Fair value of assets acquired		$ 1,931
Less: valuation of Series L preferred stock issued		(927)
Fair value of liabilities assumed		$ 1,004
UFO Group Inc. Merger UFO acquisition		
Fair value of assets acquired		$ 3,326
Less: valuation of Series K preferred stock issued		(2,600)
Fair value of liabilities assumed		$ 726
Symposium Gamma Merger Firstmark acquisition		
Fair value of assets acquired		$ 155,468
Negative goodwill		(77,232)
Less: valuation of Series I preferred stock issued		(2,575)
Fair value of liabilities assumed		$ 75,661

The accompanying notes are an integral part of these condensed consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003 and 2004
(unaudited)

1. Description of business:

Cogent Communications, Inc. ("Cogent") was formed on August 9, 1999, as a Delaware corporation and is located in Washington, DC. Cogent is a facilities-based Internet Services Provider ("ISP"), providing primarily Internet access to businesses located in North America and in Western Europe. In 2001, Cogent formed Cogent Communications Group, Inc., (the "Company"), a Delaware corporation. Effective on March 14, 2001, Cogent's stockholders exchanged all of their outstanding common and preferred shares for an equal number of shares of the Company, and Cogent became a wholly owned subsidiary of the Company.

The Company's high-speed Internet access service is delivered to its customers over a fiber-optic network. The Company's network is dedicated primarily to Internet Protocol data traffic. Since the Company's April 2002 acquisition of certain assets of PSINet, Inc. ("PSINet"), in addition to its high-speed Internet access service offering, the Company added a more traditional Internet service offering, with lower speed connections provided by leased circuits obtained from telecommunications carriers (primarily local telephone companies). The Company utilizes leased circuits (primarily T-1 lines) to reach customers that purchase this service. The Company provides high-speed Internet access to businesses, universities, operators of Internet web sites, and other Internet service providers in North America and Europe.

Acquisition of Global Access

On September 15, 2004, the Company issued 185.4 shares of its newly authorized Series L convertible preferred stock to the shareholders of Global Access Telecommunications, Inc. ("Global Access") in exchange for the majority of the assets of Global Access. The Series L preferred stock converts into approximately 5.7 million shares of the Company's common stock and, with the exception of voting rights, has rights and privileges similar to the Company's Series J preferred stock. The estimated fair market value for the Series L preferred stock was determined by using the price per share of our Series J preferred stock. Global Access was headquartered in Frankfurt, Germany and provided Internet access and other data services in Germany. The acquired assets included customer contracts, accounts receivable and certain network equipment. Assumed liabilities include certain vendor relationships and accounts payable and accrued liabilities. The Company is in the process of integrating these acquired assets into its operations and onto its broadband network.

Merger with UFO Group, Inc.

On August 12, 2004, a subsidiary of the Company merged with UFO Group, Inc. ("UFO Group"). The Company issued 2,600 shares of its newly authorized Series K convertible preferred stock in exchange for the outstanding shares of UFO Group. The Series K preferred stock converts into approximately 16.1 million shares of the Company's common stock and has rights and privileges similar to the Company's Series J preferred stock. The estimated fair market value for the Series K preferred stock was determined by using the price per share of our Series J preferred stock. Prior to the merger, UFO Group had acquired the majority of the assets of Unlimited Fiber Optics, Inc. (UFO). UFO's customer base is comprised of data service customers and its network is comprised of fiber optic facilities located in San Francisco, Los Angeles and Chicago. The acquired assets included net cash of approximately $1.9 million, all of UFO's customer contracts, customer accounts receivable and certain network equipment. Assumed liabilities include certain vendor relationships and accounts payable.

Under the purchase agreement the Company and UFO Group agreed to provide certain services to UFO for a transition period and UFO agreed to provide the Company network services and facilities for a transition period of approximately ninety days. The Company is in the process of integrating these acquired assets into its operations and onto its broadband network.

Merger with Symposium Omega

On March 30, 2004, Symposium Omega, Inc., ("Omega") a Delaware corporation and related party, merged with a subsidiary of the Company (Note 11). Prior to the merger, Omega had raised approximately $19.5 million in cash in a private equity transaction with certain existing investors in the Company and acquired the rights to a German fiber optic network. The German fiber optic network had no customers, employees or associated revenues. The Company issued 3,891 shares of Series J preferred stock to the shareholders of Omega in exchange for all of the outstanding common stock of Omega. The accounting for the merger resulted in the Company recording cash of approximately $19.5 million and issuing Series J convertible preferred stock. The acquisition of the German fiber optic network will be accounted for in the fourth quarter of 2004 when the final acquisition payments are expected to be made. The network includes a pair of single mode fibers under a fifteen-year IRU, network equipment, and the co-location rights to facilities in approximately thirty-five points of presence in Germany. The agreement requires a payment of approximately 2.3 million euros and includes monthly service fees of approximately 85,000 euros for co-location and maintenance for the pair of single mode fibers. Approximately 0.2 million euro of the 2.3 million euro was paid through September 30, 2004, 1.3 million euros was paid in October 2004 and the remaining 0.8 million euro payment is expected to be made in the fourth quarter of 2004. The Company is in the process of integrating this German network into its existing European networks and is offering point-to-point transport, transit services and its North American product set in Germany.

Merger with Symposium Gamma, Inc. and Acquisition of Firstmark Communications Participations S.à r.l. and Subsidiaries ("Firstmark")

In January 2004, a subsidiary of the Company merged with Symposium Gamma, Inc. ("Gamma"), a related party (Note 11). Immediately prior to the merger, Gamma had raised $2.5 million through the sale of its common stock in a private equity transaction with certain existing investors in the Company and new investors and in January 2004, acquired Firstmark for 1 euro. The merger expanded the Company's network into Western Europe. Under the merger agreement all of the issued and outstanding shares of Gamma common stock were converted into 2,575 shares of the Company's Series I convertible participating preferred stock. This Series I convertible preferred stock is convertible into approximately 16.0 million shares of the Company's common stock. The Company is supporting Firstmark's products including point-to-point transport and transit services in over 40 markets and approximately 20 data centers across Western Europe. The Company has also introduced in Western Europe a new set of products and services based on the Company's current North American product set. In 2004, Firstmark changed its name to Cogent Europe S.à r.l ("Cogent Europe").

Withdrawal of Public Offering

In 2004, the Company filed a registration statement to sell shares of common stock in a public offering. In October 2004, the Company withdrew the public offering and expensed the associated costs incurred through September 30, 2004 of approximately $0.8 million.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments that the Company considers necessary for the fair presentation of its results of operations and cash flows for the interim periods covered, and of the financial position of the Company at the date of the interim condensed consolidated balance sheet. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The operating results for interim periods are not necessarily indicative of the operating results for the entire year. While the Company believes that the disclosures are adequate to not make the information misleading, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included elsewhere in this prospectus.

The accompanying unaudited consolidated financial statements include all wholly owned subsidiaries. All inter-company accounts and activity have been eliminated.

Business risks

The Company operates in the rapidly evolving Internet services industry, which is subject to intense competition and rapid technological change, among other factors. The successful execution of the Company's business plan is dependent upon the Company's ability to increase the number of customers purchasing services in the buildings connected to and being served by its network ("lit buildings"), its ability to increase its market share, the Company's ability to integrate acquired businesses and purchased assets, including its recent expansion into Western Europe, into its operations and realize planned synergies, access to capital, the availability of and access to intra-city dark fiber and multi-tenant office buildings, the availability and performance of the Company's network equipment, the extent to which acquired businesses and assets are able to meet the Company's expectations and projections, the Company's ability to retain and attract key employees, and the Company's ability to manage its growth, among other factors. Although management believes that the Company will successfully mitigate these risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

International operations

The Company began recognizing revenue from operations in Canada through its wholly owned subsidiary, ARC Canada effective with the closing of the Allied Riser merger on February 4, 2002. All revenue is reported in United States dollars. Revenue for ARC Canada for the three months ended September 30, 2003 and September 30, 2004 was approximately $1.4 million and $1.6 million, respectively. Revenue for ARC Canada for the nine months ended September 30, 2003 and September 30, 2004 was approximately $4.0 million and $4.5 million, respectively. ARC Canada's total consolidated assets were approximately $11.8 million at December 31, 2003 and $11.6 million at September 30, 2004.

The Company began recognizing revenue from operations in Europe effective with the January 5, 2004 acquisition of Cogent Europe. All revenue is reported in United States dollars. Revenue for the

Company's European operations for the three and nine months ended September 30, 2004 was approximately $5.7 million and $16.3 million, respectively. Cogent Europe's total consolidated assets were approximately $63.7 million at September 30, 2004.

Financial instruments

The Company is party to letters of credit totaling $2.2 million as of September 30, 2004. Securing these letters of credit are restricted investments totaling $2.2 million that are included in short-term investments and other assets. No claims have been made against these financial instruments.

At December 31, 2003 and September 30, 2004, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses approximated fair value because of the short maturity of these instruments. The Allied Riser convertible subordinated notes remaining after the note exchange discussed in Note 7, have a face value of $10.2 million. These notes were recorded at their fair value of approximately $2.9 million at the merger date when they were trading at $280 per $1,000. The discount is being accreted to interest expense through the maturity date.

Revenue recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition." The Company's service offerings consist of telecommunications services typically provided under month-to-month or annual contracts that are billed monthly in advance. Net revenues from telecommunication services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collection is probable. The probability of collection is determined by an analysis of credit history for certain new customers and historical payment patterns for existing customers. Service discounts and incentives related to telecommunication services are recorded as a reduction of revenue when granted. Fees billed in connection with customer installations and other non-refundable upfront charges are deferred and recognized ratably over the longer of the estimated customer life or contract term determined by a historical analysis of customer retention, generally one year.

The Company establishes a valuation allowance for collection of doubtful accounts and other sales credit adjustments. Valuation allowances for sales credits are established through a charge to revenue, while valuation allowances for doubtful accounts are established through a charge to selling, general and administrative expenses. The Company assesses the adequacy of these reserves monthly by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, changes in the credit worthiness of its customers and any unprocessed customer cancellations. The Company believes that its established valuation allowances are adequate as of December 31, 2003 and September 30, 2004. If circumstances relating to specific customers change or economic conditions worsen such that the Company's past collection experience and assessment of the economic environment are no longer relevant, the Company's estimate of the recoverability of its accounts receivable could be further reduced.

The Company invoices certain customers for amounts contractually due for unfulfilled minimum contractual obligations and recognizes a corresponding sales allowance equal to this revenue resulting in the recognition of zero net revenue at the time the customer is billed. The Company recognizes net revenue as these billings are collected in cash. The Company vigorously seeks payment of these amounts.

Foreign Currency

The functional currency of ARC Canada is the Canadian dollar. The functional currency of Cogent Europe is the euro. The consolidated financial statements of ARC Canada, and Cogent Europe, are translated into U.S. dollars using the period-end rates of exchange for assets and liabilities and average rates of exchange for revenues and expenses. Gains and losses on translation of the accounts of the Company's non-U.S. operations are accumulated and reported as a component of other comprehensive income in stockholders' equity.

Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting of Comprehensive Income" requires "comprehensive income" and the components of "other comprehensive income" to be reported in the financial statements and/or notes thereto (amounts in thousands).

	Three months ended September 30, 2003	Three months ended September 30, 2004	Nine months ended September 30, 2003	Nine months ended September 30, 2004
Net income (loss) applicable to common stock	$ 144,462	$ (26,496)	$ 123,580	$ (94,919)
Currency translation	(39)	268	525	(56)
Comprehensive income (loss)	$ 144,423	$ (26,228)	$ 124,105	$ (94,975)

Long-lived assets

The Company's long-lived assets include property and equipment and identifiable intangible assets to be held and used. These long-lived assets are currently reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Pursuant to SFAS No. 144, impairment is determined by comparing the carrying value of these long-lived assets to management's probability weighted estimate of the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The cash flow projections used to make this assessment are consistent with the cash flow projections that management uses internally to assist in making key decisions. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models. Management believes that no such impairment existed in accordance with SFAS No. 144 as of December 31, 2003 or September 30, 2004. In the event there are changes in the planned use of the Company's long-term assets or the Company's expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No. 144 could change.

Because management's best estimate of undiscounted cash flows generated from these assets exceeds their carrying value for each of the periods presented, no impairment pursuant to SFAS No. 144 exists. However, because of the significant difficulties confronting the telecommunications industry, management believes that the current fair value of its long-lived assets including its network assets and IRU's are significantly below the amounts the Company originally paid for them and may be less than their current depreciated cost basis.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-based compensation

The Company accounts for its stock option plan and shares of restricted preferred stock granted under its 2003 and 2004 Incentive Award Plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense related to fixed employee stock options and restricted shares is recorded only if on the date of grant, the fair value of the underlying stock exceeds the exercise or purchase price. The Company has adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and to provide pro forma net income disclosures as if the fair value based method of accounting described in SFAS No. 123 had been applied to employee stock option grants and restricted shares. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 (in thousands except share and per share amounts):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
Net income (loss) applicable to common stock, as reported	$ 144,462	$ (26,496)	$ 123,580	$ (94,919)
Add: stock-based employee compensation expense included in reported net income (loss), net of related tax effects	755	2,960	2,302	9,037
Deduct: stock-based employee compensation expense determined under fair value based method, net of related tax effects	(984)	(3,086)	(2,955)	(9,163)
Pro forma-net income (loss)	$ 144,233	$ (26,622)	$ 122,927	$ (95,045)
Net income (loss) per share applicable to common stock, as reported basic	$ 0.63	$ (1.64)	$ 1.43	$ (6.38)
Net income (loss) per share applicable to common stock, as reported diluted	$ 0.63	$ (1.64)	$ 1.43	$ (6.38)
Pro forma net income loss per share applicable to common stock basic	$ 0.63	$ (1.65)	$ 1.42	$ (6.39)
Pro forma net income loss per share applicable to common stock diluted	$ 0.63	$ (1.65)	$ 1.42	$ (6.39)

The weighted-average per share grant date fair value of options for common stock granted was $2.16 for the three months ended September 30, 2003 and $13.68 for the nine months ended September 30, 2003. The fair value of these options was estimated at the date of grant with the following assumptions for the three months ended September 30, 2003 an average risk-free rate of

3.5 percent, a dividend yield of 0 percent, an expected life of 5.0 years and an expected volatility of 197 percent and for the nine months ended September 30, 2003 an average risk-free rate of 3.5 percent, a dividend yield of 0 percent, an expected life of 5.0 years and an expected volatility of 197 percent. The weighted-average per share grant date fair value of options for Series H preferred stock granted was $236.50 for the three and nine months ended September 30, 2004.The fair value of these options was estimated at the date of grant with the following assumptions an average risk-free rate of 3.5 percent, a dividend yield of 0 percent, an expected life of 5.0 years and an expected volatility of 160 percent. The weighted- average per share grant date fair value of Series H preferred shares granted to employees in the nine months ended September 30, 2004 was $1,244.96 There were no shares of Series H preferred stock granted in the three months ended September 30, 2004. The fair value was determined using the as converted number of common shares times the trading price of the Company's common stock on the date of grant. Each share of Series H preferred stock converts into approximately 769 shares of common stock. During the nine months ended September 30, 2004 employees converted 4,248 shares of Series H preferred stock into approximately 3.3 million share of common stock.

Basic and diluted net loss per common share

Net loss per share is presented in accordance with the provisions of SFAS No. 128 "Earnings per Share". SFAS No. 128 requires a presentation of basic EPS and diluted EPS. Basic EPS excludes dilution for common stock equivalents and is computed by dividing income or loss available to common stockholders by the weighted-average number of common shares outstanding for the period, adjusted, using the if-converted method, for the effect of common stock equivalents arising from the assumed conversion of participating convertible securities, if dilutive. Diluted net loss per common share is based on the weighted-average number of shares of common stock outstanding during each period, adjusted for the effect of common stock equivalents arising from the assumed exercise of stock options, warrants, the conversion of preferred stock and conversion of participating convertible securities, if dilutive. Common stock equivalents have been excluded from the net loss per share calculation when their effect would be anti-dilutive.

For the three and nine months ended September 30, 2004 the following securities were not included in the computation of earnings per share as they are anti-dilutive: preferred stock convertible into approximately 505 million shares of common stock, options to purchase 27,183 shares of Series H preferred stock at a weighted-average exercise price of $82.38 per share, options to purchase 121,600 shares of common stock at a weighted-average exercise price of $0.45 per share, warrants for 104,000 shares of common stock at a weighted average exercise price of $11.30 per share and 21,329 shares of common stock issuable on the conversion of the Allied Riser convertible subordinated notes.

In March 2004, the FASB ratified the consensuses reached by Emerging Issues Task Force in Issue No. 03-06, "Participating Securities and the Two-Class Method under FASB Statement No. 128" ("EITF 03-06"). EITF 03-06 clarifies the definitional issues surrounding participating securities and requires companies to restate prior earnings per share amounts for comparative purposes upon adoption. The Company has adopted the provisions of EITF 03-06 in the second quarter of 2004, and the Company has restated its previously disclosed basic earnings per share amounts to include its participating securities in basic earnings per share when dilutive. As a result, basic income per share available to common shareholders decreased from $13.59 to $0.63 for the quarter ended September 30, 2003, and from $20.98 to $1.43 for the nine months ended September 30, 2003.

The following details the determination of the diluted weighted average shares for the three and nine months ended September 30, 2003.

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Weighted average common shares outstanding	10,628,612	5,891,601
Dilutive effect of preferred stock	217,891,728	80,409,902
Total weighted average shares basic	228,520,340	86,301,503
Dilutive effect of stock options	21,681	8,113
Dilutive effect of warrants	53,515	53,515
Weighted average shares diluted	228,595,536	86,363,131

Asset retirement obligations

In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," the fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company measures changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change is the credit-adjusted risk-free rate that existed when the liability was initially measured.

2. Acquisitions pro forma amounts:

The merger with Cogent Europe was recorded in the accompanying financial statements under the purchase method of accounting. The Cogent Europe purchase price allocation is preliminary and further refinements may be made if certain assumed accounts payable and accrued liabilities do not result in cash payments. During the second quarter of 2004 the assumed liabilities were reduced by approximately $0.6 million resulting in an increase in negative goodwill resulting in a reduction of the long-lived asset balances. The operating results related to the merger with Cogent Europe have been included in the consolidated statements of operations from the date of acquisition. The Cogent Europe acquisition closed on January 5, 2004.

The purchase price of Cogent Europe was approximately $78.2 million, which includes the fair value of the Company's Series I preferred stock of $2.6 million and assumed liabilities of $75.7 million. The fair value of assets acquired was approximately $155.5 million, which then gave rise to negative goodwill of approximately $77.3 million. Negative goodwill was allocated to long-lived assets, resulting in recorded assets acquired of $78.2 million.

If the Cogent Europe acquisition had taken place at the beginning of 2003, the unaudited pro forma combined results of the Company for the nine months ended September 30, 2003 would have been as follows (amounts in thousands, except per share amounts).

		Nine Months Ended September 30, 2003
Revenue	$	65,537
Net income		280,795
Net income per share basic	$	2.75
Net income per share diluted	$	2.74

In management's opinion, these unaudited pro forma amounts are not necessarily indicative of what the actual results of the combined operations might have been if the Firstmark acquisition had been effective at the beginning of 2003. Cogent Europe's results for the nine months ended September 30, 2003 include non-recurring gains of approximately $135 million. Pro forma amounts for the UFO Group and Global Access acquisitions are not presented as these acquisitions did not exceed the materiality reporting thresholds.

3. Property and equipment:

Property and equipment consisted of the following (in thousands):

	December 31, 2003	September 30, 2004
Owned assets:		
Network equipment	$ 186,204	$ 213,682
Software	7,482	7,575
Office and other equipment	4,120	14,964
Leasehold improvements	50,387	52,994
System infrastructure	32,643	33,808
Construction in progress	988	160
	281,824	323,183
Less Accumulated depreciation and amortization	(72,762)	(104,726)
	209,062	218,457
Assets under capital leases:		
IRUs	118,273	140,134
Less Accumulated depreciation and amortization	(12,929)	(18,964)
	105,344	121,170
Property and equipment, net	$ 314,406	$ 339,627

Depreciation and amortization expense related to property and equipment was $9.4 million and $11.4 million for the three months ended September 30, 2003 and September 30, 2004, respectively, and was $27.7 million and $34.8 million for the nine months ended September 30, 2003 and September 30, 2004, respectively.

Capitalized labor and related costs

The Company capitalizes the salaries and related benefits of employees directly involved with its construction activities. The Company began capitalizing these costs in July 2000 and will continue to capitalize these costs while it is involved in construction activities. For the three months ended September 30, 2003 and September 30, 2004, the Company capitalized salaries and related benefits of $0.4 million and $0.4 million, respectively. For the nine months ended September 30, 2003 and September 30, 2004, the Company capitalized salaries and related benefits of $2.1 million and $1.2 million, respectively. These amounts are included in system infrastructure.

4. Accrued liabilities and restructuring charge:

In July 2004, the French subsidiary of Cogent Europe re-located its Paris headquarters. The estimated net present value of the remaining lease obligation, net of estimated sub lease income, was approximately $1.4 million and was recorded as a restructuring charge in July 2004. Of this obligation, approximately $0.5 million is recorded as a current obligation in accrued liabilities and $0.9 million is recorded in other long-term liabilities.

Accrued liabilities consist of the following (in thousands):

	December 31, 2003	September 30, 2004
General operating expenditures	$ 4,541	$ 6,372
Payroll and benefits	419	577
Restructuring accrual current portion		512
Litigation settlement accruals	400	
Taxes	1,584	2,651
Interest	455	3,476
Deferred revenue	486	1,478
Total	$ 7,885	$ 15,066

5. Intangible assets:

Intangible assets consist of the following (in thousands):

	December 31, 2003	September 30, 2004
Customer contracts	$ 8,145	$ 9,175
Peering arrangements	16,440	16,440
Trade name	1,764	1,764
Other		167
Licenses		572
Non compete agreements	431	431
Total	26,780	28,549
Less accumulated amortization	(18,671)	(25,502)
Intangible assets, net	$ 8,109	$ 3,047

Amortization expense for the three months ended September 30, 2003 and September 30, 2004 was approximately $2.6 million and $2.0 million, respectively. Amortization expense for the nine months ended September 30, 2003 and September 30, 2004 was approximately $7.4 million and $6.9 million, respectively. Future amortization expense related to intangible assets is $2.6 million, $0.3 million and $0.1 million for the twelve-month periods ending September 30, 2005, 2006, and 2007, respectively.

6. Other assets:

Other assets consist of the following (in thousands):

	December 31, 2003	September 30, 2004
Prepaid expenses	$ 378	$ 286
Deposits	3,419	4,663
Other	167	
Total	$ 3,964	$ 4,949

7. Long-term debt:

Restructuring and Amended and Restated Credit Agreement

In March 2000, Cogent entered into a $280 million credit facility with Cisco Capital. In March 2001, the credit facility was increased to $310 million and in October 2001 the agreement was increased to $409 million. Immediately prior to the restructuring of the credit facility on July 31, 2003, the Company was indebted under the Cisco credit facility for a total of $269.1 million ($262.8 million of principal and $6.3 million of accrued but unpaid interest). On June 12, 2003, the Company's Board of Directors approved a transaction with Cisco Systems, Inc. ("Cisco") and Cisco Capital that restructured the Company's indebtedness to Cisco Capital.

In order to restructure the Company's credit facility, the Company, Cisco and Cisco Capital entered into an agreement (the "Exchange Agreement") which, among other things, cancelled the principal amount and accrued interest and returned warrants exercisable for the purchase approximately 0.8 million shares of Common Stock (the "Cisco Warrants") in exchange for a cash payment by the Company of $20.0 million, the issuance of 11,000 shares of the Company's Series F preferred stock, and the issuance of a $17.0 million amended and restated promissory note (the "Amended and Restated Cisco Note") under an Amended and Restated Credit Agreement. The Exchange Agreement provides that the entire debt to Cisco Capital is reinstated if Cisco Capital is forced to disgorge the cash payment received under the Exchange Agreement. The debt restructuring transaction has been accounted for as a troubled debt restructuring pursuant to Statement of Financial Accounting Standards ("SFAS") No. 15, "Accounting by Debtors and Creditors of Troubled Debt Restructurings". Under SFAS No. 15, the Amended and Restated Cisco Note was recorded at its principal amount plus the total estimated future interest payments.

In order to restructure the Company's credit facility, the Company also entered into an agreement (the "Purchase Agreement") with certain of the Company's existing preferred stockholders (the "Investors"), pursuant to which the Company sold to the Investors in several sub-series, 41,030 shares of the Company's Series G preferred stock for $41.0 million in cash. Under the Purchase Agreement the Company's outstanding Series A, B, C, D and E preferred stock ("Existing Preferred Stock") were converted into approximately 10.8 million shares of common stock.

On July 31, 2003, the Company, Cisco Capital, Cisco and the Investors closed on the Exchange Agreement and the Purchase Agreement. The gain resulting from the retirement of the amounts outstanding under the credit facility under the Exchange Agreement was determined as follows (in thousands):

Cash paid	$	20,000
Issuance of Series F Preferred Stock		11,000
Amended and Restated Cisco Note, principal plus future interest		17,842
Transaction costs		1,167
Total consideration		50,009
Amount outstanding under the credit facility		(262,812)
Interest accrued under the credit facility		(6,303)
Book value of cancelled warrants		(8,248)
Book value of unamortized credit facility loan costs		11,922
Gain from Exchange Agreement	$	(215,432)

Under the Amended and Restated Credit Agreement, Cisco Capital's obligation to make additional loans to the Company was terminated. Additionally the Amended and Restated Credit Agreement eliminated the Company's financial performance covenants. Cisco Capital retained its senior security interest in substantially all of the Company's assets; however, the Company may subordinate Cisco Capital's security interest in the Company's accounts receivable to another lender. The Amended and Restated Cisco Note is to be repaid in three installments. Interest is not payable, and does not accrue for the first 30 months, unless the Company defaults. When the Amended and Restated Cisco Note accrues interest, interest accrues at the 90-day LIBOR rate plus 4.5%. The Amended and Restated Cisco Note is subject to mandatory prepayment in full, without prepayment penalty, upon the occurrence of the closing of any change in control of the Company, the completion of any equity financing or receipt of loan proceeds in excess of $30.0 million, the achievement by the Company of four consecutive quarters of positive operating cash flow of at least $5.0 million, or the merger of the Company resulting in a combined entity with an equity value greater than $100.0 million; each of these events is defined in the agreement. The debt is subject to partial mandatory prepayment in an amount equal to the lesser of $2.0 million or the amount raised if the Company raises less than $30.0 million in a future equity financing.

Future maturities of principal and estimated future interest under the Amended and Restated Cisco Note are as follows (in thousands):

For the year ending September 30,		
2005	$	
2006		7,374
2007		5,374
2008		5,094
Thereafter		
	$	17,842

Allied Riser convertible subordinated notes

On September 28, 2000, Allied Riser completed the issuance and sale in a private placement of an aggregate of $150.0 million in principal amount of its 7.50% convertible subordinated notes due September 15, 2007 (the "Notes"). At the closing of the merger between Allied Riser and the Company in February 2002, approximately $117.0 million of the Notes were outstanding.

In January 2003, the Company, Allied Riser and the holders of approximately $106.7 million in face value of Notes entered into an exchange agreement and a settlement agreement. Pursuant to the exchange agreement, these note holders surrendered their Notes, including accrued and unpaid interest, in exchange for a cash payment of approximately $5.0 million, 3.4 million shares of the Company's Series D preferred stock and 3.4 million shares of the Company's Series E preferred stock. This preferred stock, at issuance, was convertible into approximately 4.2% of the Company's then outstanding fully diluted common stock. Pursuant to the settlement agreement, these note holders dismissed their litigation against the Company with prejudice in exchange for the cash payment. These transactions closed in March 2003 when the agreed amounts were paid and the Company issued the Series D and Series E preferred shares. The settlement and exchange transactions together eliminated $106.7 million in face amount of the notes due in September 2007, interest accrued on the Notes since the December 15, 2002 interest payment, all future interest payment obligations on the Notes and settled the note holder litigation.

As of December 31, 2002, the Company had accrued the amount payable under the settlement agreement, net of a recovery of $1.5 million under its insurance policy. This resulted in a net expense of $3.5 million recorded in 2002. The $4.9 million payment required under the settlement agreement was paid in March 2003. The Company received the $1.5 million insurance recovery in April 2003. The exchange agreement resulted in a gain of approximately $24.8 million recorded in March 2003. The gain resulted from the difference between the $36.5 million net book value of the notes ($106.7 face value less the related discount of $70.2 million) and $2.0 million of accrued interest and the exchange consideration which included $5.0 million in cash and the $8.5 million estimated fair market value for the Series D and Series E preferred stock less approximately $0.2 million of transaction costs. The estimated fair market value for the Series D and Series E preferred stock was determined by using the price per share of our Series C preferred stock, which represented the Company's most recent equity transaction for cash.

The terms of the remaining $10.2 million of Notes were not impacted by these transactions and they continue to be due on June 15, 2007. These $10.2 million notes were recorded at their fair value of approximately $2.9 million at the merger date. The discount is accreted to interest expense through the maturity date. The Notes are convertible at the option of the holders into approximately 21,000 shares of the Company's common stock. Interest is payable semiannually on June 15 and December 15, and is payable, at the election of the Company, in either cash or registered shares of the Company's common stock. The Notes are redeemable at the Company's option at any time on or after the third business day after June 15, 2004, at specified redemption prices plus accrued interest.

8. Commitments and contingencies:

Capital leases-Fiber lease agreements

The Company has entered into various lease agreements with fiber providers for dark fiber primarily under 15-25 year IRUs. Once the Company has accepted the related fiber route, if the lease meets the criteria for treatment as a capital lease it is recorded as a capital lease obligation and IRU asset.

The future minimum commitments under these agreements are as follows (in thousands):

For the year ending September 30,		
2005	$	15,640
2006		14,981
2007		13,435
2008		13,169
2009		11,355
Thereafter		108,390
Total minimum lease obligations		176,970
Less-amounts representing interest		(68,216)
Present value of minimum lease obligations		108,754
Current maturities		(5,799)
Capital lease obligations, net of current maturities	$	102,955

Fiber Leases and Construction Commitments

Certain of the Company's agreements for the construction of building laterals and for the leasing of metro fiber rings and lateral fiber include minimum specified commitments. The future commitment under these arrangements was approximately $3.4 million at September 30, 2004.

Current and Potential Litigation

In October 2004 the Company settled a dispute with a vendor over the amount invoiced by the vendor for telecommunications services. The settlement payment of $0.3 million was made in October 2004 and was less than the $1.0 million that had previously been recorded in accounts payable. As a result approximately $0.7 million was recorded as a reduction to the cost of network operations in the third quarter of 2004.

The Company is also involved in a dispute over intercompany services provided by and to Lambdanet Germany during the time LambdaNet Germany was a sister company of Firstmark's French subsidiary LNF and Firstmark's Spanish subsidiary LNE (See Note 11). LNF and LNE are no longer sister companies of LambdaNet Germany. The Company intends to vigorously defend its position related to these charges and management believes that it has adequately reserved for the potential liability.

In 2003, a counterclaim was filed against the Company by a former employee in state court in California. The former employee asserted primarily that additional commissions were due to the employee. The Company had filed a claim against this employee for breach of contract among other claims. A judgment was awarded and the Company has appealed this decision. The Company has recorded a liability for the estimated liability under this judgment.

The Company has been made aware of several other companies in its own and in other industries that use the word "Cogent" in their corporate names. One company has informed the Company that it believes the Company's use of the name "Cogent" infringes on its intellectual property rights in that name. If such a challenge is successful, the Company could be required to change its name and lose the goodwill associated with the Cogent name in its markets. Management does not believe such a challenge, if successful, would have a material impact on the Company's business, financial condition or results of operations.

In December 2003 five former employees of the Company's Spanish subsidiary filed claims related to their termination of employment. The initial rulings of the Spanish court have supported the Company's position. The Company intends to continue to vigorously defend its position related to these charges and feels that it has adequately reserved for the potential liability.

The Company is involved in other legal proceedings in the normal course of business which management does not believe will have a material impact on the Company's financial condition.

Operating leases and license agreements

The Company leases office space, network equipment sites, and facilities under operating leases. The Company also enters into building access agreements with the landlords of its targeted multi- tenant office buildings. Future minimum annual commitments under these arrangements are as follows (in thousands):

For the year ending September 30,		
2005	$	20,301
2006		17,002
2007		13,262
2008		10,343
2009		7,833
Thereafter		30,534
	$	99,275

Rent expense, net of sublease income, for the three months ended September 30, 2003 and September 30, 2004 was approximately $0.6 million and $3.2 million, respectively. Rent expense, net of sublease income, for the nine months ended September 30, 2003 and September 30, 2004 was approximately $1.7 million and $7.1 million, respectively. The Company has subleased certain office space and facilities. Future minimum payments under these sublease agreements are approximately

$1.1 million, $0.7 million, $0.4 million and $0.3 million for the years ending September 30, 2005 through September 30, 2008, respectively.

Maintenance and fiber lease agreements

The Company pays monthly fees for maintenance of its fiber optic network. In certain cases, the Company connects its customers and the buildings it serves to its national fiber-optic backbone using intra-city and inter-city fiber under operating lease commitments from various providers under contracts that range from month-to-month to five-year terms.

Future minimum obligations related to these arrangements are as follows (in thousands):

Year ending September 30,		
2005	$	5,076
2006		4,304
2007		3,955
2008		4,027
2009		3,913
Thereafter		46,981
	$	68,256

Shareholder Indemnification

In November 2003, the Company's Chief Executive Officer acquired LNG Holdings S.A. ("LNG"). LNG, through its LambdaNet group of subsidiaries, operated a carriers' carrier fiber optic transport business in Europe. In connection with this transaction, the Company provided an indemnification to certain former LNG shareholders due to the possibility of acquiring certain LNG assets. The guarantee is without expiration and covers claims related to LNG's LambdaNet subsidiaries and actions taken in respect thereof including actions related to the transfer of ownership interests in LNG. Should the Company be required to perform, the Company will defend the action and may attempt to recover from LNG and other involved entities. The Company has recorded a long-term liability of approximately $0.2 million for the estimated fair value of this obligation and believes that the maximum loss exposure is limited to the as converted value of its Series I preferred stock.

LambdaNet Communications Deutschland, AG ("Lambdanet Germany")

The Company attempted to acquire Lambdanet Germany, but was unable to reach agreement with Lambdanet Germany's bank creditors. Cogent Europe has made use of Lambdanet Germany's facilities to complete communications circuits into Germany and has also depended on Lambdanet Germany for network operations support, billing and other services. The Company has begun the process of fully separating the operations of Cogent Europe from Lambdanet Germany but this process is not complete and there may be disruptions as this process proceeds.

9. Stockholders' equity:

In June 2003, the Company's board of directors and shareholders approved an amended and restated charter that increased the number of authorized shares of the Company's common stock from

21.1 million shares to 395.0 million shares, eliminated the reference to the Company's Series A, B, C, D, and E preferred stock ("Existing Preferred Stock") and authorized 120,000 shares of authorized but unissued and undesignated preferred stock. In April 2004, the Company's board of directors and shareholders approved an amended and restated charter that increased the number of authorized shares of the Company's common stock from 395.0 million shares to 600.0 million shares and increased the shares of undesignated preferred stock from 120,000 shares to 170,000 shares. In October 2004, the Company's board of directors approved an amended and restated charter that increased the number of authorized shares of the Company's common stock to 750.0 million shares.

On July 31, 2003 and in connection with the Company' restructuring of its debt with Cisco Capital, all of the Company's Existing Preferred Stock was converted into approximately 10.8 million shares of common stock. At the same time the Company issued 11,000 shares of Series F preferred stock to Cisco Capital under the Exchange Agreement and issued 41,030 shares of Series G preferred stock for gross proceeds of $41.0 million to the Investors under the Purchase Agreement.

In January 2004, Symposium Gamma Inc. ("Gamma") merged with a subsidiary of the Company. Under the merger agreement, all of the issued and outstanding shares of Gamma common stock were converted into 2,575 shares of the Company's Series I preferred stock and the Company became Gamma and Cogent Europe's sole shareholder.

On March 30, 2004, Symposium Omega, Inc., ("Omega") a Delaware corporation merged with a subsidiary of the Company. Prior to the merger Omega had raised approximately $19.5 million in cash and acquired the rights to acquire a German fiber optic network. The Company issued 3,891 shares of Series J preferred stock to the shareholders of Omega in exchange for all of the outstanding common stock of Omega.

On August 12, 2004, UFO Group, Inc., ("UFO Group") a Delaware corporation merged with a subsidiary of the Company. Prior to the merger UFO Group had raised net cash of approximately $2.1 million and acquired the rights to acquire the majority of the assets of Unlimited Fiber Optics, Inc. The Company issued 2,600 shares of Series K preferred stock to the shareholders of UFO Group in exchange for all of the outstanding common stock of UFO Group.

On September 15, 2004, the Company issued 185 shares of Series L preferred stock to the shareholders of Global Access Telecommunications Inc. ("Global Access") in exchange for the majority of the assets of Global Access.

Each share of the Series F preferred stock, Series G preferred stock, Series H preferred stock, Series I preferred stock, Series J preferred stock, Series K preferred stock and Series L preferred stock (collectively, the "New Preferred") may be converted into shares of common stock at the election of its holder at any time. The Series F, Series G, Series I, Series J, Series K and Series L preferred stock are convertible into 68.2 million, 254.9 million, 16.0 million, 120.6 million, 16.1 million and 5.7 million shares of the Company's common stock, respectively. The 84,001 authorized shares of Series H preferred stock are convertible into 64.6 million shares of the Company's common stock. The New Preferred will be automatically converted into common stock, at the then applicable conversion rate in the event of an underwritten public offering of shares of the Company at a total offering of not less than $50 million at a post-money valuation of the Company of $500 million (a "Qualifying IPO"). The conversion prices are subject to adjustment, as defined.

The New Preferred stock votes together with the common stock and not as a separate class. Each share of the New Preferred has a number of votes equal to the number of shares of common stock then issuable upon conversion of such shares, with the expetion of the Series L preferred stock which is non-voting. The consent of holders of a majority of the outstanding Series F preferred stock is required to declare or pay any dividend on the common or the preferred stock of the Company.

In the event of any dissolution, liquidation, or winding up of the Company, at least $29.1 million, $123.1 million, $8.0 million, $7.7 million, $58.4 million, $7.8 million and $2.8 million will be paid in cash to the holders of the Series F, G, H, I, J, K and L preferred stock, respectively, before any payment is made to the holders of the Company's common stock.

Offer to exchange Series H Preferred Stock and 2003 and 2004 Incentive Award Plans

In September 2003, the Compensation Committee (the "Committee") of the board of directors adopted and the stockholders approved, the Company's 2003 Incentive Award Plan (the "Award Plan"). The Award Plan reserved 54,001 shares of Series H preferred stock for issuance under the Award Plan. In September 2003, the Company offered its employees the opportunity to exchange eligible outstanding stock options and certain common stock for restricted shares of Series H preferred stock under the Award Plan. Under the offer, the Company recorded a deferred compensation charge of approximately $46.1 million in the fourth quarter of 2003. The Company also granted additional shares of Series H preferred to certain new employees resulting in an additional deferred compensation. In 2004, the Company's board of directors and shareholders approved the Company's 2004 Incentive Award Plan that increased the shares of Series H preferred stock available for grant as either restricted shares or options for restricted shares under the Award Plan from 54,001 to 84,001 shares. In July 2004, the Company began granting options for Series H preferred stock, 17,500 of which were granted with an exercise price below the trading price of the Company's common stock on grant date. Each share of Series H preferred stock converts into approximately 769 shares of common stock. The Series H preferred shares were valued using the trading price of the Company's common stock on the grant date. These option grants resulted in additional deferred compensation of $4.7 million recorded during the third quarter of 2004. Deferred compensation for these option grants was determined by the multiplying the difference between the exercise price and the market value of the Series H preferred stock on grant date times the number of options granted and is being amortized over the service period.

For shares granted under the offer to exchange, the vesting period was 27% upon grant with the remaining shares vesting ratably over a three year period and for share and options grants to newly hired employees; the shares generally vest 25% after one year with the remaining shares vesting ratably over three years. Compensation expense related to Series H preferred stock was approximately $2.3 million for the nine months ended September 30, 2003, and $9.0 million for the nine months ended September 30, 2004. For grants of restricted stock, when an employee terminates prior to full vesting, the total remaining deferred compensation charge is reduced, the employee retains their vested shares and the employees' unvested shares are returned to the plan. For grants of options for restricted stock, when an employee terminates prior to full vesting, the total remaining deferred compensation charge is reduced, previously recorded deferred compensation is reversed and the employee may elect to exercise their vested options for a period of ninety days and the any of the employees' unvested options are returned to the plan.

Dividends

The Cisco credit facility prohibits the Company from paying cash dividends and restricts the Company's ability to make other distributions to its stockholders.

Beneficial Conversion Charges

Beneficial conversion charges of $2.5 million, $19.5 million, $2.6 million and $0.9 million were recorded on January 5, 2004, March 30, 2004, August 12, 2004 and September 15, 2004, respectively, since the price per common share at which the Series I, Series J, Series K and Series L preferred stock converts into were less than the quoted trading price of the Company's common stock on that date.

10. Segment information:

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates as one operating segment. Below are the Company's net revenues and long lived assets by geographic theater (in thousands):

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004
Net Revenues				
North America	$ 15,148	$ 16,002	$ 44,899	$ 46,733
Europe		5,734		16,335
Total	$ 15,148	$ 21,736	$ 44,899	$ 63,068

	December 31, 2003	September 30, 2004
Long lived assets, net		
North America	$ 322,515	$ 292,410
Europe		50,264
Total	$ 322,515	$ 342,674

11. Related parties:

Office lease

The Company's headquarters is located in an office building owned by an entity controlled by the Company's Chief Executive Officer. The Company paid monthly rent to this entity of approximately $30,000 during 2003 and 2004.

LNG Holdings S.A ("LNG")

In November 2003, approximately 90% of the stock of LNG, the then parent company to Firstmark, now named Cogent Europe, was acquired by Symposium Inc. ("Symposium") a Delaware corporation, for no consideration in return for a commitment to cause at least $2 million to be invested in LNG's subsidiary LambdaNet France and an indemnification of LNG's selling stockholders by the

Company and Symposium. Symposium is wholly owned by the Company's Chief Executive Officer. In January 2004, LNG transferred its interest in Firstmark to Symposium Gamma, Inc. ("Gamma"), a Delaware corporation, in return for $1 and a commitment by Gamma to invest at least $2 million in the operations of Firstmark's French subsidiary LNF. Prior to the transfer, Gamma had raised approximately $2.5 million in a private equity transaction with certain existing investors in the Company and new investors. In January 2004, Gamma transferred $2.5 million to LNF and, by so doing, fulfilled the $2.0 million commitment. Symposium continues to own approximately 90% of the stock of LNG. LNG operates as a holding company. Its subsidiaries hold assets related to their former telecommunications operations.

In January 2004, euro 215.1 million of Firstmark's total debt of euro 216.1 million owed to its previous parent LNG, and other amounts payable of euro 4.9 million owed to LNG were assigned to Symposium Gamma, Inc. ("Gamma") at their fair market value of euro 1 in connection with Gamma's acquisition of Firstmark. Prior to the Company's merger with Gamma, and advanced as part of the Gamma merger, LNG transferred euro 1 million to LNF. LNF repaid the euro 1 million to LNG in March 2004. Accordingly, euro 215.1 million of the total euro 216.1 million of the debt obligation and euro 4.9 million of the other amounts payable eliminate in the consolidation of these financial statements.

Symposium Gamma, Inc., and Symposium Omega, Inc. ("Omega")

Gamma and Omega are considered related parties to the Company since both entities had raised cash in private equity transactions with certain existing investors in the Company. Gamma was formed in order to acquire Firstmark. Omega was formed in order to acquire the rights to a German fiber optic network. In December 2003, Gamma was capitalized with approximately $2.5 million in exchange for 100% of Gamma's common stock. In March 2004, Omega was capitalized with approximately $19.5 million in exchange for 100% of Omega's common stock.

Cogent Europe's subsidiaries provide network services and in turn utilize the network of LambdaNet Communications AG ("Lambdanet Germany") in order for each entity to provide services to certain of their customers under a network sharing agreement. Lambdanet Germany was a majority owned subsidiary of LNG from November 2003 until April 2004 when Lambdanet Germany was sold to an unrelated party. During the three and nine months ended September 30, 2004 Cogent Europe recorded revenue of euro 0.4 million ($0.5 million) and 1.3 million euro ($1.6 million), respectively from Lambdanet Germany and network costs of euro 0.2 million ($0.2 million) and 1.3 euro million ($1.6 million), respectively under the network sharing agreement. As of September 30, 2004 Cogent Europe had recorded net amounts due from Lambdanet Germany of euro 1.4 million ($1.7 million) and net amounts due to Lambdanet Germany of euro 1.1 million ($1.4 million). These amounts are reflected as amounts due from related party and amounts due to related party in the accompanying condensed consolidated September 30, 2004 balance sheet. The Company is currently in negotiations with the new owner of Lambdanet Germany over the terms of settling these amounts and the network sharing agreement.

Cisco Systems, Inc. ("Cisco")

In connection with the UFO acquisition the Company acquired Cisco as a customer. Cisco is a Company shareholder and lender. The Company recorded revenue of approximately $65,000 from Cisco for the three months ended September 30, 2004.

12. Subsequent Events:

Merger with Cogent Potomac, Inc.

In October 2004, the Company merged with Cogent Potomac, Inc. ("Potomac"). The Company issued 3,700 shares of its newly authorized Series M preferred stock in exchange for all of the outstanding common shares of Potomac. The Series M preferred stock converts into approximately 114.7 million shares of the Company's common stock and has rights and privileges similar to the Company's Series J preferred stock, except that the Series M preferred stock does not vote for directors. Prior to the merger, Potomac had acquired the majority of the assets of Aleron Broadband Services LLC ("Aleron"). Aleron was headquartered in Chantilly, Virginia and provided Internet access and dial-up services on a wholesale basis. The acquired assets included net cash of approximately $18.5 million, all of Aleron's customer contracts, customer accounts receivable and certain network equipment. Assumed liabilities include certain vendor relationships, accounts payable, and accrued liabilities. The Company intends to integrate these acquired assets into its operations and onto its broadband network. A beneficial conversion charge of $18.5 million will be recorded in October 2004, since the price per common share at which the Series M preferred stock converts into was less than the quoted trading price of the Company's common stock on that date.

Report of Independent Registered Public Accounting Firm

Cogent Communications Group, Inc. Board of Directors:

We have audited the accompanying consolidated balance sheets of Cogent Communications Group, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. 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. The consolidated financial statements of the Company for the year ended December 31, 2001, were audited by other auditors who have ceased operations and whose report dated March 1, 2002 (except with respect to the matters discussed in Note 14, as to which the date is March 27, 2002) expressed an unqualified opinion on those statements.

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, the 2003 and 2002 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cogent Communications Group, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

McLean, VA
March 2, 2004, except for the second paragraph under "Management's Plans and Business Risk" in Note 1 and Note 15, as to which the date is March 30, 2004

This is a copy of the audit report previously issued by Arthur Andersen LLP in connection with the company's filing of its Annual Report on Form 10-K for the fiscal year ended December 31, 2001. This audit report has not been reissued by Arthur Andersen LLP in connection with this Annual Report on Form 10-K, nor has Arthur Andersen LLP provided a consent to include its report in this Annual Report on Form 10-K. The registrant hereby discloses that the lack of a consent by Arthur Andersen LLP may impose limitations on recovery by investors.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Cogent Communications Group, Inc., and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Cogent Communications Group, Inc. (a Delaware corporation), and Subsidiaries (together the Company) as of December 31, 2000 and 2001, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the years ended December 31, 2000 and 2001. These consolidated 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 auditing standards generally accepted in the 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cogent Communications Group, Inc., and Subsidiaries as of December 31, 2000 and 2001, and the results of their operations and their cash flows for the period from inception (August 9, 1999) to December 31, 1999, and for the years ended December 31, 2000 and 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Vienna, Virginia
March 1, 2002 (except with respect to the matters discussed in
Note 14, as to which the date is March 27, 2002)

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2002 AND 2003
(IN THOUSANDS, EXCEPT SHARE DATA)

	2002	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 39,314	$ 7,875
Short term investments ($1,281 and $753 restricted, respectively)	3,515	4,115
Accounts receivable, net of allowance for doubtful accounts of $2,023 and $2,868, respectively	5,516	5,066
Prepaid expenses and other current assets	2,781	905
Total current assets	51,126	17,961
Property and equipment:		
Property and equipment	365,831	400,097
Accumulated depreciation and amortization	(43,051)	(85,691)
Total property and equipment, net	322,780	314,406
Intangible assets:		
Intangible assets	23,373	26,780
Accumulated amortization	(8,718)	(18,671)
Total intangible assets, net	14,655	8,109
Other assets ($4,001 and $1,608 restricted, respectively)	19,116	3,964
Total assets	$ 407,677	$ 344,440
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,830	$ 7,296
Accrued liabilities	18,542	7,885
Cisco credit facility, in default at December 31, 2002	250,305	
Current maturities, capital lease obligations	3,505	3,646
Total current liabilities	280,182	18,827
Amended and Restated Cisco Note related party		17,842
Capital lease obligations, net of current	55,280	58,107
Convertible subordinated notes, net of discount of $78,140 and $6,084, respectively	38,840	4,107
Other long term liabilities	749	803
Total liabilities	375,051	99,686
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock, Series A, $0.001 par value; 26,000,000 shares authorized, issued, and outstanding in 2002, none at December 31, 2003	25,892	
Convertible preferred stock, Series B, $0.001 par value; 20,000,000 shares authorized; 19,370,223 shares issued and outstanding in 2002, none at December 31, 2003	88,009	
Convertible preferred stock, Series C, $0.001 par value; 52,173,463 shares authorized; 49,773,402 shares issued and outstanding in 2002, none at December 31, 2003	61,345	
Convertible preferred stock, Series F, $0.001 par value; none and 11,000 shares authorized, issued and outstanding at December 31, 2003; liquidation preference of $11,000		10,904
Convertible preferred stock, Series G, $0.001 par value; none and 41,030 shares authorized, issued and outstanding at December 31, 2003; liquidation preference of $123,000		40,787

	2002	2003
Convertible preferred stock, Series H, $0.001 par value; none and 54,001 shares authorized, 53,372 shares issued and outstanding at December 31, 2003; liquidation preference of $9,110		45,990
Common stock, $0.001 par value; 21,100,000 and 395,000,000 shares authorized, respectively; 3,483,838 and 13,071,340 shares issued and outstanding, respectively	4	14
Additional paid-in capital	49,199	232,461
Deferred compensation	(6,024)	(32,680)
Stock purchase warrants	9,012	764
Treasury stock, none and 1,229,235 shares at December 31, 2003		(90)
Accumulated other comprehensive (loss) income foreign currency translation adjustment	(44)	628
Accumulated deficit	(194,767)	(54,024)
Total stockholders' equity	32,626	244,754
Total liabilities and stockholders' equity	$ 407,677	$ 344,440

The accompanying notes are an integral part of these consolidated balance sheets.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2001, DECEMBER 31, 2002 AND DECEMBER 31, 2003
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	2001	2002	2003
Service revenue, net	$ 3,018	$ 51,913	$ 59,422
Operating expenses:			
Network operations (including $307, $233 and $1,307 of amortization of deferred compensation, respectively)	20,297	49,324	48,324
Selling, general, and administrative (including $2,958, $3,098 and $17,368 of amortization of deferred compensation, and $479, $3,209 and $3,876 of allowance for doubtful accounts expense, respectively)	30,280	36,593	43,938
Gain on settlement of vendor litigation		(5,721)	
Depreciation and amortization	13,535	33,990	48,387
Total operating expenses	64,112	114,186	140,649
Operating loss	(61,094)	(62,273)	(81,227)
Gain Cisco credit facility troubled debt restructuring			215,432
Gain Allied Riser note exchange			24,802
Settlement of note holder litigation		(3,468)	
Interest income and other	2,126	1,739	1,512
Interest expense	(7,945)	(36,284)	(19,776)
(Loss) income before extraordinary item	$ (66,913)	$ (100,286)	$ 140,743
Extraordinary gain Allied Riser merger		8,443	
Net (loss) income	$ (66,913)	$ (91,843)	$ 140,743
Beneficial conversion charge	(24,168)		(52,000)
Net (loss) income applicable to common shareholders	$ (91,081)	$ (91,843)	$ 88,743
Net (loss) income per common share:			
(Loss) income before extraordinary item	$ (47.59)	$ (30.82)	$ 0.89
Extraordinary gain		2.59	
Basic net (loss) income per common share	$ (47.59)	$ (28.22)	$ 0.89
Beneficial conversion charge	$ (17.19)		$ (0.33)
Basic net (loss) income per common share available to common shareholders	$ (64.78)	$ (28.22)	$ 0.56
Diluted net (loss) income per common share before extraordinary item	$ (47.59)	$ (30.82)	$ 0.89
Extraordinary gain		2.59	
Diluted net (loss) income per common share	$ (47.59)	$ (28.22)	$ 0.89

	2001	2002	2003
Beneficial conversion charge	$ (17.19)		$ (0.33)
Diluted net (loss) income per common share available to common shareholders	$ (64.78)	$ (28.22)	$ 0.56
Weighted-average common shares basic	1,406,007	3,254,241	158,717,021
Weighted-average common shares diluted	1,406,007	3,254,241	158,777,953

The accompanying notes are an integral part of these consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, DECEMBER 31, 2002 AND DECEMBER 31, 2003
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Common Stock						Preferred Stock A		Preferred Stock B		Preferred Stock C	
	Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Treasury Stock	Stock Purchase Warrants	Shares	Amount	Shares	Amount	Shares	Amount
Balance, December 31, 2000	1,400,698	$ 1	$ 189	$	$	$	26,000,000	$ 25,892	19,809,783	$ 90,009		$
Exercises of stock options	9,116		21									
Issuance of stock purchase warrants						8,248						
Issuance of Series C convertible preferred stock, net											49,773,402	61,345
Deferred compensation			14,346	(14,346)								
Beneficial conversion Series B convertible preferred stock			24,168									
Amortization of deferred compensation				3,265								
Net loss												
Balance at December 31, 2001	1,409,814	1	38,724	(11,081)		8,248	26,000,000	25,892	19,809,783	90,009	49,773,402	61,345
Exercises of stock options	7,296		1									
Issuance of common stock, options and warrants Allied Riser merger	2,009,678	3	10,230			764						
Deferred compensation adjustments			(1,756)	1,726								
Conversion of Series B convertible preferred stock	57,050		2,000						(439,560)	(2,000)		
Foreign currency translation												
Amortization of deferred compensation				3,331								
Net loss												
Balance at December 31, 2002	3,483,838	4	49,199	(6,024)		9,012	26,000,000	25,892	19,370,223	88,009	49,773,402	61,345
Cancellations of shares granted to employees			(569)	995								
Amortization of deferred compensation				18,675								
Foreign currency translation												
Issuances of preferred stock, net				(46,416)								
Conversion of preferred stock into common stock	10,775,725	10	183,744			(8,248)	(26,000,000)	(25,892)	(19,362,531)	(87,974)	(49,773,402)	(61,345)
Cancellation of common stock treasury stock	(1,225,825)			90	(90)							
Shares returned to treasury Allied Riser merger	(3,410)											

	Common Stock					Stock Purchase Warrants	Preferred Stock A		Preferred Stock B		Preferred Stock C	
Common shares issued Allied Riser merger												
Cancellation of Series B preferred stock	41,012		35						(7,692)	(35)		
Issuance of options for common stock FNSI acquisition			52									
Beneficial conversion charge			52,000									
Reclassification of beneficial conversion charge to additional paid in capital			(52,000)									
Net income												
Balance at December 31, 2003	13,071,340	$ 14	$ 232,461	$ (32,680)	$ (90)	$ 764		$		$		$

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, DECEMBER 31, 2002 AND DECEMBER 31, 2003
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Preferred Stock D		Preferred Stock E		Preferred Stock F		Preferred Stock G		Preferred Stock H		Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity	Accumulated Other Comprehensive Income
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2000		$		$		$		$		$	$	$ (11,843)	$ 104,248	$
Exercises of stock options													21	
Issuance of stock purchase warrants													8,248	
Issuance of Series C convertible preferred stock, net													61,345	
Deferred compensation														
Beneficial conversion Series B convertible preferred stock												(24,168)		
Amortization of deferred compensation													3,265	
Net loss												(66,913)	(66,913)	
Balance at December 31, 2001												(102,924)	110,214	
Exercises of stock options														
Issuance of common stock, options and warrants Allied Riser merger													10,998	
Deferred compensation adjustments													(30)	
Conversion of Series B convertible preferred stock														
Foreign currency translation											(44)		(44)	(44)
Amortization of deferred compensation													3,331	
Net loss												(91,843)	(91,843)	(91,843)
Balance at December 31, 2002											(44)	(194,767)	32,626	(91,887)
Cancellations of shares granted to employees									(500)	(426)				
Amortization of deferred compensation													18,675	
Foreign currency translation											672		672	672
Issuances of preferred stock, net	3,426,293	4,272	3,426,293	4,272	11,000	10,904	41,030	40,787	53,872	46,416			60,235	
Conversion of preferred stock into common stock	(3,426,293)	(4,272)	(3,426,293)	(4,272)									(8,249)	

	Preferred Stock D		Preferred Stock E		Preferred Stock F		Preferred Stock G		Preferred Stock H		Foreign Currency Translation Adjustment			Accumulated Other Comprehensive Income
Cancellation of common stock treasury stock														
Shares returned to treasury Allied Riser merger														
Common shares issued Allied Riser merger														
Cancellation of Series B preferred stock														
Issuance of options for common stock FNSI acquisition													52	
Beneficial conversion charge												(52,000)		
Reclassification of benefical conversion charge to additional paid in capital												52,000		
Net income												140,743	140,743	140,743
Balance at December 31, 2003		$		$	11,000	$ 10,904	41,030	$ 40,787	53,372	$ 45,990	$ 628	$ (54,024)	$ 244,754	$ 49,528

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2001, DECEMBER 31, 2002 AND DECEMBER 31, 2003
(IN THOUSANDS)

	2001	2002	2003
Cash flows from operating activities:			
Net (loss) income	$ (66,913)	$ (91,843)	$ 140,743
Adjustments to reconcile net (loss) income to net cash used in operating activities			
Depreciation and amortization, including amortization of debt issuance costs	13,594	36,490	49,746
Amortization of debt discount convertible notes		6,086	1,827
Amortization of deferred compensation	3,265	3,331	18,675
Extraordinary gain Allied Riser merger		(8,443)	
Gain Cisco credit facility troubled debt restructuring			(215,432)
Gain Allied Riser note exchange			(24,802)
Gain on settlement of vendor litigation		(5,721)	
Changes in assets and liabilities:			
Accounts receivable	(1,156)	(2,894)	712
Prepaid expenses and other current assets	1,107	1,189	744
Other assets	(2,660)	1,134	1,899
Accounts payable and accrued liabilities	5,977	19,104	(1,469)
Net cash used in operating activities	(46,786)	(41,567)	(27,357)
Cash flows from investing activities:			
Purchases of property and equipment	(118,020)	(75,214)	(24,016)
Cash acquired in Allied Riser merger		70,431	
Purchase of minority interests in Shared Technologies of Canada, Inc.		(3,617)	
Purchases of short term investments, net	(1,746)	(1,769)	(600)
Purchases of intangible assets	(11,886)	(9,617)	(700)
Net cash used in investing activities	(131,652)	(19,786)	(25,316)
Cash flows from financing activities:			
Borrowings under Cisco credit facility	107,632	54,395	8,005
Exchange agreement payment Allied Riser notes			(4,997)
Exchange agreement payment Cisco credit facility debt restructuring			(20,000)
Proceeds from option exercises	21	1	
Repayment of capital lease obligations	(12,754)	(2,702)	(3,076)
Deferred equipment discount	5,618		
Issuances of preferred stock, net of issuance costs	61,345		40,630
Net cash provided by financing activities	161,862	51,694	20,562
Effect of exchange rate changes on cash		(44)	672
Net decrease in cash and cash equivalents	(16,576)	(9,703)	(31,439)
Cash and cash equivalents, beginning of year	65,593	49,017	39,314
Cash and cash equivalents, end of year	$ 49,017	$ 39,314	$ 7,875

	2001	2002	2003

Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 8,943	$ 12,440	$ 5,013
Cash paid for income taxes			
Non-cash financing activities			
Capital lease obligations incurred	23,990	33,027	6,044
Warrants issued in connection with credit facility	8,248		
Borrowing under credit facility for payment of loan costs and interest	6,441	14,820	4,502
Allied Riser Merger			
Fair value of assets acquired		$ 74,791	
Less: valuation of common stock, options & warrants issued		(10,967)	
Less: extraordinary gain		(8,443)	
Fair value of liabilities assumed		$ 55,381	
NetRail Acquisition			
Fair value of assets acquired	12,090		
Less: cash paid	(11,740)		
Fair value of liabilities assumed	350		
PSINet Acquisition			
Fair value of assets acquired		16,602	700
Less: cash paid		(9,450)	(700)
Fair value of liabilities assumed		7,152	
FNSI Acquisition			
Fair value of assets acquired			3,018
Less: valuation of options for common stock			(52)
Fair value of liabilities assumed			2,966

Exchange Agreement with Cisco Capital (See Note 1)

Conversion of preferred stock under Purchase Agreement (See Note 1)

The accompanying notes are an integral part of these consolidated statements.

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2002, and 2003

1. Description of the business and summary of significant accounting policies:

Description of business

Cogent Communications, Inc. ("Cogent") was formed on August 9, 1999, as a Delaware corporation and is located in Washington, DC. Cogent is a facilities-based Internet Services Provider ("ISP"), providing primarily Internet access to businesses in over 30 major metropolitan areas in the United States and in Toronto, Canada and in 2004 expanded its operations into Western Europe. In 2001, Cogent formed Cogent Communications Group, Inc., (the "Company"), a Delaware corporation. Effective on March 14, 2001, Cogent's stockholders exchanged all of their outstanding common and preferred shares for an equal number of shares of the Company, and Cogent became a wholly owned subsidiary of the Company. The common and preferred shares of the Company include rights and privileges identical to the common and preferred shares of Cogent. This was a tax-free exchange that was accounted for by the Company at Cogent's historical cost. All of Cogent's options for shares of common stock were also converted to options of the Company.

The Company's high-speed Internet access service is delivered to the Company's customers over a nationwide fiber-optic network. The Company's network is dedicated solely to Internet Protocol data traffic. The Company's network includes 30-year indefeasible rights of use ("IRUs") to a nationwide fiber-optic intercity network of approximately 12,500 route miles (25,000 fiber miles) of dark fiber from Wiltel Communications Group, Inc. ("Wiltel"). These IRUs are configured in two rings that connect many of the major metropolitan markets in the United States. In order to extend the Company's national backbone into local markets, the Company has entered into leased fiber agreements for intra-city dark fiber from approximately 20 providers. These agreements are primarily under 15-25 year IRUs. Since the Company's April 2002 acquisition of certain assets of PSINet, Inc. ("PSINet"), the Company began operating a more traditional Internet service provider business, with lower speed connections provided by leased circuits obtained from telecommunications carriers (primarily local telephone companies). The Company utilizes leased circuits (primarily T-1 lines) to reach these customers.

Merger with Symposium Gamma, Inc. and Acquisition of Firstmark Communications Participations S.a.r.l. and Subsidiaries ("FMCP")

In January 2004, Symposium Gamma, Inc. ("Gamma"), merged with the Company, as further discussed in Note 14. Under the merger agreement all of the issued and outstanding shares of Gamma common stock were converted into 2,575 shares of the Company's Series I convertible participating preferred stock. The Company plans to continue to support FMCP's products including point-to-point transport and transit services in over 40 markets and almost 30 data centers across Western Europe. The Company also intends to introduce in Western Europe a new set of products and services based on the Company's current North American product set.

Asset Purchase Agreement- Fiber Network Services, Inc.

On February 28, 2003, the Company purchased certain assets of Fiber Network Solutions, Inc. ("FNSI") in exchange for the issuance of options for 120,000 shares of the Company's common stock and the Company's agreement to assume certain liabilities. The acquired assets include FNSI's customer contracts and accounts receivable. Assumed liabilities include certain of FNSI's accounts payable, facilities leases, customer contractual commitments and note obligations.

Asset Purchase Agreement PSINet, Inc.

In April 2002, the Company acquired certain of PSINet's assets and certain liabilities related to its operations in the United States for $9.5 million in cash in a sale conducted under Chapter 11 of the United States Bankruptcy Code. The acquired assets include certain of PSINet's accounts receivable and intangible assets, including customer contracts, settlement-free peering rights and the PSINet trade name. Assumed liabilities include certain leased circuit commitments, facilities leases, customer contractual commitments and co-location arrangements.

Merger Agreement Allied Riser Communications Corporation

On February 4, 2002, the Company acquired Allied Riser Communications Corporation ("Allied Riser"). Allied Riser provided broadband data, voice and video communication services to small- and medium-sized businesses located in selected buildings in North America, including Canada. Upon the closing of the merger on February 4, 2002, Cogent issued approximately 2.0 million shares, or at that time 13.4% of its common stock, on a fully diluted basis, to the existing Allied Riser stockholders and became a public company listed on the American Stock Exchange. The acquisition of Allied Riser provided the Company with in-building networks, pre-negotiated building access rights with building owners and real estate investment trusts across the United States and in Toronto, Canada and the operations of Shared Technologies of Canada ("STOC"). STOC provides voice and data services in Toronto, Canada.

NetRail Inc.

On September 6, 2001, the Company paid approximately $11.7 million in cash for certain assets of NetRail, Inc, ("NetRail") a Tier-1 Internet service provider, in a sale conducted under Chapter 11 of the United States Bankruptcy Code. The purchased assets included certain customer contracts and the related accounts receivable, network equipment, and settlement-free peering arrangements.

Troubled Debt Restructuring and Sale of Preferred Stock

Prior to July 31, 2003, the Company was party to a $409 million credit facility with Cisco Systems Capital Corporation ("Cisco Capital"). The credit facility required compliance with certain financial and operational covenants. The Company violated a financial debt covenant during the fourth quarter of 2002 and failed to subsequently cure the violation. Accordingly, the Company was in default on the credit facility and Cisco Capital was able to accelerate the loan payments and make the outstanding balance immediately due and payable.

On June 12, 2003, the Board of Directors approved a transaction with Cisco Systems, Inc. ("Cisco") and Cisco Capital that restructured the Company's indebtedness to Cisco Capital while at the same time selling a new series of preferred stock to certain of the Company's existing stockholders. The sale of the new series of preferred stock was required to obtain the cash needed to complete the Cisco credit facility restructuring. On June 26, 2003, the Company's stockholders approved these transactions.

In order to restructure the Company's credit facility the Company entered into an agreement (the "Exchange Agreement") with Cisco and Cisco Capital pursuant to which, among other things, Cisco and Cisco Capital agreed to cancel the principal amount of $262.8 million of indebtedness plus $6.3 million of accrued interest and return warrants exercisable for the purchase of 0.8 million shares of Common Stock (the "Cisco Warrants") in exchange for a cash payment by the Company of $20 million, the issuance of 11,000 shares of the Company's Series F participating convertible preferred stock, and the issuance of an amended and restated promissory note (the "Amended and Restated Cisco Note") with an aggregate principal amount of $17.0 million. The Exchange Agreement provides that the entire debt to Cisco Capital is reinstated if Cisco Capital is forced to disgorge the cash payment received under the Exchange Agreement.

This transaction has been accounted for as a troubled debt restructuring pursuant to Statement of Financial Accounting Standards ("SFAS") No. 15, "Accounting by Debtors and Creditors of Troubled Debt Restructurings". Under SFAS No. 15, the Amended and Restated Cisco Note was recorded at its principal amount plus the total estimated future interest payments.

In order to restructure the Company's credit facility the Company also entered into an agreement (the "Purchase Agreement") with certain of the Company's existing preferred stockholders (the "Investors"), pursuant to which the Company sold to the Investors in several sub-series, 41,030 shares of the Company's Series G participating convertible preferred stock for $41.0 million in cash.

On July 31, 2003, the Company, Cisco Capital, Cisco and the Investors closed on the Exchange Agreement and the Purchase Agreement. The closing of these transactions resulted in the following:

Under the Purchase Agreement:

- The Company issued 41,030 shares of Series G preferred stock in several sub-series for gross cash proceeds of $41.0 million;
- The Company's outstanding Series A, B, C, D and E participating convertible preferred stock ("Existing Preferred Stock") were converted into approximately 10.8 million shares of common stock.

Under the Exchange Agreement:

- The Company paid Cisco Capital $20.0 million in cash and issued to Cisco Capital 11,000 shares of Series F participating convertible preferred stock;
- The Company issued to Cisco Capital a $17.0 million promissory note payable;
- The default under the Cisco credit facility was eliminated;
- The amount outstanding under the Cisco credit facility including accrued interest was cancelled;
- The service provider agreement with Cisco was amended;
- The Cisco Warrants were cancelled.

The conversion of the Company's existing preferred stock into a total of 10.8 million shares of $0.001 par value common stock is detailed below. The conversion resulted in the elimination of the book values of these series of preferred stock and a corresponding increase to common stock of $10,000 based upon the common stock's par value and an increase in additional paid in capital of $183.7 million.

Existing Preferred	Shares outstanding	Conversion Ratio	Common Conversion
Series A	26,000,000	0.10000	2,600,000
Series B	19,362,531	0.12979	2,513,127
Series C	49,773,402	0.10000	4,977,340
Series D	3,426,293	0.10000	342,629
Series E	3,426,293	0.10000	342,629
TOTAL	101,988,519		10,775,725

The gain resulting from the retirement of the amounts outstanding under the credit facility under the Exchange Agreement was determined as follows (in thousands):

Cash paid	$	20,000
Issuance of Series F Preferred Stock		11,000
Amended and Restated Cisco Note, principal plus future interest payments		17,842
Transaction costs		1,167
Total consideration		50,009
Amount outstanding under the Cisco credit facility		(262,812)
Interest accrued under the Cisco credit facility		(6,303)
Book value of cancelled warrants		(8,248)
Book value of unamortized Cisco credit facility loan costs		11,922
Gain Cisco credit facility troubled debt restructuring	$	(215,432)

On a basic income and diluted income per share basis the gain was $27.82 and $1.36, respectively, for the year ended December 31, 2003.

Management's Plans and Business Risk

The Company has experienced losses since its inception in 1999 and as of December 31, 2003 has an accumulated deficit of approximately $54 million and a working capital deficit of $0.9 million. The Company operates in the rapidly evolving Internet services industry, which is subject to intense competition and rapid technological change, among other factors. The successful execution of the Company's business plan is dependent upon the Company's ability to increase the number of customers purchasing services in the buildings connected to and being served by its network ("lit buildings"), its ability to increase its market share, the Company's ability to integrate acquired businesses and purchased assets, including its recent expansion into Western Europe into its operations and realize planned synergies, the availability of and access to intra-city dark fiber and multi-tenant office buildings, the availability and performance of the Company's network equipment, the extent to which acquired businesses and assets are able to meet the Company's expectations and projections, the Company's ability to retain and attract key employees, and the Company's ability to manage its growth, among other factors.

On March 30, 2004, the Company merged with Symposium Omega, Inc ("Omega"). Prior to the merger, Omega had raised approximately $19.5 million in cash. The Company issued 3,891 shares of Series J convertible preferred stock to the shareholders of Omega in exchange for all of the outstanding common stock of Omega. This Series J convertible preferred stock will become convertible into approximately 120.6 million shares of the Company's common stock. Management believes that the Company's resources are adequate to meet its funding requirements until cash generated from its operations exceeds its funding requirements. Although management believes that the Company will successfully mitigate its risks, management cannot give assurances that it will be able to do so or that the Company will ever operate profitably.

Segments

The Company's chief operating decision maker evaluates performance based upon underlying information of the Company as a whole. There is only one reporting segment.

Principles of consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Revenue recognition

Net revenues from telecommunication services are recognized when the services are performed, evidence of an arrangement exists, the fee is fixed and determinable and collectibility is reasonably assured. Service discounts and incentives related to telecommunication services are recorded as a reduction of revenue when granted or ratably over the contract period. Fees billed in connection with customer installations and other upfront charges are deferred and recognized ratably over the estimated customer life.

The Company establishes a valuation allowance for collection of doubtful accounts and other sales credit adjustments. Valuation allowances for sales credits are established through a charge to revenue, while valuation allowances for doubtful accounts are established through a charge to selling, general and administrative expenses. The Company assesses the adequacy of these reserves on a monthly basis by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, the economic and competitive environment, and changes in the credit worthiness of its customers. The Company believes that its established valuation allowances were adequate as of December 31, 2002 and 2003. If circumstances relating to specific customers change or economic conditions worsen such that the Company's past collection experience and assessment of the economic environment are no longer relevant, the Company's estimate of the recoverability of its trade receivables could be further reduced.

Network operations

Network operations include costs associated with service delivery, network management, and customer support. This includes the costs of personnel and related operating expenses associated with these activities, network facilities costs, fiber maintenance fees, leased circuit costs, and access fees paid to office building owners.

International Operations

The Company began recognizing revenue from operations in Canada through its wholly owned subsidiary, ARC Canada effective with the closing of the Allied Riser merger on February 4, 2002. All revenue is reported in United States dollars. Revenue for ARC Canada for the period from February 4, 2002 to December 31, 2002 and the year ended December 31, 2003 was approximately $4.3 million and $5.6 million, respectively. ARC Canada's total assets were approximately $7.5 million at December 31, 2002 and $11.8 million at December 31, 2003.

Foreign Currency Translation Adjustment

The Company uses the U.S. dollar as its functional currency for operations in the U.S. and the Canadian dollar for STOC. The assets and liabilities of STOC are translated at the exchange rate prevailing at the balance sheet date. Related revenue and expense accounts for STOC are translated using the average exchange rate during the period. Cumulative foreign currency translation adjustments of $628,000 and ($44,000) at December 31, 2003 and 2002, respectively, are included in "Accumulated other comprehensive (loss) income" in the Consolidated Balance Sheets and in the Consolidated Statements of Changes in Shareholders' Equity.

Financial instruments

The Company considers all highly liquid investments with an original maturity of three months or less at purchase to be cash equivalents. The Company determines the appropriate classification of its investments at the time of purchase and reevaluates such designation at each balance sheet date. At December 31, 2002 and 2003, the Company's marketable securities consisted of money market accounts, certificates of deposit and commercial paper.

The Company is party to letters of credit totaling approximately $2.4 million as of December 31, 2003. These letters of credit are secured by certificates of deposit and commercial paper investments of approximately $2.4 million that are restricted and included in short-term investments and other assets. No claims have been made against these financial instruments. Management does not expect any losses from the resolution of these financial instruments and is of the opinion that the fair value of these instruments is zero since performance is not likely to be required.

At December 31, 2002 and 2003, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and accrued expenses approximated fair value because of the short maturity of these instruments. The Allied Riser convertible subordinated notes due in June 2007 have a face value of $10.2 million. The notes were recorded at their fair value of approximately $2.9 million at the merger date. The resulting discount is being accreted to interest expense through the maturity date.

Short-Term Investments

Short-term investments consist primarily of commercial paper with original maturities beyond three months, but less than 12 months. Such short-term investments are carried at cost, which approximates fair value due to the short period of time to maturity.

Credit risk

The Company's assets that are exposed to credit risk consist of its cash equivalents, short-term investments, other assets and accounts receivable. The Company places its cash equivalents and short-term investments in instruments that meet high-quality credit standards as specified in the Company's investment policy guidelines. Accounts receivable are due from customers located in major metropolitan areas in the United States and in Ontario Canada. Revenues from the Company's wholesale customers and customers obtained through business combinations are subject to a higher degree of credit risk than customers who purchase its traditional retail service.

Comprehensive Income (Loss)

Statement of Financial Accounting Standard ("SFAS") No. 130, "Reporting of Comprehensive Income" requires "comprehensive income" and the components of "other comprehensive income" to be reported in the financial statements and/or notes thereto. The Company did not have any significant components of "other comprehensive income," until the year ended December 31, 2002. Accordingly, reported net loss is the same as "comprehensive loss" for all periods presented prior to 2002 (amounts in thousands).

Property and equipment

Property and equipment are recorded at cost and depreciated once deployed using the straight-line method over the estimated useful lives of the assets. Useful lives are determined based on historical usage with consideration given to technological changes and trends in the industry that could impact the network architecture and asset utilization. The direct costs incurred prior to an asset being ready for service are reflected as construction in progress. Interest is capitalized during the construction period based upon the rates applicable to borrowings outstanding during the period. Construction in progress includes costs incurred under the construction contract, interest, and the salaries and benefits of employees directly involved with construction activities. Expenditures for maintenance and repairs are expensed as incurred. Assets and liabilities under capital leases are recorded at the lesser of the present value of the aggregate future minimum lease payments or the fair value of the assets under lease. Leasehold improvements include costs associated with building improvements.

Depreciation and amortization periods are as follows:

Type of asset	Depreciation or amortization period
Indefeasible rights of use (IRUs)	Shorter of useful life or IRU lease agreement; generally 15 to 20 years, beginning when the IRU is ready for use
Network equipment	Five to seven years
Leasehold improvements	Shorter of lease term or useful life; generally 10 to 15 years
Software	Five years
Office and other equipment	Three to five years
System infrastructure	Ten years

Long-lived assets

The Company's long-lived assets include property and equipment and identifiable intangible assets to be held and used. These long-lived assets are currently reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to Statement of Financial Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Pursuant to SFAS No. 144, impairment is determined by comparing the carrying value of these long-lived assets to management's probability weighted estimate of the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The cash flow projections used to make this assessment are consistent with the cash flow projections that management uses internally to assist in making key decisions. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or valuation techniques such as the discounted present value of expected future cash flows, appraisals, or other pricing models. Management believes that no such impairment existed in accordance with SFAS No. 144 as of December 31, 2002 or 2003. In the event there are changes in the planned use of the Company's long-term assets or the Company's expected future undiscounted cash flows are reduced significantly, the Company's assessment of its ability to recover the carrying value of these assets under SFAS No. 144 would change.

Because management's best estimate of undiscounted cash flows generated from these assets exceeds their carrying value for each of the periods presented, no impairment pursuant to SFAS No. 144 exists. However, because of the significant difficulties confronting the telecommunications industry, management believes that the current fair value of our long-lived assets including our network assets and IRU's are significantly below the amounts the Company originally paid for them and may be less than their current depreciated cost basis.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets or liabilities are computed based upon the differences between financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. Deferred income tax expense or benefits are based upon the changes in the assets or liability from period to period.

Stock-based compensation

The Company accounts for its stock option plan and shares of restricted preferred stock granted under its 2003 Incentive Award Plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense related to fixed employee stock options and restricted shares is recorded only if on the date of grant, the fair value of the underlying stock exceeds the exercise price. The Company has adopted the disclosure only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and to provide pro forma net income disclosures as if the fair value based method of accounting described in SFAS No. 123 had been applied to employee stock option grants and restricted shares. The following table illustrates the effect on net income and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 (in thousands except share and per share amounts):

	Year Ended December 31, 2001	Year Ended December 31, 2002	Year Ended December 31, 2003
Net (loss) income, as reported	$ (66,913)	$ (91,843)	$ 140,743
Add: stock-based employee compensation expense included in reported net loss, net of related tax effects	3,265	3,331	18,675
Deduct: total stock-based employee compensation expense determined under fair value based method, net of related tax effects	(3,159)	(4,721)	(19,866)
Pro forma net (loss) income	$ (66,807)	$ (93,233)	$ 139,552
(Loss) income per share as reported basic	$ (47.59)	$ (28.22)	$ 18.17
Pro forma (loss) income per share basic	$ (47.52)	$ (28.65)	$ 18.02
(Loss) income per share as reported diluted	$ (47.59)	$ (28.22)	$ 0.89
Pro forma (loss) income per share diluted	$ (47.52)	$ (28.65)	$ 0.88

The weighted-average per share grant date fair value of options granted was $14.85 in 2001, $2.44 in 2002 and $0.56 in 2003. The fair value of these options was estimated at the date of grant with the following weighted-average assumptions for 2001 an average risk-free rate of 5.0 percent, a dividend yield of 0 percent, an expected life of 5.0 years, and expected volatility of 128%, for 2002 an average risk-free rate of 3.5 percent, a dividend yield of 0 percent, an expected life of 5.0 years, and expected volatility of 162% and for 2003 an average risk-free rate of 3.5 percent, a dividend yield of 0 percent, an expected life of 5.0 years, and expected volatility of 197%. The weighted-average per share grant date fair value of Series H convertible preferred shares granted to employees in 2003 was $861.28 and was determined using the trading price of the Company's common stock on the date of grant. Each share of Series H convertible preferred stock converts into approximately 769 shares of common stock.

Basic and Diluted Net Loss Per Common Share

Net income (loss) per share is presented in accordance with the provisions of SFAS No. 128 "Earnings per Share". SFAS No. 128 requires a presentation of basic EPS and diluted EPS. Basic EPS excludes dilution for common stock equivalents and is computed by dividing income or loss available to common stockholders by the weighted-average number of common shares outstanding for the period, adjusted, using the if-converted method, for the effect of common stock equivalents arising from the assumed conversion of participating convertible securities, if dilutive. Diluted net loss per common share is based on the weighted-average number of shares of common stock outstanding during each period, adjusted for the effect of common stock equivalents arising from the assumed exercise of stock options, warrants, the conversion of preferred stock and conversion of participating convertible securities, if dilutive. Common stock equivalents have been excluded from the net loss per share calculation for 2001 and 2002 because their effect would be anti-dilutive.

For the year