COGENT COMMUNICATIONS GROUP INC
Form S-1
May 18, 2004

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As filed with the Securities and Exchange Commission on May 18, 2004

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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Latham & Watkins LLP 555 Eleventh Street, N.W. Washington, D.C. 20004 (202) 637-2200	**Mayer, Brown, Rowe & Maw LLP 190 South LaSalle St., 3900 Chicago, IL 60603 (312) 701-7032**

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	$75,000,000	$9,503

(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 to cover over-allotments, if any.

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 where the offer or sale is not permitted.

PROSPECTUS
(Subject to Completion, dated May 18, 2004)

Shares of Common Stock

Cogent Communications Group, Inc.

We are offering shares of our common stock.

Immediately prior to this offering, we will implement a 1-for-20 reverse stock split and all of our outstanding shares of preferred stock will be converted into shares of our common stock. Our common stock is traded on the American Stock Exchange under the symbol "COI." The last reported sale price of our common stock on the American Stock Exchange on May 17, 2004 was $1.55 per share, which would have been $31.00 per share after giving effect to the reverse stock split.

We and certain selling stockholders have granted the underwriters the right to purchase up to an additional shares to cover over-allotments.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 7.

	Per Share	Total
Price to Public	$	$
Underwriting Discounts		
Proceeds to us (before expenses)		

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on , 2004.

Jefferies & Company, Inc.

CIBC World Markets

Friedman Billings Ramsey

The date of this prospectus is , 2004

[INSIDE FRONT COVER]

Description of Artwork

Graphics depicting map of portions of North America and Western Europe portraying company fiber optic network, access points and colocation centers.

Cogent Communications Logo with phrase "Optical Internet."

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 connectivity. Our network has been designed and optimized to transmit data using Internet Protocol, which provides us with significant cost and performance advantages over legacy networks. We deliver our services to more than 4,300 small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations in North America and Europe. Our primary service is providing Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses, and is delivered through our own facilities running 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 900 buildings in which we provide our on-net services, including over 760 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 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. For the three months ended March 31, 2004, 64.4% of our net service revenue was generated from on-net customers compared to 51.5% in the same period in 2003.

We have created our network by purchasing dark fiber from carriers with large unused capacity, by constructing facilities and by acquiring financially distressed companies or their assets at a significant discount to their original cost. Our intercity network consists of more than 21,000 fiber route miles and operates at between 40 and 80 Gigabits per second. Our metropolitan area networks in 25 markets in North America and Europe consist of over 8,000 fiber miles and over 150 operational rings with each ring configured to operate at between 12 and 80 Gigabits per second. Our in-building networks consist of one or more racks of equipment installed in each building with in-building riser connectivity ranging from 12 to 288 strands of fiber. Our network was constructed with dark fiber facilities that we control and have activated. Our fiber facilities are primarily obtained through long-term indefeasible rights of use, or IRUs.

Our network allows us to respond to the growing demand for low-cost, high-speed Internet connectivity. On average, we currently serve approximately 4% of the tenants in each of our multi-tenant on-net buildings. We believe these buildings have an average of 45 tenants. In addition, we currently serve less than 1% of the approximately 172,000 small and medium-sized businesses in the geographic regions in which we offer our off-net services. We also operate 27 data centers comprising 305,780 square feet throughout North America and Europe that allow customers to colocate their equipment and access our network. We intend to continue to expand our addressable market by selectively adding buildings to our network.

Competitive Advantages

We believe we address many of the Internet Protocol, or 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 have built our network on a facilities-based platform to optimally deliver IP services. We believe our network architecture gives us a cost advantage over our competitors who have constructed their networks to overlay legacy voice networks. We have minimized the cost of constructing and maintaining our network by acquiring strands of fiber from carriers with large unused capacity. We also have minimized our capital expenditures by acquiring financially distressed companies or their assets at a significant discount to their original cost. Our high-capacity network's existing connections to over 900 buildings enable us to increase the total number of customers we serve with minimal incremental investment in our network and operational infrastructure. Finally, our focus on a simple set of Internet connectivity services reduces our costs of provisioning and customer support.

Independent Network. Our high-speed on-net Internet access 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. Our off-net services are generally installed within 30 days and utilize more traditional circuits, such as T1 and T3 lines, purchased from local telecommunications providers.

Reliable Service. Over the last 30 months, our network has averaged 99.99% customer connection availability. The majority of our network is configured in a ring structure that enables us to route customer traffic in either direction around the network rings both at the metropolitan and intercity levels. The availability of two data transmission paths around each ring serves as a backup that minimizes loss of service in the event of equipment failure or damage.

High Quality. 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. Our intracity network is designed to allow customers to transmit and receive data simultaneously at the maximum stated rate for their connections without performance degradation. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission.

Experienced Management Team. Our management team is composed of seasoned executives with extensive expertise in the communications industry, as well as knowledge of the markets in which we operate. Our management team has designed and built our network and has guided us through the recent telecommunications industry downturn. The team has also integrated the network assets, customers and service offerings we acquired through six major and three minor acquisitions.

Our Strategy

We intend to become the leading provider of high-capacity IP data services to customers in the markets we serve 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 leverage our high-capacity network to respond to the growing demand among businesses for high-speed Internet service. We currently offer services with speeds ranging between 500 Kilobits per second, or Kbps, and 1,000 Megabits per second, or Mbps. Our primary service is offered at a speed of 100 Mbps, much faster than typical Internet access currently offered to businesses.

Pursuing On-Net Customer Growth. We intend to expand and intensify the efforts of our direct field sales organization. Our direct field sales organization markets to tenants in our on-net buildings. Our marginal cost to serve new on-net customers is low because of our network design and focused service offerings. We estimate that we now serve only 4% of the tenants in our on-net buildings, providing us with a significant opportunity for customer and revenue 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 Expanding Our Service Offerings. We have recently expanded the geographic reach of our Internet protocol-based services to include Europe. We will continue to evaluate opportunities to offer complementary application services on our network, such as voice-over-Internet Protocol, or VoIP, remote storage, Internet Protocol virtual private networks, or IP VPNs, and secure networks.

Selectively Pursuing Acquisition Opportunities. In the first quarter of 2004, we consummated the acquisition of the European portion of our network. We will continue to evaluate opportunities to acquire network assets and customers through selective acquisitions. We may also use acquisitions to expand into new geographic markets.

The Reverse Stock Split and Equity Conversion

Immediately prior to this offering, we will implement a 1-for-20 reverse stock split under which the outstanding 14,147,464 shares of our common stock will be combined into 707,373 shares of our common stock, which we refer to as the Reverse Stock Split, and an equity conversion under which the outstanding shares of our preferred stock will be converted into 25,008,658 shares of our common stock on a post-Reverse Stock Split basis, which we refer to as the Equity Conversion. As a result of the Reverse Stock Split and Equity Conversion and without regard to the shares to be issued in this offering, we will have 25,716,031 shares of common stock outstanding and no shares of preferred stock outstanding immediately prior to the offering.

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 and 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 the entire $17.0 million of our indebtedness to Cisco, to fund the expansion of our sales and marketing efforts, to fund the increase in the number of on-net buildings we serve, and for general corporate purposes, which may include potential acquisitions of complementary businesses. 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 Reverse Stock Split, is based on shares outstanding as of May 5, 2004 and includes:

- 707,373 shares of our common stock outstanding;
- 25,008,658 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:

- 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;
- 6,080 shares of our common stock issuable upon the exercise of outstanding stock options issued by us under our stock-based employee compensation plans; and
- 1,254,574 additional shares of our common stock reserved for future grants under our stock-based employee compensation plans, 698,077 of which have been designated for grants to employees in the second quarter of this year.

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

- the underwriters do not exercise their over-allotment option of up to shares;
- the Reverse Stock Split and Equity Conversion; and
- a public offering price of $ per share (such price assumes the completion of the Reverse Stock Split and 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 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. Since 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 three months ended March 31, 2004 is not required to be presented.

	Year Ended December 31,			Pro Forma	Three Months Ended March 31,	
	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	$ 14,233	$ 20,945
Operating expenses:						
Cost of network operations	19,990	49,091	47,017	59,910	10,682	15,735
Amortization of deferred compensation cost of network operations	307	233	1,307	1,307	57	212
Selling, general, and administrative	27,322	33,495	26,570	48,719	6,402	9,581
Amortization of deferred compensation selling, general, and administrative	2,958	3,098	17,368	17,368	761	2,820
Asset impairment and loss				3,279		
Gain on settlement of vendor litigation		(5,721)				
Depreciation and amortization	13,535	33,990	48,387	55,835	11,211	14,536
Total operating expenses	64,112	114,186	140,649	186,418	29,113	42,884
Operating loss	(61,094)	(62,273)	(81,227)	(100,465)	(14,880)	(21,939)
Gains on debt extinguishment			240,234	345,517	24,802	
Settlement of noteholder litigation		(3,468)				
Interest income (expense) and other, net	(5,819)	(34,545)	(18,264)	(26,493)	(8,008)	(2,231)
(Loss) income before extraordinary item	(66,913)	(100,286)	140,743	218,559	1,914	(24,170)
Extraordinary gain Allied Riser merger		8,443				
Net (loss) income before cumulative effect of accounting change	(66,913)	(91,843)	140,743	218,559	1,914	(24,170)
Cumulative effect on prior years SFAS 143				(289)		
Net (loss) income	(66,913)	(91,843)	140,743	218,270	1,914	(24,170)
Beneficial conversion of preferred stock	(24,168)		(52,000)	(54,575)		(22,028)
Net (loss) income applicable to common stock	$ (91,081)	$ (91,843)	$ 88,743	$ 163,695	$ 1,914	$ (46,198)

				Pro Forma	Three Months Ended March 31,	
Other Financial Data:						
Capital expenditures	$ 118,020	$ 75,214	$ 24,016		$ 13,082	$ 1,833
Net cash used in operating activities	(46,786)	(41,567)	(27,357)		(14,971)	(11,582)
Net cash (used in) provided by investing activities	(131,652)	(19,786)	(25,316)		(13,965)	29,495
Net cash provided by (used in) financing activities	161,862	51,694	20,562		2,141	(2,217)

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
				(unaudited)	
Operating Data:					
Percent of revenue on-net	59.7%	31.9%	55.6%	51.5%	64.4%
Percent of revenue off-net	40.3%	40.7%	26.4%	28.1%	23.4%
Percent of revenue non-core		27.4%	18.0%	20.4%	12.2%
On-net customer connections	189	881	1,649	1,032	2,092
On-net buildings	127	511	813	629	877

	March 31, 2004	
	Actual	As Adjusted
	(unaudited)	
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents and short-term investments ($664, restricted)	$ 24,098	$ 77,473
Working capital	3,910	57,285
Property and equipment, net	357,058	357,058
Total assets	407,489	460,864
Capital lease obligations	109,566	109,566
Long term notes payable (net of discount of $5,853)	22,180	4,338
Convertible preferred stock	119,774	
Stockholders' equity	245,459	316,676

The as adjusted balance sheet data presented above gives effect to the completion of this offering and the application of proceeds as set forth in "Use of Proceeds" as if this offering had occurred as of March 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 sufficient positive cash flow and we are unable to otherwise raise sufficient additional capital to pay for our growth or meet our financing obligations, our future financial results and our ability to implement our business plan will be materially and adversely affected.

Until we can generate sufficient levels of cash 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 and for unforeseen maintenance of our network and facilities. Given the recent condition of the financial markets, it has been very difficult to raise capital, especially for telecommunications companies. We cannot assure you that access to additional capital will become any easier in the future, 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.

We need to increase the number of our on-net customers in order to become profitable and cash-flow positive.

In order to become profitable and cash flow positive, we need to keep the customers we have and significantly increase the number of our customers. We may fail to do so. This could happen if our marketing plan is unsuccessful, we hire the wrong sales force to implement the marketing plan, or we are unable to retain a high-quality sales force.

We have historically incurred operating losses and we expect our losses to continue for the foreseeable future.

Since we initiated operations in 2000, we have generated increasing operating losses and we anticipate that these operating losses will continue to increase 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 quarter of 2004, we had an operating loss of $21.9 million. As of March 31, 2004, we had an accumulated deficit of $78.2 million. Continued losses may prevent us from pursuing our strategies for growth or 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 a relatively small company in an industry that is capital intensive, rapidly evolving and subject to significant economies of scale. If we fail to grow, we may not be able to successfully compete with larger, better-established companies.

Because the communications industry is capital intensive, rapidly evolving and subject to significant economies of scale, as a relatively small organization, we are at a competitive disadvantage. The growth we must achieve to reduce that disadvantage will put a significant strain on all of our resources. Our ability to sustain our current operations and to achieve the growth that we believe will be necessary for us to achieve profitability will depend on a number of factors, including our success in increasing the number of customers we serve, the expenses associated with the maintenance of our network and adding new on-net buildings to our network, regulatory changes, the levels of competition that we face, technological developments, merger and acquisition activity and condition of the North American and European economies and their ability to recover from the recent downturn.

We may not be able to efficiently manage our growth.

Our future largely depends on our ability to implement our business strategy and continue to increase the size of our business in order to create new business and revenue opportunities. This planned expansion will place significant strains on our personnel, financial and other resources. The failure to efficiently manage our growth could adversely affect the quality of our services, our business and our financial condition. Our ability to manage our growth will be particularly dependent on our ability to develop and retain an effective sales force and qualified technical and managerial personnel. We may not be able to hire and retain sufficient numbers of qualified personnel, maintain the quality of our operations, control our costs, maintain compliance with all applicable regulations or expand our internal management, technical, information and accounting systems in order to support our desired growth. In addition, we must achieve the steps necessary to manage our growth in a timely manner, at reasonable costs and on satisfactory terms and conditions. Failure to effectively manage our planned expansion could have a material adverse effect on our business, growth, financial condition, results of operations, and ability to meet our obligations.

We may incur significant costs, and may not realize the benefits we anticipate, from our recent acquisitions in Europe.

We very recently completed our acquisitions of LambdaNet Communications France SAS, LambdaNet Communications Espana SA and the rights to 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. The assets that were part of Carrier 1 have not yet been fully integrated into our network. We may incur significant additional and unexpected costs and operating difficulties in fully integrating these European operations and assets with our strategies, technologies, information systems and services.

In addition, LambdaNet France and LambdaNet Spain operated a combined telecommunications network and shared operations systems with a formerly affiliated entity, LambdaNet Germany. Because we did not acquire LambdaNet Germany, we are now in the process of separating the operations of LambdaNet Germany from the LambdaNet companies we acquired. Our failure to efficiently accomplish this task would subject us to additional expenses.

We may experience delays and additional costs in completing the activation of our network in Germany.

We acquired the rights to our network in Germany on March 30, 2004, pursuant to a binding term sheet that is to be replaced by a more detailed contract. We have not yet completed negotiation of that contract and may experience delays in doing so. If we are unable to complete the contract we may have to operate the network under the less complete terms of the binding term sheet. This could lead to disputes over matters such as obligations to repair damage to the fiber and to provide access to various facilities.

We have activated the transmission equipment on the German network and expect to achieve full interconnection with our network in France by the end of June 2004. We could experience delays or additional costs in obtaining and activating the fiber connections necessary for this. We may also experience delays and unanticipated costs as we begin to add customers to the German network for reasons we do not foresee because of our inexperience in operating and installing equipment and providing services in the German market.

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 nine acquisitions, including seven 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.

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.

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.

Our substantial debt may adversely affect our financial condition and operating activity.

We have, and after the completion of this offering will continue to have, substantial debt and substantial debt service obligations. At March 31, 2004, as adjusted to give effect to this offering and the application of a portion of the proceeds of this offering to repay all of our indebtedness to Cisco Systems Capital Corporation, we would have had outstanding indebtedness of approximately $10.2 million in face value under our 7$^1/_2$% Convertible Subordinated Notes Due 2007, and approximately $109.6 million of obligations under capital leases.

Our level of indebtedness has important consequences to you, including:

- requiring us to use a substantial portion of our cash flow from operations to pay interest and principal on our 7$^1/_2$% Convertible Subordinated Notes Due 2007 and to meet our obligations under the capital leases, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and other general corporate purposes;
- subjecting us to the possibility of an event of default under the covenants contained in our 7$^1/_2$% Convertible Subordinated Notes Due 2007 and our other debt obligations; and

limiting our ability to adjust to rapidly changing market conditions, reducing our ability to withstand competitive pressures and making us more vulnerable to a downturn in general economic conditions than our competitors with less debt.

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

Our future performance depends to a significant degree upon the continued contribution of our executive management team and other key employees, in particular, our President and Chief Executive Officer, Dave Schaeffer. Accordingly, our future success depends on our ability to attract, hire, train and retain highly skilled management, technical, sales, marketing and customer support personnel. Competition for qualified employees is intense, and we compete for qualified employees with companies that may have greater financial resources than we have. We may not be successful in attracting, hiring, training and retaining the people we need, which would significantly impede our ability to implement our business strategy.

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

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

exposure to additional regulatory requirements;

import restrictions and controls, tariffs and other trade barriers;

difficulties in staffing and managing our foreign operations;

fluctuations in currency exchange rates;

changes in political and economic conditions;

exchange controls; 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.

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.

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.

Our ability to track sales leads, close sales opportunities, provision services and bill our customers for those services, depends upon the close and 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. 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. 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 rights to the use of the dark fiber that makes up our network may be affected by the financial health of our fiber providers.

We do not have title to most of the dark fiber that makes up the foundation of our network. Our interests in that dark fiber are in the form of long-term leases or IRUs. We have made substantial advance payments pursuant to these IRUs for the long-term use of the dark fiber. There has been increasing financial pressure on some of our fiber providers as part of the overall weakening of the telecommunications market over the past several years. Our largest supplier of our metropolitan fiber networks, AboveNet, and our primary supplier of our national backbone fiber, WilTel Communications, each recently emerged from bankruptcy. The future bankruptcy or other insolvency of AboveNet, WilTel or one or more of the other entities with which we have entered into IRUs could significantly and adversely impact our results of operations. For example, bankruptcies or insolvencies could result in a loss of our rights to use the fiber pursuant to our IRUs. If this occurred we would need to obtain alternative fiber capacity in order to continue to transmit data over the affected portion of our network. We cannot assure you that we would be able to obtain such alternative capacity in a timely manner, on reasonable terms or at all, as there may be locations where alternate providers do not exist. Even if we were able to continue to use the fiber subject to such IRUs upon the bankruptcy or insolvency of one or more of our fiber suppliers, these suppliers may cease providing certain other services under the IRUs that we currently rely upon. This may, among other things, require us to expend additional funds for maintenance of the fiber or directly fund right of way obligations.

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 failure to obtain or maintain 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 regard certain aspects of our business as proprietary and attempt to protect them through trade secret laws, restrictions on disclosure and other methods. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use this information.

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 traditional and new communications companies, including companies that provide local and long distance telephone services, cable modem services, Internet connectivity, digital subscriber line services, fixed and mobile wireless services and satellite data services. Relative to us, traditional providers have significantly greater financial resources, more well-established brand names, larger customer bases, more diverse strategic plans and technologies.

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 diminished the competitive advantage that we have enjoyed as a result of our service pricing. If our competitors successfully focus on our target markets, this key advantage may be further eroded and our business may suffer.

Some of our competitors are in bankruptcy or may soon emerge from bankruptcy, and some already have done so. Because the bankruptcy process allows for the discharge of debts and rejection of certain obligations, these competitors may have more pricing flexibility and a lower cost structure than us.

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

Our quarterly operating results may vary significantly due to a combination of factors, including:

- demand for our services;
- our ability to meet the demand for our services;
- changes in pricing policies by us and our competitors;
- increased competition;
- the impact of acquisitions;

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.

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 such 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 and 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 would 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 may be possible that data will be lost or distorted. Delays in data delivery may cause significant losses to a customer 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. 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 and man-made harmful events. In addition, some of our customers are, at least initially, only served by partial fiber rings, increasing the risk of service interruption. Portions of our network and certain of our services are dependent on the network of other providers such as 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 be vulnerable to unauthorized access or we may incur liability for information disseminated through our network.

Our networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. Addressing the effects of computer viruses and alleviating other security problems may require interruptions, incurrence of costs and delays or cessation of service to our customers. Unauthorized access could jeopardize the security of confidential information stored in our computer systems or those of our customers, for which we could possibly be held liable.

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. However, changes in regulation or new legislation may increase the regulation of our current enhanced services. Such changes in the regulatory environment are difficult for us to predict and could affect our operating results by increasing competition, decreasing revenue, increasing costs or impairing our ability to offer services. If we decide to provide voice and other basic telecommunications services in the United States, we will become subject to regulation by the FCC. The FCC and state agencies are also reviewing the regulatory requirements, if any, that should be applicable to voice-over-Internet Protocol. If we seek to offer voice-over-Internet Protocol services, we could be required to obtain certain authorizations from regulatory agencies. We may not be able to obtain such authorizations in a timely manner, or at all, and conditions could be imposed upon such authorization that may not be favorable to us. Complying with these regulatory requirements may be costly.

International bodies and federal, state and local governments have adopted a number of laws and regulations that affect the Internet and are likely to continue to seek to implement additional laws and regulations. For example, a federal law regulating unsolicited commercial e-mail, or "spam," was recently enacted. The effects of this legislation, which by its terms preempts most spam regulations of the laws of over thirty states, on our business is uncertain. The adoption of any future laws or regulations might decrease the growth of the Internet, decrease demand for our services, impose taxes or other costly technical requirements, regulate the Internet in some respects as has been done with traditional telecommunications services or otherwise increase the cost of doing business on the Internet or in some other manner. Any of these actions could have a significantly harmful effect on us or our customers. Moreover, the nature of any new laws and regulations and the interpretation of applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. We cannot predict the impact, if any, that future regulation or regulatory changes may have on our business.

Changes in the regulation of the provision of high speed Internet access by incumbent local exchange carriers could result in increased competition and negatively affect our business. While we do not know if, or to what extent it will occur, such changes could negatively affect our business by enhancing the competitive position of the incumbent local exchange carriers.

One of our subsidiaries, Shared Technologies of Canada, operates in Toronto, Canada. In addition to Internet service it offers voice services. 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. Each of our subsidiaries holds the licenses necessary to provide its services in the markets where it operates today. To the extent we expand our operations or service offerings in Europe, we may face regulatory obstacles to executing our plans.

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, the ensuing war on terrorism 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.

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 0.4% 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 weekly volume since January 1, 2003 of less than 28,000 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 public 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, 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 a sufficient number of shares of our common stock and be able to decide the outcome of all matters requiring a stockholder vote. They have the ability to exert significant influence over the company. For instance, these stockholders are able to control the outcome of votes concerning director elections, amendments to our certificate of incorporation and bylaws, mergers, corporate control contests and other significant corporate transactions including a change of control or going private transaction. Although we do not foresee such a transaction at the present time, the concentration of our stock ownership could have the effect of preventing or delaying a change of control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could harm 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 May 5, 2004, there were 707,373 shares of our common stock outstanding. The million shares of common stock sold in this offering (shares if the underwriters exercise their over-allotment option 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 currently hold preferred shares, will own shares of our common stock, or shares if the underwriters exercise their over-allotment option 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 Jefferies & Company, Inc. for at least 365 days after the date of this prospectus. Our directors, Chief Executive Officer and preferred stockholders are subject to an additional one year lock-up period which permits the release of shares from the lock-up at periodic intervals. A firm commitment underwriting of shares held by these persons is permitted 330 days after the date of this prospectus. 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.

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.

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 November 13, 2002, we dismissed Arthur Andersen and appointed Ernst & Young LLP as our independent auditors. 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.

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 Securities and Exchange Commission, 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.

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

Assuming a public offering price of $ per share, we estimate that we will receive net proceeds from this offering of approximately $70.4 million, after deducting underwriting discounts and commissions and other estimated expenses of $4.6 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' over-allotment option. 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 March 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 intend to use the remaining $53.4 million of net proceeds that we receive from this offering to fund the expansion of our sales and marketing efforts, to fund the increase in the number of on-net buildings we serve by approximately 10%, primarily by adding buildings 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. All sale prices presented below have not been adjusted to give effect to the Reverse Stock Split that will occur immediately prior to this offering.

	Year Ended December 31,					
	2002		2003		2004(1)	
	High	Low	High	Low	High	Low
First Quarter	$ 5.05	$ 2.70	$ 0.94	$ 0.40	$ 2.74	$ 1.10
Second Quarter	3.20	1.30	3.23	0.32	2.19	1.40
Third Quarter	1.43	0.95	2.39	0.80		
Fourth Quarter	1.39	0.27	1.98	0.95		

(1) Represents high and low through May 17, 2004.

The last reported sale price of our common stock on the American Stock Exchange on May 17, 2004 was $1.55 per share, which would have been $31.00 per share after giving effect to the Reverse Stock Split.

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 March 31, 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 the offering had occurred on March 31, 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 March 31, 2004	
	Actual	**As Adjusted(1)**
	(unaudited and in thousands)	
Cash, cash equivalents and short-term investments (includes $664 restricted)	$ 24,098	$ 77,473
Debt (including current maturities):		
Amended and Restated Cisco Note	$ 17,842	$
Capital lease obligations	109,566	109,566
$7^1/_2$% Convertible Subordinated Notes Due 2007 (net of discount of $5,853)	4,338	4,338
Total debt	131,746	113,904
Stockholders' equity:		
Common stock, par value $0.001 per share; 19,750,000 shares authorized; 699,758 shares outstanding; shares 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, issued and outstanding; no shares authorized, issued and outstanding as adjusted	40,787	
Series H participating convertible preferred stock, par value $.001 per share; 54,001 shares authorized; 52,023 shares issued and outstanding; no shares authorized, issued and outstanding as adjusted	46,117	
Series I participating convertible preferred stock, par value $.001 per share; 2,575 shares authorized, 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	
Additional paid-in capital	232,474	
Deferred compensation	(29,775)	(29,775)
Stock purchase warrants	764	764
Accumulated other comprehensive income	505	505
Treasury stock, 61,461 shares	(90)	(90)
Accumulated deficit	(78,194)	(77,352)
Total stockholders' equity	245,459	316,676
Total capitalization	$ 377,205	$ 430,580

	As of March 31, 2004	

(1) Excludes 6,080 shares of common stock issuable upon the exercise of outstanding options under our existing stock option plan with a weighted-average exercise price of $9.03 per share at March 31, 2004, of which 6,021 were then exercisable; 68,420 shares of our common stock available for issuance under our existing stock option plan; 1,186,154 shares of restricted common stock available for issuance under our existing restricted stock plan (including options exercisable to purchase up to 698,077 shares of restricted common stock, which our board of directors approved for grant in the second quarter of 2004); 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 $7^1/_2$% 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 net tangible book value as of March 31, 2004 was $239.1 million, or $9.30 per share. Our pro forma net tangible book value as of March 31, 2004 gives effect to the Reverse Stock Split and Equity Conversion described in the Prospectus Summary. After giving effect to the receipt and our intended use of approximately $70.4 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 March 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 public offering price per share		$
Pro forma net tangible book value before the offering	$ 9.30	
Increase per share attributable to investors in the offering		
As adjusted net tangible book value after the offering		
Dilution per share to new investors		

The following table gives effect to the Reverse Stock Split and the Equity Conversion, which will occur immediately prior to the completion of this offering, and summarizes on a pro forma as adjusted basis as of March 31, 2004:

- the total number of shares of common stock purchased from us;
- the total consideration paid to us, assuming a public offering price of $ per share; and
- the average price per share paid by existing shareholders and by new investors purchasing shares in this offering.

	Shares Purchased		Total Consideration		Price Per Share
	Number	Percent	Amount (in thousands)	Percent	
Existing stockholders	699,758		$ 199,177	57.2%	$ 284.64
Converting preferred stockholders	25,016,273		74,059	21.3%	2.96
Investors in the offering			75,000	21.5%	
Total		100.0%	$ 348,236	100.0%	

The tables and calculations above assumes no exercise of outstanding options or warrant to purchase an aggregate of 11,269 shares of our common stock or the rights of the holders of our 7 1/2% Convertible Subordinated Notes Due 2007 to convert such Notes into 1,066 shares of our common stock.

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 $70.4 million from our sale of common stock in this offering and (4) the repayment of our Amended and Restated Cisco Note with the proceeds from this offering. The pro forma balance sheet as of March 31, 2004, assumes that each of these transactions except for the Firstmark acquisition occurred on March 31, 2004. The impact of the Firstmark acquisition is already reflected in our historical March 31, 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, a pro forma statement of operations for the three months ended March 31, 2004 is not required to be presented. The pro forma statement of operations for the year ended December 31, 2003 does not give effect to our February 28, 2003 acquisition of Fiber Network Services, Inc. as its results were included in our historical results from its acquisition date and the pro forma impact would not be significant. The pro forma statement of operations for the year ended December 31, 2003 also excludes our merger on March 30, 2004 with Symposium Omega, Inc. because Omega did not have any revenues, customers or employees and was not considered a business.

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 March 31, 2004 and, for the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 2003 and March 31, 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. We are currently integrating the operations of Firstmark, which will involve additional costs. In addition, as with each of our prior acquisitions, we expect a number of the customer contracts we have acquired in the Firstmark acquisition to expire without renewal. Accordingly, we expect to experience material erosion of the acquired revenue.

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

	Cogent Historical	Adjustments	Cogent Pro Forma As Adjusted
Assets			
Current assets:			
Cash and cash equivalents	$ 23,434	$ 70,375 (a) (17,000)(b)	$ 76,809
Short-term investments, restricted	664		664
Accounts receivable, net of allowance for doubtful accounts of $4,114	7,582		7,582
Accounts receivable, related party	580		580
Prepaid expenses and other current assets	6,752		6,752
Total current assets	39,012		92,387
Property and equipment, net	357,058		357,058
Intangible assets, net	6,361		6,361
Other assets ($1,408 restricted)	5,058		5,058
Total assets	$ 407,489		$ 460,864
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 16,213		$ 16,213
Accounts payable related party	1,085		1,085
Accrued liabilities	11,352		11,352
Current maturities of capital lease obligations	6,452		6,452
Total current liabilities	35,102		35,102
Long-term liabilities:			
Capital lease obligations, net of current maturities	103,114		103,114
Amended and Restated Cisco Note	17,842	(17,842) (b)	
Convertible notes, net of discount of $5,853	4,338		4,338
Other long term liabilities	1,634		1,634
Total liabilities	162,030		144,188
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	46,117	(46,117)(c)	
Convertible preferred stock, Series I	2,545	(2,545)(c)	

	Cogent Historical	Adjustments	Cogent Pro Forma As Adjusted
Convertible preferred stock, Series J	19,421	(19,421)(c)	
Common stock	1	(a)	
Additional paid-in capital	232,474	119,749 (c)	
		(a)	
Stock purchase warrants	764		764
Deferred compensation	(29,775)		(29,775)
Accumulated other comprehensive income	505		505
Treasury stock	(90)		(90)
Accumulated deficit	(78,194)	842 (b)	(77,352)
Total stockholders' equity	$ 245,459		$ 316,676
Total liabilities and stockholders' equity	$ 407,489		$ 460,864

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	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)		(2,575)(e)		(54,575)
Net income available to common shareholders	$ 88,743	$ 68,211			$ 163,695
<u>Earnings Per Share</u>					
Basic net income per common share	$ 363.47				
Beneficial conversion charge	(134.29)				
Basic net income per common share available to common shareholders	$ 229.18				
Diluted net income per common share	$ 17.73				
Beneficial conversion charge	(6.55)				
Diluted net income per common share available to common shareholders	$ 11.18				
Weighted average common shares basic	387,218			(g)	
Weighted average common shares diluted	7,938,898		798,129 (f)	(g)	

Notes to the Unaudited Condensed Pro Forma Financial Statements

(a) Represents the estimated net proceeds of $70.4 million from the sale of million shares of our common stock for $ per share to fund the repayment of our $17 million Cisco loan.

(b) Represents the repayment of our Cisco loan totaling $17.0 million with the proceeds from this offering and the resulting gain of $842,000. Our Cisco loan was recorded as part of a troubled debt restructuring at the principal amount of $17.0 million and estimated future interest of $842,000. The gain of approximately $842,000 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 and Series J preferred stock into 25,016,273 shares of common stock after the Reverse Stock Split effected prior to this offering.

(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. As a result, acquired long-lived assets from Firstmark were recorded at less than their historical net book value.

(e) Represents the beneficial conversion charge of $2.6 million recorded since the conversion prices on the Series I preferred stock at issuance is less than the trading price of our common stock on that date.

(f) Represents the increase in fully diluted shares outstanding due to the issuance of the Series I preferred stock. Our Series I preferred stock is convertible into 798,129 shares of our common stock.

(g) Represents the impact on our basic and fully diluted weighted average common shares due to the issuance of million shares of our common stock for $ per share and the conversion of our preferred shares.

Reflected below is the impact of the Equity Conversion and offering on our per share net loss for the three months ended March 31, 2004.

Pro Forma Per-Share Information	**Three months ended March 31, 2004**
Basic and diluted net loss applicable to common stock	$(68.80)
Basic and diluted weighted average common shares outstanding	672,457
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, which were audited by Ernst & Young LLP, our independent auditors. 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 three months ended March 31, 2004 and 2003 from our unaudited consolidated interim financial statements included elsewhere in this prospectus. In our opinion, the unaudited 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.

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,				Three Months Ended March 31,	
		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	$ 14,233	$ 20,945
Operating expenses:							
Cost of network operations		3,040	19,990	49,091	47,017	10,682	15,735
Amortization of deferred compensation cost of network operations			307	233	1,307	57	212
Selling, general, and administrative	82	10,845	27,322	33,495	26,570	6,402	9,581
Amortization of deferred compensation selling, general and administrative			2,958	3,098	17,368	761	2,820
Gain on settlement of vendor litigation				(5,721)			
Depreciation and amortization		338	13,535	33,990	48,387	11,211	14,536
Total operating expenses	82	14,223	64,112	114,186	140,649	29,113	42,884
Operating loss	(82)	(14,223)	(61,094)	(62,273)	(81,227)	(14,880)	(21,939)
Gain-Allied Riser note exchange					24,802	24,802	
Gain-Cisco debt restructuring					215,432		
Settlement of noteholder litigation				(3,468)			
Interest income (expense) and other, net		2,462	(5,819)	(34,545)	(18,264)	(8,008)	(2,231)
(Loss) income before extraordinary item	$ (82)	$ (11,761)	$ (66,913)	$ (100,286)	$ 140,743	$ 1,914	$ (24,170)
Extraordinary gain Allied Riser merger				8,443			
Net (loss) income	$ (82)	$ (11,761)	$ (66,913)	$ (91,843)	$ 140,743	$ 1,914	$ (24,170)
Beneficial conversion of preferred stock	$	$	$ (24,168)	$	$ (52,000)	$	$ (22,028)
Net (loss) income applicable to common stock	$ (82)	$ (11,761)	$ (91,081)	$ (91,843)	$ 88,743	$ 1,914	$ (46,198)

						Three Months Ended March 31,	
Net (loss) income per common share:							
Basic	$ (1.21)	$ (170.16)	$ (951.82)	$ (564.45)	$ 363.47	$ 10.99	$ (35.94)
Diluted	$ (1.21)	$ (170.16)	$ (951.82)	$ (564.45)	$ 17.73	$ 2.76	$ (35.94)
Weighted-average common shares:							
Basic	68,000	69,118	70,300	162,712	387,218	174,191	672,457
Diluted	68,000	69,118	70,300	162,712	7,938,898	692,257	672,457

	August 9, 1999 to December 31, 1999	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,	
		2000	2001	2002	2003	2003	2004
						(unaudited)	
	(dollars in thousands)						
Operating Data (unaudited):							
On-net revenue			59.7%	31.9%	55.6%	51.5%	64.4%
Off-net revenue			40.3%	40.7%	26.4%	28.1%	23.4%
Non-core revenue				27.4%	18.0%	20.4%	12.2%
On-net customer connections			189	881	1,649	1,032	2,092
On-net buildings			127	511	813	629	877
Other Financial Data:							
Capital expenditures	$	$ 80,989	$ 118,020	$ 75,214	$ 24,016	$ 13,082	$ 1,833
Net cash used in operating activities	(75)	(16,370)	(46,786)	(41,567)	(27,357)	(14,971)	(11,582)
Net cash (used in) provided by investing activities		(80,989)	(131,652)	(19,786)	(25,316)	(13,965)	29,495
Net cash provided by (used in) financing activities	75	162,952	161,862	51,694	20,562	2,141	(2,217)

	As of December 31,					As of March 31,	
	1999	2000	2001	2002	2003	2003	2004
	(in thousands)					(unaudited)	
Balance Sheet Data:							
Cash, cash equivalents and short-term investments	$	$ 65,593	$ 50,763	$ 42,829	$ 11,990	$ 17,137	$ 24,098
Working capital (deficit)	17	52,621	46,579	(229,056)	(866)	(257,000)	3,910
Property and equipment, net		111,653	235,782	322,780	314,406	328,687	357,058
Total assets	25	187,740	319,769	407,677	344,440	390,692	407,489
Capital lease obligations		10,697	21,158	58,785	61,753	59,945	109,566
Notes payable (net of discount)		67,239	181,312	289,145	21,949	266,251	22,180
Convertible preferred stock		115,901	177,246	175,246	97,681	183,755	119,774
Stockholders' equity	18	104,248	110,214	32,626	244,754	44,175	245,459

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 connectivity. Our network has been designed and optimized to transmit data using Internet Protocol, which provides us with significant cost and performance advantages over legacy networks. We deliver our services to more than 4,300 small and medium-sized businesses, communications service providers, and other bandwidth-intensive organizations located in North America and Europe. Our primary service is providing Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses and is delivered through our own facilities running 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 900 buildings in which we provide our on-net services, including over 760 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 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. For the three months ended March 31, 2003, 51.5% of our net service revenue was generated from on-net customers as compared to 64.4% in the same period in 2004.

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 $14.2 million for the three months ended March 31, 2003 to $20.9 million for the three months ended March 31, 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 growth through the strategic acquisitions of communications network assets, primarily from financially distressed companies, and the continued expansion of our network of on-net buildings. Our results for the year ended December 31, 2003 do not include the impact of our two most recent acquisitions that extended our business into Europe. The acquisition of Firstmark Communications Participation S.à r.l., or Firstmark, on January 5, 2004 extended our network into France, Spain, the United Kingdom, Belgium, Switzerland and the Netherlands. On March 30, 2004, we obtained rights to approximately 1,500 fiber route miles and other assets that were once part of the Carrier 1 International S.A. network in Germany. We are integrating these network assets into our network and are expanding our current on-net service offerings into Europe. As with prior acquisitions, we plan to continue to support a number of legacy service offerings in Europe, but will focus our efforts on selling our on-net IP data service offerings.

Our net service revenue is derived from our on-net, off-net and non-core services, which comprised 51.5%, 28.1% and 20.4% of our net revenue, respectively, for the three months ended March 31, 2003 and 64.4%, 23.4% and 12.2% for the three months ended March 31, 2004. Our on-net service consists of high-speed Internet access and Internet Protocol connectivity ranging from 0.5 Mbps per second to 1,000 Mbps 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 by means of T1 and T3 lines obtained from other carriers. Our non-core services, which consist of legacy services of companies whose assets or businesses we have acquired, include email, dial-up Internet, shared web hosting, managed web hosting, managed security, and voice services provided in Toronto, Canada only. We do not actively market these non-core services and expect the revenue associated with them to decline.

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. Our evaluation of potential acquisitions contemplates such patterns of revenue erosion. Our results attributable to Firstmark for the first quarter of 2004 reflect some of the expected erosion of revenue acquired in Europe and we expect to experience additional material erosion of this revenue. For example, certain customers acquired along with the Firstmark subsidiaries of LambdaNet France and LambdaNet Spain have indicated to us that they will not continue to purchase our services after the expiration of their current contractual obligations.

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 $3.6 million for the three months ended March 31, 2003 to $5.2 million for the three months ended March 31, 2004. Our gross profit margin has expanded from 21% in 2003 to 25% for the three months ended March 31, 2004. We determine gross profit by subtracting network operation expenses (exclusive of amounts shown separately), other than amortized deferred compensation, from our net service revenue. 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 $0.1 million and $0.2 million for the three months ended March 31, 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 10%, primarily 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 $14.9 million and $21.9 million in the first quarters of 2003 and 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.

We anticipate significant additional deferred compensation expenses in the future based on our board of directors' recent approval of additional option grants. In May 2004, our board of directors authorized the grant of stock options exercisable for the purchase of up to 18,150 shares of Series H preferred stock, or 698,077 shares of common stock after giving effect to the Equity Conversion. These grants will result in additional deferred compensation expense of approximately $ million. We will begin amortizing approximately $ million of these expenses in the second quarter of 2005 and will begin amortizing the remaining amount in the fourth quarter of 2006.

Acquisitions

Since our inception, we have consummated six major and three minor acquisitions through which we have 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.

Acquisition of European Network

We expanded our network into Europe through a number of related transactions. 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, 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 preferred stock that will convert into approximately 0.8 million shares of our common stock immediately prior to this offering.

The planned second step of the transaction was the acquisition of the German network of LNG. We attempted to structure an acceptable acquisition which would have included 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 the Carrier 1 assets 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 preferred stock which will convert into approximately 6.0 million shares of our common stock immediately prior to this offering.

Acquisition of Assets of Fiber Network Services

In February 2003, we acquired the principal assets of Fiber Network Services, Inc., or FNSI, in exchange for options to purchase 6,000 shares of our common stock and the assumption of certain of FNSI's liabilities. The acquired assets included FNSI's customer contracts and accounts receivable. The liabilities that we assumed included accounts payable, facilities leases, customer contractual commitments, capital lease and note obligations.

Acquisition of PSINet Assets

In April 2002, we purchased the principal assets of PSINet, Inc. out of bankruptcy in exchange for $9.5 million and the assumption of certain liabilities. The assets included certain of PSINet's accounts receivable, rights to 10,000 route miles of dark fiber pursuant to IRUs, and intangible assets including settlement-free peering agreements, customer contracts and the PSINet trade name. The liabilities that we assumed included leased circuit commitments, facilities leases, customer contractual commitments and colocation arrangements.

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 100,000 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.

Three Months Ended March 31, 2003 Compared to the Three Months Ended March 31, 2004

The following summary table presents a comparison of our results of operations for the three months ended March 31, 2003 and 2004 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Three Months Ended March 31,		
	2003	**2004**	**Percent Change**
	(unaudited)		
	(in thousands)		
Net service revenue	$ 14,233	$ 20,945	47.2%
Network operations expenses (1)	10,682	15,735	47.3%
Selling, general, and administrative expenses (2)	6,402	9,581	49.7%
Depreciation and amortization expenses	11,211	14,536	29.7%
Interest income and other	398	1,012	154.3%
Interest expense	(8,406)	(3,243)	61.4%
Net income (loss)	1,914	(24,170)	N/A

(1) Excludes amortization of deferred compensation of $57 and $212 in the three months ended March 31, 2003 and 2004, respectively, which, if included would have resulted in a period-to-period change of 48.5%.

(2) Excludes amortization of deferred compensation of $761 and $2,820 in the three months ended March 31, 2003 and 2004, respectively, which, if included would have resulted in a period-to-period change of 73.1%.

Net Service Revenue. Our net service revenue increased 47.2% from $14.2 million for the three months ended March 31, 2003 to $20.9 million for the three months ending March 31, 2004. The increase in net service revenue is primarily attributable to the increase from the customers acquired in the Firstmark and FNSI acquisitions and the increase in customers purchasing our on-net service offerings partly offset by a decline in revenue from the customers acquired in the PSINet and Allied Riser acquisitions. For the three months ended March 31, 2003 and 2004, on-net, off-net and non-core services represented 51.5%, 28.1% and 20.4% and 64.4%, 23.4% and 12.2% of our net service revenues, respectively.

Our net service revenue related to our Firstmark and FNSI acquisitions is included in our statements of operations from the acquisition dates. Net service revenue from our Firstmark acquisition totaled approximately $5.6 million for the three months ended March 31, 2004, of which $0.6 million of net service revenue was derived from services rendered to LambdaNet Communications Deutschland AG (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 FNSI acquisition totaled approximately $0.4 million for the three months ended March 31, 2003 and $0.9 million for the three months ended March 31, 2004.

Net service revenue from the acquired PSINet legacy customer contracts totaled approximately $5.3 million for the three months ended March 31, 2003 and $1.9 million for the three months ended March 31, 2004.

Network Operations Expenses. Our network operations expenses, excluding the amortization of deferred compensation, increased 47.3% from $10.7 million for the three months ended March 31, 2003 to $15.7 million for the three months ended March 31, 2004. The increase was primarily due to $4.3 million of network operations expenses for Firstmark operations and an increase from expenses related to the FNSI acquisition. The FNSI acquisition is included for only one month in the first quarter of 2003 and for the full three month period in 2004. Additionally, we have increased the number of building access agreements related to the expansion of our network, which has resulted in an increase in related fees. These increases have been partly offset by a reduction in leased circuit expenses from off-net PSINet customer cancellations and from a reduction of expenses for internetworking due to an increase in our settlement-free peering relationships with other network providers. Settlement-free peering relationships provide us with the right to exchange network traffic with other networks with no cost to us.

For the three month period ended March 31, 2004, Firstmark recorded $1.1 million of network usage costs from LambdaNet Germany. We are in the process of renegotiating the LambdaNet Germany service contracts.

Our total cost of network operations for the three months ended March 31, 2003 and March 31, 2004 includes approximately $0.1 million and $0.2 million, respectively, of amortization of deferred compensation expense classified as cost of network operations. The increase in amortization of deferred compensation expense is due to the amortization of deferred compensation expense recorded in connection with the grant of shares of Series H preferred stock to our employees in October 2003. Deferred compensation is being amortized over the vesting period of the Series H preferred stock. There was no amortization of compensation expense related to Series H preferred stock for the three months ended March 31, 2003 since the grants began in October 2003. Total amortization of deferred compensation expense related to Series H preferred stock was approximately $3.0 million for the three months ended March 31, 2004.

Selling, General, and Administrative Expenses. Our SG&A expenses, excluding the amortization of deferred compensation, increased 49.7% from $6.4 million for the three months ended March 31, 2003 to $9.6 million for the three months ended March 31, 2004. SG&A expenses increased primarily from the $2.5 million of SG&A expenses for Firstmark and from a $0.5 million reduction in capitalized salaries and related benefits of employees directly involved with our construction activities. The decline in capitalized costs is due to a decrease in our construction activities. Our SG&A expenses for the three month period ended March 31, 2004 include a $0.6 million expense related to a proposed settlement of a dispute with a landlord over a lease acquired in the Allied Riser merger.

Our total SG&A expenses for the three months ended March 31, 2003 and March 31, 2004 include $0.8 million and $2.8 million, respectively, of amortization of deferred compensation expense. The increase in amortization of deferred compensation expense is due to the amortization of deferred compensation expense recorded in connection with the grant of shares of Series H preferred stock to our employees in October 2003.

Depreciation and Amortization Expenses. Our depreciation and amortization expense increased from $11.2 million for the three months ended March 31, 2003 to $14.5 million for the three months ended March 31, 2004. Amortization expense related to our intangible assets for the three months ended March 31, 2003 and March 31, 2004 was $2.3 million and $2.8 million, respectively. Depreciation expense related to property and equipment for the three months ended March 31, 2003 and March 31, 2004 was approximately $9.0 million and $11.8 million, respectively. Depreciation expense increased due to the Firstmark acquisition and because we had more capital equipment and IRUs in service in 2004 than in the same period in 2003. We begin to depreciate our capital assets once the related assets are placed in service.

In connection with the exchange and settlement related to our $7^1/_2$% Convertible Subordinated Notes Due 2007 that is discussed in greater detail below in "Liquidity and Capital Resources," we recorded a gain of approximately $24.8 million during the three months ended March 31, 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.

Interest Income and Other. Our interest and other income increased 154.3% from $0.4 million for the three months ended March 31, 2003 to $1.0 million for the three months ended March 31, 2004. The increase resulted from a realized gain of $0.9 million from the exercise and sale of warrants for the common stock of Alverion Ltd. The warrants were exercisable through March 2005, at a price of $3.89 per share and were valued at the date of our Firstmark acquisition at $2.6 million under the Black-Scholes method of valuation. In January 2004, we exercised the warrants and sold the related securities for proceeds of $3.5 million, resulting in a gain of $0.9 million.

Interest Expense. Our interest expense decreased 61.4% from $8.4 million for the three months ended March 31, 2003 to $3.2 million for the three months ended March 31, 2004. Interest expense for the three months ended March 31, 2004, includes interest from our capital lease agreements and our $7^1/_2$% Convertible Subordinated Notes Due 2007. Interest expense for the three months ended March 31, 2003 also included interest on our Cisco credit facility and the amortization of the related deferred financing costs. The decrease in interest expense resulted from the March 2003 settlement with the Allied Riser note holders and the restructuring of our Cisco credit facility in July 2003. Our Cisco credit facility 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. As a result, we did not record interest expense under the Amended and Restated Cisco Note for the three month period ended March 31, 2004.

Income Taxes. We recorded no income tax expense or benefit for the three months ended March 31, 2003 or the three months ended March 31, 2004. Due to the uncertainty surrounding the realization of our net operating losses and our other deferred tax assets, we have recorded a valuation allowance for the full amount of our net deferred tax assets. For federal and state tax purposes, our net operating loss carry-forwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws. For federal and state tax purposes, our net operating loss carry-forwards acquired in the Allied Riser merger will be subject to certain limitations on annual utilization due to the change in ownership as defined by federal and state tax laws. Should we achieve profitability, our net deferred tax assets may be available to offset future income tax liabilities.

Net Income (Loss). As a result of the foregoing, net income was $1.9 million for the three months ended March 31, 2003 as compared to a net (loss) of $(24.2) million for the three months ended March 31, 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	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	N/A

(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 ending December 31, 2002 to $59.4 million for the year ended December 31, 2003. This increase was primarily attributable to the growth in the number of on-net buildings, the increase in revenue from customers purchasing our on-net Internet access service offerings, and the increase in off-net revenue attributable to the customers acquired in the FNSI acquisition, which we have included in our consolidated net service revenue since the closing of the acquisition on February 28, 2003. The increase was partially offset by a decline in net service revenue derived from customers acquired in our April 2, 2002 acquisition of certain PSINet customer accounts.

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 decrease during the year ended December 31, 2003 in recurring 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.

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.

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 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 $556.36 and $27.14 for the year ended December 31, 2003, respectively. The gain resulted from the retirement of the amounts outstanding under the previous Cisco credit facility and 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

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	22.5%
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 ending December 31, 2001 to $51.9 million for the year ended December 31, 2002. This increase was primarily attributable to the increase in net service revenue from customers purchasing our service offerings including the customers acquired in the Allied Riser merger and the PSINet acquisition.

Network Operations Expenses. Our network operations expenses 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 the number of leased network facilities and circuit fees related to the PSINet customers acquired, an increase in maintenance fees on our IRUs and network equipment, an increase in charges associated with an increase in network traffic, an increase in headcount, and an increase in the number of telecommunications license agreements and related fees, 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 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 $3.2 million increase in the expense related to our allowance for doubtful accounts.

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 was 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 40,000 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 3.4 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 12.7 million shares of our common stock, in exchange $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 34,263 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 three months ended March 31, 2003 and 2004.

	Year Ended December 31,			Three Months Ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
				(unaudited)	
			(in thousands)		
Net cash used in operating activities	$ (46,786)	$ (41,567)	$ (27,357)	$ (14,971)	$ (11,582)
Net cash (used in) provided by investing activities	(131,652)	(19,786)	(25,316)	(13,965)	29,495
Net cash provided by (used in) financing activities	161,862	51,694	20,562	2,141	(2,217)
Effect of exchange rates on cash		(44)	672	220	(137)
Net (decrease) increase in cash and cash equivalents during period	$ (16,576)	$ (9,703)	$ (31,439)	$ (26,575)	$ 15,559

Net Cash Used in Operating Activities. Net cash used in operating activities was $15.0 million for the three months ended March 31, 2003 compared to $11.6 million for the same period during 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 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.

Net Cash (Used in) Provided By Investing Activities. Net cash used in investing activities was $14.0 million for the three months ended March 31, 2003 compared to net cash provided by investing activities of $29.5 million for the same period during 2004. Our primary sources of cash provided by investing activities during the first quarter of 2004 was cash acquired of $4.7 million and $19.4 million from our acquisition of Firstmark in January 2004 and our merger with Symposium Omega in March 2004, respectively. Our purchases of property and equipment were $13.1 million for the three months ended March 31, 2003 and $1.8 million for the three months ended March 31, 2004. Our purchases of short-term investments were $0.9 million for the three months ended March 31, 2003 and our sales of short-term investments were $3.5 million for the three months ended March 31, 2004. Net cash from investing activities for the three months ended March 31, 2004 also included proceeds from the sale of warrants for $3.5 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 Shared Technologies of 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 $2.1 million for the three months ended March 31, 2003 and used net cash of $2.2 million for the three months ended March 31, 2004. Net cash provided by financing activities during the first quarter of 2003 resulted principally from proceeds from borrowings under the previous Cisco credit facility of $7.9 million offset by a $5.0 million payment related to the Allied Riser note exchange and payments under our capital leases of $0.8 million. Net cash used in financing activities during the first quarter of 2004 were principally from a $1.2 million payment to LNG holdings and $1.0 million for 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 March 31, 2004, our total cash and cash equivalents were $23.4 million and our total indebtedness was $131.7 million.

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 will be permitted to subordinate Cisco Capital's security interest in our accounts receivable. The Amended and Restated Cisco Note is to be repaid in three installments. No interest is accrued or payable on the Amended and Restated Cisco Note for the first 30 months unless we default under the terms of the Amended and Restated Cisco Note. Principal and interest is paid as follows: a $7.0 million principal payment is due on February 1, 2006, a $5.0 million principal payment plus interest accrued is due on February 1, 2007, and a final principal payment of $5.0 million plus interest is due on February 1, 2008. When the indebtedness under the Amended and Restated Cisco Note begins to accrue interest, interest accrues at the 90-day LIBOR rate plus 4.5%.

We are required to use a portion of the net proceeds that we receive from this offering to repay all of the outstanding indebtedness under the Amended and Restated Cisco Note. The Amended and Restated Cisco Note is also subject to mandatory prepayment in full upon the occurrence of the closing of any change in control of us, our completion of any equity financing or receipt of loan proceeds above $30.0 million, our achievement of four consecutive quarters of operating cash flow of at least

$5.0 million, or our merger resulting in a combined entity with an equity value greater than $100.0 million, as each of these events is defined in the agreement. Our indebtedness under the Amended and Restated Cisco Note is subject to partial mandatory prepayment in an amount equal to the lesser of $2.0 million or the amount raised if we raise less than $30.0 million in a future equity financing.

The Cisco recapitalization was considered a troubled debt restructuring under 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 estimated future interest payments.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments as of March 31, 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	$	$ 12,608	$ 15,425	$
Capital lease obligations	180,553	15,398	28,931	24,493	111,731
Operating leases (1)	174,940	26,310	40,985	27,574	80,071
Unconditional purchase obligations	3,898	260	520	520	2,598
Total contractual cash obligations	$ 387,424	$ 41,968	$ 83,044	$ 68,012	$ 194,400

(1) Our operating lease and maintenance obligations above do not include agreements to sublease certain of our office space and facilities. These agreements reduce the obligations above by approximately $2.3 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 $109.6 million at March 31, 2004. These leases generally have terms of 15 to 25 years.

Future Capital Requirements

Our future capital requirements will depend on a number of factors, including our success in increasing the number of customers using our services, regulatory changes, competition, technological developments, potential merger and acquisition activity and the economy. We believe that if we are able to increase the number of customers using our services as planned, our current cash position is sufficient to fund our operations until we generate more cash than we consume. If we are unable to achieve revenue growth or if we have significant unplanned costs or cash requirements, we may need to 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.

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 principals 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 and subjective management judgments are discussed below.

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 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 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.

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 2% 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.

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 March 31, 2004, respectively, our allowance for doubtful accounts receivable comprised, 8.8%, 26.8%, 36.1% and 35.2% of our total accounts receivable. For the years ended December 31, 2001, 2002 and 2003 and the three months ended March 31, 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. 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.

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.

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.

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.

Quantitative And Qualitative Disclosures About Market Risk

All of our financial interests 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 $24.1 million at March 31, 2004, $23.4 million of which are considered cash equivalents and mature in 90 days or less and $0.7 million are short term investments consisting of commercial paper and a Canadian treasury bill. These short term investments are restricted for collateral against letters of credit. We also own commercial paper investments and certificates of deposit totaling $1.4 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 March 31, 2004, the change to our interest sensitive assets and liabilities would not have a material 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 year ended March 31, 2004 would have increased our interest expense for the period by approximately $0.3 million.

Interest on the Amended and Restated Cisco Note does 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 Internet Protocol connectivity. Our network has been designed and optimized to transmit data using Internet Protocol, which provides us with significant cost and performance advantages over legacy networks. We deliver our services to more than 4,300 small and medium-sized businesses, communications service providers, and other bandwidth-intensive organizations in North America and Europe. Our primary service is providing Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses, and is delivered through our own facilities running 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 900 buildings in which we provide our on-net services, including over 760 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 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. For the three months ended March 31, 2004, 64.4% of our net service revenue was generated from on-net customers as compared to 51.5% in the same period in 2003.

Our network allows us to respond to the growing demand for low-cost, high-speed Internet connectivity. On average, we currently serve approximately 4% of the tenants in each of our multi-tenant on-net buildings. We believe our multi-tenant on-net buildings have an average of 45 tenants. In addition, we currently serve less than 1% of the approximate 172,000 small and medium-sized businesses in the geographic regions in which we offer our off-net services. We also operate 27 data centers comprising 305,780 square feet throughout North America and Europe that allow customers to colocate their equipment and access our network. We intend to continue to expand our addressable market by selectively adding buildings to our network.

Competitive Advantages

We believe we address many of the Internet Protocol, or 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 have built our network on a facilities-based platform to optimally deliver IP services. We believe our network architecture gives us a cost advantage over our competitors, who have constructed their networks to overlay legacy voice networks. We have minimized the cost of constructing and maintaining our network by acquiring strands of fiber from carriers with large unused capacity. We also have minimized our capital expenditures by acquiring financially distressed companies or their assets at a significant discount to their original cost. Our high-capacity network's existing connections to over 900 buildings enable us to increase the total number of customers we serve with minimal incremental investment in our network and operational infrastructure. Finally, our focus on a simple set of Internet connectivity services reduces our costs of provisioning and customer support.

Independent Network. Our high-speed on-net Internet access 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. Our off-net services are generally installed within 30 days and utilize more traditional circuits, such as T1 and T3 lines, purchased from local telecommunications providers.

Reliable Service. Over the last 30 months, our network has averaged 99.99% customer connection availability. The majority of our network is configured in a ring structure that enables us to route customer traffic in either direction around the network rings both at the metropolitan and intercity levels. The availability of two data transmission paths around each ring serves as a backup that minimizes loss of service in the event of network failure or damage.

High Quality. 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. Our intracity network is designed to allow customers to transmit and receive data simultaneously at the maximum stated rate for their connection without performance degradation. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission.

Experienced Management Team. Our management team is composed of seasoned executives with extensive expertise in the communications industry as well as knowledge of the markets in which we operate. Our management team has designed and built our network and has guided us through the recent telecommunications industry downturn. The team has also integrated our network assets, customers and service offerings we acquired through six major and three minor acquisitions.

Our Strategy

We intend to become the leading provider of high-capacity IP data services to customers in the markets we serve 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 leverage our high-capacity network to respond to the growing demand among businesses for high-speed Internet service. We currently offer services with speeds ranging between 500 Kilobits per second, or Kbps, and 1,000 Megabits per second, or Mbps. Our primary service is offered at a speed of 100 Mbps, much faster than typical Internet access currently offered to businesses.

Pursuing On-Net Customer Growth. We intend to expand and intensify the efforts of our direct field sales organization. Our direct field sales organization markets to tenants in our on-net buildings. Our marginal cost to serve new on-net customers is low because of our network design and focused service offerings. We estimate that we now serve only 4% of the tenants in our on-net buildings, providing us with a significant opportunity for customer and revenue 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 Expanding Our Service Offerings. We have recently expanded the geographic reach of our core Internet protocol-based services to include Europe. We will continue to evaluate opportunities to offer complementary application services on our network, such as voice-over-Internet Protocol, or VoIP, remote storage, Internet Protocol virtual private networks, or IP VPNs, and secure networks.

Selectively Pursuing Acquisition Opportunities. In the first quarter of 2004, we consummated the acquisition of the European portion of our network. We will continue to evaluate opportunities to acquire network assets and customers through selective acquisitions. We may also use acquisitions to expand into new geographic markets.

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 Internet Protocol traffic than networks built as overlays to traditional telephone networks.

As of May 10, 2004, our network encompassed:

- an intercity network of more than 21,000 fiber route miles in North America and Europe;
- intracity networks in 25 markets in North America and Europe consisting of over 8,000 fiber miles;
- over 760 multi-tenant office buildings strategically located in commercial business districts of major North American and European markets;
- over 170 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings in North America and Europe; and
- two leased high-capacity circuits providing a transatlantic link between the North American and European portions of our network.

Intercity Networks

The North American portion of our 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 and Portugal, 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 5,100 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 2,000 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 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 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 360 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 other providers. This allows us to exchange traffic with those ISPs without payment by either party.

Network Management and Control

Our primary network operations centers are located in Washington, D.C. and Madrid. 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
Fast Ethernet	100
Gigabit Ethernet	1,000
Colocation with Internet Access	2 to 1,000
Point-to-Point	1.5 to 10,000
Off-Net Services	
T1	1.5
T3	45

As of May 10, 2004, we offered on-net services in 25 metropolitan markets and over 900 buildings of which more than 830 are located in North American and more than 70 in Europe. Our most popular on-net service in North America is our Fast Ethernet service. 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, or rack space, which is sold in conjunction with Internet access. 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 34 metropolitan markets in North America. These services are generally provided to small and medium-sized businesses located within a ten-mile radius of these facilities.

We also provide our colocation services in 27 locations in North America and Europe. We offer full and half-rack colocation services, sold in conjunction with Internet access.

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, managed web hosting, managed security, point-to-point services, and voice services in Toronto, Canada only. For the three months ended March 31, 2004, these services accounted for approximately 12.2% of our revenue; however, we do not actively market these services and we expect the revenue from these non-core services to decline.

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 two primary sales channels as summarized below:

Direct Sales. As of May 5, 2004, our direct sales force included 60 full-time employees focused solely on acquiring and retaining on-net customers. Each member of our direct sales force is assigned a specific market, based on customer type and geographic location. Of these direct sales force employees, 42 have individual quota responsibility. Direct sales personnel are compensated with a base salary plus quota-based commissions and incentives. Each end-user sales professional is assigned 15 to 20 buildings on which to call, providing them with a clearly defined and manageable base of property managers and potential customers. 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 May 5, 2004, we employed 13 full-time outbound telemarketing sales personnel in Herndon, Virginia who are focused solely on selling our off-net services to our target business customers. Of these telesales employees, 11 have individual quota responsibility. Telesales personnel are compensated with a base salary plus quota-based commissions and incentives.

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 have significantly greater financial resources, well-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. 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.

Employees

As of May 5, 2004, we had 241 employees. Thirty-three of our employees in France are represented by a works counsel and a union. We intend to enter into discussions with our employees and their representatives in France regarding possible revisions of their employment terms. 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 186,000 square feet of space in 36 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 and expires on August 31, 2004. 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 99,000 square feet of office space in 12 locations. All of this space is currently sublet.

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 $6.0 million. One of the three properties, located in Lyon, France, is currently under contract to be sold for 3.9 million euros, or approximately $4.6 million, and is expected to close in late 2004, subject to the purchaser obtaining the necessary entitlements to redevelop the property. Through our French and Spanish subsidiaries, we also lease approximately 227,000 square feet of space to house our colocation facilities, regional offices and operations centers. Approximately 160,000 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 9,500 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

In 2002, one vendor invoiced us for approximately $1.7 million in excess of what we believe we owed the vendor. The vendor has initiated an arbitration proceeding related to this dispute. We do not know the amount the vendor will claim under the arbitration, but it may be substantially larger than the amount invoiced. We intend to vigorously defend our position related to this matter. We do not expect that this dispute will have a material adverse effect on our business, financial condition or results of operations. We are also involved in other 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. 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, Shared Technologies of 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 May 5, 2004.

Name	Age	Position
Dave Schaeffer	48	Chairman of the Board of Directors, President and Chief Executive Officer
Thaddeus Weed	43	Chief Financial Officer
Robert Beury, Jr.	50	Chief Legal Officer
R. Brad Kummer	54	Chief Technology Officer and Vice President Optical Transport
Timothy O'Neill	47	Vice President of Engineering Construction
Mark Schleifer	34	Vice President of IP Engineering
Edward Glassmeyer	62	Director
Steven Brooks	52	Director
Jean-Jacques Bertrand	51	Director
Erel Margalit	41	Director
Michael Carus	38	Director
Timothy Weingarten	28	Director

Dave Schaeffer founded our company in August 1999 and is the Chairman of the board of directors, President 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.

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 as Vice President and General Counsel and became our Chief Legal Officer in May 2004. Prior to joining us, Mr. Beury served as Deputy General Counsel of Iridium LLC 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 as Vice President 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 as the Vice President of Engineering Construction. 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, 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.

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. 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 as an Overseer of The Amos Tuck School of Business at Dartmouth College since July 1996.

Steven Brooks became a director in October 2003. Mr. Brooks currently serves as Managing Partner of Broadview Capital Partners, 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.

Jean-Jacques Bertrand became a director in 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 Genesys SA, Grupo 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., MagniFire Websystems, Inc., Native Networks, Ltd. and Cyber-Ark Software, Inc.

Michael Carus became a director in October 2003. Mr. Carus has been a general partner and Chief Financial Officer 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, Techknowledge LTD and Bridgewave Communications, Inc.

Timothy Weingarten became a director in October 2003. Mr. Weingarten is a principal 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, KineticTide, Movaz Networks, and Ooma 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 preferred stock investors, whereby we have agreed to nominate certain designees to the board of directors and such preferred stock investors have agreed to vote for such designees.

Board of Directors and Officers

Our board of directors currently consists of seven directors. Messrs. Glassmeyer, Margalit, Weingarten, Brooks, Carus and Bertrand 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 Third Amended and Restated Stockholders' Agreement, certain of our preferred 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 preferred stockholders and our other affiliates have agreed to vote to remove the designee. We anticipate that 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 2003. 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 ourstockholders 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, 2001, 2002 and 2003 to our Chief Executive Officer and each of our other four most highly compensated executive officers whose compensation exceeded $100,000 for fiscal year 2003. 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 (#)**
Dave Schaeffer	2003	$ 250,000	$ 6,377,823	
Chairman, President and Chief	2002	250,000		
Executive Officer	2001	250,000		478,700
Helen Lee (2)	2003	250,000	911,262	
Chief Financial Officer	2002	248,750		
	2001	220,000		100,000
Mark Schleifer	2003	208,000	105,113	
Vice President, IP Engineering	2002	208,000		
	2001	208,000		3,796
Robert Beury, Jr.	2003	200,000	105,113	
Chief Legal Officer	2002	197,333		
	2001	196,000		4,555
Bruce Wagner (3)	2003	227,246	151,849	
Vice President of Sales	2002	121,921(2)		
	2001			

(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 immediately prior to this offering 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) Ms. Lee resigned on May 3, 2004. Mr. Weed assumed the position of Chief Financial Officer on May 4, 2004.

(3) Mr. Wagner resigned on February 27, 2004.

2003 Option Information

We did not grant any options to our named executive officers during the year ended December 31, 2003, nor did any of them exercise any options during that year. Additionally, in October 2003 we closed a transaction with certain of our employees including the named executive officers pursuant to which they exchanged all of the options they then held for shares of our Series H preferred stock. We refer to this transaction as the offer to exchange. The offer to exchange is described in greater detail below under "Management Equity Plans."

The shares of Series H preferred stock issued to our named executive officers pursuant to the offer to exchange, and the number of shares of common stock into which they will be converted immediately prior to the consummation of this offering, are set forth in the following table:

Named Executive Officer	**Shares of Series H preferred stock issued in offer to exchange**	**Shares of common stock to be issued upon conversion of shares of Series H preferred stock**
Dave Schaeffer	37,801	1,453,885
Helen Lee (1)	5,401	207,730
Mark Schleifer	623	23,961
Robert Beury, Jr.	623	23,961
Bruce Wagner (2)	900	34,615

(1) As a result of her resignation, Ms. Lee forfeited 3,038 shares of Series H preferred stock.

(2) As a result of his resignation, Mr. Wagner forfeited 562 shares of Series H preferred stock.

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 Third 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 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 will vest immediately.

Equity Plans

2000 Equity Incentive Plan. In 1999 the board of directors 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 Equity 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 Equity Plan with respect to all awards. The full board administers the Equity Plan with respect to options granted to independent directors, if any. No options were granted to the named executive officers under the Equity Plan in 2003.

2003 Incentive Award Plan and Offer to Exchange. On June 12, 2003, the compensation committee adopted, subject to stockholder approval, the 2003 Incentive Award Plan. We believed that adoption of the 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 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 expect that this structure will 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 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 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. Each share of Series H preferred stock will be converted into approximately 38 shares of our common stock immediately prior to the consummation of this offering.

In May 2004, our board of directors approved the grant of options to acquire up to 18,150 shares of Series H preferred stock at an exercise price of $0.01 per share. After completion of this offering, these options will be exercisable for up to 698,077 shares of common stock at an exercise price of $0.01 per share. As part of this grant, Mr. Schaeffer was granted options that will be exercisable for up to 576,923 shares of common stock. Subject to certain conditions, these options vest and become available during the fourth quarter of 2006. Messrs. Beury and Schleifer were granted options that will be exercisable for up to 13,462 and 9,615 shares of common stock, respectively. Twenty-five percent of these options vest during the second quarter of 2005 and the remaining 75% vest in 36 equal monthly installments if the option holder is still employed by us at such time.

PRINCIPAL STOCKHOLDERS

The following table provides summary information regarding the beneficial ownership of our outstanding capital stock as of May 5, 2004, after giving effect to the Reverse Stock Split and the Equity Conversion, but without giving effect to the underwriters' exercise of the over-allotment option, 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 May 5, 2004 and shares of restricted stock not subject to repurchase as of that date 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**	**Percentage Prior to the Offering**	**Percentage After the Offering**
Entities affiliated with Jerusalem Venture Partners Building One Mahla, Jerusalem 91487(1)	4,931,631	19.18%	
Entities affiliated with Oak Investment Partners IX, LP One Gorham Island Westport, CT 06880(3)	3,965,045	15.42%	
Entities affiliated with BNP Europe Telecom & Media Fund II, LP(5)	3,874,768	15.07%	
Entities affiliated with Worldview Technology Partners 435 Tasso Street, #120 Palo Alto, CA 94301(2)	3,305,274	12.85%	
Entities affiliated with Broadview Capital Partners One Bridge Plaza Fort Lee, NJ 07024(4)	2,011,542	7.82%	
Cisco Systems Capital Corporation(6)	3,409,995	13.26%	
Dave Schaeffer(7)	907,596	3.53%	
Erel Margalit(1)	4,931,631	19.18%	
Michael Carus(1)	4,931,631	19.18%	
Edward Glassmeyer(3)	3,965,045	15.42%	
Jean-Jacques Bertrand(5)	3,874,768	15.07%	
Timothy Weingarten(2)	3,305,274	12.85%	
Steven Brooks(4)	2,011,542	7.82%	

H. Helen Lee(8)	90,885	*
Mark Schleifer(9)	11,500	*
Robert Beury(10)	11,500	*
Bruce Wagner(11)	12,981	*
Directors and executive officers as a group (14 persons)(12)		

* 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 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.

(3) 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.

(4) Includes shares held by entities affiliated with Broadview Capital Partners, of which Mr. Brooks is Managing Partner, including: (a) BCI Holdings LP, (b) Broadview Holdings LLP, (c) Broadview BCPSBS Fund, (d) Broadview Capital Partners Affiliates Fund, (e) Broadview Capital Partners Management, and (f) Broadview Capital Partners Qualified Purchaser Fund. Mr. Brooks disclaims beneficial ownership of such shares.

(5) Includes shares held by Natio Vie Developpement3, Fonds Communde Placement a Risque ("NVD3"), and BNP Europe Telecom & Media Fund II ("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 ("BNP PE") is the management company of NVD 3 and BNP PE shares certain common directors with General Business Finance and Investments Ltd ("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.

(6) Includes 11,000 shares of Series F Preferred Stock, convertible into 3,409,995 shares of common stock.

(7) Includes 14,771 shares of common stock, 8,021 of which are owned directly by Mr. Schaeffer and 6,750 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 196,174 shares of common stock and 18,113 shares of Series H Preferred Stock, convertible into 696,651 shares of common stock.

(8) Includes 2,363 shares of Series H Preferred Stock, convertible into 90,885 shares of common stock. Ms. Lee resigned on May 3, 2004 and accordingly forfeits her Series H preferred stock that remained restricted on that date.

(9) Includes 299 shares of Series H Preferred Stock, convertible into 11,500 shares of common stock.

(10) Includes 299 shares of Series H Preferred Stock, convertible into 11,500 shares of common stock.

(11)
Includes 337 shares of Series H Preferred Stock, convertible into 12,981 shares of common stock. Mr. Wagner resigned on February 27, 2004 and accordingly forfeits his Series H preferred stock that remained restricted on that date.

(12)
See footnotes (1) through (6) above. Consists of Dave Schaeffer, H. Helen Lee, Bruce Wagner, Mark Schleifer, Robert Beury, Erel Margalit, Edward Glassmeyer, Timothy Weingarten, Steven Brooks, Michael Carus, Jean-Jacques Bertrand, R. Brad Kummer, Timothy O'Neill and Thaddeus Weed.

In addition, certain of the principal stockholders have granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments. If the underwriters exercise this over-allotment option in full, will beneficially own % of our common stock after this offering, respectively.

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, 2004 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

For information about the involvement of our Chief Executive Officer, Dave Schaeffer, and investment funds with which members of our board of directors are affiliated, in certain of our acquisitions, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions."

Stockholders Agreement

In connection with the acquisitions described above, the holders of Series I preferred stock and Series J preferred stock, entered into a Third Amended and Restated Stockholders Agreement with us and the holders of the our Series G preferred stock and Series F preferred stock, 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. We anticipate that the Stockholders Agreement will be terminated upon the completion of this offering.

Registration Rights Agreement

In connection with the acquisitions described above, the holders of the Series F preferred stock, Series G preferred stock, Series I preferred stock and Series J preferred stock entered into a Fourth 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."

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 30.0 million shares of common stock, par value $.001 per share and 10,000 shares of preferred stock, par value $.001 per share, the rights and preferences of which may be designated by the board of directors.

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

In connection with the acquisitions described above, the holders of the Series F preferred stock, Series G preferred stock, Series I preferred stock and Series J preferred stock entered into a Fourth 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 10,000 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 upon consummation of this offering), with limited exceptions, without the prior written consent of Jefferies & Company, Inc. on behalf of the underwriters, not to transfer or dispose of, directly of indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of 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 possible release from lock-up obligations, as follows:

Number of Days or Months after the date of this Prospectus	Number of Shares Eligible for Sale	Description of Shares Released
330 days		Shares subject to the lock-up agreements executed by all parties if sold pursuant to a public offering underwritten on a firm commitment basis.
365 days		All shares subject to the lock-up agreements executed by executive officers other than our Chief Executive Officer. 20% of the shares subject to the lock-up agreements executed by directors, our Chief Executive Officer and our preferred stockholders.
455 days		10% of the shares subject to the lock-up agreements executed by directors, our Chief Executive Officer and our preferred stockholders
545 days		10% of the shares subject to the lock-up agreements executed by directors, our Chief Executive Officer and our preferred stockholders
635 days		10% of the shares subject to the lock-up agreements executed by directors, our Chief Executive Officer and our preferred stockholders
24 months		Remaining shares subject to the lock-up agreements executed by directors, our Chief Executive Officer and our preferred stockholders

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 us 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 330 days after the date of this prospectus.

UNDERWRITING

General

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Jefferies & Company, Inc. is acting as representative, have severally agreed to purchase, and we have agreed to sell to them, the numbers of shares of common stock indicated below:

Name	Number of Shares
Jefferies & Company, Inc.	
CIBC World Markets	
Friedman, Billings, Ramsey & Co., Inc.	
Total	

The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below. The underwriting agreement also provides that in the event of a default by an underwriter, in some circumstances, the purchasing commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The underwriters initially propose to offer part of the shares directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $ a share less than the public offering price. The underwriters may allow, and those dealers may re-allow, a discount not in excess of $ to other dealers. The offering price and other selling terms may from time to time be varied by the representative of the underwriters. The price of the common stock to be sold in the offering will be negotiated between us and the underwriters, taking into account the Reverse Stock Split, the Equity Conversion, prevailing market conditions, our historical performance and estimates of our business and earnings potential.

Over-Allotment Option

We and certain selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to various conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the name of that underwriter in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

Compensation and Expenses

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares of common stock.

	Paid by Us		Paid by the Selling Stockholders	
	Without Over-Allotment	With Over-Allotment	Without Over-Allotment	With Over-Allotment
Per share				
Total				

We estimate that the total expenses of this offering, excluding the underwriting discounts and commissions, will be approximately $ million which will be paid by us.

Lock-up Agreements and Registration Rights

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 upon consummation of this offering), with limited exceptions, without the prior written consent of Jefferies & Company, Inc. on behalf of the underwriters, not to offer, sell, pledge or otherwise transfer or dispose of, directly of indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock. We will be released from this "lock-up" agreement 180 days after the date of this prospectus.

The shares subject to these lock-up agreements held by our executive officers other than our Chief Executive Officer will be released from the agreements 365 days after the date of this prospectus. The shares subject to these lock-up agreements held by our directors, our Chief Executive Officer and our preferred stockholders will be released from the agreements in the following increments:

- 20% after 365 days from the date of this prospectus;
- 10% after 455 days from the date of this prospectus;
- 10% after 545 days from the date of this prospectus;
- 10% after 635 days from the date of this prospectus; and
- the remaining shares 24 months after the date of this prospectus.

Additionally, 330 days after the date of this prospectus, shares subject to the lock-up agreements shall be released from the lock-up agreements if sold pursuant to a public offering registered under the Securities Act and underwritten on a firm commitment basis.

The lock-up agreements do not apply to:

- the sale of shares to the underwriters pursuant to their exercise of the over-allotment option;
- private unregistered issuances of shares of our stock as consideration in an acquisition;
- the issuance by us of shares of common stock upon the exercise of an option or a warrant or the conversion of a security outstanding on the date of this prospectus of which the underwriters have been advised in writing; and
- grants and issuances of shares of our common stock or options to acquire our shares pursuant to our stock based compensation or incentive plans.

Stabilization, Short Positions and Penalty Bids

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934 (the "Exchange Act").

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

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

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. 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 the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. 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 shares in the open market after pricing that could adversely affect investors who purchase shares in the offering.

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 our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be commenced and discontinued at any time. Our common stock is listed on the American Stock Exchange under the symbol of "COI."

Passive Market Making

In connection with this offering, certain underwriters and selling group members, if any, who are market makers may engage in passive market making transactions in our common in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934, as amended. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, such bid must then be lowered when certain purchase limits are exceeded.

Electronic Distribution

A prospectus in electronic format may be made available on 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 the selling stockholders 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, information contained in any other web site maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us and should not be relied on by investors in deciding whether to purchase any shares of common stock. The underwriters and selling group members are not responsible for information contained in web sites that they do not maintain.

United Kingdom Compliance

Each underwriter has agreed that:

It has not offered or sold and, prior to the date six months after the date of issuance of the common stock, will not offer or sell any common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended).

It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) received by it in connection with the issue or sale of any common stock in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply to us.

It has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom.

Indemnification

Each of the Company and the selling stockholders have agreed to indemnify the underwriters, and the underwriters have agreed to indemnify each of the Company and the selling stockholders against certain liabilities, including liabilities under the Securities Act of 1933.

Other

It is expected that delivery of the shares of common stock will be made to investors on or about , 2004.

From time to time in the ordinary course of their respective businesses, some of the underwriters and their affiliates may in the future engage in commercial banking and/or investment banking transactions with us and our affiliates.

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, New York, NY.

EXPERTS

The consolidated financial statements of Cogent Communications Group, Inc. at December 31, 2003 and 2002, and for each of the years then ended, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, 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 years then ended, appearing on this prospectus and registration statement have been audited by Ernst & Young SA, independent auditors, 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 the 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 MARCH 31, 2004
(IN THOUSANDS, EXCEPT SHARE DATA)

	December 31, 2003	March 31, 2004
		(Unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 7,875	$ 23,434
Short term investments ($753 and $664 restricted, respectively)	4,115	664
Accounts receivable, net of allowance for doubtful accounts of $2,023 and $4,114, respectively	5,066	7,582
Accounts receivable related party		580
Prepaid expenses and other current assets	905	6,752
Total current assets	17,961	39,012
Property and equipment:		
Property and equipment	400,097	455,380
Accumulated depreciation and amortization	(85,691)	(98,322)
Total property and equipment, net	314,406	357,058
Intangible assets:		
Intangible assets	26,780	27,780
Accumulated amortization	(18,671)	(21,419)
Total intangible assets, net	8,109	6,361
Other assets ($1,608 and $1,408 restricted, respectively)	3,964	5,058
Total assets	**$ 344,440**	**$ 407,489**
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,296	$ 16,213
Accounts payable related party		1,085
Accrued liabilities	7,885	11,352
Current maturities, capital lease obligations	3,646	6,452
Total current liabilities	18,827	35,102
Amended and Restated Cisco Note	17,842	17,842
Convertible subordinated notes, net of discount of $6,084 and $5,853	4,107	4,338
Capital lease obligations, net of current	58,107	103,114
Other long-term liabilities	803	1,634
Total liabilities	**99,686**	**162,030**
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; 54,001 shares authorized; 53,372 and 52,023 shares issued and outstanding, respectively; liquidation preference of $8,777	45,990	46,117
		2,545

	December 31, 2003	March 31, 2004
Convertible preferred stock, Series I, $0.001 par value; 2,575 shares authorized, issued and outstanding at March 31, 2004; liquidation preference of $7,725		
Convertible preferred stock, Series J, $0.001 par value; 3,891 shares authorized, issued and outstanding at March 31, 2004; liquidation preference of $58,365		19,421
Common stock, $0.001 par value; 19,750,000 shares authorized; 653,567 and 699,758 shares outstanding, respectively	1	1
Additional paid-in capital	232,474	232,474
Deferred compensation	(32,680)	(29,775)
Stock purchase warrants	764	764
Treasury stock, 61,461 shares	(90)	(90)
Accumulated other comprehensive income	628	505
Accumulated deficit	(54,024)	(78,194)
Total stockholders' equity	244,754	245,459
Total liabilities and stockholders' equity	**$ 344,440**	**$ 407,489**

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 MARCH 31, 2003 AND MARCH 31, 2004
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
	(Unaudited)	(Unaudited)
Net service revenue	$ 14,233	$ 20,945
Operating expenses:		
Network operations (including $57 and $212 of amortization of deferred compensation, respectively, exclusive of amounts shown separately)	10,739	15,947
Selling, general, and administrative (including $761 and $2,820 of amortization of deferred compensation, and $588 and $828 of allowance for doubtful accounts expense, respectively)	7,163	12,401
Depreciation and amortization	11,211	14,536
Total operating expenses	29,113	42,884
Operating loss	(14,880)	(21,939)
Gain Allied Riser note exchange	24,802	
Interest income and other	398	1,012
Interest expense	(8,406)	(3,243)
Net income (loss)	$ 1,914	$ (24,170)
Beneficial conversion charge		(22,028)
Net income (loss) applicable to common stock	$ 1,914	$ (46,198)
Net income (loss) per common share:		
Basic net income (loss) per common share	$ 10.99	$ (35.94)
Beneficial conversion charge		(32.76)
Basic net income (loss) per common share applicable to common stock	$ 10.99	$ (68.70)
Diluted net income (loss) per common share	$ 2.76	$ (35.94)
Beneficial conversion charge		(32.76)
Diluted net income (loss) per common share applicable to common stock	$ 2.76	$ (68.70)
Weighted-average common shares basic	174,191	672,457
Weighted-average common shares diluted	692,257	672,457

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 THREE MONTHS ENDED MARCH 31, 2003 AND MARCH 31, 2004
(IN THOUSANDS)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 1,914	$ (24,170)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain Allied Riser note exchange	(24,802)	
Gain sale of warrant		(858)
Depreciation and amortization, including debt costs	11,794	14,536
Amortization of debt discount convertible notes	1,262	231
Amortization of deferred compensation	818	3,032
Loss on equipment sale		108
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	232	4,136
Accounts receivable related party		(596)
Prepaid expenses and other current assets	(2,665)	(325)
Other assets	31	382
Accounts payable related party		1,112
Accounts payable, accrued and other liabilities	(3,555)	(9,170)
Net cash used in operating activities	(14,971)	(11,582)
Cash flows from investing activities:		
Purchases of property and equipment	(13,082)	(1,833)
(Purchases) sales of short term investments	(883)	3,451
Cash acquired Firstmark acquisition		2,163
Cash acquired Gamma acquisition		2,545
Cash acquired Omega acquisition		19,421
Proceeds from sale of equipment		281
Proceeds from sale of warrant		3,467
Net cash (used in) provided by investing activities	(13,965)	29,495
Cash flows from financing activities:		
Borrowings under Cisco credit facility	7,902	
Repayment of advances from LNG Holdings related party		(1,248)
Exchange agreement payment Allied Riser notes	(4,998)	
Repayments of capital lease obligations	(763)	(969)
Net cash provided by (used in) financing activities	2,141	(2,217)
Effect of exchange rate changes on cash	220	(137)
Net (decrease) increase in cash and cash equivalents	(26,575)	15,559
Cash and cash equivalents, beginning of period	39,314	7,875
Cash and cash equivalents, end of period	$ 12,739	$ 23,434
Supplemental disclosures of cash flow information:		

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Non-cash financing activities		
Capital lease obligations incurred	$ 7,316	$ 118
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
Symposium Gamma Merger Firstmark acquisition		
Fair value of assets acquired		$ 155,468
Negative goodwill		(76,636)
Less: valuation of Series I preferred stock issued		(2,575)
Fair value of liabilities assumed		$ 76,257

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
MARCH 31, 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 throughout 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"), 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. 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.

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 (Notes 8 and 11). Prior to the merger, Omega had raised approximately $19.5 million in cash 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 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 6.0 million shares of the Company's common stock. The German 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 will require a one-time 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. It is anticipated that the 2.3 million euro payment will be made and the German network will be delivered in full by May 2004. The Company intends to integrate this German network into its existing European networks and introduce 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 (Notes 8 and 11). This acquisition 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. The Company is supporting Firstmark's products including point-to-point transport and transit services in over 40 markets and approximately 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 6,000 shares of the Company's common stock valued at $52,000 and the Company's agreement to assume certain liabilities totaling $3.0 million. 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.

Capital Account Adjustments Upon Offering

All share and per share amounts have been retroactively adjusted to give effect to a one-for-twenty reverse stock split to be adopted before the effectiveness of the offering contemplated by this prospectus. In addition, the convertible preferred stock will convert into shares of common stock upon the closing of the offering contemplated by this prospectus.

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 made 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 in the Company's Annual Report on Form 10-K.

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

Business risk

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 March 31, 2003 and March 31, 2004 was approximately $2.0 million and $1.5 million, respectively. ARC Canada's total consolidated assets were approximately $11.8 million at December 31, 2003 and $11.7 million at March 31, 2004.

The Company began recognizing revenue from operations in Europe through its wholly owned subsidiary, Symposium Omega, Inc. effective with the January 5, 2004 acquisition of Firstmark. All revenue is reported in United States dollars. Revenue for Firstmark for the three months ended March 31, 2004 was approximately $5.6 million. Firstmark's total consolidated assets were approximately $63.6 million at March 31, 2004.

Financial instruments

The Company is party to letters of credit totaling $2.1 million as of March 31, 2004. Securing these letters of credit are restricted investments totaling $2.1 million that are 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 is zero since performance is not likely to be required.

At December 31, 2003 and March 31, 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

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. Service discounts and incentives related to telecommunication services 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.

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, and changes in the credit worthiness of its customers. The Company believes that its established valuation allowances are adequate as of December 31, 2003 and March 31, 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 Firstmark is the euro. The consolidated financial statements of ARC Canada, and Firstmark, 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 March 31, 2003	Three months ended March 31, 2004
Net income (loss) applicable to common stock	$ 1,914	$ (46,198)
Currency translation	220	(123)
Comprehensive income (loss)	$ 2,134	$ (46,321)

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 March 31, 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 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.

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):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Net (loss) income, as reported	$ 1,914	$ (24,170)
Add: stock-based employee compensation expense included in reported net loss, net of related tax effects	818	3,032
Deduct: stock-based employee compensation expense determined under fair value based method, net of related tax effects	(987)	(3,032)
Pro forma net (loss) income	$ 1,745	$ (24,170)
Net (loss) income per share as reported basic	$ 10.99	$ (35.94)
Pro forma net (loss) income per share basic	$ 10.02	$ (35.94)
Net (loss) income per share as reported diluted	$ 2.76	$ (35.94)
Pro forma net (loss) income per share diluted	$ 2.52	$ (35.94)

The weighted-average per share grant date fair value of options granted was $277.20 for the three months ended March 31, 2003. The fair value of these options was estimated at the date of grant with the following weighted-average assumptions for March 31, 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 163 percent. There were no options granted in the three months ended March 31, 2004. The weighted- average per share grant date fair value of Series H convertible preferred shares granted to employees in the three months ended March 31, 2004 was $1,332.35 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 38.5 shares of common stock. Stock-based employee compensation for the three months ended March 31, 2004 was equal to the amount that would have been recorded under the fair value method since the Series H preferred shares were valued using the trading price of the Company's common stock on the grant date and there were no stock options that vested during the period.

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 when their effect would be anti-dilutive.

For the three months ended March 31, 2004 the following securities were not included in the computation of earnings per share as they are anti-dilutive: preferred stock convertible into 25.0 million shares of common stock, options to purchase 6,080 shares of common stock at a weighted-average exercise price of $9.00 per share, warrants for 5,189 shares of common stock at a weighted average exercise price of $109.40 per share and 1,066 shares of common stock issuable on the conversion of the Allied Riser convertible subordinated notes. For the three months ended March 31, 2003, approximately 10,000 shares of common stock issuable on the conversion of the Allied Riser convertible subordinated notes were not included in the computation of earnings per share as they are anti-dilutive.

The following details the determination of the diluted weighted average shares for the three months ended March 31, 2003.

	Three Months Ended March 31, 2003
Weighted average common shares outstanding - basic	174,191
Dilutive effect of stock options	1,349
Dilutive effect of preferred stock	514,042
Dilutive effect of warrants	2,675
Weighted average shares - diluted	692,257

There is no effect on net income for the three months ended March 31, 2003, caused by the conversion of any of the above securities included in the diluted weighted average shares calculation.

2. Acquisitions:

The acquisition of the assets of FNSI and the merger with Firstmark were recorded in the accompanying financial statements under the purchase method of accounting. The Firstmark purchase price allocation is preliminary and further refinements may be made. The operating results related to the acquired assets of FNSI and the merger with Firstmark have been included in the consolidated statements of operations from the dates of acquisition. The FNSI acquisition closed on February 28, 2003. The Firstmark acquisition closed on January 5, 2004.

The purchase price of Firstmark was approximately $78.8 million which includes the fair value of the Company's 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 $78.8 million.

The following table summarizes the recorded values of the assets acquired and the liabilities assumed (in thousands).

	FNSI	Firstmark
Current assets	$ 291	$ 17,374
Property and equipment		56,458
Intangible assets	2,727	855
Other assets		4,145
Total assets acquired	$ 3,018	$ 78,832
Current liabilities	2,941	25,714
Other long term liabilities		860
Capital lease obligations	25	49,683
Total liabilities assumed	2,966	76,257
Net assets acquired	$ 52	$ 2,575

The intangible assets acquired in the FNSI acquisition were customer contracts ($2.6 million) and a non-compete agreement ($0.1 million). The FNSI customer contracts and non-compete agreement are being amortized over two years and one year, respectively. The intangible assets acquired in the Firstmark acquisition were customer contracts and licenses. The Firstmark customer contracts ($0.4 million) are being amortized over two years and licenses ($0.4 million) over the terms of the licenses. The Firstmark acquisition was assumed to occur on January 1, 2004 since the results of Firstmark for the period from January 1, 2004 to January 4, 2004 were not material. Pro forma combined results for Omega are not included below since the Omega acquisition was not considered the acquisition of a business, since Omega had no customers, employees or associated revenues. If the FNSI and Firstmark acquisitions had taken place at the beginning of 2003 the unaudited pro forma combined results of the Company for the three months ended March 31, 2003 would have been as follows (amounts in thousands, except per share amounts).

	Three Months Ended March 31, 2003
Revenue	$ 22,879
Net (loss) income	(10,207)
Net (loss) income per share - basic	$ (10.40)
Net (loss) income per share - diluted	$ (10.40)

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 FNSI and Firstmark acquisitions had been effective at the beginning of 2003.

3. Property and equipment:

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

	December 31, 2003	March 31, 2004
Owned assets:		
Network equipment	$ 186,204	$ 208,477
Software	7,482	7,560
Office and other equipment	4,120	14,703
Leasehold improvements	50,387	51,503
System infrastructure	32,643	32,993
Construction in progress	988	280
	281,824	315,516
Less Accumulated depreciation and amortization	(72,762)	(83,516)
	209,062	232,000
Assets under capital leases:		
IRUs	118,273	139,864
Less Accumulated depreciation and amortization	(12,929)	(14,806)
	105,344	125,058
Property and equipment, net	$ 314,406	$ 357,058

Depreciation and amortization expense related to property and equipment was $9.0 million and $11.8 million for the three months ended March 31, 2003 and March 31, 2004, respectively.

Capitalized labor and related costs

For the three months ended March 31, 2003 and March 31, 2004, the Company capitalized salaries and related benefits of $0.9 million and $0.4 million, respectively

4. Accrued liabilities:

Accrued liabilities consist of the following (in thousands):

	December 31, 2003	March 31, 2004
General operating expenditures	$ 4,541	$ 5,105
Payroll and benefits	419	563
Litigation settlement accruals	400	950
Taxes	1,584	1,299
Interest	455	2,064
Deferred revenue	486	1,371
Total	$ 7,885	$ 11,352

5. Intangible assets:

Intangible assets consist of the following (in thousands):

	December 31, 2003	March 31, 2004
Customer contracts	$ 8,145	$ 8,597
Peering arrangements	16,440	16,440
Trade name	1,764	1,764
Other		167
Licenses		381
Non compete agreements	431	431
Total	26,780	27,780
Less accumulated amortization	(18,671)	(21,419)
Intangible assets, net	$ 8,109	$ 6,361

Amortization expense for the three months ended March 31, 2003 and March 31, 2004 was approximately $2.3 million and $2.8 million, respectively. Future amortization expense related to intangible assets is $5.8 million, $0.4 million and $0.1 million for the twelve-month periods ending March 31, 2005, 2006, and 2007, respectively.

6. Other assets:

Other assets consist of the following (in thousands):

	December 31, 2003	March 31, 2004
Prepaid expenses	$ 378	$ 347
Deposits	3,419	4,711
Other	167	
Total	$ 3,964	$ 5,058

In the Firstmark acquisition the Company obtained warrants to purchase 506,600 ordinary shares (originally 5,066 shares which were subsequently split at a ratio of 1 to 100) of Floware Wireless Systems Ltd. a company listed on the NASDAQ since September 2000. The warrants were exercisable through March 2005, at a price of $3.89 per share and were valued at the acquisition date at a fair market value of approximately $2.6 million under the Black-Scholes method of valuation. In 2001 Floware Wireless Systems Ltd. ("Floware") merged into Breezecom Ltd. ("Breezecom"). Breezecom subsequently changed its name to Alvarion Ltd. In January 2004, the Company exercised the warrants and sold the related securities for proceeds of approximately $3.5 million resulting in a gain of approximately $0.9 million recorded during the three months ended March 31, 2004 and is included as a component of interest and other income in the accompanying condensed consolidated financial statements.

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. The credit facility provided for the financing of purchases of up to $270 million of Cisco network equipment, software and related services, the funding up to $64 million of working capital, and funding up to $75 million for interest and fees related to the credit facility.

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 40,000 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 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 participating convertible preferred stock for $41.0 million in cash. Under the Purchase Agreement the Company's outstanding Series A, B, C, D and E participating convertible preferred stock ("Existing Preferred Stock") were converted into approximately 0.5 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.

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 March 31,		
2005	$	
2006		7,094
2007		5,514
2008		5,234
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 June 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 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 1,066 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, that meet the criteria for treatment as capital leases are 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 March 31,		
2005	$	15,398
2006		15,479
2007		13,452
2008		13,143
2009		11,350
Thereafter		111,731
Total minimum lease obligations		180,553
Less amounts representing interest		(70,987)
Present value of minimum lease obligations		109,566
Current maturities		(6,452)
Capital lease obligations, net of current maturities	$	103,114

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 $3.9 million at March 31, 2004.

Litigation

One of the Company's subsidiaries, Allied Riser Operations Corporation, was involved in a dispute with its former landlord in Dallas, Texas. On July 15, 2002, the landlord filed suit in the 193rd District Court of the State of Texas alleging that Allied Riser's March 2002 termination of its lease with the landlord resulted in a default under the lease. In April 2004, the Company reached a settlement with the landlord for a payment by the Company of $0.6 million. The payment is scheduled to be made in May 2004. The settlement amount has been accrued on the accompanying March 31, 2004 unaudited consolidated balance sheet.

The Company generally accrues for the amounts invoiced by its providers of telecommunications services. Liabilities for telecommunications costs in dispute are generally reduced when the vendor acknowledges the reduction in its invoice and the credit is granted. In 2002, one vendor invoiced the Company for approximately $1.7 million in excess of what the Company believes is contractually due to the vendor. The vendor has initiated an arbitration proceeding related to this dispute. The Company intends to vigorously defend its position related to these charges and feels that it has adequately reserved for the potential liability.

In 2003, a claim was filed against the Company by a former employee. 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 filed a motion for reconsideration. The Company has recorded a liability for the estimated net loss under this judgment. The matter is awaiting final adjudication.

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 March 31,	
2005	$ 21,521
2006	17,854
2007	15,117
2008	11,176
2009	8,788
Thereafter	33,880
	$ 108,336

Rent expense, net of sublease income, for the three months ended March 31, 2003 and March 31, 2004 was approximately $0.5 million and $1.8 million, respectively. The Company has subleased certain office space and facilities. Future minimum payments under these sub lease agreements are approximately $1.0 million, $0.7 million, $0.3 million, $0.2 million and $0.1 million for the years ending March 31, 2005 through March 31, 2009, respectively.

Maintenance, connectivity, and transit agreements

In order to provide service, the Company has commitments with service providers to connect to the Internet. The Company pays monthly fees for maintenance of its backbone fibers. 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 charges to five year terms.

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

Year ending March 31,	
2005	$ 5,758
2006	5,170
2007	3,856
2008	3,928
2009	3,954
Thereafter	46,191
	$ 68,857

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. 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 and corresponding intangible asset of approximately $0.2 million for the estimated fair value of this obligation.

LambdaNet Communications Deutschland, AG ("Lambdanet Germany")

The Company attempted to acquire Lambdanet Germany, a sister company of LNF and LNE, but was unable to reach agreement with Lambdanet Germany's bank creditors. Firstmark 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 Firstmark 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 1.1 million shares to 19.8 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 approved, subject to shareholder approval, an amended and restated charter that increased the number of authorized shares of the Company's common stock from 19.8 million shares to 30.0 million shares and increased the shares of undesignated preferred stock from 120,000 shares to 170,000 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 0.5 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 convertible participating preferred stock and the Company became Gamma and Firstmark'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 agreed to acquire a German fiber optic network. 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.

Each share of the Series F preferred stock, Series G preferred stock, Series H preferred stock, Series I preferred stock and Series J 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 and Series J preferred stock are convertible into 3.4 million shares, 12.8 million shares, 0.8 million shares, and 6.0 million shares of the Company's common stock, respectively. The 54,001 authorized shares of Series H preferred stock are convertible into 2.1 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. 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, and the consent of the holders of 80% of the Series G preferred stock is required prior to an underwritten public offering of the Company's stock unless the aggregate pre-money valuation of the Company at the time of the offering is at least $500 million, and the gross cash proceeds of the offering are $50 million.

In the event of any dissolution, liquidation, or winding up of the Company, at least $29.1 million, $123.1 million, $8.8 million, $7.7 million and $58.4 million will be paid in cash to the holders of the Series F, G, H, I and J 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 Incentive Award Plan

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 participating convertible preferred stock under the Company's 2003 Incentive Award Plan. In order for an employee to participate in the exchange, the employee was required to forfeit any and all shares of common stock ("Subject Common Stock") and his or her stock options granted under the Company's Amended and Restated Cogent Communications Group 2000 Equity Incentive Plan. Subject Common Stock included common stock received as a result of a conversion of Series B and Series C preferred stock but excluded common stock purchased on public markets. In October 2003, pursuant to the offer, the Company exchanged options representing the right to purchase an aggregate of approximately 1.0 million shares of the Company's common stock for approximately 53,500 shares of Series H restricted stock. In addition, all of the approximately 60,000 shares of Subject Common Stock were surrendered. 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 charge of approximately $1.1 million in 2003 and $0.8 million in the three months ended March 31, 2004. Deferred compensation is being amortized over the vesting period of the Series H preferred stock. 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 grants to newly hired employees, the shares vest 25% after one year with the remaining shares vesting ratably over three years. Compensation expense related to Series H preferred stock was approximately $16.4 million for the year ended December 31, 2003 and $3.0 million for the three months ended March 31, 2004. 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.

In April 2004, the Company's board of directors approved an amendment to the Company's 2003 Incentive Award Plan to increase the shares of Series H preferred stock available for grant under the plan from 54,001 to 84,001 shares. The proposed amendment is subject to shareholder approval.

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 and $19.5 million were recorded on January 5, 2004 and March 30, 2004, respectively, since the price per common share at which the Series I and Series J convertible preferred stock convert into at issuance 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 March 31, 2003	Three Months Ended March 31, 2004
Net Revenues		
North America	$ 14,233	$ 15,359
Europe		5,586
Total	$ 14,233	$ 20,945

	December 31, 2003	March 31, 2004
Long lived assets, net		
North America	$ 322,215	$ 311,519
Europe		51,900
Total	$ 322,215	$ 363,419

11. Related party:

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 rent to this entity of $0.1 million for the three months ended March 31, 2003 and $0.1 million for the three months ended March 31, 2004.

LNG Holdings S.A ("LNG")

In November 2003, approximately 90% of the stock of LNG, the then parent company to Firstmark, was acquired by Symposium Inc. ("Symposium") a Delaware corporation. 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 a commitment by Gamma to invest at least $2 million in the operations of the 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 a new investor.

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 March 2004, LNF repaid euro 1.0 million of the debt obligation to LNG. 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.

Firstmark'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 months ended March 31, 2004 Firstmark recorded revenue of euro 0.5 million from Lambdanet Germany and network costs of euro 0.9 million under the network sharing agreement. As of March 31, 2004 Firstmark had recorded net amounts due from Lambdanet Germany of euro 0.5 million and net amounts due to Lambdanet Germany of euro 0.9 million. These amounts are reflects as amounts due from related party ($0.6 million) and amounts due to related party ($1.1 million) in the accompanying condensed consolidated March 31, 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.

Report of Independent Auditors

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 before the restatement adjustment described in Note 1.

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 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 accounting principles generally accepted in the United States.

As described above, the financial statements of Cogent Communications Group, Inc. as of December 31, 2001, and for the year then ended were audited by other auditors who have ceased operations. As described in Note 1, in 2004, the Company's Board of Directors approved a one-for-twenty reverse stock split, and all references to number of shares and per share information in the financial statements have been adjusted to reflect the reverse stock split on a retroactive basis. We audited the adjustments that were applied to restate the number of shares and per share information reflected in the 2001 financial statements. Our procedures include (a) agreeing the authorization of the one-for-twenty reverse stock split to the Company's underlying records obtained from management, and (b) testing the mathematical accuracy of the restated number of shares, basic and diluted earnings per share and other applicable disclosures such as stock options. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

Ernst & Young LLP

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, and except for the paragraph under "Capital Account Adjustments Upon Offering" in Note 1, as to which the date is May , 2004.

The foregoing report is in the form that will be signed upon the completion of the restatement of capital accounts described in the paragraph under "Capital Account Adjustments Upon Offering" in Note 1 to the financial statements.

/s/ Ernst & Young LLP

McLean, VA
May 17, 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		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	
	61,345	

	2002	2003
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		
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
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; 1,055,000 and 19,750,000 shares authorized, respectively; 174,191 and 653,567 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 61,461 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, exclusive of amounts shown separately)	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	$ (951.82)	$ (616.34)	$ 363.47
Extraordinary gain		$ 51.89	
Basic net (loss) income per common share	$ (951.82)	$ (564.45)	$ 363.47
Beneficial conversion charge	$ (343.78)		$ (134.29)
Basic net (loss) income per common share available to common shareholders	$ (1,295.60)	$ (564.45)	$ 229.18
Diluted net (loss) income per common share before extraordinary item	$ (951.82)	$ (616.34)	$ 17.73
Extraordinary gain		$ 51.89	
Diluted net (loss) income per common share	$ (951.82)	$ (564.45)	$ 17.73
Beneficial conversion charge	$ (343.78)		$ (6.55)

	2001	2002	2003
Diluted net (loss) income per common share available to common shareholders	$ (1,295.60)	$ (564.45)	$ 11.18
Weighted-average common shares basic	70,300	162,712	387,218
Weighted-average common shares diluted	70,300	162,712	7,938,898

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	70,035	$ 1	$ 189	$	$	$	26,000,000	$ 25,892	19,809,783	$ 90,009		$
Exercises of stock options	456		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	70,491	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	365		1									
Issuance of common stock, options and warrants Allied Riser merger	100,484	3	10,230			764						
Deferred compensation adjustments			(1,756)	1,726								
Conversion of Series B convertible preferred stock	2,853		2,000						(439,560)	(2,000)		
Foreign currency translation												
Amortization of deferred compensation				3,331								
Net loss												
Balance at December 31, 2002	174,192	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	538,786	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	(61,291)			90	(90)							
Shares returned to treasury Allied Riser merger	(171)											

	Common stock						**Preferred Stock A**		**Preferred Stock B**		**Preferred Stock C**	
Common shares issued Allied Riser merger												
Cancellation of Series B preferred stock	2,051		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	653,567	$ 14	$ 232,461	$ (32,680)	$ (90)	$ 764		$		$		$

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)

	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													1	
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)				
													18,675	

	Preferred Stock D		Preferred Stock E		Preferred Stock F		Preferred Stock G		Preferred Stock H		Foreign Currency Translation Adjustment			Accumulated Other Comprehensive Income
Amortization of deferred compensation														
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)	
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

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

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

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.à r.l. and Subsidiaries ("Firstmark")

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 Firstmark'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 6,000 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.

Capital Account Adjustments Upon Offering

All share and per share amounts have been retroactively adjusted to give effect to a one-for-twenty reverse stock to be adopted before the effectiveness of the offering contemplated by this prospectus. In addition, the convertible preferred stock will convert into shares of common stock upon the closing of the offering contemplated by this prospectus.

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 40,000 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 0.5 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 0.5 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	0.00500	130,000
Series B	19,362,531	0.00649	125,653
Series C	49,773,402	0.00500	248,867

Existing Preferred	Shares outstanding	Conversion Ratio	Common Conversion
Series D	3,426,293	0.00500	17,131
Series E	3,426,293	0.00500	17,131
TOTAL	101,988,519		538,782

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 $556.36 and $27.14, 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 6.0 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	$ (951.82)	$ (564.45)	$ 363.47
Pro forma (loss) income per share basic	$ (950.31)	$ (572.99)	$ 360.40
(Loss) income per share as reported diluted	$ (951.82)	$ (564.45)	$ 17.73
Pro forma (loss) income per share diluted	$ (950.31)	$ (572.99)	$ 17.58

The weighted-average per share grant date fair value of options granted was $297 in 2001, $48.80 in 2002 and $11.20 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 38 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 years ended December 31, 2001, and 2002, options to purchase 0.1 million and 0.1 million shares of common stock at weighted-average exercise prices of $106 and $88.20 per share, respectively, are not included in the computation of diluted earnings per share as they are anti-dilutive. For the years ended December 31, 2001, 2002 and 2003, 95.6 million and 95.1 million shares of preferred stock, which were convertible into 35,000 and 35,000 shares of common stock, were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect. For the years ended December 31, 2002 and 2003, approximately 12,250 and 877 shares, respectively, of common stock issuable on the conversion of the Allied Riser convertible subordinated notes. For the years ended December 31, 2002 and 2003, warrants for approximately 5,200 and 2,500 shares, respectively, of common stock were not included in the computation of diluted earnings per share as a result of their anti-dilutive effect.

The following details the determination of the diluted weighted average shares for the year ended December 31, 2003.

	Year Ended December 31, 2003
Weighted average common shares outstanding basic	387,218
Dilutive effect of stock options	370
Dilutive effect of preferred stock	7,548,634
Dilutive effect of warrants	2,676
Weighted average shares diluted	7,938,898

There is no effect on net income for the year ended December 31, 2003, caused by the conversion of any of the above securities included in the diluted weighted average shares calculation.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. The statement provides accounting and reporting standards for recognizing obligations related to asset retirement costs associated with the retirement of tangible long-lived assets. Under this statement, legal obligations associated with the retirement of long-lived assets are to be recognized at their fair value in the period in which they are incurred if a reasonable estimate of fair value can be made. The fair value of the asset retirement costs is capitalized as part of the carrying amount of the long-lived asset and expensed using a systematic and rational method over the assets' useful life. Any subsequent changes to the fair value of the liability will be expensed. The adoption of this statement on January 1, 2003 did not have a material impact on the Company's operations or financial position.

On July 29, 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 replaces Issue 94-3. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company has not recognized costs associated with exit or disposal activities and as a result the adoption of this statement did not have a material impact on the Company's operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," or SFAS No. 148. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 28. The provisions of SFAS No. 148 are effective for fiscal years beginning after December 15, 2002 with respect to the amendments of SFAS No. 123 and effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002 with respect to the amendments of APB No. 28. The Company has adopted SFAS No. 148 by including the required additional disclosures.

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 the Company's 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," ("FIN 45") which expands previously issued accounting guidance and disclosure requirements for certain guarantees. FIN 45 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, the Company provided an indemnification to certain selling former shareholders of LNG as discussed in Note 9. Pursuant to FIN 45, the Company has 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 the Company's 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.The Company does 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 the Company's 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 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 the Company's 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 the Company's consolidated financial statements.

2. Acquisitions:

The acquisition of the assets of NetRail, PSINet and FNSI and the merger with Allied Riser were recorded in the accompanying financial statements under the purchase method of accounting. The FNSI purchase price allocation is preliminary and further refinements may be made. The PSINet purchase price was increased by $700,000 during 2003 to reflect the settlement of the pre-existing contingency discussed in Note 9. The operating results related to the acquired assets of NetRail, PSINet and FNSI and the merger with Allied Riser have been included in the consolidated statements of operations from the dates of their acquisition. The NetRail acquisition closed on September 6, 2001. The Allied Riser merger closed on February 4, 2002. The PSINet acquisition closed on April 2, 2002. The FNSI acquisition closed on February 28, 2003.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the respective acquisition dates (in thousands).

	NetRail	Allied Riser	PSINet	FNSI
Current assets	$ 200	$ 71,502	$ 4,842	$ 291
Property, plant & equipment	150		294	
Intangible assets	11,740		12,166	2,727
Other assets		3,289		
Total assets acquired	$ 12,090	$ 74,791	$ 17,302	$ 3,018
Current liabilities		20,621	7,852	2,941
Long term debt		34,760		25
Total liabilities assumed		55,381	7,852	2,966
Net assets acquired	$ 12,090	$ 19,410	$ 9,450	$ 52

The intangible assets acquired in the NetRail acquisition were allocated to customer contracts ($0.7 million) and peering rights ($11.0 million) and are being amortized over a weighted average useful life of 36 months. The intangible assets acquired in the PSINet acquisition were allocated to customer contracts ($4.7 million), peering rights ($5.4 million), trade name ($1.8 million), and a non-compete agreement ($0.3 million). These intangible assets are being amortized in periods ranging from two to five years. The intangible assets acquired in the FNSI acquisition were allocated to customer contracts ($2.6 million) and a non-compete agreement ($0.1 million). These intangible assets are being amortized in periods ranging from one to two years.

The purchase price of Allied Riser was approximately $12.5 million and included the issuance of 13.4% of the Company's common stock at the acquisition date, or approximately 100,000 shares of common stock valued at approximately $10.2 million, the issuance of warrants and options for the Company's common stock valued at approximately $0.8 million and transaction expenses of approximately $1.5 million. The fair value of the common stock was determined by using the average closing price of Allied Risers' common stock in accordance with SFAS No. 141. Allied Riser's subordinated convertible notes were recorded at their fair value using their quoted market price at the merger date. The fair value of net assets acquired was approximately $55.5 million resulting in negative goodwill of approximately $43.0 million. Negative goodwill was allocated to long-lived assets of approximately $34.6 million with the remaining $8.4 million recorded as an extraordinary gain.

If the Allied Riser, PSINet and FNSI acquisitions had taken place at the beginning of 2002 and 2003, the unaudited pro forma combined results of the Company for the years ended December 31, 2002 and 2003 would have been as follows (amounts in thousands, except per share amounts).

	Year Ended December 31, 2002	Year Ended December 31, 2003
Revenue	$ 72,763	$ 61,172
Net (loss) income before extraordinary items	(108,739)	140,236
Net (loss) income	(100,296)	140,236
(Loss) income per share before extraordinary items basic	$ (668.29)	$ 362.20
(Loss) income per share before extraordinary items diluted	$ (668.29)	$ 17.60
(Loss) income per share basic	$ (616.40)	$ 362.20
(Loss) income per share diluted	$ (616.40)	$ 17.60

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 Allied Riser, PSINet and FNSI acquisitions had been effective at the beginning of 2002 and 2003.

3. Property and equipment:

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

	December 31,	
	2002	**2003**
Owned assets:		
Network equipment	$ 173,126	$ 186,204
Software	6,998	7,482
Office and other equipment	2,600	4,120
Leasehold improvements	35,016	50,387
System infrastructure	29,996	32,643
Construction in progress	5,866	988
	253,602	281,824
Less Accumulated depreciation and amortization	(36,114)	(72,762)
	217,488	209,062
Assets under capital leases:		
IRUs	112,229	118,273
Less Accumulated depreciation and amortization	(6,937)	(12,929)
	105,292	105,344
Property and equipment, net	$ 322,780	$ 314,406

Depreciation and amortization expense related to property and equipment and capital leases was $12.2 million, $26.6 million and $38.4 million, for the years ended December 31, 2001, 2002 and 2003, respectively.

Capitalized interest, labor and related costs

In 2001, 2002 and 2003, the Company capitalized interest of $4.4 million, $0.8 million and $0.1 million, respectively. In 2001, 2002 and 2003, the Company capitalized salaries and related benefits of $7.0 million, $4.8 million and $2.6 million, respectively.

4. Accrued Liabilities:

Accrued liabilities as of December 31 consist of the following (in thousands):

	2002	**2003**
General operating expenditures	$ 8,315	$ 4,541
Litigation settlement accruals	5,168	400
Deferred revenue	1,250	486
Payroll and benefits	543	419
Taxes	1,937	1,584
Interest	1,329	455
Total	$ 18,542	$ 7,885

5. Intangible Assets:

Intangible assets as of December 31 consist of the following (in thousands):

	2002	2003
Peering arrangements (weighted average life of 36 months)	$ 15,740	$ 16,440
Customer contracts (weighted average life of 25 months)	5,575	8,145
Trade name (weighted average life of 36 months)	1,764	1,764
Non-compete agreements (weighted average life of 45 months)	294	431
Total (weighted average life of 33 months)	$ 23,373	$ 26,780
Less accumulated amortization	(8,718)	(18,671)
Intangible assets, net	$ 14,655	$ 8,109

Intangible assets are being amortized over periods ranging from 24 to 60 months. Amortization expense for the years ended December 31, 2001, 2002 and 2003 was approximately $1.3 million, $7.4 million and $10.0 million respectively. Future amortization expense related to intangible assets is expected to be $7.0 million, $1.1 million, $59,000, and $15,000 for the years ending December 31, 2004, 2005, 2006 and 2007, respectively.

6. Other assets:

Other assets as of December 31 consist of the following (in thousands):

	2002	2003
Prepaid expenses	$ 500	$ 378
Deposits	5,335	3,419
Indemnification		167
Deferred financing costs	13,281	
Total	$ 19,116	$ 3,964

Deferred financing costs were costs related to the Cisco credit facility. In connection with the restructuring of the Cisco credit facility, these amounts were written-off in 2003 as discussed in Note 1.

7. Long-term debt:

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. The credit facility provided for the financing of purchases of up to $270 million of Cisco network equipment, software and related services, the funding up to $64 million of working capital, and funding up to $75 million for interest and fees related to the credit facility. Borrowings under the credit facility were subject to Cogent's satisfaction of certain operational and financial covenants. Cogent was in violation of a 2002 financial covenant and failed to subsequently cure the violation. Accordingly, the payment of outstanding borrowings under the credit facility may have been accelerated by Cisco Capital and made immediately due and payable. As a result, this obligation was recorded as a current liability on the accompanying December 31, 2002 balance sheet. Immediately prior to the closing of the Exchange Agreement 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).

Restructuring and Amended and Restated Credit Agreement

In connection with the Exchange Agreement as further described in Note 1, the Company entered into the Amended and Restated Credit Agreement with Cisco Capital which became effective on July 31, 2003. Under the Amended and Restated Credit Agreement the Company's indebtedness to Cisco was reduced to a $17.0 million note and 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 restructured debt is evidenced by the Amended and Restated Cisco Note for $17.0 million payable to Cisco Capital. The Amended and Restated Cisco Note was issued under the Amended and Restated Credit Agreement that is to be repaid in three installments. No interest is payable, nor does interest accrue on the Amended and Restated Cisco Note for the first 30 months, unless the Company defaults under the terms of the Amended and Restated Credit Agreement. Principal and interest is paid as follows: a $7.0 million principal payment is due after 30 months, a $5.0 million principal payment plus interest accrued is due in 42 months, and a final principal payment of $5.0 million plus interest accrued is due in 54 months. 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 December 31,		
2004	$	
2005		
2006		7,515
2007		5,304
2008		5,023
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, approximately $117.0 million of the Notes were outstanding. The Notes were convertible at the option of the holders into shares of Allied Riser's common stock at an initial conversion price of approximately 65.06 shares of Allied Riser common stock per $1,000 principal amount. The conversion ratio is adjusted upon the occurrence of certain events. The conversion rate was adjusted to approximately 0.01 shares of the Company's common stock per $1,000 principal amount in connection with the merger. 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.

In January 2003, the Company, Allied Riser and the holders of approximately $106.7 million in face value of the Allied Riser 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 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 June 2007, interest accrued on these notes since the December 15, 2002 interest payment, all future interest payment obligations on these notes and settled the note holder litigation discussed in Note 9. The terms of the remaining $10.2 million of subordinated convertible notes were not impacted by these transactions and they continue to be due on June 15, 2007. These notes were recorded at their fair value of approximately $2.9 million at the merger date. This discount is accreted to interest expense through the maturity date.

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.

8. Income taxes:

The net deferred tax asset is comprised of the following (in thousands):

	December 31	
	2002	**2003**
Net operating loss carry-forwards	$ 179,151	$ 234,059
Depreciation	(6,097)	(23,627)
Start-up expenditures	3,912	3,724
Accrued liabilities	4,833	3,633
Deferred compensation	2,677	10,255
Other	40	28
Valuation allowance	(184,516)	(228,072)
Net deferred tax asset	$	$

Due to the uncertainty surrounding the realization of its net deferred tax asset, the Company has recorded a valuation allowance for the full amount of its net deferred tax asset. Should the Company achieve profitability, its deferred tax assets may be available to offset future income tax liabilities. The federal and state net operating loss carry-forwards of approximately $577 million expire in 2020 to 2023. For federal and state tax purposes, the Company's net operating loss carry-forwards could be subject to certain limitations on annual utilization if certain changes in ownership were to occur as defined by federal and state tax laws. The federal and state net operating loss carry-forwards of Allied Riser Communications Corporation as of February 4, 2002 of approximately $257 million are subject to certain limitations on annual utilization due to the change in ownership as a result of the merger as defined by federal and state tax laws.

Under Section 108(a)(1)(B) of the Internal Revenue Code of 1986 gross income does not include amounts that would be includible in gross income by reason of the discharge of indebtedness to the extent that a non-bankrupt taxpayer is insolvent. Under Section 108(a)(1)(B) the Company believes that its gains on the settlement of debt with certain Allied Riser note holders and its debt restructuring with Cisco Capital for financial reporting purposes will not result in taxable income. However, these transactions resulted in a reduction to the Company's net operating loss carry forwards of approximately $20 million in 2003 and will result in further reductions to the Company's net operating loss carry forwards of approximately $291 million in 2004.

The following is a reconciliation of the Federal statutory income tax rate to the effective rate reported in the financial statements.

	2001	2002	2003
Federal income tax (benefit) at statutory rates	34.0%	34.0%	34.0%
State income tax (benefit) at statutory rates, net of Federal benefit	6.6	7.6	(3.7)
Impact of permanent differences		5.3	(53.0)
Change in valuation allowance	(40.6)	(46.9)	22.7
Effective income tax rate	%	%	%

9. Commitments and contingencies:

Capital leases Fiber lease agreements

The Company has entered into lease agreements with several providers for intra-city and inter-city dark fiber primarily under 15-25 year IRUs. These IRUs connect the Company's national backbone fiber with the multi-tenant office buildings and the customers served by the Company. Once the Company has accepted the related fiber route, leases of intra-city and inter-city fiber-optic rings that meet the criteria for treatment as capital leases are 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 December 31,	
2004	$ 8,334
2005	6,493
2006	5,999
2007	6,001
2008	6,001
Thereafter	77,647
Total minimum lease obligations	110,475
Less amounts representing interest	(48,722)
Present value of minimum lease obligations	61,753
Current maturities	(3,646)
Capital lease obligations, net of current maturities	$ 58,107

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 Company has also submitted product orders but not yet accepted the related fiber route or lateral construction. The future minimum commitments under these arrangements are approximately $0.3 million each of the years ending December 31, 2004 through December 31, 2008 and $2.7 million therafter.

Cisco equipment purchase commitment

In March 2000, the Company entered into a five-year agreement to purchase from Cisco minimum annual amounts of equipment, professional services, and software. In October 2001, the commitment was increased to purchase a minimum of $270 million through December 2004. As of July 31, 2003, the Company had purchased approximately $198.1 million towards this commitment and had met all of the minimum annual purchase commitment obligations. As part of the Company's restructuring of the Cisco credit facility this agreement was amended. The amended agreement has no minimum purchase commitment but does have a requirement that the Company purchase Cisco equipment for its network equipment needs. No financing is provided and the Company is required to pay Cisco in advance for any purchases.

Legal Proceedings

Vendor Claims and Disputes. One of the Company's subsidiaries, Allied Riser Operations Corporation, is involved in a dispute with its former landlord in Dallas, Texas. On July 15, 2002, the landlord filed suit in the 193rd District Court of the State of Texas alleging that Allied Riser's March 2002 termination of its lease with the landlord resulted in a default under the lease. The Company believes, and Allied Riser Operations Corporation has responded, that the termination was consistent with the terms of the lease. Although the suit did not specify damages, the Company estimates, based upon the remaining payments under the lease and assuming no mitigation of damages by the landlord, that the amount in controversy may total approximately $3.0 million. The Company has not recognized a liability for this dispute and intends to vigorously defend its position.

The Company generally accrues for the amounts invoiced by its providers of telecommunications services. Liabilities for telecommunications costs in dispute are generally reduced when the vendor acknowledges the reduction in its invoice and the credit is granted. In 2002, one vendor invoiced the Company for approximately $1.7 million in excess of what the Company believes is contractually due to the vendor. The vendor has initiated an arbitration proceeding related to this dispute. The Company has not reflected this disputed amount as a liability. The Company intends to vigorously defend its position related to these charges.

PSINet Liquidating, LLC. On March 19, 2003 PSINet Liquidating LLC filed a motion in the United States Bankruptcy Court for the Southern District of New York seeking an order instructing the Company to return certain equipment and to cease using certain equipment. The motion relates to the asset purchase agreement under which the Company purchased through the bankruptcy process certain assets from the estate of PSINet, Inc. The PSINet estate alleged that the Company failed to make available for pick-up and failed to return all of the equipment that the Company was obligated to return under the terms of the asset purchase agreement and that the Company was in some cases making use of that equipment in violation of the agreement. On May 7, 2003 the Company agreed with the PSINet estate on a mechanism for identifying equipment that still must be returned and determining the compensation for any unreturned equipment. The bankruptcy court has approved the agreement and the Company has funded a $600,000 escrow account related to this matter to resolve the potential remaining obligations for unreturned equipment. The Company believes that all equipment to be returned to the PSINet estate has been returned, and the Company is in the process of determining what, if any, amount will need to be released from the escrow account to the PSINet estate, as well as finalizing the purchase, in lieu of return, of selected equipment from the PSINet estate, for which the Company has accrued an additional $75,000.

Employment Litigation In 2003, a claim was filed against the Company by a former employee asserting 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 filed a motion for reconsideration. The Company recorded a liability for the estimated net loss under this judgment. The matter is awaiting final adjudication.

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. The Company acquired building access agreements and operating leases for facilities in connection with the Allied Riser merger. Future minimum annual commitments under these arrangements are as follows (in thousands):

2004	$	15,019
2005		13,054
2006		10,842
2007		8,869
2008		7,346
Thereafter		28,469
	$	83,599

Rent expense relates to leased office space and was $3.3 million in 2001 $3.3 million in 2002 and $2.3 million in 2003. The Company has subleased certain office space and facilities. Future minimum payments under these sub lease agreements are approximately $1.1 million, $0.7 million, $0.3 million, $0.2 million and $0.1 million for the years ending December 31, 2004 through December 31, 2008.

Maintenance and connectivity agreements

The Company pays a monthly fee per route mile over a minimum of 20 years for the maintenance of its two national backbone fibers. 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.

Future minimum obligations as of December 31, 2003, related to these arrangements are as follows (in thousands):

Year ending December 31		
2004	$	3,461
2005		3,507
2006		3,577
2007		3,649
2008		3,721
Thereafter		47,348
	$	65,263

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. 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 and corresponding asset of approximately $167,000 for the estimated fair value of this obligation.

10. Stockholders' equity:

In June 2003, the Company's board of directors and shareholders approved the Company's fourth amended and restated certificate of incorporation. The amended and restated charter increased the number of authorized shares of the Company's common stock from 1,055,000 shares to 19,750,000 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.

On July 31, 2003 and in connection with the Company's debt restructuring and the Purchase Agreement, 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 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.

Each share of the Series G preferred stock, Series F preferred stock and Series H 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 preferred stock is convertible into 3.4 million shares of common stock. The Series G preferred stock is convertible into 12.7 million shares of common stock. The Series H preferred stock is convertible into 2.1 million shares of 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. 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, and the consent of the holders of 80% of the Series G preferred stock is required prior to an underwritten public offering of the Company's stock unless the aggregate pre-money valuation of the Company at the time of the offering is at least $500 million, and the gross cash proceeds of the offering are $50 million.

In the event of any dissolution, liquidation, or winding up of the Company, at least $11.0 million will be paid in cash to the holders of the Series F preferred stock, at least $123.0 million will be paid in cash to the holders of the Series G preferred stock and at least $9.1 million will be paid in cash to the holders of the Series H preferred stock before any payment is made to the holders of the Company's common stock.

Warrants and options

Warrants to purchase 40,000 shares of the Company's common stock were issued to Cisco Capital in connection with working capital loans under the Company's credit facility. On July 31, 2003 these warrants were cancelled as part of the restructuring of the Company's debt to Cisco Capital.

In connection with the February 2002 merger with Allied Riser, the Company assumed warrants issued by Allied Riser that convert into approximately 5,189 million shares of the Company's common stock. All warrants are exercisable at exercise prices ranging from $0 to $9,500 per share. These warrants were valued at approximately $0.8 million using the Black- Scholes method of valuation and are recorded as stock purchase warrants using the following assumptions average risk free rates of 4.7 percent, an estimated fair value of the Company's common stock of $106.40, expected live of 8 years and expected volatility of 207.3%.

In connection with the February 2003 purchase of certain assets of Fiber Network Solutions, Inc., options for 6,000 shares of common stock at $9 per share were issued to certain the former FNSI vendors. The fair value of these options was estimated at $52,000 at the date of grant with the following weighted-average assumptions an average risk-free rate of 3.5 percent, a dividend yield of 0 percent, an expected life of 10.0 years, and expected volatility of 128%.

Offer to exchange Series H Preferred Stock

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 participating convertible preferred stock. In order for an employee to participate in the exchange, the employee was required to forfeit any and all shares of common stock ("Subject Common Stock") and his or her stock options granted under the Company's Amended and Restated Cogent Communications Group 2000 Equity Incentive Plan. Subject Common Stock included common stock received as a result of a conversion of Series B and Series C preferred stock but excluded common stock purchased on public markets. In October 2003, pursuant to the offer, the Company exchanged options representing the right to purchase an aggregate of approximately 60,000 shares of the Company's common stock for approximately 53,500 shares of Series H restricted stock. In addition, all 60,000 shares of Subject Common Stock were surrendered. The Company recorded a deferred compensation charge of approximately $46.1 million in the fourth quarter of 2003 related to these grants of restricted stock under this offer to exchange. The Company also granted approximately 350 shares of Series H preferred to certain new employees resulting in an additional deferred compensation charge of approximately $0.3 million. Deferred compensation is being amortized over the vesting period of the Series H preferred stock. 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 for grants to newly hired employees, the vesting period is generally 25% after one year with the remaining shares vesting over four years. Compensation expense related to Series H preferred stock was approximately $16.4 million for the year ended December 31, 2003. 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.

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

The October 2001 issuance of Series C preferred stock resulted in an adjustment of the conversion rate of the Series B preferred stock. This transaction resulted in a non-cash beneficial conversion charge of approximately $24.2 million that was recorded in the Company's fourth quarter 2001 financial statements as a reduction to retained earnings and earnings available to common shareholders and an increase to additional paid-in capital.

A beneficial conversion charge of $52.0 million was recorded on July 31, 2003 since the price per common share at which the Series F and Series G convertible preferred stock converted into at issuance were less than the quoted trading price of the Company's common stock on that date.

11. Stock option plan:

In 1999, the Company adopted its Equity Incentive Plan (the "Plan") for granting of options to employees, directors, and consultants under which 74,500 shares are reserved for issuance. Options granted under the Plan may be designated as incentive or nonqualified at the discretion of the Plan administrator. Stock options granted under the Plan generally vest over a four-year period and have a term of ten years. Stock options exercised, granted, and canceled during the period from inception (August 9, 1999) to December 31, 2003, were as follows:

	Number of options		Weighted-average exercise price
Outstanding at December 31, 2000	30,407	$	198.00
Granted	41,104	$	80.80
Exercised	(456)	$	45.00
Cancellations	(13,159)	$	242.00
Outstanding at December 31, 2001	57,896	$	106.00
Granted	7,694	$	38.60
Exercised	(365)	$	2.60
Cancellations	(13,561)	$	138.80
Outstanding at December 31, 2002	51,664	$	88.20
Granted	7,859	$	9.80
Exercised			
Cancellations	(53,443)	$	85.60
Outstanding at December 31, 2003	6,080	$	9.00

Options exercisable as of December 31, 2001, were 11,176 with a weighted-average exercise price of $144.80. Options exercisable as of December 31, 2002, were 25,342 with a weighted-average exercise price of $95.60. Options exercisable as of December 31,2003, were 6,002 with a weighted-average exercise price of $9.00. The weighted-average remaining contractual life of the outstanding options at December 31, 2003, was approximately 9 years.

OUTSTANDING AND EXERCISABLE BY PRICE RANGE
As of December 31, 2003

Range of Exercise Prices	Number Outstanding 12/31/2003	Weighted Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable As of 12/31/2002	Weighted-Average Exercise Price
$9.00	6,075	9.16	$ 9.00	6,000	$ 9.00
$40.00	5	8.01	$ 40.00	2	$ 0.10

Deferred Compensation Charge Stock Options

The Company recorded a deferred compensation charge of approximately $14.3 million in the fourth quarter of 2001 related to options granted at exercise prices below the estimated fair market value of the Company's common stock on the date of grant. The deferred compensation charge was amortized over the vesting period of the related options which was generally four years. In connection with the October 2003 offer to exchange and granting of Series H preferred stock the remaining $3.2 million unamortized balance of deferred compensation is now amortized over the vesting period of the Series H preferred stock.

Compensation expense related to stock options was approximately $3.3 million for the years ended December 31, 2001 and 2002 and $2.3 million for the year ended December 31, 2003.

12. Related party:

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 $453,000 in 2001, $410,000 in 2002 and $367,000 in 2003 in rent to this entity. In August 2003, the lease was amended to expire in August 2004. There are no amounts due to or from related parties at December 31, 2002 or 2003.

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 Europe. In connection with this transaction the Company provided an indemnification to certain former LNG shareholders.

13. Quarterly financial information (unaudited):

	Three months ended			
	March 31, 2002	June 30, 2002	September 30, 2002	December 31, 2002
	(in thousands, except share and per share amounts)			
Net service revenue	$ 3,542	$ 18,578	$ 15,960	$ 13,833
Cost of network operations, including amortization of deferred compensation	6,908	16,007	14,243	12,166
Operating loss	(16,684)	(15,523)	(16,875)	(13,192)
Net loss	(17,959)	(24,562)	(25,409)	(23,914)
Net loss applicable to common stock	(17,959)	(24,562)	(25,409)	(23,914)
Net loss per common share	(136.20)	(143.60)	(146.80)	(137.20)
Weighted-average number of shares outstanding	131,898	170,979	173,200	174,192

	Three months ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
	(in thousands, except share and per share amounts)			
Net service revenue	$ 14,233	$ 15,519	$ 15,148	$ 14,522
Cost of network operations, including amortization of deferred compensation	10,739	12,282	12,067	13,236
Operating loss	(14,880)	(16,568)	(15,901)	(33,878)
Gain Cisco credit facility troubled debt restructuring			215,432	
Gain Allied Riser note exchange	24,802			
Net (loss) income	1,914	(22,796)	196,462	(34,837)
Net (loss) income applicable to common stock	1,914	(22,796)	144,462	(34,837)
Net (loss) income per common share basic	11.00	(130.80)	369.60	(52,80)
Net (loss) income per common share diluted	2.80	(130.80)	17.20	(52.80)
Weighted-average number of shares outstanding basic	174,192	174,192	531,431	660,229
Weighted-average number of shares outstanding diluted	692,257	174,192	11,429,777	660,229

The net loss applicable to common stock for the first and fourth quarters of 2002 includes extraordinary gains of approximately $4.5 million and $3.9 million, respectively, related to the merger with Allied Riser. The net loss applicable to common stock for the third quarter of 2003 includes a non-cash beneficial conversion charge of $52.0 million.

14. Subsequent events:

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

In November 2003, approximately 90% of the stock of LNG, the then parent company to Firstmark, was acquired by Symposium Inc. ("Symposium") a Delaware corporation. 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 a commitment by Gamma to invest at least $2 million in the operations of LambdaNet France. Gamma (and the Company after the merger) undertook to obtain the release of LNG from certain guarantee obligations. Prior to this transfer, Gamma had raised approximately $2.5 million in a private equity transaction with certain existing investors in the Company and a new investor.

In January 2004, Gamma merged with 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 convertible participating preferred stock and the Company became Gamma and Firstmark's sole shareholder. The 2,575 shares of the Series I convertible participating preferred stock is convertible into approximately 0.8 million shares of the Company's common stock.

The Company plans to continue to support the Firstmark's products including point-to-point transport and transit services. The Company also intends to introduce in Europe a new set of products and services based on the Company's current North American product set.

Short Term Loans to Firstmark

In January 2004, Firstmark's subsidiary in France borrowed approximately $1.4 million from the Company. This amount was repaid in full in February 2004. In February 2004, Firstmark's subsidiaries in France and Spain each borrowed approximately $895,000 from the Company.

15. Merger with Symposium Omega

On March 30, 2004 the Company merged with Symposium Omega, Inc., ("Omega") a Delaware corporation. Prior to the merger Omega had raised approximately $19.5 million in cash and agreed to acquire a German fiber optic network. 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 6.0 million shares of the Company's common stock. The German 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 will require a one-time 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.

It is anticipated that the network will be delivered in full by May 2004. The Company intends to integrate this German network into its existing European networks and introduce point-to-point transport, transit services and its North American product set in Germany.

INDEPENDENT AUDITORS' REPORT

To FirstMark Communications Participations S.à r.l. and Subsidiaries

We have audited the accompanying consolidated balance sheets of FirstMark Communications Participations S.à r.l. and subsidiaries (the "Group") as of December 31, 2003 and 2002 and the consolidated statements of operations, changes in stockholders' equity, and cash flows for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Group. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FirstMark Communications Participations S.à r.l. and subsidiaries as of December 31, 2003 and 2002, the results of their operations and their cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in note 13 to the financial statements, the Group adopted Statement of Financial Accounting Standards 143 "Accounting for Asset Retirement Obligations" on January 1, 2003.

The accompanying financial statements have been prepared assuming that the Group will continue as a going concern. As more fully described in note 1 to the financial statements, the Group has incurred recurring operating losses accumulating to EUR 164.2 million and has a working capital deficit of EUR 15.9 million as of December 31 2003. These factors raise substantial doubt about its ability to continue as a going concern. These consolidated financial statements do not include any adjustments to reflect the possible future effects on recoverability and classification of assets, including property plant and equipment amounting to EUR 105.1 million or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ ERNST & YOUNG
Société Anonyme

Luxembourg, Grand Duchy of Luxembourg
March 17, 2004

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002
(EXPRESSED IN THOUSANDS OF EUROS)

	Notes	2003	2002
ASSETS			
Current assets:			
Cash and cash equivalents		1,720	2,294
		1,720	2,294
Accounts receivable:			
From related parties	16	114	1,497
Trade, net of allowance of € 1,133 and € 845	5	5,403	6,276
Other	6	2,288	3,697
		7,805	11,470
Prepaid expenses and other current assets	15	2,380	1,173
Total current assets		11,905	14,937
Investments:			
Marketable securities	7	2,090	
Pledged deposits	4	1,212	2,218
		3,302	2,218
Property and equipment, at cost	8	139,051	182,948
Less accumulated depreciation		(33,925)	(45,384)
		105,126	137,564
Intangible assets, at cost:	9		
Licenses		1,274	1,274
Other		395	395
		1,669	1,669
Less accumulated amortization		(945)	(558)
		724	1,111
Total assets		121,057	155,830

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

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2003 AND 2002
(EXPRESSED IN THOUSANDS OF EUROS)

	Notes	2003	2002
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable:			
Trade		11,985	19,144
To related parties	16	7,769	1,324
Other	11	1,384	895
		21,138	21,363
Accrued liabilities	12	2,469	8,283
Current portion of long-term debt	14	2,875	3,229
Current portion of asset retirement obligations	13	292	
Deferred income	15	1,078	3,871
Total current liabilities		27,852	36,746
Long-term liabilities:			
Asset retirement obligations	13	685	
Long-term debt and financing	14	38,583	108,433
Loans from Stockholder	16	216,055	234,515
Other non-current liabilities	15		738
Total long-term liabilities		255,323	343,686
Total liabilities		283,175	380,432
Commitments and Contingencies	23		
Stockholders' Equity:	10		
Common stock, 125 shares authorized, issued and outstanding with a par value of EUR 100 each		13	13
Accumulated deficit		(164,222)	(224,615)
Accumulated other comprehensive income		2,091	
Total stockholders' equity		(162,118)	(224,602)
Total liabilities and stockholders' equity		121,057	155,830

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

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(EXPRESSED IN THOUSANDS OF EUROS)

	Notes	2003	2002
Revenue		21,624	21,855
Revenue with affiliated companies	16	1,866	945
Cost of revenue (excluding depreciation and amortization)		(4,450)	(2,793)
Cost from affiliated companies	16	(6,965)	(4,838)
Selling, general and administrative expenses		(19,611)	(24,295)
Impairment of assets	18	(1,651)	(112,074)
Loss on disposal of assets	19	(1,252)	
Depreciation and amortization	8,9	(14,843)	(27,360)
Operating loss		(25,282)	(148,560)
Interest expense and other		(7,357)	(21,437)
Interest income and other		4	99
Exchange gain (loss), net		66	(4)
Restructuring of Renfe	14	59,438	
Gain on debt extinguishments		33,780	6,270
Profit/(loss) before income taxes		60,649	(163,632)
Taxation	20		
Profit/(loss) before cumulative effect on prior years of applying SFAS 143		60,649	(163,632)
Cumulative effect on prior years (to December 31,2002) of applying SFAS 143	13	(256)	
Net Income/(loss)		60,393	(163,632)
Proforma amounts assuming that SFAS 143 is applied retroactively			
Net Income/(loss)		*60,649*	*(163,812)*

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

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2003 AND 2002
(EXPRESSED IN THOUSANDS OF EUROS EXCEPT NUMBER OF SHARES)

	Number of common shares outstanding	Common stock	Accumulated deficit	Accumulated other comprehensive income	Total
Balance as of January 1, 2002	125	13	(60,983)		(60,970)
Comprehensive gain/(loss):					
Loss for the year			(163,632)		(163,632)
					(163,632)
Balance as of December 31, 2002		13	(224,615)		(224,602)
Balance as of January 1, 2003	125	13	(224,615)		(224,602)
Comprehensive gain/(loss):					
Income for the year			60,393		60,393
Other comprehensive gain/(loss):					
Unrealized gain on marketable securities				2,090	2,090
Currency translation adjustment				1	1
					62,484
Balance as of December 31, 2003		13	(164,222)	2,091	(162,118)

The accompanying notes are an integral part of these financial statements

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(EXPRESSED IN THOUSANDS OF EUROS)

	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES		
Net income / (loss)	60,393	(163,632)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Accretion expenses	44	
Depreciation and amortization	14,843	27,360
Provision for doubtful accounts	288	618
Loss on disposal of assets	1,252	
Restructuring of Renfe	(59,438)	
Gain on extinguishment of debt	(33,780)	(6,270)
Non-cash interest charge	6,087	2,387
Impairment of assets	1,651	112,074
Cumulative effect on prior years applying SFAS 143	256	
Changes in operating assets and liabilities:		
decrease in accounts receivable	1,993	5,066
decrease in receivable from related parties	1,382	3,186
(increase)/decrease in prepaid expenses and other current assets	(217)	1,348
decrease in accounts payable	(1,214)	(3,667)
(decrease)/increase in payable to related parties	6,095	(1,067)
(decrease) in accrued liabilities	(5,312)	(3,034)
decrease in other non-current liabilities	(738)	738
(decrease)/increase in deferred income	(2,793)	2,862
Net cash used in operating activities	(9,208)	(22,031)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment, net of disposals	(1,744)	(5,395)
Purchase of licenses and other intangible assets		(547)
Decrease/(increase) in pledged deposits	1,006	(569)
Net cash used in investing activities	(738)	(6,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of debt, long-term and short-term	(2,274)	(84,010)
Proceeds from shareholders (related parties)	11,646	100,279
Net cash provided by financing activities	9,372	16,269
Decrease in cash and cash equivalents	(574)	(12,273)
Cash and cash equivalents at beginning of the period	2,294	14,567
Cash and cash equivalents at end of the period	1,720	2,294

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

FIRSTMARK COMMUNICATIONS PARTICIPATIONS S.À R.L. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION, NATURE OF OPERATIONS AND HISTORY

FirstMark Communications Participations S.à r.l. (the "Company" or "Firstmark", and together with its subsidiaries, the "Group") was incorporated on March 31, 2000, under the laws of the Grand Duchy of Luxembourg as a "Société à responsabilité limitée," which is private limited liability company.

The Company is registered in Luxembourg under the number R.C. B 75 672 and has its registered office at 5, rue Eugène Ruppert, L-2453 Luxembourg.

The Company is a subsidiary of LNG Holdings S.A. (the "Parent Company"), a Luxembourg company having its registered address at 5, rue Eugène Ruppert, L-2453 Luxembourg. Subsequent to year-end (Note 24), Cogent Communications Group, Inc. acquired the Group from LNG Holdings S.A..

The Group operates a carriers' carrier fiber optic transport business in France, Spain, Belgium, the Netherlands and the United Kingdom using technology such as dense wavelength division multiplexing (DWDM) in combination with synchronous digital hierarchy (SDH) providing transmission capacities of several terabit per second. The Group's Carrier Business optics network has a length of approximately 11,000 km and connects a total of 45 cities including Metropolitan Area Networks (MANs) in 9 European Business Centers within its Europe-wide network. These MANs directly connect telehouses, data-centers and major customer locations to the Company's backbone.

In February 2003, the Company decided it was necessary to restructure the network operated by its Spanish subsidiary, LambdaNet España S.A. This network, connecting 54 cities with over 8,000 km of fiber, had been specifically designed and implemented based upon the needs of one of the Group's largest customers. As the business of this customer has not developed as expected, it had to substantially reduce its network requirements. Further, the customer was in default of its payment obligations. Consequently, LambdaNet España S.A. restructured its extensive network to a base of core national and international requirements. This triggered a situation whereby, in order to provide sufficient time to restructure the business and ensure that the current customer requirements continue uninterrupted, in February 2003, LambdaNet España S.A. filed a "Suspension of Payments" process with the Court in Madrid. This filing was preceded by a lawsuit against the above-mentioned major customer, which was subsequently resolved.

In July 2003, LambdaNet España S.A. lifted the "Suspension of Payments" after reaching agreements with:

- Red Nacional de los Ferrocarriles Españoles ("RENFE"), the company's principal fiber provider in Spain, by which, through a framework agreement, the company decreased its lease commitments by EUR 75.8 million (Note 22) resulting in a gain of EUR 59.4 million (Note 8). In addition RENFE converted existing current receivables from LambdaNet España S.A. of EUR 7.5 million into a long-term interest bearing loan to the company (Note 14). As of December 31, 2003, the executing contracts on this framework agreement signed in 2003 have not yet been finalized. However the parties are applying the new arrangements agreed in the framework agreement since it is in force effective April 1, 2003. Management believes that the executing agreements will not materially differ from the framework agreement.

- LNG Holdings S.A. which forgave its loan receivable from LambdaNet España S.A. for an amount of EUR 33.5 million (Note 16).

- A third party, which purchased from LambdaNet España S.A. certain network equipment in exchange for wavelength capacity (Note 15) to be provided by such third party to LambdaNet España S.A. for a period of 3 years.

The business has experienced significant start-up losses and as of December 31, 2003 had an accumulated deficit of EUR 164.2 million and a working capital deficit of EUR 15.9 million. The Group operates in the rapidly evolving Internet services industry, which is subject to intense competition and rapid technological change, among other factors. The realization of the carrying amounts of the Group's assets and the classification of its liabilities is dependent on the success of future operations. The successful execution of the Group's business plan is dependent upon the Group's ability to increase the number of customers purchasing its services, its ability to increase its market share, the Group's ability to integrate its businesses into the operations of its new parent company (Note 24) 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 Group's network equipment, the Group's ability to retain and attract key employees and the Group's ability to manage its growth, among other factors. Although management believes that the Group will successfully mitigate these risks, management cannot give assurance that it will be able to do so or that the Group will ever operate profitably. The Group has obtained a commitment from its new shareholder, Cogent Communications Group Inc, to implement a business plan which, if successful, will not require additional funding. The business plan is dependant on selling certain non core assets and significantly reducing operating expenditures. If these targets are achieved, the presently available funding, including the additional financing received subsequent to year-end (Note 24), will be sufficient to continue to operate as a going concern for the next twelve months. These financial statements have been prepared assuming the Company will continue as a going concern. As described above, the Company has incurred recurring operating losses and negative cash flows from operating activities and has a working capital deficit at December 31, 2003 which raise substantial doubt about its ability to continue as a going concern. Although management has developed a plan which significantly reduces operating expenses and results in the sale of noncore assets as described above, there can be no assurance that the implementation of this plan will be successful. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

NOTE 2   SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with generally accepted accounting principles in the United States ("US GAAP").

The Group operates in one reportable industry segment, telecommunication services, throughout selected countries in Europe.

The consolidated financial statements are prepared in accordance with the following significant consolidation and accounting policies:

a) Use of estimates

The preparation of the financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Specifically, management has used certain significant assumptions to determine the carrying amounts of impaired assets, recoverability of deferred tax assets and accounts receivable reserves. Actual results could differ from those estimates.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries ("Group companies"). All significant intercompany transactions and balances have been eliminated in the consolidation. When cumulative losses applicable to minority interests exceed the minority's interest in the subsidiary's capital, the excess is charged against the majority interest and is not reflected as an asset except when the minority shareholders have a binding obligation to support such losses. Subsequent profits earned by the subsidiary under such circumstances that are applicable to the minority interests are allocated to the majority interest to the extent minority losses have been previously absorbed.

c) Cash equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents. The Group also considers all highly liquid temporary cash investments that are readily convertible into cash to be cash equivalents.

d) Property and equipment

Property and equipment, which includes capitalized leases, are stated at cost, net of depreciation. All repairs and maintenance expenditures are expensed as incurred. Significant costs incurred prior to completion of an asset are reflected as construction in progress in the accompanying consolidated balance sheets and recorded as property and equipment at the date each segment of the applicable system becomes operational.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and improvements	40 years or life of lease, if less
Networks	5 to 10 years
Other	2 to 7 years

Indefeasible right of use (IRU) assets, which qualify as capital leases, are amortized either over the term of the lease agreement or over a period of 15 years. If the IRU has qualified as a capital lease because the lease term is equal to 75% or more of the estimated economic life of the leased property or because the present value at the beginning of the lease term of the minimum lease payments equals or exceeds 90% of the fair value of the leased property the IRU is amortized over the term of the lease. If the IRU has qualified as a capital lease because the lease transfers ownership of the property to the Group by the end of the lease term or because the lease contains a bargain purchase option, the IRU is amortized over 15 years. Amortization on the capitalized IRU amounts is included in depreciation expense.

e) Intangible assets

Licenses

The Group operates in an industry that is subject to changes in competition, regulation, technology and subscriber base evolution. In addition, the terms of the licenses are subject to periodic review for, among other things, rate making, frequency allocation and technical standards. Licenses held, subject to certain conditions, are renewable and are generally non-exclusive. The Group does not currently expect any of the Group's operations to be required to cease due to license reviews and renewals. Under the terms of the respective licenses, the Group companies are entitled to offer their products (e.g. Wavelength, Transport capacity, Ip-Services) to all other telecommunication operators.

Licenses are obtained through acquisitions from third parties, by application to local telecommunications regulators and auctions. Licenses are recorded at cost and are amortized using the straight-line method over the life of the license. No account is taken of potential renewal periods. Amortization of the license starts generally when operations relating to that license have commenced.

Other intangible assets

Other intangible assets include software purchased from third party suppliers, which are amortized using the straight-line basis over periods of up to 5 years.

f) Revenue recognition

The Group records revenues for telecommunication services at the time of customer usage. Service discounts and incentives are accounted for as a reduction of revenues when granted.

Up-front activation and connection fees are deferred and recognized over the expected subscriber life. Incremental direct costs related to a specific contract or arrangement are deferred and amortized over the expected subscriber life to the extent of deferred revenues; any excess costs, up to a maximum of the net future contractual revenues, are amortized over the minimum contract period.

Exchanges of capacity under operating leases granted/received do not represent the culmination of an earnings process and therefore income from operating leases granted is netted against expenses incurred on operating lease received. The monetary component of the exchange, if any, is deferred and recognized through income ratably over the lease period.

g) Advertising costs

The Group has incurred no advertising costs for the years ended December 31, 2003 and 2002.

h) Income taxes

The Group companies are subject to taxation in the countries in which they operate. Corporate tax, including deferred taxation where appropriate, is applied at the applicable current rates on their taxable profits. Deferred income taxes are determined using the asset and liability method whereby the future expected consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements are recognized as deferred tax assets and liabilities. Deferred tax assets are recognized subject to a valuation allowance to reduce the balance to an amount, which is more likely than not to be realized.

i) Foreign currency translation

The functional currency of the Company and most of its subsidiaries is the euro ("EUR"). The functional currency of LambdaNet Communications Switzerland GmbH is the Swiss Franc.

In the financial statements of Group companies, transactions denominated in foreign currencies are recorded in local currency at the actual exchange rate existing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are reported at the exchange rates prevailing at year-end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the consolidated statements of operations.

For the purpose of consolidating subsidiaries that report in currencies other than the euro, assets and liabilities are translated using exchange rates on the respective balance sheet dates. Income and expense items are translated using the average rates of exchange for the periods involved. The resulting translation adjustments are recorded in stockholders' equity. Cumulative translation adjustments are recognized as income or expense upon disposal of operations.

The following is a table of the principal currency translation rates to the euro:

Country	Currency	2003 Average rate	2003 Period-end rate	2002 Average rate	2002 Period-end rate
Switzerland	Swiss Franc	0.66	0.64	0.68	0.69
United Kingdom	British Pound	1.45	1.42	1.59	1.53
USA	US Dollar	0.89	0.80	1.06	0.95

j) Concentration of credit risk

Financial instruments, which potentially subject the Group to concentrations of credit risk, are primarily cash and cash equivalents, restricted cash, and accounts receivable. The counter parties to the agreements relating to the Group's cash and cash equivalents and restricted cash are well established financial institutions. Accordingly, management does not believe there is a significant risk of non-performance by these counter parties. Accounts receivable are derived from the provision of telecom services to a large number of customers in Europe, including businesses as well as local telecommunications companies and management believes that the related concentration of credit risk is therefore limited. The Group maintains an allowance for doubtful accounts based upon the expected collectibility of all trade accounts receivable (note 5).

k) Leases

Operating lease payments are charged to earnings on a straight-line basis over the life of the lease. Assets held under capital leases are recorded on the balance sheet at the lower of the fair value of the leased asset or the present value of the guaranteed future minimum payments and depreciated over the shorter of the life of the lease or the life of the asset, except for IRUs (note 2d). The related liability is included in debt and the implied interest charge is allocated to the statement of operations in order to give a constant rate of charge on the capital obligation outstanding.

l) Impairment of long-lived assets

The recoverability of the Group's long-lived assets, including its intangible assets, is subject to the future performance of the Group's operations and the evolution of the business in accordance with its plans. In evaluating the recoverability of its assets, the value and future benefits of the Group's operations are periodically reviewed by management based on technological, regulatory and market conditions. In accordance with SFAS 144 long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If the carrying value of an asset exceeds the undiscounted future cash flows expected to be generated by that asset, an impairment loss is measured based on the difference between the estimated fair value and the carrying amount of the asset. Management's estimates of fair value are based on market prices of similar assets to the extent available under the circumstances and the result of valuation techniques; these include net present values of estimated future cash flows and valuations based on market transactions in similar circumstances. For new product launches where no comparable market information is available, management bases its view on recoverability primarily on cash flow forecasts. In addition to evaluation of possible impairment to the long-lived assets' carrying value, the foregoing analysis also evaluates the appropriateness of the estimated useful lives of the long-lived assets.

m) Deferred borrowing costs

Deferred costs comprise direct costs incurred with securing bank financing. These costs are capitalized and amortized over the life of the related financing.

n)

Asset retirement obligations

In accordance with SFAS 143 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 Group 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. That amount is recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of operations. The Group adopted SFAS 143 for its fiscal year ending December 31, 2003. Asset retirement obligations were previously accrued on a straight-line basis over the terms of the agreements.

o)

Financial instruments

The fair value of financial instruments classified as current assets or liabilities, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses approximate carrying value, principally because of the short maturity of these items. The carrying amounts of long-term debt and other financings approximate fair value due to their stated interest rates approximating market rates. Based upon the current borrowing rates available to the Group, estimated fair values of long-term debt approximate their recorded carrying amounts.

The fair values of capital lease obligations approximate carrying value based on their effective interest rates compared to current market rates.

p)

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board, ("FASB") issued SFAS 143, "Accounting for Asset Retirement Obligations," ("SFAS 143"). As disclosed under note 2n, the Group has adopted SFAS 143 effective January 1, 2003.

Effective January 1, 2003, the Company adopted SFAS 145, "Rescission of the Financial Accounting Standards Board Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" ("SFAS 145"), which eliminates the requirement to report material gains or losses from debt extinguishments as an extraordinary item, net of any applicable income tax effect, in an entity's statement of operations. SFAS 145 instead requires that a gain or loss recognized from a debt extinguishment be classified as an extraordinary item only when the extinguishment meets the criteria of both "unusual in nature" and "infrequent in occurrence" as prescribed under APB Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB No. 30"). Upon adopting SFAS 145, the Group reclassified a 2002 EUR 6.3 million gain from debt repurchases from extraordinary to recurring.

Effective January 1, 2003, the Company adopted SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), which requires that costs, including severance costs, associated with exit or disposal activities be recorded at their fair value when a liability has been incurred. Under previous guidance, certain exit costs, including severance costs, were accrued upon managements' commitment to an exit plan, which is generally before an actual liability has been incurred. The adoption of SFAS 146 did not have a material effect on the Group's consolidated financial statements.

In May 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," ("SFAS 149"), which amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after

June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Group's consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," ("SFAS 150"), which establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective beginning with the second quarter of fiscal 2003 and is not effective to non US SEC registrants until January 1, 2004. The Group does not believe that the adoption of SFAS 150 will have any effect on the Group's consolidated financial statements.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No.51, "Consolidated Financial Statements" ("FIN 46"). FIN 46 applies to any business enterprise that has a controlling interest, contractual relationship or other business relationship with a variable interest entity ("VIE") and establishes guidance for the consolidation of VIEs that function to support the activities of the primary beneficiary. In December 2003, the FASB completed its deliberations regarding the proposed modification to FIN 46 and issued Interpretation Number 46R, "Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51" ("FIN 46R"). The decision reached included a deferral of the effective date and provisions for additional scope exception for certain type of variable interests. Application of FIN 46R is required in financial statements of public entities that have interests in VIEs or potential VIEs commonly referred to as special-purpose entities for period ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Group does not believe that the adoption of FIN 46R will have any effect on the Group's consolidated financial statements.

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 the Group's 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 the Group's consolidated financial statements.

NOTE 3 GROUP COMPANIES

The companies included in the consolidated financial statements are the following:

Name of the Company	**Country**	**Holding as of Dec. 31, 2003**	**Holding as of Dec. 31, 2002**
		%	%
LambdaNet Communications (UK) Ltd.	United Kingdom	100	100
LambdaNet Communications France SAS	France	100	100
LambdaNet España S.A.	Spain	100	100
LambdaNet Communications Belgium Sprl (f.k.a. FirstMark Carrier Services Belgium Sprl)	Belgium	99	99
LambdaNet Communications Switzerland GmbH (f.k.a. FirstMark Carrier Services Switzerland GmbH	Switzerland	95	95
LambdaNet Communications Netherlands B.V. (f.k.a. FirstMark Carrier Services Netherlands B.V.)	The Netherlands	100	100

Below is a breakdown of revenues and long lived assets attributable to the Group's main regions:

	2003	2002
	EUR '000	EUR '000
French region:		
(including United Kingdom, Belgium, and the Netherlands)		
Revenues	15,324	9,540
Long lived assets	92,946	103,028
Spanish region:		
Revenues	8,166	13,260
Long lived assets	12,904	35,647

NOTE 4 PLEDGED DEPOSITS

The Group has pledged certain cash and cash equivalents for a total of EUR 1.2 million (2002: EUR 2.2 million) as guarantee deposits on certain rental properties.

NOTE 5 ACCOUNTS RECEIVABLE

Allowance for doubtful accounts comprises:

	2003	2002
	EUR '000	EUR '000
Balance as of January 1	845	227
Bad debt expense (net of recoveries)	288	618
Allowance for doubtful accounts	1,133	845

Management performs ongoing credit analyses of the accounts of its customers and provides allowances as deemed necessary. The Group's major customers for the years ended December 31, 2003 and 2002 are as follows:

	2003 % of Group revenues	2003 % of Group accounts receivable	2002 % of Group revenues	2002 % of Group accounts receivable
Customer A	11.64%	9.40%	0.00%	0.00%
Customer B	7.33%	0.27%	2.08%	0.00%
Customer C	7.31%	1.85%	3.49%	7.73%

The contract with customer A will terminate during 2004.

NOTE 6 OTHER ACCOUNTS RECEIVABLE

Other accounts receivable includes an amount of EUR 1.2 million (2002: EUR 3.5 million) representing value added taxes receivable and EUR 1.1 million (2002: EUR 0.2 million) representing other miscellaneous amounts receivable.

NOTE 7 MARKETABLE SECURITIES

On March 15, 2000, the Company was granted at no cost warrants to purchase 506,600 ordinary shares (originally 5,066 shares which were subsequently split at a ratio of 1 to 100) of Floware Wireless Systems Ltd. a company listed on the US Nasdaq since September 2000. The warrants were exercisable through March 2005, at a price of US$ 3.89 per share. In 2001 Floware Wireless Systems Ltd. ("Floware") merged into Breezecom Ltd. ("Breezecom"). Breezecom subsequently changed its name to

Alvarion Ltd. The Company exercised these warrants and subsequently sold the related securities in January 2004 (Note 24).

Marketable securities as of December 31, 2003 and 2002 are recorded at fair value which is based on quoted market prices and comprised the following:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
	EUR'000	EUR'000	EUR'000	EUR'000
2002				
Alvarion Ltd. (warrants)				
2003				
Alvarion Ltd. (warrants)		2,090		2,090

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2003 and 2002 comprise the following:

	2003	2002
	EUR ''000	EUR ''000
Network	57,363	69,706
Indefeasible right of use in networks	53,118	84,664
Property & Leasehold investments	24,201	23,861
Furniture, fixtures and office equipment	1,181	1,208
Construction in progress		312
Other	3,188	3,197
	139,051	182,948
Less:		
Accumulated depreciation	(33,925)	(45,384)
Property and equipment, net	105,126	137,564
Cost of leased assets included in the above	53,118	84,664

The depreciation charge for the year ended December 31, 2003 was EUR 14.4 million (2002: EUR 27.0 million). As of December 31, 2003, and 2002 no interest has been capitalized.

In 2002, following the under-performance of certain networks and network equipment and the deterioration of market conditions, the Group evaluated the recoverability of its assets and identified an impairment. To measure the impairment, the Group determined the fair value of the assets based on discounted future cash flows and recorded an impairment for a total amount of EUR 112.1 million (Note 18), as follows:

Network:	47.9 million
Indefeasible right of use in networks:	64.2 million

NOTE 9 INTANGIBLE ASSETS

Intangible assets at December 31, 2003 and 2002 comprise the following:

	2003	2002
	EUR "000	EUR "000
Licenses	1,274	1,274
Other	395	395
	1,669	1,669
Less:		
Accumulated amortization	(945)	(558)
Intangible, net	724	1,111

a) Licenses

This caption includes telecommunication licenses obtained in France, Spain and the United Kingdom amounting to EUR 1.3 million (2002: EUR 1.3 million).

b) Amortization

The amortization charge for intangible assets for the year ended December 31, 2003 amounts to EUR 0.4 million (2002: EUR 0.4 million). Intangible assets are being amortized over periods up to 25 years.

Estimated amortization expense for the next five years is as follows:

	EUR '000
For the year ending December 31, 2004	268
2005	112
2006	60
2007	28
2008	28

NOTE 10 STOCKHOLDERS' EQUITY

a) Share capital

On March 31, 2000, the Company was incorporated with a share capital of EUR 12,500 represented by 125 shares of EUR 100 each.

b) Legal Reserve

On an annual basis, if the Company reports a net profit for the year, Luxembourg Law requires appropriation of an amount equal to at least 5% of the annual net income to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distributions.

NOTE 11 OTHER ACCOUNTS PAYABLE

Other accounts payable consist of the following as of December 31, 2003 and 2002:

	2003	2002
	EUR '000	EUR '000
Wages and bonuses payable	47	69
Value added taxes payable	1,337	775
Other tax payable		51
	1,384	895

NOTE 12 ACCRUED LIABILITIES

Accrued liabilities consist of the following as of December 31, 2003 and 2002:

	2003	2002
	EUR '000	EUR '000
Accrued expenses	2,469	8,240
Accrued tenancy expenses		43
	2,469	8,283

In 2002, accrued tenancy expenses include estimated costs for removing installations at points of presence under tenancy agreements. Following the adoption of SFAS 143 as of January 1, 2003, the amount for 2003 is disclosed under note 13.

NOTE 13 ASSET RETIREMENT OBLIGATIONS

The Group is providing for asset retirement obligations for the points of presence of its networks. Such obligations have been determined using expected present value methods. The movements in the asset retirement obligations were as follows:

	2003	Pro-forma 2002
	EUR '000	EUR '000
Obligations as of January 1	933	890
Accretion expense	44	43
Obligations as of December 31	977	933
Represented by		
Obligations due within one year	292	
Obligations due after one year	685	933

NOTE 14 DEBT AND FINANCING

As of December 31, 2003 and 2002, the Group had issued the following debt and financing instruments:

	2003	2002
	EUR '000	EUR '000
Due within one year:		
Capitalized lease obligations due within one year	2,875	3,229
Total debt due within one year	2,875	3,229
Due after one year:		
Notes payable to RENFE	7,870	
Capitalized lease obligations due after one year	30,713	108,433
Total debt due after one year	38,583	108,433

a)

Significant debt and financing arrangements

The main Group financing outstanding as of December 31, 2003 and 2002 consists of the following:

RENFE Note payable

In August 2000, LambdaNet España S.A. entered into a contract with Red Nacional de los Ferrocarriles Españoles (RENFE), pursuant to which RENFE agreed to lease to the company two fiber lines and lease space for equipment along approximately 7,500 km of its fiber optic network in Spain for a total commitment of EUR 160.5 million for an initial term of 12 years.

As discussed under note 1, in 2003 LambdaNet España S.A. renegotiated the agreement with RENFE which decreased the lease obligations by EUR 75.8 million and the related IRU's were downsized from 7,500 km to 2,078 km. As such assets were partly impaired (Note 8) in 2002, a gain of EUR 59.4 million has been recorded in 2003.In addition, the parties renegotiated the terms of the outstanding debt existing as of March 31, 2003 amounting to EUR 10.8 million which was repaid in cash (EUR 3.3 million) with the remaining balance (EUR 7.5 million) which was converted into a long-term loan. The new loan has a term of 12 years and bears interest at a rate of 5% with a two year grace period and is repayable in 40 equal installments. The first installment is due in 2005.

Nortel Facility

In January 2001, the Group entered into a Term Loan Facility ("Term Loan Facility") with Nortel Networks Inc. ("Nortel") for a total amount of EUR 130.0 million, repayable in full on June 30, 2002. LambdaNet Communications France SAS and LambdaNet España S.A. have used the Term Loan Facility exclusively for the purchase of network equipment. Advances under the Term Loan Facility bore interest at a floating interest rate at EURIBOR plus 3.50% increasing to 5.50% over the term of the Term Loan Facility. Interest payments are payable periodically from the date of the relevant advance.

In 2002, LNG Holdings S.A., the Parent Company, signed a term sheet agreement with Nortel to settle the Term Loan Facility as follows:

All rights and obligations under the Term Loan Facility were transferred to LNG Holdings S.A.

LNG Holdings S.A. made a payment to Nortel of EUR 12.0 million to cover a portion of outstanding principal.

LNG Holdings S.A. issued to Nortel an Unsecured Loan Note (the "Loan Note") of EUR 5.0 million. The Loan Note has a maturity of 5 years. Interest accrues at 7.5% per annum.

LNG Holdings S.A. issued to Nortel 6,000 shares of Series F mandatorily redeemable convertible preferred stock having the same rights.

Nortel cancelled certain invoices issued to LambdaNet España S.A. and LambdaNet Communications France SAS for a total amount of EUR 6.3 million which have been recorded as gain on debt extinguishments during the year 2002.

Deferred borrowing costs under the Nortel Facility comprise as follows:

	2003	2002
	EUR '000	EUR '000
Deferred borrowing costs		652
Less:		
Accumulated amortization		(652)

The amortization is included in the caption interest expense and amounts to EUR 0.6 million for the year ended December 31, 2002. The deferred borrowing costs were fully amortized at the time the Nortel Facility was extinguished.

Capital lease obligations

Capital lease obligations are disclosed in note 22.

b) Analysis of debt and other financing by maturity:

The total amounts contractually repayable at December 31, 2003 and 2002 are as follows:

	2003	2002
	EUR '000	EUR '000
Due within: 1 year	2,875	3,229
1 2 years	3,686	3,503
2 3 years	3,895	3,810
3 4 years	4,234	4,159
4 5 years	2,170	4,658
Due after 5 years	24,598	92,303
	41,458	**111,662**
Of which capital lease Obligations	33,588	111,662

The total interest charge under these loans for the year is EUR 3.5 million (2002: EUR 16.6 million). No interest has been capitalized during 2002 or 2003.

Interest is imputed on the Group's capital lease obligations using the lesser of the implicit rate of the lease as computed by the lessor, or the Group Company's incremental borrowing rate. For the capital leases already in place, an incremental borrowing rate in a range between 12% and 13% has been used to impute interest.

NOTE 15 NON MONETARY TRANSACTIONS

In 2002, LambdaNet España S.A. entered into an exchange of capacity with a third party for an initial period of 10 years through separate agreements. Both agreements in the exchange transaction are operating leases. The minimum lease payments to be made by the company amounted to EUR 10.0 million and the minimum lease payments to be received amounted to EUR 11.0 million. Amounts payable and receivable under these agreements have been offset.

As this exchange of capacity does not represent the culmination of an earnings process, the amount received from the lease has been netted against the amount paid for the lease and the difference of EUR 1.0 million is recorded as deferred income and amortized ratably over the lease period. LambdaNet España S.A. has recognized EUR 0.1 million though revenues for the year ended December 31, 2002 and the remaining deferred income of approximately EUR 0.9 million was recognized in 2003 when the customer cancelled the related contract.

In 2003 (Note 1), LambdaNet España S.A. entered into a non-monetary agreement with a third party by which:

LambdaNet España S.A. sold to the third party network equipment, having a net book value of EUR 1 million, for a selling price of EUR 1.5 million.

The third party provides capacity to LambdaNet España S.A. over a period of 3 years, having a contractual value of EUR 2.1 million.

LambdaNet España S.A. provides capacity to the third party for 3 years for a contractual value of EUR 0.6 million.

As the fair value of the assets and services transferred is not determinable, the accounting for the transaction has been based on the net book value of the network equipment disposed of by LambdaNet España S.A. such that no gain or loss has been recognised on the disposal of the assets. The services granted by the third party have been recorded net of the exchange of services provided by LambdaNet España S.A. for an amount corresponding to the net book value of the network equipment transferred, of EUR 1.0 million. Such amount is recorded as prepaid expense and released through the statement of operations over the 3 year period of the contract.

NOTE 16 RELATED PARTY TRANSACTIONS

Operating and administrative services with related parties

Related party balances as of December 31, 2003 include trade accounts receivable amounting to EUR 0.1 million from affiliated companies with which the Group exchanges services (2002: EUR 1.5 million).

As of December 31, 2003 related party trade payables amount to EUR 7.8 million (2002: EUR 1.3 million).

During 2003, the Group recognized EUR 1.9 million as revenue from affiliated companies resulting from affiliated companies' use of the Group's network (2002: EUR 0.9 million). During 2003, the Group recognized EUR 3.8 million (2002: EUR 0.3 million) as cost of revenues for the utilization by its customers of networks operated by affiliated companies.

During 2003, the Group incurred EUR 3.2 million for general and administrative services provided by affiliated companies (2002: EUR 4.5 million). In February 2004, LambdaNet Communications GmbH ("LambdaNet Germany"), a subsidiary of the Parent Company of the Group filed for insolvency with the Court of Hannover (Germany). Considering the situation of LambdaNet Germany, the Group does not believe it will recover its EUR 1.0 million due from LamdaNet Germany, and has recorded a full allowance for such receivable, under the caption "Costs from affiliated companies". Management does not believe that the filing for insolvency of LambdaNet Germany will significantly impact the Group's business.

Related party financing

The Parent Company provided the following financing to the Group:

	2003	2002
	EUR '000	EUR '000
Interest free loan with no maturity	181,685	167,017
Interest bearing loan with no maturity (including accrued interest)	34,370	67,498
	216,055	234,515

The interest charge on these loans amounted to EUR 3.7 million for the year ended December 31, 2003 (2002: EUR 3.6 million). The interest rate used for 2003: 7.83% (2002: between 6.79% and 9.77%).

In June 2003, considering the financial situation of LambdaNet España S.A. ("the suspension of payments") and in order to facilitate the reorganization of its activities, LNG Holdings S.A. decided to cancel EUR 33.5 million of its loan outstanding towards LambdaNet España S.A. This resulted in a gain of EUR 33.5 million for the year 2003.

In July 2003, LNG Holdings S.A. repurchased for EUR 0.3 million debts belonging to LambdaNet España S.A.. These debts had a face value of EUR 0.6 million. As a result of this transaction, LambdaNet España S.A. realized a gain of EUR 0.3 million as partial extinguishment of debt.

NOTE 17 PERSONNEL CHARGES

Personnel charges consist of the following for the years ended December 31, 2003 and 2002:

	2003	2002
	EUR '000	EUR '000
Wages and salaries	5,960	7,457
Social charges	2,196	2,048
Other personnel charges	156	1
	8,312	9,506

The average number of permanent employees during 2003 was 89 (2002: 115).

The Group does not have any pension or post retirement plan arrangements.

NOTE 18 IMPAIRMENT OF ASSETS

2002

As disclosed in note 8, the Group wrote down network assets for a total amount of EUR 112.1 million in 2002.

2003

In 2003, the Group wrote down an additional EUR 1.7 million corresponding to network equipment amounting to EUR 1.5 million and assets under construction amounting to EUR 0.2 million.

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NOTE 19 GAIN AND LOSS ON DISPOSAL OF ASSETS

In 2003, LambdaNet España S.A. disposed of points of presence generating a loss of EUR 1.2 million.

NOTE 20 TAXES

The tax effects of significant items comprising the Group's net deferred income tax asset/liability as of December 31, 2003 and 2002 are as follows:

	2003	2002
	EUR '000	EUR '000
Net operating and other loss carry forward	87,199	37,425
Difference between book and tax basis of assets and liabilities		39,200
Total deferred income tax assets	87,199	76,625
Valuation allowance	(57,922)	(76,476)
Deferred income tax assets, net of allowance	29,277	149
Deferred income tax liabilities:		
Difference between book and tax basis of assets and liabilities	(29,277)	(149)
Net deferred income tax asset (liability)		

Losses (profits) before income taxes in the year consisted of:

	2003	2002
	EUR '000	EUR '000
Luxembourg	262	675
Other jurisdictions	(60,655)	162,957
	(60,393)	163,632

Net operating and other loss carry forwards have expiration periods depending on their jurisdiction as follows:

	2003	2002
	EUR '000	EUR '000
Between one and five years	23,935	51,340
Between six and ten years	48	45
Unlimited period	251,384	56,590
Total	275,367	107,975

For tax purposes, EUR 275.4 million (2002 : 108.0 million) of these net operating and other loss carry forwards are not anticipated to be used within expiry periods.

Realization of the Company's deferred tax asset is dependent on the ability of the Company and its subsidiaries to generate sufficient taxable income to utilize reversing temporary differences and carry forwards within the carry forward periods or in the near future.

The operations incurring losses operate in tax jurisdictions with rates ranging from 29% to 35%. There are no profitable operations and no undistributed earnings as of December 31, 2002 and 2003.

A reconciliation between the statutory rate and the effective tax rate is as follows:

	2003	2002
	%	%
Statutory tax rate	30.38	30.38
Effect of tax rates in foreign jurisdictions	1.29	4.28
Effect of valuation allowance	(31.67)	(34.66)
Effective tax rate	0.00	0.00

NOTE 21 SUPPLEMENTAL CASH FLOW INFORMATION

The table below provides supplemental information to the consolidated statement of cash flows:

	2003	2002
	EUR '000	EUR '000
Cash paid for interest	2,888	3,631
Cash paid for income taxes		
Supplemental schedule of non-cash investing and financing activities:		
Capital lease obligations incurred for the purchase of new equipment		881
Unrealized gain on marketable securities	2,090	
Non-cash debt extinguishment	33,500	
Non-cash reduction of finance lease obligations	75,801	20,245
Non-cash disposal of fixed assets	18,605	
Conversion of accounts payable to long-term debt	7,870	
Asset retirement costs capitalized (net)	527	

NOTE 22 LEASES

The Group leases certain network capacity, office space, equipment, vehicles and operating facilities under non-cancelable operating leases. Certain leases contain renewal options and some leases for office space have contingent rental increases. IRUs accounted as capital leases are described below:

RENFE

In August 2000, LambdaNet España S.A. entered into a contract with Red Nacional de los Ferrocarriles Españoles (RENFE), pursuant to which RENFE agreed to lease to the company two fiber lines and lease space for equipment along approximately 7,500 km of its fiber optic network in Spain for a total commitment of EUR 160.5 million. The initial term of the lease was for 12 years from the date on which the last section of fiber is delivered, which may be extended for two successive terms of 3 and 5 years, respectively. This agreement is accounted for as a capital lease.

In 2002, LambdaNet España S.A. modified its agreement with RENFE, which among other things decreased its total remaining commitment to EUR 123.8 million as of January 1, 2002. This agreement has been accounted for as a capital lease.

In 2003 (note 1), LambdaNet España S.A. renegociated the agreement with RENFE as follows:

The MAN network was transferred back to RENFE without penalty. This resulted in a downsizing of the existing fiber network from 7,500 kilometres to 2,078 kilometres.

LambdaNet España S.A. sold some related infrastructure assets to a third party.

The terms of the related outstanding debt existing as of March 31, 2003 was renegotiated. The new agreement includes an annual repayment of EUR 2.4 million and is valid for 14 years starting March 31, 2003.

Louis Dreyfus Communications S.A.

In April 2000, LambdaNet Communications France SAS entered into an agreement with Louis Dreyfus Communications S.A. to lease two pairs of dark optical fibers over 4,827 km for a period of 20 years from the date of delivery for a total commitment of EUR 42.1 million. This agreement is accounted for as a capital lease.

In April and July 2001, LambdaNet Communications France SAS and Louis Dreyfus Communications S.A. entered into amendments to the original IRU contract relating to the development of LambdaNet Communications France SAS' dark fiber network. Pursuant to the amendments, among other things, the aggregate contract price was amended to EUR 46.0 million and the payment schedule has been postponed. However, the present value of the future minimum lease payments did not change.

Telia International Carrier

In October 2000, the Company entered into a framework agreement with Telia International Carrier GmbH ("Telia"). Under this agreement, the Company obtained the right to use Telia's light wave conductors based on respective individual agreements with the Group companies. The agreement is for an indefinite period and can be cancelled at each year-end starting from December 31, 2012.

Following the framework agreement the Company entered into individual agreements, which are accounted for as capital leases.

Future minimum lease payments under scheduled capital and operating leases that have initial or remaining non-cancelable terms in excess of one year are as follows:

	Capital leases	Operating leases
2004	6,900	3,051
2005	6,696	2,999
2006	6,496	2,931
2007	6,300	2,730
2008 and thereafter	36,597	10,415
Total minimum lease payments	62,989	22,126
Less:		
Amount representing interest	(29,401)	
Lease obligations	33,588	
Represented by:		
Obligations under capital leases due within one year	2,875	
Obligations under capital leases due after one year	30,713	
	33,588	
Gross amount of assets recorded under capital leases	53,118	
Accumulated amortization of capital lease amounts	(8,006)	

Operating lease expense of EUR 4.7 million was recorded in 2003 (2002: EUR 6.3 million).

NOTE 23 COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are contingently liable with respect to lawsuits and other matters that arise in the normal course of business. Management is of the opinion that while it is impossible to ascertain the ultimate legal and financial liability with respect to these contingencies, the ultimate outcome of these contingencies is not anticipated to have a material effect on the Group's financial position and operations.

The Group has contracted service and maintenance agreements with Nortel. Under these agreements, the Group has total commitment to Nortel of EUR 3.5 million for rendering services over the next 2 years. The Group has commitments under other service agreement totaling EUR 0.6 million over the next twelve months.

NOTE 24 SUBSEQUENT EVENTS

Merger with Cogent Communications Group, Inc.

In November 2003, Symposium Inc. ("Symposium") a Delaware corporation became the new major stockholder of LNG Holdings S.A., the Company's then parent company.

In January 2004, LNG Holdings, S.A. transferred its interest (including debt) in the Company and its subsidiaries to Symposium Gamma, Inc. ("Gamma"), a Delaware corporation. Prior to the transfer, Gamma had raised approximately EUR 2.1 million (USD 2.6 million) in a private equity transaction.

In January 2004, Gamma merged with a subsidiary of Cogent Communications Group, Inc. ("Cogent"). Cogent is headquartered in Washington, DC. and is a facilities-based Internet Services Provider ("ISP"), providing Internet access to businesses in over 30 major metropolitan areas in the United States and in Toronto, Canada. Under the merger agreement all of the issued and outstanding shares of Gamma common stock were converted into 2,575 shares of Cogent's Series I convertible participating preferred stock and Cogent became the Company's sole shareholder. Cogent plans to continue to support the Company's product suite including point-to-point transport and transit services in over 40 markets and almost 30 data centers across Europe. Cogent also intends to introduce in Europe a new set of products and services based on Cogent's current North American product set.

Loan from Symposium Gamma

After LNG Holdings S.A. ("the Parent Company") transferred its interest in the Company and its subsidiaries to Symposium Gamma, Inc ("Gamma"), Gamma loaned approximately EUR 2.1 million (USD 2.6 million) to the Company's subsidiary in France.

Sale of Loans from Stockholders and Amounts due from Related Parties

In January 2004, the Company's total debt of EUR 194.5 million owed to its previous parent LNG Holdings S.A., was assigned to Symposium Gamma, Inc. ("Gamma") at its fair market value of EUR 1. In order to stabilize the financial condition of the Company, Cogent will not require the repayment of this obligation before March 31, 2005. Such obligation will not bear interest. Additionally, at December 31, 2003, the Company's subsidiaries in France and Spain had obligations due to LNG Holdings S.A. and LambdaNet Communications AG totaling EUR 15.8 million and EUR 13.5 million respectively. These amounts were also assigned to Symposium Gamma, Inc. ("Gamma") at their fair market values of EUR 1. In order to stabilize the financial condition of these companies, Cogent will not require the repayment of these obligations before March 31, 2005. Such obligations will not bear interest.

Sale of Alvarion Ltd.

In January 2004, the Group exercised its Alvarion warrants (Note 7) and sold the related securities generating a total gain of EUR 2.8 million.

Short-term loan from Cogent

In the beginning of 2004, the Company's subsidiaries in France and Spain borrowed approximately EUR 2.5 million from Cogent. Part of this amount (EUR 1.1 million) was repaid in February 2004.

Filing for insolvency LambdaNet Germany

In February 2004, LambdaNet Communications AG ("LambdaNet Germany), a subsidiary of LNG Holdings S.A., the Parent Company of the Group, filed for insolvency with the Court of Hannover (Germany) (Note 16). Management does not believe that the filing for insolvency of LambdaNet Germany will impact significantly the Group's business.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Director and Stockholder of
Allied Riser Communications Corporation:

We have audited the accompanying consolidated balance sheets of Allied Riser Communications Corporation (a Delaware corporation) and subsidiaries (the "Company") (Note 1) as of December 31, 2001 and 2000, and the related consolidated statements of income (loss), shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Allied Riser Communications Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,
February 22, 2002 (except with respect
to the matters discussed in Notes 15 and 16,
as to which the dates are March 27, 2002
and April 30, 2002, respectively)

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2001 AND 2000
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	2001	2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,361	$ 29,455
Short-term investments	42,711	212,107
Accounts receivable, net of reserve of $1,452 and $196 in 2001 and 2000, respectively	859	3,912
Prepaid expenses and other current assets	1,765	5,606
Total current assets	80,696	251,080
PROPERTY AND EQUIPMENT, net	25,916	182,442
REAL ESTATE ACCESS RIGHTS, net of accumulated amortization of $491 and $16,003 in 2001 and 2000, respectively	8,286	133,003
GOODWILL AND OTHER INTANGIBLE ASSETS, net of accumulated amortization of $0 and $2,592 in 2001 and 2000, respectively		12,118
OTHER ASSETS, net	8,069	11,060
Total assets	$ 122,967	$ 589,703
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,613	$ 17,904
Accrued liabilities	12,946	21,037
Current maturities of capital lease obligations	1,193	32,229
Current maturities of debt	614	713
Total current liabilities	18,366	71,883
CAPITAL LEASE OBLIGATIONS, net of current maturities	1,506	41,290
LONG-TERM LIABILITIES:		
Long-term debt, net of current maturities	564	
Convertible notes (7.5% interest payable in stock or cash)	116,980	150,000
Total liabilities	137,416	263,173
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock, $.0001 par value, 1,000,000,000 shares authorized, 61,994,000 and 58,561,000 outstanding as of December 31, 2001 and 2000, respectively (net of 1,899,000 and 675,000 treasury shares, respectively)	6	6
Additional paid-in capital	508,963	460,137
Warrants, authorizing the issuance of 4,246,000 and 7,377,000 shares as of December 31, 2001 and 2000, respectively	71,127	127,846
Deferred compensation	(274)	(13,501)
Accumulated other comprehensive income (loss)	(893)	(547)
Accumulated deficit	(593,378)	(247,411)
Total stockholders' (deficit) equity	(14,449)	326,530

	2001	2000
Total liabilities and stockholders' equity	$ 122,967	$ 589,703

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

ALLIED RISER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	2001	2000	1999
REVENUE:			
Network services	$ 19,998	$ 10,969	$ 1,422
Value added services	5,754	3,363	448
Total revenue	25,752	14,332	1,870
OPERATING EXPENSES:			
Network operations (including $513, $576, and $1,071 amortization of deferred compensation, respectively)	62,194	43,965	8,625
Cost of value added services	4,126	2,356	128
Selling expenses (including $1,486, $2,432, and $1,021 amortization of deferred compensation, respectively)	19,264	46,967	10,317
General and administrative expenses (including $2,073, $6,410, and $12,589 amortization of deferred compensation, respectively)	47,895	67,173	38,570
Depreciation and amortization	39,527	36,155	5,007
Asset write-down (Note 3)	262,336		
Gain on settlement of capital lease obligations (Note 8)	(47,752)		