COGENT COMMUNICATIONS GROUP INC
Form S-1/A
April 07, 2005

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As filed with the Securities and Exchange Commission on April 7, 2005

Registration No. 333-122821

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO 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
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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

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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.

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.

Subject to Completion, dated April 7, 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 April 6, 2005 was $10.84 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 9,000 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 inter-city transport facilities. Our network serves 80 metropolitan markets in North America and Europe and encompasses:

- over 800 multi-tenant office buildings strategically located in commercial business districts;
- over 220 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings;
- over 160 intra-city networks consisting of over 8,600 fiber miles;
- an inter-city network of more than 22,000 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. For the year ended December 31, 2004, our on-net customers generated 63.4% 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 year ended December 31, 2004, our off-net customers generated 25.9% 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 managed modem service.

Our net service revenue has grown from $3.0 million for the year ended December 31, 2001 to $91.3 million for the year ended December 31, 2004. We have grown our gross profit from negative $17.0 million for the year ended December 31, 2001 to $27.8 million for the year ended December 31, 2004. Our gross profit margin has expanded from 21% for the year ended December 31, 2003 to 30% 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 December 31, 2004 had an accumulated deficit of $143.7 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 a 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 intra-city 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. Our network was designed to handle traffic transmitted at the full capacity of ports connecting it to customers. Those ports are currently handling traffic at 2% of their aggregate capacity. Consequently, we believe that our network can accommodate substantial traffic growth without having to incur substantial capital expenditures.

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

For the year ended December 31, 2004, our net service revenue increased by 54% to $91.3 million and our adjusted EBITDA deficit increased by 7% to $(15.2) million, compared to $59.4 million and $(14.2) million, respectively, for the year ended December 31, 2003.

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 net service revenue of $91.3 million and an adjusted EBITDA deficit of $(15.2) million for the year ended December 31, 2004.

EBITDA represents net (loss) income before income taxes, net interest expense, depreciation and amortization. Management believes the most directly comparable measure to EBITDA, as adjusted, calculated in accordance with GAAP is cash flows (used in) provided by operating activities.

EBITDA, as adjusted, represents EBITDA as set forth above, less gains on debt and lease restructurings. We have excluded these gains on debt restructurings because they relate to our capital structure and these transactions did not have an effect on our cash flows. We believe EBITDA, as adjusted, is a useful measure of our ability to service debt, fund capital expenditures, expand our business and make bonus determinations for our employees. EBITDA, as adjusted, is an integral part of the internal reporting and planning system used by management as a supplement to GAAP financial information. 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	2004	2005	2004 Unaudited	2005
			(Estimated)		(Estimated)
			(in thousands)		
Net service revenue	$ 59,422	$ 91,286	$ 145,000	$ 20,945	$ 33,500
EBITDA:					
Cash flows (used in) provided by operating activities	$ (27,357)	$ (26,425)	$ 100	$ (11,582)	$ (3,650)
Changes in working capital	(1,886)	606	2,000	4,461	300
Cash interest expense, net	15,078	9,825	10,400	2,000	4,000
Gains debt and lease restructurings, net	240,234	6,124		750	
EBITDA including gains on debt and lease restructurings	$ 226,069	$ (9,870)	$ 12,500	$ (4,371)	$ 650
Gains debt and lease restructurings	(240,234)	(5,292)			
EBITDA as adjusted	$ (14,165)	$ (15,162)	$ 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 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 shares of our common stock, which we refer to as the equity conversion. As a result, we no longer have any shares of preferred stock outstanding. Additionally, in March 2005, we implemented a 1-for-20 reverse stock split, pursuant to which the 648 million shares of our common stock outstanding after the equity conversion were converted into 32.4 million shares of our common stock. We refer to this as the reverse stock split. All historical share and per share information has been restated to reflect 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 repay our $10.0 million of subordinated indebtedness to Columbia Ventures Corporation, 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 reflects our equity conversion and reverse stock split, is based on our shares outstanding as of December 31, 2004 and includes:

- 827,487 shares of our common stock outstanding;
- 31,569,550 shares of our common stock issued 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:

- 5,189 shares of our common stock issuable upon exercise of outstanding common stock warrants;
- 1,066 shares of our common stock issuable upon conversion of our $7^{1}/_{2}$% Convertible Subordinated Notes Due 2007;
- 1,061,383 shares of our common stock issuable upon the exercise of outstanding stock options issued by us under our stock-based employee compensation plans; and
- 314,733 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 reflects the equity conversion and reverse stock split and assumes the underwriters do not exercise their option to purchase up to additional shares.

Amounts expressed in Euros have been converted into equivalent U.S. Dollar amounts based on an exchange rate of $1.30 U.S. Dollars for one Euro.

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 financial information should be read in conjunction with "Selected Consolidated Financial and Other Data," "Unaudited Condensed Pro Forma Financial Statement," "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 our 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."

	Year Ended December 31,			
	2001	2002	2003	2004
	(in thousands, except operating data)			
Statement of Operations Data:				
Net service revenue	$ 3,018	$ 51,913	$ 59,422	$ 91,286
Operating expenses:				
Network operations	19,990	49,091	47,017	63,466
Amortization of deferred compensation cost of network operations	307	233	1,307	858
Selling, general, and administrative	27,322	33,495	26,570	40,382
Amortization of deferred compensation selling, general, and administrative	2,958	3,098	17,368	11,404
Terminated public offering costs				779
Restructuring charge				1,821
Gain on settlement of vendor litigation		(5,721)		
Depreciation and amortization	13,535	33,990	48,387	56,645
Total operating expenses	64,112	114,186	140,649	175,355
Operating loss	(61,094)	(62,273)	(81,227)	(84,069)
Gains on debt and lease obligation restructurings			240,234	5,292
Settlement of noteholder litigation		(3,468)		
Interest income (expense) and other, net	(5,819)	(34,545)	(18,264)	(10,883)
(Loss) income before extraordinary item	(66,913)	(100,286)	140,743	(89,660)
Extraordinary gain Allied Riser merger		8,443		
Net (loss) income	(66,913)	(91,843)	140,743	(89,660)
Beneficial conversion of preferred stock	(24,168)		(52,000)	(43,986)
Net (loss) income applicable to common stock	$ (91,081)	$ (91,843)	$ 88,743	$ (133,646)
Other Financial Data:				
Capital expenditures	$ 118,020	$ 75,214	$ 24,016	$ 10,135
Net cash used in operating activities	(46,786)	(41,567)	(27,357)	(26,425)
Net cash used in investing activities	(131,652)	(19,786)	(25,316)	(2,701)
Net cash provided by financing activities	161,862	51,694	20,562	34,486

	As of and for the Year Ended December 31,			
	2001	2002	2003	2004
Operating Data:				
Percent of revenue on-net	59.7%	31.9%	55.5%	63.4%
Percent of revenue off-net	40.3%	40.7%	26.4%	25.9%
Percent of revenue non-core		27.4%	18.1%	10.7%
On-net customer connections	189	881	1,649	2,838
On-net buildings	127	511	813	989

	December 31, 2004	
	Actual	As Adjusted(1)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents and short-term investments ($355, restricted)	$ 14,353	$ 66,903
Working capital (deficit)	(13,245)	39,305
Property and equipment, net	337,275	337,275
Total assets	378,586	431,136
Capital lease obligations	103,375	103,375
Long term notes payable (net of discount of $5,026)	23,007	5,165
Convertible preferred stock	139,825	
Stockholders' equity	212,490	282,882

(1) The as adjusted balance sheet data presented above gives effect to the equity conversion, the proceeds from our subordinated note, the completion of this offering and the application of proceeds as set forth in "Use of Proceeds" as if each had occurred as of December 31, 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. 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 2002, we had an operating loss of $62.3 million, in 2003 we had an operating loss of $81.2 million and in 2004 we had an operating loss of $84.1 million. As of December 31, 2004, we had an accumulated deficit of $143.7 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 settling claims for amounts due to and from LambdaNet France and LambdaNet Spain. If we are unable to settle such claims or we experience unforeseen obligations in connection with the separation, we could be subject to additional expenses.

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

With part of the proceeds from this offering, 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 13 acquisitions, including ten in the last two years. We compete with other companies for acquisition 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, following an acquisition, we have generally experienced a decline in revenue attributable to acquired customers as these customers' contracts have expired and they have entered into standard Cogent customer contracts at generally lower rates or have chosen not to renew service with us. We anticipate that we will experience similar declines with respect to customers we have acquired or will acquire.

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 inter-city and intra-city 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 eight

quarters ended December 31, 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**	**December 31, 2004**
Net service revenue	$ 14,233	$ 15,519	$ 15,148	$ 14,522	$ 20,945	$ 20,387	$ 21,736	$ 28,218
Operating loss	$ (14,880)	$ (16,568)	$ (15,901)	$ (33,878)	$ (21,939)	$ (19,218)	$ (20,160)	$ (22,752)
Net income (loss)	$ 1,914	$ (22,796)	$ 196,462	$ (34,837)	$ (24,170)	$ (22,225)	$ (23,041)	$ (20,224)

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;
- 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 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 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 have in the past encountered some disputes with certain of our providers regarding our peering arrangements, but we have consistently been able to route our traffic through alternative peering arrangements, resolve such disputes or terminate such peering arrangements, none of which have had the effect of adversely impacting 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.

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 December 31, 2004 of approximately 5,000 shares on a post reverse split basis. 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 827,487 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.

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."

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 use a portion of the net proceeds of this offering to repay all of our Cisco indebtedness, which was $17.0 million as of December 31, 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 will use a portion of the net proceeds of this offering to repay all of our indebtedness to Columbia Ventures Corporation. On February 24, 2005, we issued a subordinated note in the principal amount of $10.0 million to Columbia Ventures Corporation. The note has an initial interest rate of 10% per annum and the interest rate increases by one percent on August 24, 2005, six months after the note was issued, and by a further one percent at the end of each successive six-month period up to a maximum of 17%. Interest on the note is payable on the note's maturity date of February 24, 2009. Columbia Ventures Corporation is owned by one of our directors, Kenneth D. Peterson, Jr., and is a holder of approximately 9.6% of our common stock.

We intend to use the remaining $42.5 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. In connection with our 1-for-20 reverse stock split that was effectuated on March 24, 2005, the trading prices presented below have 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	$ 110.00	$ 54.00	$ 18.80	$ 8.00	$ 54.80	$ 22.00	$ 25.40	$ 8.11
Second Quarter	64.00	24.00	64.60	6.80	43.80	5.40	12.50	10.67
Third Quarter	28.60	17.00	47.80	16.00	8.00	4.60		
Fourth Quarter	28.00	5.20	39.60	19.00	40.00	5.60		

(1) Represents high and low through April 6, 2005.

The last reported sale price of our common stock on the American Stock Exchange on April 6, 2005 was $10.84 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 December 31, 2004:

- on an actual basis; and
- on an as adjusted basis, to give effect to the equity conversion, the proceeds from our subordinated note and the application of the net proceeds of this offering as described in "Use of Proceeds" as if each had occurred on December 31, 2004.

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

	As of December 31, 2004	
	Actual	**As Adjusted(1)**
	(in thousands)	
		(unaudited)
Cash, cash equivalents and short-term investments (includes $355 restricted)	$ 14,353	$ 66,903
Debt (including current maturities):		
Amended and Restated Cisco Note	$ 17,842	$
Capital lease obligations	103,375	103,375
Convertible Subordinated Notes Due 2007 (net of discount of $5,026)	5,165	5,165
Total debt	126,382	108,540
Stockholders' equity:		
Common stock, par value $0.001 per share; 75,000,000 shares authorized; 827,487 shares outstanding; shares authorized and outstanding as adjusted	1	
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, 41,021 shares issued and outstanding; no shares authorized, issued and outstanding as adjusted	40,778	
Series H participating convertible preferred stock, par value $.001 per share; 84,001 shares authorized; 45,821 shares issued and outstanding; no shares authorized, issued and outstanding as adjusted	44,309	
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 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	927	
Series M participating convertible preferred stock, par value $.001 per share; 3,701 shares authorized, issued and outstanding; no shares authorized, issued and outstanding as adjusted	18,353	
Additional paid-in capital	236,692	
Deferred compensation	(22,533)	(22,533)
Stock purchase warrants	764	764
Accumulated other comprehensive income	1,515	1,515
Treasury stock, 61,462 shares	(90)	(90)

	As of December 31, 2004	
Accumulated deficit	(143,684)	(142,842)
Total stockholders' equity	212,490	282,882
Total capitalization	$ 338,872	$ 391,422

(1) Excludes:

options to acquire 6,075 shares of common stock at a weighted-average exercise price of $9.00 per share;

options to acquire 1,061,383 shares of our common stock at a weighted-average exercise price of $2.26 per share;

314,733 shares of our common stock available for issuance as restricted stock grants or as stock options;

5,189 shares of common stock issuable upon exercise of outstanding common stock warrants; and

and 1,066 shares of our common stock issuable upon conversion of our 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 December 31, 2004 was $209.4 million, or $6.46 per share. Our pro forma net tangible book value as of December 31, 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 December 31, 2004 would have been approximately $ 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	$ 6.46	
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 the reverse stock split and summarizes on a pro forma as adjusted basis as of December 31, 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	827,487		$ 199,207	53.8%	$ 240.74
Converting preferred stockholders	31,569,550		96,089	25.9%	3.04
Investors in the offering			75,000	20.3%	
Total		100.0%	$ 370,296	100.0%	$

The tables and calculations above exclude:

options to acquire 6,075 shares of common stock at a weighted-average exercise price of $9.00 per share;

options to acquire 1,061,383 shares of our common stock at a weighted-average exercise price of $2.26 per share;

314,733 shares of our common stock available for issuance as restricted stock grants or as stock options;

5,189 shares of common stock issuable upon exercise of outstanding common stock warrants;

and 1,066 shares of our common stock issuable upon conversion of our Convertible Subordinated Notes Due 2007.

UNAUDITED CONDENSED PRO FORMA BALANCE SHEET

The following unaudited condensed pro forma balance sheet ("the pro forma balance sheet") and explanatory notes has been prepared to give effect to the following transactions: (1) the equity conversion, (2) the receipt of $10.0 million from our subordinated note issued in February 2005, (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 and our $10.0 million subordinated note with a part of the proceeds from this offering. The pro forma balance sheet as of December 31, 2004, assumes that each of these transactions occurred on December 31, 2004.

The following pro forma balance sheet has been prepared based upon our historical financial statements. The pro forma balance sheet should be read in conjunction with our historical consolidated financial statements as of December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004.

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

Unaudited Condensed Pro Forma Balance Sheet
As of December 31, 2004
(dollars in thousands)

	Cogent Historical	Equity Conversion and Offering Adjustments	Cogent Pro Forma
Assets			
Current assets:			
Cash and cash equivalents	$ 13,844	$ 69,550 (a)	$ 66,394
		(17,000)(b)	
		10,000 (d)	
		(10,000)(e)	
Short-term investments, $355 restricted	509		509
Accounts receivable, net of allowance for doubtful accounts of $3,229	13,564		13,564
Prepaid expenses and other current assets	4,224		4,224
Total current assets	32,141	52,550	84,691
Property and equipment, net	337,275		337,275
Asset held for sale	1,220		1,220
Intangible assets, net	3,125		3,125
Other assets ($1,370 restricted)	4,825		4,825
Total assets	$ 378,586	$ 52,550	$ 431,136
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 16,090		$ 16,090
Accrued liabilities	21,808		21,808
Current maturities of capital lease obligations	7,488		7,488
Total current liabilities	45,386		45,386
Long-term liabilities:			
Capital lease obligations, net of current maturities	95,887		95,887
Amended and Restated Cisco Note	17,842	(17,842)(b)	
Subordinated Note		10,000 (d)	
		(10,000)(e)	
Convertible notes, net of discount of $5,026	5,165		5,165
Other long term liabilities	1,816		1,816
Total liabilities	166,096	(17,842)	148,254
Stockholders' equity:			
Convertible preferred stock, Series F	10,904	(10,904)(c)	
Convertible preferred stock, Series G	40,778	(40,778)(c)	
Convertible preferred stock, Series H	44,309	(44,309)(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)	
Convertible preferred stock, Series M	18,353	(18,353)(c)	
Common stock	1	(a)	
		32 (c)	
Additional paid-in capital	236,692	(a)	
		139,793 (c)	
Stock purchase warrants	764		764

	Cogent Historical	Equity Conversion and Offering Adjustments		Cogent Pro Forma
Deferred compensation	(22,533)			(22,533)
Accumulated other comprehensive income	1,515			1,515
Treasury stock	(90)			(90)
Accumulated deficit	(143,684)	842	(b)	(142,842)
Total stockholders' equity	$ 212,490	70,392		282,882
Total liabilities and stockholders' equity	$ 378,586	52,550		431,136

Notes to the Unaudited Condensed Pro Forma Balance Sheet

(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.

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

(d) Represents the proceeds of $10.0 million from our subordinated note, which we received in February 2005.

(e) Represents the repayment of our $10.0 million subordinated note with a portion of the proceeds from this offering.

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 year ended December 31, 2004.

Pro Forma Per-Share Information	**Year ended December 31, 2004**
Basic and diluted net loss applicable to common stock	$(175.03)
Basic and diluted weighted average common shares outstanding	763,540
Pro forma basic and diluted net loss per common share	
Pro forma 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, 2004 and for each of the five years then ended from our audited consolidated financial statements. We derived our consolidated statement of operations data presented below for the years ended December 31, 2004 and 2003, and our balance sheet data as of December 31, 2004, 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 and 2000 and our balance sheet data as of December 31, 2001 and 2000 from our consolidated financial statements, which were audited by Arthur Andersen LLP, our independent auditor during those periods.

	Years Ended December, 31				
	2000	2001	2002	2003	2004
	(dollars in thousands)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net service revenue	$	$ 3,018	$ 51,913	$ 59,422	$ 91,286
Operating expenses:					
Cost of network operations	3,040	19,990	49,091	47,017	63,466
Amortization of deferred compensation cost of network operations		307	233	1,307	858
Selling, general, and administrative	10,845	27,322	33,495	26,570	40,382
Amortization of deferred compensation SG&A		2,958	3,098	17,368	11,404
Gain on settlement of vendor litigation			(5,721)		
Terminated public offering costs					