

COGENT COMMUNICATIONS GROUP INC
Form 10-K
March 02, 2009

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from _____ to _____
Commission file number 1-31227

COGENT COMMUNICATIONS GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

52-2337274
(I.R.S. Employer
Identification No.)

1015 31st Street N.W.
Washington, D.C.
(Address of Principal Executive Offices)

20007
(Zip Code)

(202) 295-4200

Registrant's Telephone Number, Including Area Code

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value \$0.001 per share

Securities registered pursuant to Section 12(g) of the Act:
None

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the issuer's common stock, par value \$0.001 per share, as of February 20, 2009 was 44,341,898.

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of \$13.40 per share on June 30, 2008 as reported by the NASDAQ Global Select Market was approximately \$569 million.

Table of Contents

**COGENT COMMUNICATIONS GROUP, INC.
FORM 10-K ANNUAL REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

	Page
Part I Financial Information	
<u>Item 1 Business</u>	<u>3</u>
<u>Item 1A Risk Factors</u>	<u>9</u>
<u>Item 2 Description of Properties</u>	<u>18</u>
<u>Item 3 Legal Proceedings</u>	<u>18</u>
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	<u>18</u>
Part II Other Information	
<u>Item 5 Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>19</u>
<u>Item 6 Selected Consolidated Financial Data</u>	<u>22</u>
<u>Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 7A Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 8 Financial Statements and Supplementary Data</u>	<u>38</u>
<u>Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>64</u>
<u>Item 9A Controls and Procedures</u>	<u>64</u>
<u>Item 9B Other Information</u>	<u>67</u>
Part III	
<u>Item 10 Directors and Executive Officers of the Registrant</u>	<u>67</u>
<u>Item 11 Executive Compensation</u>	<u>67</u>
<u>Item 12 Security Ownership of Certain Beneficial Owners and Management</u>	<u>67</u>
<u>Item 13 Certain Relationships and Related Transactions</u>	<u>67</u>
<u>Item 14 Principal Accountant Fees and Services</u>	<u>67</u>
Part IV	
<u>Item 15 Exhibits and Financial Statement Schedules</u>	<u>67</u>
<u>Signatures</u>	<u>73</u>

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2009 annual shareholders meeting are incorporated by reference in Part III of this Form 10-K.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future results and events. You can identify these forward-looking statements by our use of words such as "anticipates," "believes," "continues," "expects," "intends," "likely," "may," "opportunity," "plans," "potential," "project," "will," and similar expressions to identify forward-looking statements, whether in the negative or the affirmative. We cannot guarantee that we actually will achieve these plans, intentions or expectations. These forward-looking statements are subject to risks, uncertainties and other factors, some of which are beyond our control, which could cause actual results to differ materially from those forecasts or anticipated in such forward-looking statements.

You should not place undue reliance on these forward-looking statements, which reflect our view only as of the date of this report. We undertake no obligation to update these statements or publicly release the result of any revisions to these statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and Internet Protocol, or IP, communications services. Our network is specifically designed and optimized to transmit data using IP. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 17,800 customer connections in North America and Europe.

Our primary on-net service is Internet access at a speed of 100 Megabits per second, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. Our typical customers in multi-tenant office buildings are law firms, financial services firms, advertising and marketing firms and other professional services businesses. We also provide on-net Internet access to certain bandwidth-intensive users such as universities, other ISPs and commercial content providers at speeds of up to ten Gigabits per second. For the years ended December 31, 2006, 2007 and 2008, our on-net customers generated 70.6%, 79.0% and 81.7%, respectively, of our total net service revenue.

In addition to providing our on-net services, we also provide Internet connectivity to customers that are not located in buildings directly connected to our network. We serve these off-net customers using other carriers' facilities to provide the "last mile" portion of the link from our customers' premises to our network. For the years ended December 31, 2006, 2007 and 2008, our off-net customers generated 23.1%, 17.3%, and 16.1%, respectively, of our total net service revenue.

Non-core services are those services we acquired and continue to support but do not actively sell. For the years ended December 31, 2006, 2007 and 2008, non-core services generated 6.3%, 3.7% and 2.2%, respectively, of our total net service revenue.

We also operate 36 data centers comprising over 340,000 square feet throughout North America and Europe that allow customers to co-locate their equipment and access our network.

Competitive Advantages

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

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

Independent Network. Our on-net service does not rely on infrastructure controlled by local incumbent telephone companies. 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 ten days.

High Quality, Reliable Service. We are able to offer high-quality Internet service due to our network, which was designed solely to transmit IP data, and dedicated intra-city bandwidth for each

Table of Contents

customer. This design increases the speed and throughput of our network and reduces the number of data packets dropped during transmission.

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

Experienced Management Team. Our senior management team is composed of seasoned executives with extensive expertise in the telecommunications industry as well as knowledge of the markets in which we operate. The members of our senior management team have an average of over 20 years of experience in the telecommunications industry. Our senior management team has designed and built our network and led the integration of our network assets, customers and service offerings we acquired through 13 acquisitions.

Convergence. There is a clear industry and market trend for legacy products (e.g., TDM voice, Private Line, Frame Relay, and Asynchronous Transfer Mode) to be replaced with IP based services. Many of our competitors will have to migrate their existing customers and products to IP. This migration can be costly, lengthy, and risky. We do not face this challenge because our network and products are IP.

Our Strategy

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

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

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

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

Our Network

Our network is comprised of in-building riser facilities, metropolitan optical networks, metropolitan traffic aggregation points and inter-city transport facilities. We believe that we deliver a high level of technical performance because our network is optimized for IP traffic. We believe that our network is more reliable and delivers IP traffic at lower cost than networks built as overlays to traditional circuit-switched telephone networks.

Our network serves 135 metropolitan markets in North America and Europe and encompasses:

over 950 multi-tenant office buildings strategically located in commercial business districts;

over 360 carrier-neutral Internet aggregation facilities, data centers and single-tenant buildings;

Table of Contents

over 285 intra-city networks consisting of over 12,000 fiber miles;

an inter-city network of more than 32,100 fiber route miles; and

multiple high-capacity transatlantic circuits connecting the North American and European portions of our network.

We have created our network by acquiring optical fiber from carriers with large amounts of unused fiber and directly connecting Internet routers to our existing optical fiber national backbone. We have expanded our network through key acquisitions of financially distressed companies or their assets at a significant discount to their original cost. Due to our network design and acquisition strategy, we believe we are positioned to grow our revenue and increase profitability with limited incremental capital expenditures. We expect our 2009 capital expenditure rate to be similar to the rate we experienced in 2008.

Inter-city Networks

Our inter-city network consists of optical fiber connecting major cities in North America and Europe. The North American and European portions of our network are connected by transatlantic circuits. Our network was built by acquiring from various owners of fiber optic networks the right to use one or two strands of optical fiber out of the multiple fibers owned by the carrier. We have installed the optical and electronic equipment necessary to amplify, regenerate, and route the optical signals along these networks. We have the right to use the fiber under long term agreements. We pay these providers fees for the maintenance of the optical fiber and provide our own equipment maintenance.

Intra-city Networks

In each metropolitan area in which we provide high-speed on-net Internet access service, our backbone network is connected to a router connected to one or more of our metropolitan optical networks. We create our intra-city networks by obtaining the right to use optical fiber from carriers with optical fiber networks in those cities. These metropolitan networks consist of optical fiber that runs from the central router in a market into routers located in our on-net buildings. In most cases 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.

Within the cities where we offer off-net Internet access service, we lease circuits 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-Building Networks

In office buildings where we provide service to multiple tenants we connect our routers to a cable containing 12 to 288 optical fiber strands that typically run from our equipment in 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. We believe that Ethernet is the lowest cost network connection technology and is used almost universally for the local area networks that businesses operate.

Table of Contents*Internetworking*

The Internet is an aggregation of interconnected networks. We have settlement free interconnections between our network and most major and hundreds of smaller Internet Service Providers, or ISPs, at approximately 70 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 customers of other ISPs. We are considered a Tier 1 ISP and, as a result, we have settlement-free peering arrangements with most other providers. This allows us to exchange traffic with those ISPs without payment by either party. In such arrangements, each party exchanging traffic bears its own cost of delivering traffic to the point at which it is handed off to the other party. We also engage in public peering arrangements in which each party also pays a fee to the owner of routing equipment that operates as the central exchange for all the participants. We do not treat our settlement-free peering arrangements as generating revenue or expense related to the traffic exchanged. However, we charge customers representing approximately 2,300 networks for transit services across our network and we sell this service at approximately 400 locations.

Network Management and Control

Our primary network operations centers are located in Washington, D.C. and Madrid, Spain. 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 intra-city and long-haul networks, we have deployed field engineers across North America and Europe. In addition, we have maintenance contracts with third party vendors that specialize in optical and routed networks.

Our Services

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

The table below shows our primary service offerings:

On-Net Services	Bandwidth (Mbps)
Fiber500	0.5
Two Meg	2.0
Fast Ethernet	100
Gigabit Ethernet	1,000
10 Gigabit Ethernet	10,000
Colocation with Internet Access	2 to 10,000
Point-to-Point	1.5 to 10,000

Off-Net Services	Bandwidth (Mbps)
T1 or E1	1.5 or 2.0
T3 or E3	45 or 34
Ethernet	10, 100 or 1,000

Table of Contents

We offer on-net services in 132 metropolitan markets. We serve over 1,300 buildings of which more than 1,100 are located in North America with the remainder located in Europe. Our most popular on-net service in North America is our Fast Ethernet service, which provides Internet access at 100 megabits per second. We typically offer our Fast Ethernet (Internet access) service to our small and medium-sized business customers at \$1,000 a month for month-to-month service. We offer lower prices for longer term commitments. We also offer Internet access services at higher speeds of up to ten Gigabits per second. These services are generally used by customers that have businesses, such as web hosting, that are Internet based and are generally delivered at data centers and carrier hotels. We believe that, on a per-Megabit basis, this service offering is one of the lowest priced in the marketplace. We also offer colocation services in 36 locations in North America and Europe. This service offers Internet access combined with rack space and power in a Cogent facility, allowing the customer to locate a server or other equipment at that location and connect to our Internet service. Our final on-net service offering is our "Point-to-Point" or "Layer 2" service. These point-to-point connections span North America and Europe and allow customers to connect geographically dispersed local area networks in a seamless manner. We emphasize the sale of on-net services because we believe that we have a competitive advantage in providing these services and our 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 the metropolitan markets in North America and Europe in which we offer on-net services and in approximately three additional markets. These services are generally provided to small and medium-sized businesses in approximately 2,750 off-net buildings.

We support certain non-core services assumed with certain of our acquisitions. These services include voice services in Toronto, Canada, and legacy point-to-point services. We expect the revenue from these non-core services to decline. We do not actively sell these services and expect the growth of our on-net Internet services to compensate for this loss.

Sales and Marketing

Sales. We employ a direct sales and marketing approach including telesales. As of February 1, 2009, our sales force included 291 full-time employees. Approximately one-third of these employees are located in our call centers with the remaining two-thirds located in our sales offices. Our outside direct 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. Direct sales personnel are compensated with a base salary plus quota-based commissions and incentives. We use a customer relationship management system to efficiently track activity levels and sales productivity.

Agent Program. We also have an agent program used as an alternate channel to distribute our products and services. The agent program consists of value-added resellers, IT consultants, and smaller telecom agents, who are managed by our direct sales personnel, and larger national or regional companies whose primary business is to sell telecommunications, data, and Internet services. The agent program includes over 180 agents.

Marketing. Because of our focus on a direct sales force, we have 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 is responsible for our product strategy

Table of Contents

and direction based upon primary and secondary market research and the advancement of new technologies.

Competition

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

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

Regulation

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

In the United States, we are subject to the obligations set forth in the Communications Assistance for Law Enforcement Act, which is administered by the FCC. That law requires that we be able to intercept communications when required to do so by law enforcement agencies. We are required to comply or we may face significant fines and penalties.

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

Our subsidiary, Cogent Canada, offers voice and Internet services in Canada. Generally, the regulation of Internet access services and competitive voice services has been similar in Canada to that in the U.S. in that providers of such services face fewer regulatory requirements than the incumbent local telephone company. This may change. Also, the Canadian government has requirements limiting foreign ownership of certain telecommunications facilities in Canada. We are not subject to these

Table of Contents

restrictions today. We will have to comply with these regulations to the extent they change and to the extent we begin using facilities in a manner that subjects us to these restrictions.

Our European subsidiaries operate in a more highly regulated environment for the types of services they provide. In many European countries, a national license or a notice filed with a regulatory authority 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.

Employees

As of February 1, 2009, we had 531 employees. A union represents twenty-two of our employees in France. We believe that we have a satisfactory relationship with our employees.

Available Information

We were incorporated in Delaware in 1999. We make available free of charge through our Internet website our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. The reports are made available through a link to the SEC's Internet website at www.sec.gov. You can find these reports and request a copy of our Code of Conduct on our website at www.cogentco.com under the "Investor Relations" link.

ITEM 1A. RISK FACTORS

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

We currently generate positive cash flow from our operations. If we acquire or invest in additional businesses, assets, services or technologies we may need to raise additional capital beyond that available from our cash flow. We may also face unforeseen capital requirements for new technology required to remain competitive or to comply with new regulatory requirements, for unforeseen maintenance of our network and facilities, and for other unanticipated expenses associated with running our business. In addition, if we do not retain existing customers or add new customers, our cash flow may be impaired and we may be required to raise additional funds through the issuance of debt or equity. We cannot assure you that we will have access to necessary capital, nor can we assure you that any such financing will be available on terms that are acceptable to our stockholders or us. If issuing equity securities raises additional funds, substantial dilution to existing stockholders may result.

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

In order to become profitable and remain consistently cash flow positive, we need to both retain existing customers and continue to add a large number of new customers. The precise number of additional customers required to become profitable and remain consistently cash flow positive is dependent on a number of factors, including the turnover of existing customers and the revenue mix among customers. We may not succeed in adding customers if our sales and marketing plan is unsuccessful. In addition, many of our target customers are existing businesses that are already

Table of Contents

purchasing Internet access services from one or more providers, often under a contractual commitment. It has been our experience that such target customers are often reluctant to switch providers due to costs associated with switching providers. Further, as some of our customers grow larger they may decide to build their own Internet networks. While no single customer accounted for more than 2.6% of our 2008 revenues, a migration of a few very large Internet users to their own networks or the loss or reduced purchases from several significant customers could impair our growth.

Our growth and financial health are subject to a number of economic risks.

Negative developments throughout 2008 in the credit and financial markets in the United States and worldwide have resulted in extreme disruption in recent months, including, among other things, extreme volatility in security prices, including our own, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. If the capital and credit markets continue to experience volatility and the availability of funds remains limited, it is possible that our ability to access the capital and credit markets for significant purchases or operations may be limited by these conditions or other factors at a time when we would like, or need, to do so. This could have an impact on our ability to react to changing economic and business conditions.

The economic downturn has significantly affected the financial services industry, which includes many of our customers. In addition, the current tightening of credit in financial markets potentially adversely affects the ability of certain of our customers to obtain financing for operations, and could result in a decrease in sales to new customers or existing customers canceling services as well as impact the ability of our customers to make payments, which would negatively impact our cash flow. We are unable to predict the likely duration and severity of the current disruption in financial markets and adverse economic conditions in the U.S. and other countries.

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

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

expand, develop and retain an effective sales force and qualified personnel;

maintain the quality of our operations and our service offerings;

maintain and enhance our system of internal controls to ensure timely and accurate compliance with our regulatory reporting requirements; and

expand our accounting and operational information systems in order to support our growth.

If we fail to implement these measures successfully, our ability to manage our growth will be impaired.

We may experience difficulties in implementing our expansion in Eastern Europe and may incur related unexpected costs and regulatory issues.

In 2007, we began to expand our network into Eastern Europe. We have experienced difficulty in acquiring dark fiber and other difficulties in making our network operational in this region. The expansion may cost more than we have planned. We also may experience regulatory issues. Finally, we may be unsuccessful in selling our services in this region. If we are not successful in developing our market presence in Eastern Europe our operating results could be adversely impacted.

Table of Contents

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

Currently, we plan to increase our carrier-neutral facilities and other on-net buildings by approximately 100 buildings in 2009 from 1,326 at December 31, 2008. We may be unsuccessful at identifying appropriate buildings or negotiating favorable terms for acquiring access to such buildings, and consequently, may experience difficulty in adding customers to our network and fully using the network's capacity.

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

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

By entering into what are known as settlement-free peering arrangements, providers agree to exchange traffic between their respective networks without charging each other. Our ability to avoid the higher costs of acquiring paid dedicated network capacity and to maintain high network performance is dependent upon our ability to establish and maintain peering relationships. The terms and conditions of our peering relationships may also be subject to adverse changes, which we may not be able to control. For example, several network operators with large numbers of individual users are arguing that they should be able to charge or charge more to network operators and businesses that exchange traffic to those users. If we are not able to maintain or increase our peering relationships in all of our markets on favorable terms, we may not be able to provide our customers with high performance or affordable or reliable services, which could cause us to lose existing and potential customers, damage our reputation and have a material adverse effect on our business. We have in the past had disputes with certain of other network providers that resulted in a temporary disruption of the exchange of traffic between our network and the network of the other carrier which occurred as recently as November 2008. We have resolved the majority of such disputes through negotiations. We continue to experience resistance from certain incumbent telephone companies, especially in Europe, to the upgrade of settlement free peering connections necessary to accommodate the growth of traffic we exchange with such carriers. We cannot assure you that we will be able to continue to establish and maintain relationships with providers or favorably resolve disputes with providers.

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. To date, we have completed 13 acquisitions. We compete with other companies for acquisition opportunities and we cannot assure you that we will be able to effect future acquisitions or strategic alliances on commercially reasonable terms or at all. Even if we enter into these transactions, we may experience:

delays in realizing or a failure to 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

Table of Contents

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

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

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

Revenues generated by the customer contracts that we have acquired have accounted for a substantial portion of our historical non-core and off-net service revenues. However, following an acquisition, we have experienced a decline in revenue attributable to acquired customers as these customers' contracts have expired and they have entered into standard Cogent customer contracts at generally lower rates or have chosen not to renew service with us. We anticipate that we will experience similar declines with respect to customers we may acquire in the future.

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

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

Our business could suffer because telephone companies and cable companies may provide better delivery of Internet content originating on their own networks.

Broadband connections provided by cable TV and telephone companies have become the predominant means by which consumers connect to the Internet. The providers of these broadband connections may treat Internet content delivered from different sources differently. The possibility of this has been characterized as an issue of "net neutrality." As many of our customers operate websites and services that deliver content to consumers our ability to sell our services would be negatively impacted if Internet content delivered by us was less easily received by consumers than Internet content delivered by others.

We have substantial debt which we may not be able to repay when due.

As of December 31, 2008, we have \$92.0 million of face value of senior convertible notes outstanding. The holders of the notes have the right to compel us to repurchase for cash on June 15, 2014, June 15, 2017 and June 15, 2022, all or some of their notes. They also have the right to be paid the principal upon default and upon certain designated events, such as certain changes of control. We

Table of Contents

may not have sufficient funds to pay the principal at the time we are obligated to do so, which could result in bankruptcy, or we may only be able to raise the necessary funds on unfavorable terms.

Our operations outside of the United States expose us to economic, regulatory and other risks.

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

fluctuations in currency exchange rates;

exposure to additional regulatory and legal requirements, including import restrictions and controls, exchange controls, tariffs and other trade barriers;

difficulties in staffing and managing our foreign operations;

changes in political and economic conditions; and

exposure to additional and potentially adverse tax regimes.

As we continue to expand our European and Canadian businesses, 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 and Canadian operations may have a material adverse effect on our business and results of operations.

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

Our European and Canadian operations expose us to currency fluctuations and exchange rate risk. For example, while we record revenues and financial results from our European operations in Euros, these results are reflected in our consolidated financial statements in U.S. dollars. Therefore, our reported results are exposed to fluctuations in the exchange rates between the U.S. dollar and the Euro. We fund certain of our cash flow requirements of our European operations in U.S. dollars. Accordingly, in the event that the Euro strengthens versus the dollar to a greater extent than we anticipate the cash flow requirements associated with our European operations may be significantly greater in U.S.-dollar terms than planned.

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

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

Our network could suffer serious disruption if certain locations experience serious damage.

There are certain locations through which a large amount of our Internet traffic passes. Examples are facilities in which we exchange traffic with other carriers, the facility through which our transatlantic traffic passes, and certain of our network hub sites. If any of these facilities were destroyed or seriously damaged a significant amount of our network traffic could be disrupted. Because of the large volume of traffic passing through these facilities our ability (and the ability of carriers with whom we exchange traffic) to quickly restore service would be challenged. There could be parts of our network or the networks of other carriers that could not be quickly restored or that would experience substantially reduced service for a significant time. If such a disruption occurs, our reputation could be negatively impacted which may cause us to lose

customers and adversely affect our ability to attract new customers, resulting in an adverse effect on our operating results.

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

We rely on complex information systems to operate our network and support our other business functions. Our ability to track sales leads, close sales opportunities, provision services, bill our customers for those services and prepare our financial statements depends upon the effective integration of our various information systems. If our systems, individually or collectively, fail or do not perform as expected, our ability to process and provision orders, to make timely payments to vendors, to ensure that we collect revenue owed to us and prepare our financial statements would be adversely affected. 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, and prepare accurate and timely financial statements all of which would adversely affect our business and results of operations.

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

Since we initiated operations in 2000, we have generated operating losses and these losses may continue for the foreseeable future. In 2006 we had an operating loss of \$46.6 million, in 2007 we had an operating loss of \$29.9 million and in 2008 we had an operating loss of \$22.2 million. As of December 31, 2008, we had an accumulated deficit of \$269.2 million. Continued losses may prevent us from pursuing our strategies for growth or may require us to seek unplanned additional capital and could cause us to be unable to meet our debt service obligations, capital expenditure requirements or working capital needs.

We may have difficulty intercepting communications as required by the U.S. Communications Assistance for Law Enforcement Act and similar laws of other countries.

The U.S. Communications Assistance for Law Enforcement Act and the laws of other countries require that we be able to intercept communications when required to do so by law enforcement agencies. We may experience difficulties and incur significant costs in complying with these laws. If we are unable to comply with the laws we could be subject to fines in the United States of up to \$1.0 million per event and equal or greater fines in other countries.

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

The carriers from whom we have obtained our inter-city and intra-city dark fiber maintain that fiber. If these carriers fail to maintain the fiber or disrupt our fiber connections for other reasons, such as business disputes with us and governmental takings, our ability to provide service in the affected markets or parts of markets would be impaired. The companies that maintain our inter-city dark fiber and many of the companies that maintain our intra-city dark fiber are also competitors of ours. Consequently, they may have incentives to act in ways unfavorable to us. While we have successfully mitigated the effects of prior service interruptions and business disputes in the past, we may incur significant delays and costs in restoring service to our customers in connection with future service interruptions, and we may lose customers if delays are substantial.

Our business depends on agreements with colocation operators, which we could fail to obtain or maintain.

Our business depends upon access to customers in carrier neutral colocation centers, which are facilities in which many large users of the Internet house the computer servers that deliver content and applications to users by means of the Internet and provide access to multiple Internet access networks. Most colocation centers allow any carrier to operate within the facility (for a standard fee). We expect to enter into additional colocation agreements as part of our growth plan. Current government

regulations do not require colocation operators to allow all carriers access on terms that are reasonable or nondiscriminatory. We have been successful in obtaining agreements with these operators in the past and have generally found that the operators want to have us in their colocation facilities because we offer low-cost, high capacity Internet service to their other customers. Any deterioration in our existing relationships with these colocation center operators could harm our sales and marketing efforts and could substantially reduce our potential customer base.

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

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

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

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

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

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

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

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

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

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

Our competitors may also introduce new technology or services that make our services less attractive to potential customers. For example, some providers are introducing a new version of the Internet protocol (Ipv6) that we do not plan to introduce at this time. If this becomes important to Internet users our ability to compete may be lessened or we may have to incur additional costs in order to accommodate this technology.

We issue projected results and estimates for future periods from time to time, and such projections and estimates are subject to inherent uncertainties and may prove to be inaccurate.

Financial information, results of operations and other projections that we may issue from time to time are based upon our assumptions and estimates. While we believe these assumptions and estimates to be reasonable when they are developed, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. You should understand that certain unpredictable factors could cause our actual results to differ from our expectations and those differences may be material. No independent expert participates in the preparation of these estimates. These estimates should not be regarded as a representation by us as to our results of operations during such periods as there can be no assurance that any of these estimates will be realized. In light of the foregoing, we caution you not to place undue reliance on these estimates. These estimates constitute forward-looking statements.

The utilization of our certain of net operating loss carryforwards are limited and depending upon the amount of our taxable income we may be subject to paying income taxes earlier than planned.

Due to the uncertainty surrounding the realization of our net deferred tax asset, we have recorded a valuation allowance for the full amount of our net deferred tax asset. As of December 31, 2008, we have combined net operating loss carry-forwards of approximately \$989 million. This amount includes federal and state net operating loss carry-forwards in the United States of approximately \$379 million and net operating loss carry-forwards related to our European operations of approximately \$611 million. Section 382 of the Internal Revenue Code in the United States limits the utilization of net operating losses when ownership changes, as defined by that section, occur. We have performed an analysis of our Section 382 ownership changes and have determined that the utilization of certain of our net operating loss carryforwards may be limited. This restricted amount includes the limitation on annual utilization related to the remaining \$183 million of federal and state net operating loss carry-forwards of Allied Riser Communications Corporation that were acquired by us via a 2002 merger. The net operating loss carryforwards in the United States will expire, if unused, between 2022 and 2027. The net operating loss carry-forwards related to our European operations include \$493 million that do not expire and \$115 million that expire beginning in 2016.

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

Our network uses a collection of communications equipment, software, operating protocols and proprietary applications for the high-speed transportation of large quantities of data among multiple locations. Given the complexity of our network, it is possible that data will be lost or distorted. Delays in data delivery may cause significant losses to one or more customers using our network. Our network may also contain undetected design faults and software bugs that, despite our testing, may not be discovered in time to prevent harm to our network or to the data transmitted over it. The failure of any equipment or facility on the network could result in the interruption of customer service until we effect necessary repairs or install replacement equipment. Network failures, delays and errors could also

result from natural disasters, power losses, security breaches, computer viruses, denial of service attacks and other natural or man-made events. Our off-net services are dependent on the networks of other providers or on local telephone companies. Network failures, faults or errors could cause delays or service interruptions, expose us to customer liability or require expensive modifications that could have a material adverse effect on our business.

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

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

The holders of our senior convertible notes have the right to convert their notes to common stock.

The holders of our senior convertible notes are under certain circumstances able to convert their notes into common stock at a conversion price of \$49.18 per share of common stock and to obtain additional shares of common stock. If our share price exceeds \$49.18 and the conversion right is exercised by the holders of the notes the number of our shares of common stock outstanding will increase which could reduce further appreciation in our stock price and impact our per share earnings. Rather than issue the stock we are permitted to pay the cash equivalent in value to the stock to be issued. We might not have sufficient funds to do this or doing so might have other detrimental impacts on us.

Legislation and government regulation could adversely affect us.

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

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

Terrorist activity throughout the world, military action to counter terrorism and natural disasters could adversely impact our business.

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

ITEM 2. DESCRIPTION OF PROPERTIES

We lease and own space for offices, data centers, colocation facilities, and points-of-presence.

Our headquarters facility consists of approximately 15,370 square feet located in Washington, D.C. The lease for our headquarters is with an entity controlled by our Chief Executive Officer. The lease expires on August 31, 2012.

We also lease a total of approximately 462,000 square feet of space in 72 locations to house our colocation facilities, corporate headquarters, regional offices and operations centers. The remaining term of these leases ranges from 3 months to 10 years with, in many cases, options to renew.

We believe that these facilities are generally in good condition and suitable for our operations.

ITEM 3. LEGAL PROCEEDINGS

On September 2, 2008, Sprint Communications L. P. (a subsidiary of Sprint-Nextel Corporation) filed suit against us in the Circuit court of Fairfax County, Virginia seeking payment for services allegedly provided by Sprint related to the exchange of Internet traffic by Sprint and the Company. Sprint sought \$1.9 million and additional amounts. The lawsuit has been dismissed.

We are involved in legal proceedings in the normal course of our business that we do not expect to have a material adverse affect on our business, financial condition or results of operations. For a discussion of the significant proceedings in which we are involved, see Note 6 to our consolidated financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of our security holders during the quarter ended December 31, 2008.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our sole class of common equity is our common stock, par value \$0.001, which is currently traded on the NASDAQ Global Select Market under the symbol "CCOI". Prior to March 6, 2006, our common stock 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.

As of February 1, 2009, there were approximately 160 holders of record of shares of our common stock holding 44,341,898 shares of our common stock.

The table below shows, for the quarters indicated, the reported high and low trading prices of our common stock.

	High	Low
<i>Calendar Year 2007</i>		
First Quarter	\$24.91	\$ 15.74
Second Quarter	30.09	22.07
Third Quarter	34.90	20.08
Fourth Quarter	30.16	19.67
<i>Calendar Year 2008</i>		
First Quarter	\$24.60	\$ 15.96
Second Quarter	22.90	13.16
Third Quarter	13.85	6.86
Fourth Quarter	7.73	3.39

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.

Table of Contents**Performance Graph**

The Company, in connection with its merger with Allied Riser Communications Corporation, began trading shares of its common stock on the American Stock Exchange in February 2002. On March 6, 2006, the Company's shares of Common Stock began trading on the NASDAQ National Market. The Company's common stock currently trades on the NASDAQ Global Select Market. The chart below compares the relative changes in the cumulative total return of the Company's Common Stock for the period December 31, 2003 - December 31, 2008, against the cumulative total return for the same period of the (1) The Standard & Poor's 500 (S&P 500) Index and (2) an industry peer group consisting of Savvis Communications Corporation (NASDAQ: SVVS); Internap Network Services Corporation (NASDAQ: INAP); and TW Telecom Inc. (NASDAQ: TWTC). The comparison assumes \$100 was invested on December 31, 2003 in the Company's common stock, the S&P 500 Index and the industry peer group, with dividends, if any, reinvested.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
AMONG COGENT COMMUNICATIONS GROUP, INC. THE S&P 500 INDEX
AND A PEER GROUP**

Value of \$100 Invested on December 31, 2003.

	12/03	12/04	12/05	12/06	12/07	12/08
Cogent Communications Group	\$ 100.00	\$ 92.31	\$ 23.46	\$ 69.32	\$ 101.32	\$ 27.91
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Peer Group(1)	100.00	44.09	45.95	124.52	106.96	38.03

*

\$100 invested on 12/31/03 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

Table of Contents*Unregistered Sales of Equity Securities and Use of Proceeds.*

On August 14, 2007, the Company announced that its Board of Directors had authorized a plan to permit the repurchase of up to \$50.0 million of the Company's common stock in negotiated and open market transactions. In June 2008, the Company announced that its Board of Directors had authorized an additional repurchase of up to \$50.0 million of the Company's common stock in negotiated and open market transactions through December 31, 2009. As of December 31, 2008, the Company had purchased 4,818,860 shares of its common stock pursuant to these authorizations for an aggregate of \$69.2 million; approximately \$30.8 million remained available for such negotiated and open market transactions concerning our common stock. The Company may purchase shares and its convertible notes from time to time depending on market, economic, and other factors. The authorization will continue through December 31, 2009.

The following table summarizes the Company's common stock repurchases during the fourth quarter of 2008 made pursuant to this authorization. During the quarter, the Company did not purchase shares outside of this program, and all purchases were made by or on behalf of the Company and not by any "affiliated purchaser" (as defined by Rule 10b-18 of the Securities Exchange Act of 1934).

Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 - 31, 2008	0	\$ 0	4,494,196	\$ 32,070,298
November 1 - 30, 2008	324,664	\$ 3.82	4,818,860	\$ 30,829,936
December 1 - 31, 2008	0	\$ 0	4,818,860	\$ 30,829,936

Table of Contents**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The annual financial information set forth below has been derived from our audited consolidated financial statements. The information should be read in connection with, and is qualified in its entirety by reference to, Management's Discussion and Analysis, the consolidated financial statements and notes included elsewhere in this report and in our SEC filings.

	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(dollars in thousands)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Service revenue, net	\$ 91,286	\$ 135,213	\$ 149,071	\$ 185,663	\$ 215,489
Operating expenses:					
Network operations	63,466	85,794	80,106	87,548	92,727
Equity-based compensation expense network operations	858	399	315	208	328
Selling, general, and administrative SG&A	40,382	41,344	46,593	52,011	62,917
Equity-based compensation expense SG&A	11,404	12,906	10,194	10,176	17,548
Terminated public offering costs	779				
Lease restructuring charges	1,821	1,319			
Asset impairment					1,592
Depreciation and amortization	56,645	55,600	58,414	65,638	62,589
Total operating expenses	175,355	197,362	195,622	215,581	237,701
Operating loss	(84,069)	(62,149)	(46,551)	(29,918)	(22,212)
Gains purchases of senior convertible notes					57,568
Gains lease obligation restructurings	5,292	844	255	2,110	
Gains Cisco credit facility		842			
Gains dispositions of assets		3,372	254	95	178
Interest income (expense) and other, net	(10,883)	(10,427)	(7,715)	(3,312)	(7,219)
(Loss) income before income taxes	(89,660)	(67,518)	(53,757)	(31,025)	28,315
Income tax provision					(1,536)
Net (loss) income	(89,660)	(67,518)	(53,757)	(31,025)	26,779
Beneficial conversion charges	(43,986)				
Net (loss) income applicable to common shareholders	\$(133,646)	\$ (67,518)	\$ (53,757)	\$ (31,025)	\$ 26,779
Net (loss) income per common share available to common shareholders basic	\$ (175.03)	\$ (1.96)	\$ (1.16)	\$ (0.65)	\$ 0.60
Net (loss) income per common share available to common shareholders diluted	\$ (175.03)	\$ (1.96)	\$ (1.16)	\$ (0.65)	\$ 0.59
Weighted-average common shares basic	763,540	34,439,937	46,343,372	47,800,159	44,563,727
Weighted-average common shares diluted	763,540	34,439,937	46,343,372	47,800,159	45,623,557
CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END):					
Cash and cash equivalents	\$ 13,844	\$ 29,883	\$ 42,642	\$ 177,021	\$ 71,291
Total assets	378,586	351,373	336,876	455,325	347,841
Long-term debt (including capital leases and current portion) (net of unamortized discount of \$5,026 in 2004, \$3,478 in 2005, \$1,213 in 2006, \$4,133 in 2007 and \$1,611 in 2008)	126,382	99,105	97,024	288,441	194,560
Preferred stock	139,825				
Stockholders' equity	212,490	221,001	215,632	138,830	122,356

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

OTHER OPERATING DATA:

Net cash (used in) provided by operating activities	(26,425)	(9,062)	5,285	48,630	54,336
Net cash used in investing activities	(2,701)	(14,055)	(19,478)	(30,864)	(32,539)
Net cash provided by (used in) financing activities	34,486	39,824	27,045	116,305	(125,638)

Table of Contents

ITEM 7. 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 Data" and our consolidated financial statements and related notes included in this report. The discussion in this report 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 report should be read as applying to all related forward-looking statements wherever they appear in this report. 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 "Special Note Regarding Forward-Looking Statements."

General Overview

We are a leading facilities-based provider of low-cost, high-speed Internet access and IP communications services. Our network is specifically designed and optimized to transmit data using IP. IP networks are significantly less expensive to operate and are able to achieve higher performance levels than the traditional circuit-switched networks used by many of our competitors when providing Internet access services, thus, we believe, giving us cost and performance advantages. We deliver our services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 17,800 customer connections in North America and Europe. Our primary on-net service is Internet access at a speed of 100 Megabits per second or greater, much faster than typical Internet access currently offered to businesses. We offer this on-net service exclusively through our own facilities, which run all the way to our customers' premises.

Our network is comprised of in-building riser facilities, metropolitan optical fiber networks, metropolitan traffic aggregation points and inter-city transport facilities. The network is physically connected entirely through our facilities to over 1,300 buildings in which we provide our on-net services, including over 950 multi-tenant office buildings. We also provide on-net services in carrier-neutral colocation facilities, Cogent controlled data centers and single-tenant office buildings. Because of our integrated network architecture, we are not dependent on local telephone companies to serve our on-net customers. We emphasize the sale of on-net services because we believe we have a competitive advantage in providing these services and our sales of these services generate higher gross profit margins than our off-net and non-core 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 also provide certain non-core services which are legacy services which we acquired and continue to support but do not actively sell.

We believe our key opportunity is provided by our high-capacity network, which provides us with the ability to add a significant number of customers to our network with minimal incremental costs. Our focus is to add customers to our network in a way that maximizes its use and at the same time provides us with a customer mix that produces profit margins. We are responding to this opportunity by increasing our sales and marketing efforts including increasing our number of sales representatives. In addition, we may add customers to our network through strategic acquisitions.

We are expanding our network to locations that we believe can be economically integrated and represent significant concentrations of Internet traffic. One of our keys to developing a profitable business will be to carefully match the expense of extending our network to reach new customers with the revenue generated by those customers.

Table of Contents

We believe two of the most important trends in our industry are the continued long-term growth in Internet traffic and a decline in Internet access prices. As Internet traffic continues to grow and prices per unit of traffic continue to decline, we believe our ability to load our network and gain market share from less efficient network operators will continue to expand. However, continued erosion in Internet access prices will likely have a negative impact on the rate at which we can increase our revenues and our profitability. In June 2008, we introduced additional volume and term based discounts to certain of our customers in an effort to continue to gain market share and grow our on-net revenues.

Our on-net service consists of high-speed Internet access and IP connectivity ranging from 0.5 Megabits per second to 10 Gigabits per second of bandwidth. We offer our on-net services to customers located in buildings that are physically connected to our network. Off-net services are sold to businesses that are connected to our network primarily by means of "last mile" access service lines obtained from other carriers, primarily in the form of point-to-point TDM, POS, SDH and/or Carrier Ethernet circuits. Our non-core services, which consist of legacy services of companies whose assets or businesses we have acquired, include managed modem services, voice services (only provided in Toronto, Canada) and point to point private line services. We do not actively market these non-core services and expect the net service revenue associated with them to continue to decline.

The growth in Internet traffic has a more significant impact on our net-centric customers who represent the majority of the traffic on our network and who tend to consume the majority of their allocated bandwidth on their connections. Our corporate customers tend to utilize a small portion of their allocated bandwidth on their connections.

Due to our strategic acquisitions of network assets and equipment, we believe we are positioned to grow our revenue base. We continue to purchase and deploy network equipment to parts of our network to maximize the utilization of our assets and to expand our network. Our future capital expenditures will be based primarily on our planned expansion of our network, the addition of on-net buildings and the concentration and growth of our customer base. We plan to continue to expand our network and to increase our number of on-net buildings by approximately 100 buildings by December 31, 2009 from 1,326 buildings at December 31, 2008. We expect our 2009 capital expenditures to be similar to our 2008 capital expenditure rate.

Historically, our operating expenses have exceeded our net service revenue resulting in operating losses of \$46.6 million, \$29.9 million and \$22.2 million in 2006, 2007 and 2008, respectively. In each of these periods, our operating expenses consisted primarily of the following:

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

Selling, general and administrative expenses, which consist primarily of salaries, commissions and related benefits paid to our employees and other selling and administrative costs including professional fees and bad debt expenses.

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

Equity-based compensation expenses that result from the grants of stock options and restricted stock.

Table of Contents**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 and the success of our sales and marketing efforts;

growth in our on-net customer base and revenues, which is an indicator of the success of our primarily on-net focused sales efforts;

growth in our on-net buildings; and

cash flows.

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2008

The following summary table presents a comparison of our results of operations for the year ended December 31, 2007 and 2008 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Year Ended December 31,		Percent Change
	2007	2008	
	(in thousands)		
Net service revenue	\$ 185,663	\$ 215,489	16.1%
On-net revenues	146,604	176,033	20.1%
Off-net revenues	32,123	34,606	7.7%
Non-core revenues	6,936	4,850	(30.1)%
Network operations expenses(1)	87,548	92,727	5.9%
Selling, general, and administrative expenses(2)	52,011	62,917	21.0%
Equity-based compensation expense	10,384	17,876	72.1%
Asset impairment		1,592	100.0%
Depreciation and amortization expenses	65,638	62,589	(4.6)%
Gains lease obligations and asset sales	2,205	178	(91.9)%
Gains purchases of senior convertible notes		57,568	100.0%
Income tax provision		1,536	100.0%
Net (loss) income	(31,025)	26,779	186.3%

(1) Excludes equity-based compensation expense of \$208 and \$328 in the years ended December 31, 2007 and 2008, respectively, which, if included would have resulted in a period-to-period change of 6.0%.

(2) Excludes equity-based compensation expense of \$10,176 and \$17,548 in the years ended December 31, 2007 and 2008, respectively, which, if included would have resulted in a period-to-period change of 29.4%.

Net Service Revenue. Our net service revenue increased 16.1% from \$185.7 million for the year ended December 31, 2007 to \$215.5 million for the year ended December 31, 2008. The impact of exchange rates resulted in approximately \$3.2 million of the \$29.8 million increase in revenues. For the years ended December 31, 2007 and 2008, on-net, off-net and non-core revenues represented 79.0%, 17.3% and 3.7% and 81.7%, 16.1% and 2.2% of our net service revenues, respectively.

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Our on-net revenues increased 20.1% from \$146.6 million for the year ended December 31, 2007 to \$176.0 million for the year ended December 31, 2008. Our on-net revenues increased as we

Table of Contents

increased the number of our on-net customer connections by 26.4% from approximately 11,200 at December 31, 2007 to approximately 14,100 at December 31, 2008. On-net customer connections increased at a greater rate than on-net revenues due to a decline in the average revenue per on-net customer connection. This decline is partly attributed to a shift in the customer connection mix and due to volume and term based pricing discounts. Due to the increase in the size of our sales force, we are now able to focus not only on customers who purchase high-bandwidth connections, as we have done historically, but also on customers who purchase lower-bandwidth connections. We expect to continue to focus our sales efforts on a broad mix of customers. In June 2008, we introduced additional volume and term based discounts to certain of our customers in an effort to continue to gain market share and grow our on-net revenues. Additionally, on-net customers who cancel their service from our installed base of customers, in general, have greater average revenue per connection than new customers. These trends resulted in a reduction to our average revenue per on-net connection.

Our off-net revenues increased 7.7% from \$32.1 million for the year ended December 31, 2007 to \$34.6 million for the year ended December 31, 2008. Our off-net customer connections increased 1.8% from approximately 2,990 at December 31, 2007 to approximately 3,040 at December 31, 2008. Off-net revenues increased at a greater rate than off-net customer connections due to an increase in the average revenue per off-net customer connection. Off-net customers who cancel their service, in general, have a lower average revenue per connection than new off-net customers who generally purchase higher-bandwidth connections.

Our non-core revenues decreased 30.1% from \$6.9 million for the year ended December 31, 2007 to \$4.9 million for the year ended December 31, 2008. The number of our non-core customer connections declined 23.9% from approximately 800 at December 31, 2007 to approximately 610 at December 31, 2008. We do not actively market these acquired non-core services and expect that the net service revenue associated with them will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 5.9% from \$87.5 million for the year ended December 31, 2007 to \$92.7 million for the year ended December 31, 2008. The increase is primarily attributable to an increase in costs related to our network and facilities expansion activities and an increase in utilities charges partly offset by the decline in network operations expenses associated with the decline in our non-core revenues. The impact of exchange rates resulted in approximately \$1.4 million of this \$5.2 million increase in network operations expenses.

Selling, General, and Administrative Expenses ("SG&A"). Our SG&A expenses, excluding equity-based compensation expense, increased 21.0% from \$52.0 million for the year ended December 31, 2007 to \$62.9 million for the year ended December 31, 2008. SG&A expenses increased primarily from the increase in salaries and related costs required to support our expanding sales and marketing efforts and a \$2.6 million increase in bad debt expense. The impact of exchange rates resulted in approximately \$1.2 million of this \$10.9 million increase in SG&A expenses.

Equity-based Compensation Expense. Equity-based compensation expense is related to restricted stock and stock options. The total equity-based compensation expense increased 72.1% from \$10.4 million for the year ended December 31, 2007 to \$17.9 million for the year ending December 31, 2008. In April 2007 and January 2008, we issued approximately 1.0 million and 0.6 million shares, respectively, of restricted stock to our employees resulting in the increase in equity-based compensation expense. As of December 31, 2008 there was approximately \$19.4 million of total unrecognized compensation cost related to non-vested equity-based compensation awards. That cost is expected to be recognized over a weighted average period of approximately twenty-eight months.

Depreciation and Amortization Expenses. Our depreciation and amortization expense decreased 4.6% from \$65.6 million for the year ended December 31, 2007 to \$62.6 million for the year ended

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Table of Contents

December 31, 2008. The decrease is primarily due to the decline in depreciation expense from fully depreciated fixed assets more than offsetting depreciation expense associated with the increase in deployed fixed assets.

Asset Impairment. In the first quarter of 2008, we recorded an impairment charge of \$1.6 million related to an IRU asset under a capital lease. The IRU asset was no longer in use and we have obtained alternative dark fiber that serves the related facilities and customers.

Gains lease obligations and asset sales. In September 2007, we entered into a settlement agreement under which we were released from our obligation under an abandoned facility lease acquired in an acquisition. This settlement agreement resulted in a gain of approximately \$2.1 million.

Gains on Purchases of Convertible Senior Notes. In 2008, we purchased \$108.0 million of face value of our convertible senior notes (the "Notes") for \$48.6 million in cash in a series of transactions. These transactions resulted in a gain of \$57.6 million for the year ended December 31, 2008. After these transactions there is \$92.0 million of face value of our Notes outstanding. We may purchase additional Notes.

Income tax provision. The income tax provision was \$1.5 million for the year ended December 31, 2008. There was no income tax provision for the year ended December 31, 2007. In the year ended December 31, 2008, primarily due to the gains on the purchases of our Notes, we became subject to the alternative minimum tax in the United States. Under the alternative minimum tax system, the ability to offset taxable income with the utilization of net operating loss carryforwards is limited. The tax provision for the year ended December 31, 2008 includes income taxes for the United States of approximately \$0.6 million of federal alternative minimum tax and approximately \$0.9 million of state income taxes (including approximately \$0.5 million related to an uncertain tax position).

Buildings On-net. As of December 31, 2007 and 2008 we had a total of 1,217 and 1,326 on-net buildings connected to our network, respectively.

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2007

The following summary table presents a comparison of our results of operations for the year ended December 31, 2006 and 2007 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Year Ended December 31,		Percent Change
	2006	2007	
	(in thousands)		
Net service revenue	\$ 149,071	\$ 185,663	24.5%
On-net revenues	105,275	146,604	39.3%
Off-net revenues	34,416	32,123	(6.7)%
Non-core revenues	9,380	6,936	(26.1)%
Network operations expenses(1)	80,106	87,548	9.3%
Selling, general, and administrative expenses(2)	46,593	52,011	11.6%
Equity-based compensation expense	10,509	10,384	(1.2)%
Depreciation and amortization expenses	58,414	65,638	12.4%
Gains lease obligations and asset sales	509	2,205	333.2%
Net loss	(53,757)	(31,025)	42.3%

(1) Excludes equity-based compensation expense of \$315 and \$208 in the years ended December 31, 2006 and 2007, respectively, which, if included would have resulted in a period-to-period change of 9.1%.

Table of Contents

- (2) Excludes equity-based compensation expense of \$10,194 and \$10,176 in the years ended December 31, 2006 and 2007, respectively, which, if included would have resulted in a period-to-period change of 9.5%.

Net Service Revenue. Our net service revenue increased 24.5% from \$149.1 million for the year ended December 31, 2006 to \$185.7 million for the year ended December 31, 2007. The impact of exchange rates resulted in approximately \$4.2 million of the \$36.6 million increase in revenues. For the years ended December 31, 2006 and 2007, on-net, off-net and non-core revenues represented 70.6%, 23.1% and 6.3% and 79.0%, 17.3% and 3.7% of our net service revenues, respectively.

Our on-net revenues increased 39.3% from \$105.3 million for the year ended December 31, 2006 to \$146.6 million for the year ended December 31, 2007. Our on-net revenues increased as we increased the number of our on-net customer connections by 43.9% from approximately 7,800 at December 31, 2006 to approximately 11,200 at December 31, 2007. On-net customer connections increased at a greater rate than on-net revenues due to a decline in the revenue per on-net customer connection. This decline is partly attributed to a shift in the customer connection mix. Due to the increase in the size of our sales force, we are now able to focus not only on customers who purchase high-bandwidth connections, as we have done historically, but also on customers who purchase lower-bandwidth connections. We expect to continue to focus our sales efforts on a broad mix of customers. Additionally, on-net customers who cancel their service, in general, have greater revenue per connection than new customers. These trends and, to a lesser extent, an increase in customers receiving a discount for purchasing longer term contracts, resulted in a reduction to our revenue per on-net connection.

Our off-net revenues decreased 6.7% from \$34.4 million for the year ended December 31, 2006 to \$32.1 million for the year ended December 31, 2007. Our off-net customer connections declined 15.4% from approximately 3,500 at December 31, 2006 to approximately 3,000 at December 31, 2007. Off-net customer connections decreased at a greater rate than the decline in off-net revenues due to an increase in the revenue per off-net customer connection. Off-net customers who cancel their service, in general, have revenue per connection that is less than new off-net customers who generally purchase higher-bandwidth connections. Additionally, a significant amount of our off-net revenues were acquired revenues with a revenue per connection that is less than new off-net customers. Acquired revenues have historically churned at a greater rate than new off net customers.

Our non-core revenues decreased 26.1% from \$9.4 million for the year ended December 31, 2006 to \$6.9 million for the year ended December 31, 2007. The number of our non-core customer connections declined 20.3% from approximately 1,000 at December 31, 2006 to approximately 800 at December 31, 2007. We do not actively market these acquired non-core services and expect that the net service revenue associated with them will continue to decline.

Network Operations Expenses. Our network operations expenses, excluding equity-based compensation expense, increased 9.3% from \$80.1 million for the year ended December 31, 2006 to \$87.5 million for the year ended December 31, 2007. The increase is primarily attributable to an increase in costs related to our network and facilities expansion activities partly offset by the decline in network operations expenses associated with the decline in our off-net and non-core revenues. The impact of exchange rates resulted in approximately \$1.8 million of this \$7.4 million increase in network operations expenses.

Selling, General, and Administrative Expenses ("SG&A"). Our SG&A expenses, excluding equity-based compensation expense, increased 11.6% from \$46.6 million for the year ended December 31, 2006 to \$52.0 million for the year ended December 31, 2007. SG&A expenses increased primarily from the increase in salaries and related costs required to support our expanding sales and marketing efforts.

Table of Contents

The impact of exchange rates resulted in approximately \$1.4 million of this \$5.4 million increase in SG&A expenses.

Equity-based Compensation Expense. Equity-based compensation expense is related to restricted stock and stock options. The total equity-based compensation expense decreased 1.2% from \$10.5 million for the year ended December 31, 2006 to \$10.4 million for the year ending December 31, 2007. During 2007, we issued approximately 1.0 million shares of restricted stock to our employees. These grants were valued at our closing stock price on the date of grant and will vest over periods ranging from two to four years. These grants resulted in approximately \$7.1 million in equity-based compensation expense for the year ended December 31, 2007. The increase was partly offset by a \$6.8 million decrease in equity-based compensation expense associated with certain 2003 restricted stock grants which ended in August 2006 when these shares became fully vested.

Depreciation and Amortization Expenses. Our depreciation and amortization expense increased 12.4% from \$58.4 million for the year ended December 31, 2006 to \$65.6 million for the year ended December 31, 2007 due to an increase in deployed fixed assets.

Gains lease obligations and asset sales. In September 2007, we entered into a settlement agreement under which we were released from our obligation under an abandoned facility lease acquired in an acquisition. This settlement agreement resulted in a gain of approximately \$2.1 million. In September 2006, Cogent Spain negotiated modifications to an IRU capital lease that reduced its quarterly IRU lease payments and extended the lease term. The modification to this IRU capital lease resulted in a gain of approximately \$0.3 million. In 2006, we sold a building and land for net proceeds of \$0.8 million. This sale resulted in a gain of approximately \$0.3 million.

Buildings On-net. As of December 31, 2006 and 2007 we had a total of 1,107 and 1,217 on-net buildings connected to our network, respectively.

Liquidity and Capital Resources

In assessing our liquidity, management reviews and analyzes our current cash balances, short-term investments, accounts receivable, accounts payable, accrued liabilities, capital expenditure commitments, and required capital lease, interest and debt payments and other obligations.

Cash Flows

The following table sets forth our consolidated cash flows for the years ended December 31, 2006, 2007, and 2008.

	Year Ended December 31,		
	2006	2007	2008
	(in thousands)		
Net cash provided by operating activities	\$ 5,285	\$ 48,630	\$ 54,336
Net cash used in investing activities	(19,478)	(30,864)	(32,539)
Net cash provided by (used in) financing activities	27,045	116,305	(125,638)
Effect of exchange rates on cash	(93)	308	(1,889)
Net increase (decrease) in cash and cash equivalents during period	\$ 12,759	\$ 134,379	\$ (105,730)

Net Cash Provided By Operating Activities. Our primary sources of operating cash are receipts from our customers who are billed on a monthly basis for our services. Our primary uses of operating cash are payments made to our vendors, employees and interest payments to our noteholders. Net cash provided by operating activities was \$5.3 million for the year ended December 31, 2006 compared to net cash provided by operating activities of \$48.6 million for 2007. The increase in cash provided by

Table of Contents

operating activities was due to an increase in our operating profit and an improvement in the changes in operating assets and liabilities from a use of cash of \$11.6 million for the year ended December 31, 2006 to an increase of cash of \$4.9 million for the year ended December 31, 2007. The increase in the changes in operating assets and liabilities from the year ended December 31, 2006 to the year ended December 31, 2007 was primarily due to the timing of certain vendor payments. Net cash provided by operating activities was \$48.6 million for the year ended December 31, 2007 compared to net cash provided by operating activities of \$54.3 million for 2008. The increase in cash provided by operating activities is due to an increase in our operating profit partly offset by changes in operating assets and liabilities from an increase of cash of \$4.9 million for the year ended December 31, 2007 to an increase of cash of \$2.1 million for the year ended December 31, 2008.

Net Cash Used In Investing Activities. Net cash used in investing activities was \$19.5 million for the year ended December 31, 2006, \$30.9 million for the year ended December 31, 2007 and \$32.5 million for the year ended December 31, 2008. Our primary use of investing cash during 2006 was \$21.5 million for the purchases of property and equipment. Our primary uses of investing cash during 2007 were \$30.4 million for the purchases of property and equipment and \$0.7 million for the purchases of short-term investments. Our primary sources of investing cash in 2006 were \$1.2 million from the proceeds of short-term investments and \$0.9 million from the proceeds of the sales of assets. Our primary source of investing cash in 2007 was \$0.3 million from the proceeds of the sales of assets. Our primary use of investing cash during 2008 was \$33.5 million for the purchases of property and equipment. Our primary sources of investing cash in 2008 were \$0.7 million from the proceeds of short-term investments and \$0.2 million from the proceeds of the sales of assets. The increases in purchases of property and equipment from the year ended December 31, 2006 to the year ended December 31, 2007 and from the year ended December 31, 2007 to the year ended December 31, 2008 were primarily due to our increase in our network expansion activities including geographic expansion and adding more buildings to our network.

Net Cash Provided By (Used In) Financing Activities. Financing activities provided net cash of \$27.0 million for the year ended December 31, 2006 and \$116.3 million for the year ended December 31, 2007. Financing activities used cash of \$125.6 million for the year ended December 31, 2008. Net cash from financing activities during 2006 resulted from \$36.5 million of net proceeds from our June 2006 public offering and \$0.4 million from the proceeds from the exercises of stock options. Net cash used in financing activities for 2006 included \$9.9 million in principal payments under our capital leases. Our primary source of financing cash for the year ended December 31, 2007 was \$195.1 million of net proceeds from the issuance of our 1.00% Convertible Senior Notes and \$1.1 million of proceeds from the exercises of stock options. Our primary use of financing cash for the year ended December 31, 2007 was \$59.9 million for the purchase of shares of our common stock, \$10.2 million for the repayment of our Allied Riser convertible subordinated notes on their June 15, 2007 maturity date and \$9.8 million of principal payments under our capital lease obligations. Our primary use of financing cash for the year ended December 31, 2008 was \$59.3 million for the purchase of shares of our common stock, \$48.6 million for repurchases of our 1.00% Convertible Senior Notes in a series of transactions and \$18.0 million of principal payments under our capital lease obligations. The increase in principal payments under our capital lease obligations from the year ended December 31, 2007 to the year ended December 31, 2008 is primarily due to our increase in our network expansion activities including geographic expansion and adding more buildings to our network.

Indebtedness

Our total indebtedness, net of discount, at December 31, 2008 was \$194.6 million and our total cash and cash equivalents and short-term investments were \$71.4 million. Our total indebtedness at December 31, 2008 includes \$104.2 million of capital lease obligations for dark fiber primarily under 15 - 25 year IRUs, of which approximately \$5.9 million is considered a current liability.

Table of Contents

Convertible Senior Notes

In June 2007, we issued 1.00% Convertible Senior Notes (the "Notes") due June 15, 2027, for an aggregate principal amount of \$200.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Notes are unsecured and bear interest at 1.00% per annum. The Notes will rank equally with any future senior debt and senior to any future subordinated debt and will be effectively subordinated to all of our subsidiary's existing and future liabilities and to any secured debt that we may issue to the extent of the value of the collateral. Interest is payable in cash semiannually in arrears on June 15 and December 15, of each year, beginning on December 15, 2007. We received proceeds of approximately \$195.1 million after deducting the original issue discount of 2.25% and issuance costs.

In 2008, we purchased \$108.0 million of face value of our Notes for \$48.6 million in cash in a series of transactions. These transactions resulted in a gain of \$57.6 million for the year ended December 31, 2008. After these transactions there is \$92.0 million of face value of our Notes outstanding. We may purchase additional Notes.

The Notes are convertible into shares of our common stock at an initial conversion price of \$49.18 per share, or 20.3355 shares for each \$1,000 principal amount of Notes, subject to adjustment for certain events as set forth in the indenture. Upon conversion of the Notes, we will have the right to deliver shares of our common stock, cash or a combination of cash and shares of our common stock. The Notes are convertible (i) during any fiscal quarter after the fiscal quarter ending September 30, 2007, if the closing sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter, or (ii) specified corporate transactions occur, or (iii) the trading price of the Notes falls below a certain threshold, or (iv) if we call the Notes for redemption, or (v) on or after April 15, 2027, until maturity. In addition, following specified corporate transactions, we will increase the conversion rate for holders who elect to convert Notes in connection with such corporate transactions, provided that in no event may the shares issued upon conversion, as a result of adjustment or otherwise, result in the issuance of more than 35.5872 common shares per \$1,000 principal amount. The Notes include an "Irrevocable Election of Settlement" whereby we may choose, in our sole discretion, and without the consent of the holders of the Notes, to waive our right to settle the conversion feature in either cash or stock or in any combination, at our option.

The Notes may be redeemed by us at any time after June 20, 2014 at a redemption price of 100% of the principal amount plus accrued interest. Holders of the Notes have the right to require us to repurchase for cash all or some of their Notes on June 15, 2014, 2017 and 2022 and upon the occurrence of certain designated events at a redemption price of 100% of the principal amount plus accrued interest.

Allied Riser Convertible Subordinated Notes

Our \$10.2 million 7.50% convertible subordinated notes were due on June 15, 2007. These notes and accrued interest were paid on June 15, 2007 with a portion of the proceeds from the Notes.

Common Stock Buyback Program

In June 2007 we used approximately \$50.1 million of the net proceeds from our issuance of our Notes to repurchase approximately 1.8 million shares of our common stock. In August 2007, our board of directors approved a \$50.0 million common stock buyback program. In June 2008, our board of directors approved an additional \$50.0 million of purchases of our common stock under the buyback program to occur prior to December 31, 2009. In the years ended December 31, 2007 and 2008, we purchased approximately 2.2 million and 4.4 million shares of our common stock, respectively, for

Table of Contents

approximately \$59.9 million and \$59.3 million, respectively. All purchased common shares were subsequently retired. As of December 31, 2008, there was approximately \$30.8 million remaining under the buyback program.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments as of December 31, 2008.

	Total	Payments due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
		(in thousands)			
Long term debt(1)	\$ 97,037	\$ 920	\$ 1,840	\$ 1,840	\$ 92,437
Capital lease obligations	194,971	16,663	32,160	26,166	119,982
Operating leases(2)	195,398	37,261	50,067	31,787	76,283
Unconditional purchase obligations(3)	36,612	14,903	2,551	2,551	16,607
Total contractual cash obligations	\$ 524,018	\$ 69,747	\$ 86,618	\$ 62,344	\$ 305,309

-
- (1) The Notes are assumed to be outstanding until June 15, 2014 which is the earliest put date and these amounts include interest and principal payment obligations.
- (2) These amounts include \$195.6 million of operating lease, maintenance, building access and tenant license agreement obligations, reduced by sublease agreements of \$0.2 million.
- (3) As of December 31, 2008, we had committed to additional dark fiber IRU lease agreements totaling approximately \$27.9 million in future payments for fiber lease and maintenance services. These amounts are included in unconditional purchase obligations and are to be paid in periods of up to 20 years beginning once the related fiber is accepted.

Capital Lease Obligations. The capital lease obligations above were incurred in connection with IRUs for inter-city and intra-city 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 \$104.2 million at December 31, 2008. These leases generally have initial terms of 15 to 20 years.

Letters of Credit. We are also party to letters of credit totaling \$0.9 million at December 31, 2008. These obligations are fully secured by our restricted investments, and as a result, are excluded from the contractual cash obligations above.

Future Capital Requirements

We believe that our cash on hand and cash generated from our operating activities will be adequate to meet our working capital, capital expenditure, debt service, common stock buyback program, Notes purchases and other cash requirements if we execute our business plan.

Any future acquisitions or other significant unplanned costs or cash requirements may require that we raise additional funds through the issuance of debt or equity. We cannot assure you that such financing will be available on terms acceptable to us or our stockholders, or at all. Insufficient funds may require us to delay or scale back the number of buildings that we serve, reduce our planned increase in our sales and marketing efforts, suspend or terminate our stock buyback program, suspend or terminate our Note purchases, or require us to otherwise alter our business plan or take other actions that could have a material adverse effect on our business, results of operations and financial

Table of Contents

condition. If issuing equity securities raises additional funds, substantial dilution to existing stockholders may result.

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.

Income taxes

Due to the uncertainty surrounding the realization of our net deferred tax asset, we have recorded a valuation allowance for the full amount of our net deferred tax asset. As of December 31, 2008, we have combined net operating loss carry-forwards of approximately \$989 million. This amount includes federal and state net operating loss carry-forwards in the United States of approximately \$379 million and net operating loss carry-forwards related to our European operations of approximately \$611 million. Section 382 of the Internal Revenue Code in the United States limits the utilization of net operating losses when ownership changes, as defined by that section, occur. We have performed an analysis of our Section 382 ownership changes and have determined that the utilization of certain of our net operating loss carryforwards may be limited. This restricted amount includes the limitation on annual utilization related to the remaining \$183 million of federal and state net operating loss carry-forwards of Allied Riser Communications Corporation that were acquired by us via a 2002 merger. The net operating loss carryforwards in the United States will expire, if unused, between 2022 and 2027. The net operating loss carry-forwards related to the European operations include \$493 million that do not expire and \$115 million that expire beginning in 2016.

Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent 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 or that require complex, significant 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. Fees billed in connection with customer installations are deferred and recognized ratably over the estimated customer life. We determine the estimated customer life using a historical analysis of customer retention. If our estimated

Table of Contents

customer life increases, we will recognize installation revenue over a longer period. We expense direct costs associated with sales as incurred.

Allowances for Sales Credits and Unfulfilled Customer Purchase Obligations

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

Our allowance for sales credits is recorded as a reduction to our service revenue to provide for situations when customers are granted a service termination adjustment for amounts billed in advance or a service level agreement credit or discount. This allowance is determined by actual credits granted during the period and an estimate of unprocessed credits.

Our allowance for unfulfilled contractual customer purchase obligations is designed to account for the possible 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 a small portion of these billed obligations. 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. This allowance is determined by the amount of unfulfilled contractual purchase obligations invoiced to our customers and with respect to which we are continuing to seek payment.

Valuation Allowances for Doubtful Accounts Receivable and Deferred Tax Assets

We have established allowances 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 accounts receivable that we estimate will not be collected. We assess the adequacy of this allowance by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, 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. If circumstances relating to specific customers change or economic conditions change such that our past collections experience and assessment of the economic environment are no longer appropriate, our estimate of the recoverability of our trade receivables could be impacted.

Our valuation allowance for our net deferred tax asset reflects the uncertainty surrounding the realization of our net operating loss carry-forwards and our other deferred tax assets. To reflect for the uncertainty of future taxable income we have recorded a valuation allowance for the full amount of our net deferred tax asset.

Convertible Senior Notes

We evaluated the embedded conversion option of our Notes in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" and EITF Issue No. 01-6 "The Meaning of Indexed to a Company's Own Stock." We concluded that the embedded conversion option contained within the Notes should not be accounted for separately because the conversion option is indexed to our common stock and would be classified within stockholders' equity, if issued on a standalone basis.

Table of Contents

We evaluated the terms of the Notes for a beneficial conversion feature in accordance with EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF No. 00-27, "Application of Issue 98-5 to Certain Convertible Instruments." We concluded that there was no beneficial conversion feature at the commitment date based on the conversion rate of the Notes relative to the commitment date stock price.

Equity-based Compensation

Generally we grant options for shares of our common stock to all new employees with a strike price equal to the market value at the grant date. We grant shares of restricted stock to our senior management team, board of directors and to certain other employees. We determine the fair value of grants of restricted stock by the closing trading price of our common stock on the grant date. Grants of shares of restricted stock vest over periods ranging from immediate vesting to over a four-year period. Compensation expense for all awards is recognized ratably over the service period.

The accounting for stock option compensation expense requires us to make additional estimates and judgments that affect our financial statements. These estimates include the following.

Expected Dividend Yield We have never declared or paid dividends and have no plans to do so in the foreseeable future.

Expected Volatility We use the historical volatility since our June 2005 public offering to estimate expected volatility because less than 3% of our fully diluted shares were publicly traded before that date.

Risk-Free Interest Rate We use the zero coupon U.S. Treasury rate during the quarter having a term that most closely resembles the expected term of the option.

Expected Term of the Option We estimate the expected life of the option term by analyzing historical stock option exercises and other relevant data.

Forfeiture Rates We estimate the forfeiture rate based on historical data with further consideration given to the class of employees to whom the options or shares were granted.

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 establish the number of renewal option periods used in determining the lease term, if any, based upon our assessment at the inception of the lease of the number of option periods that are reasonably assured in accordance with SFAS No. 13 *Accounting for Leases*. We estimate the fair value of leased assets using market data for similar assets.

We capitalize the direct costs incurred prior to an asset being ready for service. These costs include costs under the related construction contract and the compensation costs of employees directly involved with construction activities. Our capitalization of these costs is based upon estimates of time for our employees involved in construction activities.

We estimate our litigation accruals based upon our estimate of the expected outcome after consultation with legal counsel.

We estimate our accruals for disputed leased circuit obligations based upon the nature and age of the dispute. Our network costs are impacted by the timing and amounts of disputed circuit costs. We generally record these disputed amounts when billed by the vendor and reverse these amounts when the vendor credit has been received or the dispute has otherwise been resolved.

Table of Contents

We estimate the useful lives of our property and equipment based upon historical usage with consideration given to technological changes and trends in the industry that could impact the asset utilization. We establish the number of renewal option periods used in determining the lease term, if any, for amortizing leasehold improvements based upon our assessment at the inception of the lease of the number of option periods that are reasonably assured in accordance with SFAS No. 13 *Accounting for Leases*.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" and FSP No. 157-2, "Effective Date of FASB Statement No. 157" as amendments to SFAS 157, which exclude lease transactions from the scope of SFAS 157 and also defer the effective date of the adoption of SFAS 157 for non-financial assets and non-financial liabilities that are nonrecurring. The provisions of SFAS 157 are effective for the fiscal year beginning January 1, 2008, except for certain non-financial assets and liabilities for which the effective date has been deferred to January 1, 2009. The adoption of SFAS 157 and its related pronouncements did not and are not expected to have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including partial cash settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. Upon conversion of our Convertible Senior Notes, we have the right to deliver shares of our common stock, cash or a combination of cash and shares of our common stock. As a result, our accounting for our Convertible Senior Notes will be impacted by the adoption of FSP APB 14-1. The adoption of FSP APB 14-1 will result in a significant increase to the discount on our Notes with a corresponding increase to stockholder's equity. The adoption of FSP APB 14-1 will also result in an increase to our interest expense from the amortization of the increase to the discount on our Notes. We will be required to adopt FSP APB 14-1 on January 1, 2009 and will be required to retroactively restate all prior periods since the June 2007 issuance of the Notes. The incremental non-cash interest expense required to be recognized (due to an increase in debt discount) will be material. In addition, the gains recognized on debt extinguishment may change as a result of the adoption of FSP APB 14-1.

In June 2008, the FASB issued EITF No. 07-5, "Determining whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative, as defined. If an instrument, or an embedded feature, is not considered indexed to the issuer's stock under EITF 07-5, that instrument is not eligible for equity classification and would be classified as an asset or liability and remeasured at fair value through earnings. We will be required to adopt EITF 07-5 on January 1, 2009 with the cumulative effect of adoption adjusted to the opening balance of retained earnings. We are currently evaluating the impact of adopting EITF 07-5.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks. These risks, which include interest rate risk and foreign currency exchange risk, arise in the normal course of business rather than from trading activities.

Interest Rate Risk

Our cash flow exposure due to changes in interest rates related to our debt is limited as our 1.00% \$92.0 million of Convertible Senior Notes (the "Notes") have a fixed interest rate. The fair value of the Notes may increase or decrease for various reasons, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. Based upon the quoted market price at December 31, 2008, the fair value of our Notes was approximately \$45.1 million.

Our interest income is sensitive to changes in the general level of interest rates. However, based upon the nature and current level of our investments, which are primarily money market funds included in cash and cash equivalents, we believe that there is no material interest rate exposure related to our investments.

Foreign Currency Exchange Risk

Our European and Canadian operations expose us to potentially unfavorable adverse movements in foreign currency rate changes. We have not entered into forward exchange contracts related to our foreign currency exposure. While we record financial results from our European and Canadian operations in Euros and the Canadian dollar, respectively, these results are reflected in our consolidated financial statements in U.S. dollars. The assets and liabilities associated with our European and Canadian operations are translated into U.S. dollars and reflected in our consolidated financial statements in U.S. dollars. Therefore, our reported results are exposed to fluctuations in the exchange rates between the U.S. dollar and the Euro and the Canadian dollar. In addition, we fund certain cash flow requirements of our European operations in U.S. dollars. Accordingly, in the event that the Euro strengthens versus the dollar to a greater extent than planned the revenues, expenses and cash flow requirements associated with our European operations may be significantly higher in U.S.-dollar terms than planned.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>39</u>
<u>Consolidated Balance Sheets as of December 31, 2007 and 2008</u>	<u>40</u>
<u>Consolidated Statements of Operations for the Years Ended December 31, 2006, December 31, 2007 and December 31, 2008</u>	<u>41</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2006, December 31, 2007 and December 31, 2008</u>	<u>42</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2006, December 31, 2007 and December 31, 2008</u>	<u>44</u>
<u>Notes to Consolidated Financial Statements</u>	<u>45</u>

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Cogent Communications Group, Inc.

We have audited the accompanying consolidated balance sheets of Cogent Communications Group, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at 15(a) 2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the 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, 2007 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Cogent Communications Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA
March 2, 2009

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2008

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2007	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 177,021	\$ 71,291
Short term investments restricted	812	62
Accounts receivable, net of allowance for doubtful accounts of \$1,159 and \$1,914, respectively	21,760	22,174
Prepaid expenses and other current assets	6,636	6,389
Total current assets	206,229	99,916
Property and equipment:		
Property and equipment	561,907	618,008
Accumulated depreciation and amortization	(316,487)	(374,069)
Total property and equipment, net	245,420	243,939
Deposits and other assets (\$1,048 and \$1,091 restricted, respectively)	3,676	3,986
Total assets	\$ 455,325	\$ 347,841
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 12,868	\$ 12,795
Accrued and other current liabilities	12,891	14,756
Current maturities, capital lease obligations	7,717	5,940
Total current liabilities	33,476	33,491
Capital lease obligations, net of current maturities	84,857	98,253
Convertible senior notes, net of discount of \$4,133 and 1,611, respectively	195,867	90,367
Other long term liabilities	2,295	3,374
Total liabilities	316,495	225,485
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 75,000,000 shares authorized; 47,929,874 and 44,318,949 shares issued and outstanding, respectively	48	44
Additional paid-in capital	430,402	390,181
Stock purchase warrants	764	764
Accumulated other comprehensive income foreign currency translation adjustment	3,600	572
Accumulated deficit	(295,984)	(269,205)
Total stockholders' equity	138,830	122,356
Total liabilities and stockholders' equity	\$ 455,325	\$ 347,841

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

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006, DECEMBER 31, 2007 AND DECEMBER 31, 2008

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2006	2007	2008
Service revenue, net	\$ 149,071	\$ 185,663	\$ 215,489
Operating expenses:			
Network operations (including \$315, \$208 and \$328 of equity-based compensation expense, respectively, exclusive of amounts shown separately)	80,421	87,756	93,055
Selling, general, and administrative (including \$10,194, \$10,176 and \$17,548 of equity-based compensation expense, and \$2,584, \$2,005 and \$4,577 of bad debt expense, respectively)	56,787	62,187	80,465
Asset impairment			1,592
Depreciation and amortization	58,414	65,638	62,589
Total operating expenses	195,622	215,581	237,701
Operating loss	(46,551)	(29,918)	(22,212)
Gains purchases of senior convertible notes			57,568
Gains lease obligation restructurings	255	2,110	
Gains disposition of assets	254	95	178
Interest income and other	2,969	6,914	3,847
Interest expense	(10,684)	(10,226)	(11,066)
Net (loss) income before income taxes	(53,757)	(31,025)	28,315
Income tax provision			(1,536)
Net (loss) income	\$ (53,757)	\$ (31,025)	\$ 26,779
Basic net (loss) income per common share	\$ (1.16)	\$ (0.65)	\$ 0.60
Diluted net (loss) income per common share	\$ (1.16)	\$ (0.65)	\$ 0.59
Weighted-average common shares basic	46,343,372	47,800,159	44,563,727
Weighted-average common shares diluted	46,343,372	47,800,159	45,623,557

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

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006 DECEMBER 31, 2007 AND DECEMBER 31, 2008

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Common Stock		Additional	Deferred	Treasury	Stock
	Shares	Amount	Paid-in	Compensation	Stock	Purchase
			Capital			Warrants
Balance at December 31, 2005	44,092,652	\$ 44	\$ 440,500	\$ (9,680)	\$ (90)	\$ 764
Total, December 31, 2005						
Forfeitures of shares granted to employees	(646)					
Adoption of SFAS 123(R) reclassification of deferred compensation			(9,680)	9,680		
Equity-based compensation			10,509			
Foreign currency translation						
Issuances of common stock, net	4,732,500	5	36,474			
Exercises of options	103,602		427			
Treasury stock retirement			(90)		90	
Net loss						
Balance at December 31, 2006	48,928,108	49	478,140			764
Total, December 31, 2006						
Forfeitures of shares granted to employees	(22,659)					
Equity-based compensation			11,105			
Foreign currency translation						
Issuances of common stock, net	1,033,404	1				
Exercises of options	216,311		1,103			
Common stock purchases and retirement	(2,225,290)	(2)	(59,946)			
Net loss						
Balance at December 31, 2007	47,929,874	48	430,402	\$		764
Total, December 31, 2007						
Forfeitures of shares granted to employees	(17,596)					
Equity-based compensation			18,901			
Foreign currency translation						
Issuances of common stock, net	715,610					
Exercises of options	63,931		148			
Common stock purchases and retirement	(4,372,870)	(4)	(59,270)			
Net income						
Balance at December 31, 2008	44,318,949	\$ 44	\$ 390,181	\$	\$	\$ 764
Total, December 31, 2008						

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

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2006 DECEMBER 31, 2007 AND DECEMBER 31, 2008

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholder's Equity	Comprehensive Loss
Balance at December 31, 2005	\$ 665	\$ (211,202)	\$ 221,001	\$
Total, Year Ended December 31, 2005				(68,368)
Forfeitures of shares granted to employees				
Adoption of SFAS 123(R) reclassification of deferred compensation				
Equity-based compensation			10,509	
Foreign currency translation	973		973	973
Issuances of common stock, net			36,479	
Exercises of options			427	
Treasury stock retirement				
Net loss		(53,757)	(53,757)	(53,757)
Balance at December 31, 2006	1,638	(264,959)	215,632	
Total, Year Ended December 31, 2006				\$ (52,784)
Forfeitures of shares granted to employees				
Equity-based compensation			11,105	
Foreign currency translation	1,962		1,962	1,962
Issuances of common stock, net			1	
Exercises of options			1,103	
Common stock purchases and retirement			(59,948)	
Net loss		(31,025)	(31,025)	(31,025)
Balance at December 31, 2007	3,600	(295,984)	138,830	
Total, Year Ended December 31, 2007				\$ (29,063)
Forfeitures of shares granted to employees				
Equity-based compensation			18,901	
Foreign currency translation	(3,028)		(3,028)	(3,028)
Issuances of common stock, net				
Exercises of options			148	
Common stock purchases and retirement			(59,274)	
Net income		26,779	26,779	26,779
Balance at December 31, 2008	\$ 572	\$ (269,205)	\$ 122,356	
Total, Year Ended December 31, 2008				\$ 23,751

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, 2006, DECEMBER 31, 2007 AND DECEMBER 31, 2008

(IN THOUSANDS)

	2006	2007	2008
Cash flows from operating activities:			
Net (loss) income	\$(53,757)	\$ (31,025)	\$ 26,779
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	58,414	65,638	62,589
Asset impairment			1,592
Amortization of debt discount convertible notes	2,265	1,576	541
Equity-based compensation expense (net of amounts capitalized)	10,509	10,384	17,876
Gains purchases of senior convertible notes			(57,568)
Gains lease restructurings dispositions of assets and other, net	(540)	(2,853)	(138)
Changes in assets and liabilities:			
Accounts receivable	(2,758)	(399)	(1,273)
Prepaid expenses and other current assets	(1,321)	(679)	495
Deposits and other assets	563	1,003	(537)
Accounts payable, accrued liabilities and other long-term liabilities	(8,090)	4,985	3,980
Net cash provided by operating activities	5,285	48,630	54,336
Cash flows from investing activities:			
Purchases of property and equipment	(21,526)	(30,389)	(33,510)
Purchases of intangible assets	(100)		
Maturities (purchases) of short-term investments	1,203	(732)	750
Proceeds from asset sales	945	257	221
Net cash used in investing activities	(19,478)	(30,864)	(32,539)
Cash flows from financing activities:			
Proceeds from issuance of senior convertible notes, net		195,147	
Purchases of senior convertible notes			(48,553)
Repayment of convertible subordinated notes		(10,187)	
Repayment of capital lease obligations	(9,861)	(9,809)	(17,959)
Proceeds from sales of common stock, net	36,479		
Purchases of common stock		(59,949)	(59,273)
Proceeds from exercises of common stock options	427	1,103	147
Net cash provided by (used in) financing activities	27,045	116,305	(125,638)
Effect of exchange rate changes on cash	(93)	308	(1,889)
Net increase (decreases) in cash and cash equivalents	12,759	134,379	(105,730)
Cash and cash equivalents, beginning of year	29,883	42,642	177,021
Cash and cash equivalents, end of year	\$ 42,642	\$ 177,021	\$ 71,291
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 12,235	\$ 9,248	\$ 10,669

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Cash paid for income taxes			1,720
Non-cash financing activities			
Capital lease obligations incurred	2,087	11,498	32,398

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

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006, 2007 and 2008

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

Description of business

Cogent Communications Group, Inc. (the "Company") is a Delaware corporation and is headquartered in Washington, DC. The Company is a facilities-based provider of low-cost, high-speed Internet access and Internet Protocol ("IP") communications services. The Company's network is specifically designed and optimized to transmit data using IP. The Company delivers its services to small and medium-sized businesses, communications service providers and other bandwidth-intensive organizations through approximately 17,800 customer connections in North America and Europe.

The Company offers on-net Internet access services exclusively through its own facilities, which run all the way to its customers' premises. Because of its integrated network architecture, the Company is not dependent on local telephone companies to serve its on-net customers. The Company provides on-net Internet access to certain bandwidth-intensive users such as universities, other Internet service providers, telephone companies, cable television companies and commercial content providers at speeds up to 10 Gigabits per second. These customers generally receive service in colocation facilities and the Company's data centers. The Company also offers Internet access services in multi-tenant office buildings typically serving law firms, financial services firms, advertising and marketing firms and other professional services businesses. The Company operates data centers throughout North America and Europe that allow customers to collocate their equipment and access the Company's network.

In addition to providing on-net services, the Company also provides Internet connectivity to customers that are not located in buildings directly connected to its network. The Company serves these off-net customers using other carriers' facilities to provide the "last mile" portion of the link from its customers' premises to the Company's network. The Company also provides certain non-core services that resulted from acquisitions. The Company continues to support but does not actively sell these non-core services.

Summary of Significant Accounting Policies

Principles of consolidation

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

Use of estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles 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 may differ from these estimates.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

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

Revenue recognition and allowance for doubtful accounts

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

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 no net revenue at the time the customer is billed. The Company vigorously seeks payment of these amounts. The Company recognizes net revenue as these billings are collected in cash.

The Company establishes a valuation allowance for doubtful accounts and other sales credit adjustments. Valuation allowances for sales credits are established through a reduction of 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 by evaluating general factors, such as the length of time individual receivables are past due, historical collection experience, and changes in the credit worthiness of its customers. If circumstances relating to specific customers change or economic conditions change such that the Company's past collection experience and assessment of the economic environment are no longer appropriate, the Company's estimate of the recoverability of its trade receivables could be impacted.

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 and equipment maintenance fees, leased circuit costs, and access fees paid to building owners. The Company estimates its accruals for any disputed leased circuit obligations based upon the nature and age of the dispute. Network operations costs are impacted by the timing and amounts of disputed circuit costs. The Company generally records these disputed amounts when billed by the vendor and reverses these amounts when the vendor credit has been received or the dispute has otherwise been resolved. The Company does not allocate depreciation and amortization expense to its network operations expense.

Foreign currency translation adjustment and comprehensive income (loss)

The consolidated financial statements of Cogent Canada, and Cogent Europe, are translated into U.S. dollars using the period-end foreign currency exchange rates for assets and liabilities and the average foreign currency exchange rates for revenues and expenses. Gains and losses on translation of

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

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

the accounts of the Company's non-U.S. operations are accumulated and reported as a component of other comprehensive income (loss) in stockholders' equity.

Statement of Financial Accounting Standards ("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's only components of "other comprehensive income" are currency translation adjustments for all periods presented.

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 evaluates such designation at each balance sheet date. At December 31, 2007 and 2008, the Company's investments consisted of money market accounts (included in cash equivalents) and certificates of deposit.

At December 31, 2007 and 2008, the carrying amount of cash and cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, accounts payable, and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents (money market funds) at fair value based upon quoted market prices (Level 1 under SFAS No. 157, "Fair Value Measurements"). Based upon the quoted market price at December 31, 2008, the fair value of the Company's \$92.0 million convertible senior notes was approximately \$45.1 million.

Short-term investments

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

The Company was party to letters of credit totaling approximately \$1.6 million as of December 31, 2007 and \$0.9 million as of December 31, 2008. These letters of credit are secured by certificates of deposit and money market funds of approximately \$1.9 million at December 31, 2007 and \$1.2 million as of December 31, 2008, that are restricted and included in short-term investments and other assets.

Credit risk

The Company's assets that are exposed to credit risk consist of its cash and cash equivalents, short-term investments, other assets and accounts receivable. As of December 31, 2007 and 2008, approximately \$171.9 million and \$59.6 million of the Company's cash equivalents were invested in money market funds. The largest amount in an individual fund was \$50.7 million at December 31, 2007 and \$26.1 million at December 31, 2008. 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, Europe and Canada. Receivables from the Company's net centric (wholesale) customers are subject to a higher degree of credit risk than other customers.

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****1. Description of the business and summary of significant accounting policies: (Continued)***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 asset utilization. System infrastructure costs include the capitalized compensation costs of employees directly involved with construction activities and costs incurred by third party contractors. 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. The Company determines the number of renewal option periods, if any, included in the lease term for purposes of amortizing leasehold improvements based upon its assessment at the inception of the lease of the number of option periods that are reasonably assured in accordance with SFAS No. 13 "Accounting for Leases." Expenditures for maintenance and repairs are expensed as incurred.

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	3 to 8 years
Leasehold improvements	Shorter of lease term or useful life
Software	5 years
Owned buildings	40 years
Office and other equipment	3 to 7 years
System infrastructure	5 to 10 years

Long-lived assets

The Company's long-lived assets include property and equipment and identifiable intangible assets. These long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount should be addressed pursuant to 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 management's probability weighted estimate of the future undiscounted cash flows expected to result from the use of the assets. 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 would be 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 as of December 31, 2007 or 2008. 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.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

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

Asset retirement obligations

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

Convertible Senior Notes

The Company evaluated the embedded conversion option of its 1.00% Convertible Senior Notes (the "Notes") in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", EITF Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock" and EITF Issue No. 01-6 "The Meaning of Indexed to a Company's Own Stock." The Company concluded that the embedded conversion option contained within the Notes should not be accounted for separately because the conversion option is indexed to the Company's common stock and would be classified within stockholders' equity, if issued on a standalone basis.

The Company also evaluated the terms of the Notes for a beneficial conversion feature in accordance with EITF No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" and EITF No. 00-27, "Application of Issue 98-5 to Certain Convertible Instruments." The Company concluded that there was no beneficial conversion feature at the commitment date based on the conversion rate of the Notes relative to the commitment date stock price.

Equity-based compensation

The Company follows the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), to record compensation expense for its equity-based compensation. SFAS 123(R) requires that all share-based payments to employees be recognized in the consolidated statements of operations based on their grant date fair values with the expense being recognized over the requisite service period. See Note 8 for additional information.

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.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109." FIN No. 48 requires that management determine whether a tax position is more likely than

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

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

not to be sustained upon examination based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. The Company adopted the provisions of FIN No. 48 on January 1, 2007. As a result of adopting FIN No. 48, the Company did not recognize any previously unrecognized tax positions. The adoption of FIN No. 48 did not have a material effect on the Company's results of operations or financial position. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There was no interest expense or expense associated with penalties recognized during the years ended December 31, 2007 and 2008.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is subject to U.S. federal tax and state tax examinations for years from 2005 to 2008. The Company is subject to tax examinations in its foreign jurisdictions generally for years from 2000 to 2008. Management does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

Basic and diluted net loss per common share

Net (loss) income per share is presented in accordance with the provisions of SFAS No. 128 "Earnings per Share." SFAS No. 128 requires a presentation of basic earnings per share ("EPS") and diluted EPS. Basic EPS excludes dilution for common stock equivalents and is computed by dividing net income or (loss) available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is based on the weighted-average number of shares of common stock outstanding during each period, adjusted for the effect of common stock equivalents, if dilutive.

Shares of restricted stock are included in the computation of basic EPS as they vest and are included in diluted EPS, to the extent they are dilutive, determined using the treasury stock method. As of December 31, 2006 and 2007, 0.4 million and 1.2 million unvested shares of restricted common stock, respectively, are not included in the computation of diluted (loss) income per share, as the effect would be anti-dilutive.

Using the "if-converted" method, the shares issuable upon conversion of the Company's 1.00% Convertible Senior Notes (the "Notes") were anti-dilutive for the years ended December 31, 2007 and 2008. Accordingly, the impact has been excluded from the computation of diluted income or (loss) per share. The Notes are convertible into shares of the Company's common stock at an initial conversion price of \$49.18 per share, yielding 4.1 million common shares, as of December 31, 2007 and 1.9 million shares at December 31, 2008, subject to certain adjustments set forth in the indenture.

The Company computes the dilutive effect of outstanding options using the treasury stock method. For the years ended December 31, 2006, 2007 and 2008 options to purchase 1.2 million, 1.1 million and 0.2 million shares of common stock, respectively, at weighted-average exercise prices of \$2.73, \$5.75 and \$20.30 per share, respectively, are not included in the computation of diluted (loss) per share as the effect would be anti-dilutive.

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****1. Description of the business and summary of significant accounting policies: (Continued)**

The following details the determination of the diluted weighted average shares for the year ended December 31, 2008:

	Year Ended December 31, 2008
Weighted average common shares outstanding basic	44,563,727
Dilutive effect of restricted stock	341,861
Dilutive effect of stock options	717,969
 Weighted average shares diluted	 45,623,557

Recent accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP No. 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" and FSP No. 157-2, "Effective Date of FASB Statement No. 157" as amendments to SFAS 157, which exclude lease transactions from the scope of SFAS 157 and also defers the effective date of the adoption of SFAS 157 for non-financial assets and non-financial liabilities that are nonrecurring. The provisions of SFAS 157 are effective for the fiscal year beginning January 1, 2008, except for certain non-financial assets and liabilities for which the effective date has been deferred to January 1, 2009. The adoption of SFAS 157 and its related pronouncements did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In May 2008, the FASB issued FASB Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including partial cash settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability (debt) and equity (conversion options) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. Upon conversion of the Company's Notes, the Company has the right to deliver shares of its common stock, cash or a combination of cash and shares of its common stock. As a result, the Company's accounting for its Notes will be impacted by the adoption of FSP APB 14-1. The adoption of FSP APB 14-1 will result in a significant increase to the discount on the Company's Notes with a corresponding increase to stockholder's equity. The adoption of FSP APB 14-1 will also result in an increase to the Company's interest expense from the amortization of the increase to the discount on the Company's Notes. The Company will be required to adopt FSP APB 14-1 on January 1, 2009 and will be required to retroactively restate all prior periods since the June 2007 issuance of the Notes. The incremental non-cash interest expense required to be recognized (due to an increase in debt discount) will be material. In addition, the gains recognized on debt extinguishment may change as a result of the adoption of FSP APB 14-1.

In June 2008, the FASB issued EITF No. 07-5, "Determining whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ("EITF 07-5"). EITF 07-5 applies to any

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

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

freestanding financial instrument or embedded feature that has all the characteristics of a derivative, as defined. If an instrument, or an embedded feature, is not considered indexed to the issuer's stock under EITF 07-5, that instrument is not eligible for equity classification and would be classified as an asset or liability and remeasured at fair value through earnings. The Company will be required to adopt EITF 07-5 on January 1, 2009 with the cumulative effect of adoption adjusted to the opening balance of retained earnings. The Company is currently evaluating the impact of adopting EITF 07-5.

2. Property and equipment:

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

	December 31,	
	2007	2008
Owned assets:		
Network equipment	\$ 267,538	\$ 283,872
Leasehold improvements	75,865	82,754
System infrastructure	42,344	46,445
Software	7,867	8,708
Office and other equipment	8,720	8,887
Buildings	1,623	1,564
Land	139	133
	404,096	432,363
Less Accumulated depreciation and amortization	(272,321)	(319,394)
	131,775	112,969
Assets under capital leases:		
IRUs	157,811	185,645
Less Accumulated depreciation and amortization	(44,166)	(54,675)
	113,645	130,970
Property and equipment, net	\$ 245,420	\$ 243,939

Depreciation and amortization expense related to property and equipment and capital leases was \$56.8 million, \$64.5 million and \$62.6 million, for the years ended December 31, 2006, 2007 and 2008, respectively.

Capitalized labor and related costs

The Company capitalizes the compensation cost of employees directly involved with its construction activities. In 2006, 2007 and 2008, the Company capitalized compensation cost of \$2.1 million, \$3.5 million and \$4.1 million respectively. These amounts are included in system infrastructure costs.

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****2. Property and equipment: (Continued)**

During the first quarter of 2008, the Company identified certain immaterial errors in its accounting for IRU capital leases and the related assets and liabilities that affected certain prior periods. The cumulative effect of these errors was corrected in the three months ended March 31, 2008. The net impact of the corrections on the three months ended March 31, 2008 was a \$1.4 million increase in the net loss and a \$1.4 million decrease in net assets. The correction of these errors increased depreciation expense by \$0.4 million, decreased interest expense by \$0.6 million and resulted in an asset impairment charge of \$1.6 million in the three months ended March 31, 2008. The impaired IRU asset was no longer in use and the Company has obtained alternative dark fiber that serves the related facilities and customers. As of December 31, 2008, the Company's balance sheet includes a capital lease liability including accrued interest totaling \$2.5 million related to this IRU as the requirements for the extinguishment of such liability had not been met and payments with the vendor are in dispute. The correction of these errors also increased IRU assets by \$5.7 million and increased capital lease obligations by \$8.1 million as of January 1, 2008. The Company concluded that the impact of these errors was not material to the consolidated financial statements for any prior interim or annual period, nor were they material to the first quarter of 2008 or the year ended December 31, 2008.

3. Accrued and other liabilities:

The Company provides for asset retirement obligations for certain points of presence in its networks. The balance (recorded in other long-term liabilities) was \$1.2 million at December 31, 2007 and 2008. Accrued and other current liabilities as of December 31 consist of the following (in thousands):

	2007	2008
General operating expenditures	\$ 4,976	\$ 5,618
Acquired unused lease obligations	70	
Deferred revenue current portion	1,642	2,675
Payroll and benefits	2,634	2,632
Taxes non-income based	985	850
Interest	2,584	2,981
Total	\$12,891	\$14,756

4. Long-term debt:*Convertible Senior Notes*

In June 2007, the Company issued its 1.00% Convertible Senior Notes (the "Notes") due June 15, 2027, for an aggregate principal amount of \$200.0 million in a private offering for resale to qualified institutional buyers pursuant to SEC Rule 144A. The Notes are unsecured and bear interest at 1.00% per annum. The Notes will rank equally with any future senior debt and senior to any future subordinated debt and will be effectively subordinated to all existing and future liabilities of the Company's subsidiaries and to any secured debt the Company may issue, to the extent of the value of the collateral. Interest is payable in cash semiannually in arrears on June 15 and December 15, of each year, beginning on December 15, 2007. The Company received net proceeds from the issuance of the

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

4. Long-term debt: (Continued)

Notes of approximately \$195.1 million, after deducting the original issue discount of 2.25% and issuance costs. The discount and other issuance costs are being amortized to interest expense using the effective interest method through June 15, 2014, which is the earliest put date.

Conversion Process and Other Terms of the Notes

The Notes are convertible into shares of the Company's common stock at an initial conversion price of \$49.18 per share, or 20.3355 shares for each \$1,000 principal amount of Notes, subject to adjustment for certain events as set forth in the indenture. Depending upon the price of the Company's common stock at the time of conversion, holders of the Notes will receive additional shares of the Company's common stock. Upon conversion of the Notes, the Company will have the right to deliver shares of its common stock, cash or a combination of cash and shares of its common stock. The Notes are convertible (i) during any fiscal quarter after the fiscal quarter ending September 30, 2007, if the closing sale price of the Company's common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price in effect on the last trading day of the immediately preceding fiscal quarter, or (ii) specified corporate transactions occur, or (iii) the trading price of the Notes falls below a certain threshold, or (iv) if the Company calls the Notes for redemption, or (v) on or after April 15, 2027, until maturity. In addition, following specified corporate transactions, the Company will increase the conversion rate for holders who elect to convert notes in connection with such corporate transactions, provided that in no event may the shares issued upon conversion, as a result of adjustment or otherwise, result in the issuance of more than 35.5872 common shares per \$1,000 principal amount. The Notes include an "Irrevocable Election of Settlement" whereby the Company may choose, in its sole discretion, and without the consent of the holders of the Notes, to waive its right to settle the conversion feature in either cash or stock or in any combination at its option. The Notes may be redeemed by the Company at any time after June 20, 2014 at a redemption price of 100% of the principal amount plus accrued interest. Holders of the Notes have the right to require the Company to repurchase for cash all or some of their notes on June 15, 2014, 2017 and 2022 and upon the occurrence of certain designated events at a redemption price of 100% of the principal amount plus accrued interest.

Registration Rights

Under the terms of the Notes, the Company is required to use reasonable efforts to file and maintain a shelf registration statement with the SEC covering the resale of the Notes and the common stock issuable on conversion of the Notes. If the Company fails to meet these terms, the Company will be required to pay special interest on the Notes in the amount of 0.25% for the first 90 days after the occurrence of the failure to meet and 0.50% thereafter. In addition to the special interest, additional interest of 0.25% per annum will accrue in the event of default, as defined in the indenture. The Company filed a shelf registration statement registering the Notes and common stock issuable upon conversion of the Notes in July 2007.

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****4. Long-term debt: (Continued)***Purchases of Notes*

In 2008, the Company purchased \$108.0 million of face value of the Notes for \$48.6 million in cash in a series of transactions. These transactions resulted in a gain of \$57.6 million for the year ended December 31, 2008. After these transactions, there is \$92.0 million of face value of the Notes outstanding.

Convertible Subordinated Notes Allied Riser

The Company's \$10.2 million 7.50% convertible subordinated notes were recorded at their fair value of approximately \$2.9 million in connection with the Allied Riser merger in 2002. The discount was amortized to interest expense through the maturity date. The notes and accrued interest were fully paid on their maturity date in June 2007.

5. Income taxes:

The provision for income taxes relates only to the United States and is comprised of the following (in thousands) on a net basis:

	2008
<i>Current provision</i>	
Federal income tax	\$ 593
State income tax	943
<i>Deferred provision</i>	
Utilization of net operating losses	9,023
Change in valuation allowance	(9,023)
Total income tax provision	\$ 1,536

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

	December 31	
	2007	2008
Net operating loss carry-forwards	\$ 344,145	\$ 330,057
Depreciation	(26,007)	(14,028)
Start-up expenditures	3,160	3,239
Equity-based compensation	6,060	6,128
Alternative minimum tax credit		571
Accrued liabilities and other	77	1,406
Valuation allowance	(327,435)	(327,373)
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. As of December 31, 2008, the Company has combined net operating loss carry-forwards of approximately \$989 million. This

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****5. Income taxes: (Continued)**

amount includes federal and state net operating loss carry-forwards in the United States of approximately \$379 million and net operating loss carry-forwards related to its European operations of approximately \$611 million. Section 382 of the Internal Revenue Code in the United States limits the utilization of net operating losses when ownership changes, as defined by that section, occur. The Company has performed an analysis of its Section 382 ownership changes and has determined that the utilization of certain of its net operating loss carryforwards may be limited. This restricted amount includes the limitation on annual utilization related to the remaining \$183 million of federal and state net operating loss carry-forwards of Allied Riser Communications Corporation that were acquired by the Company via merger in 2002. The net operating loss carryforwards in the United States will expire, if unused, between 2022 and 2027. The net operating loss carry-forwards related to the European operations include \$493 million that do not expire and \$115 million that expire beginning in 2016.

In the normal course of business the Company takes positions on its tax returns that may be challenged by taxing authorities. Although the Company believes it has support for the positions taken on its tax return, the Company has recorded a liability for its best estimate of the probable loss on certain of these transactions. This \$0.5 million liability is included in other long-term liabilities in the accompanying balance sheet as of December 31, 2008. The Company does not expect the final resolution of tax examinations to have a material impact on the Company's financial results.

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

	2006	2007	2008
Federal income tax benefit at statutory rates	34.0%	34.0%	35.0%
State income tax benefit at statutory rates, net of Federal benefit	4.0	4.0	3.9
Impact of foreign operations	(0.6)	(0.8)	(49.3)
Non-deductible expenses	7.5	4.7	13.9
Alternative minimum tax			2.1
Change in valuation allowance	(44.9)	(41.9)	(0.2)
Effective income tax rate		%	% 5.4%

6. Commitments and contingencies:*Capital leases fiber lease agreements*

The Company has entered into lease agreements with several providers for dark fiber primarily under 15 - 20 year IRUs with additional renewal terms. These IRUs connect the Company's international backbone fibers with the multi-tenant office buildings and the customers served by the Company. Once the Company has accepted the related fiber route, leases that meet the criteria for

Table of Contents**COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****DECEMBER 31, 2006, 2007 and 2008****6. Commitments and contingencies: (Continued)**

treatment as capital leases are recorded as a capital lease obligation and an IRU asset. The future minimum payments under these agreements are as follows (in thousands):

For the year ending December 31,	
2009	\$ 16,663
2010	18,989
2011	13,171
2012	13,290
2013	12,876
Thereafter	119,982
Total minimum lease obligations	194,971
Less amounts representing interest	(90,778)
Present value of minimum lease obligations	104,193
Current maturities	(5,940)
Capital lease obligations, net of current maturities	\$ 98,253

Capital lease obligation amendments

Cogent Spain negotiated modifications to certain of its IRU capital lease obligations in 2006. This modification reduced the IRU lease payments and extended the lease term and resulted in a gain of approximately \$0.3 million.

Current and potential litigation

The Company is involved in disputes with certain telephone companies that provide it local circuits or leased optical fibers. The total amount claimed by these vendors is approximately \$2.4 million. The Company does not believe any of these amounts are owed to these providers and intends to vigorously defend its position and believes that it has adequately reserved for any potential liability.

On September 2, 2008, Sprint Communications L. P. (a subsidiary of Sprint-Nextel Corporation) filed suit against the Company in the Circuit court of Fairfax County, Virginia seeking payment for services allegedly provided by Sprint related to the exchange of Internet traffic by Sprint and the Company. Sprint sought \$1.9 million and additional amounts. The lawsuit has been dismissed.

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

In the normal course of business the Company is involved in other legal activities and claims. Because such matters are subject to many uncertainties and the outcomes are not predictable with assurance, the liability related to these legal actions and claims cannot be determined with certainty.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006, 2007 and 2008

6. Commitments and contingencies: (Continued)

Management does not believe that such claims and actions will have a material impact on the Company's financial condition or results of operations.

Operating leases, maintenance and tenant 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 multi-tenant office buildings. The Company pays fees for the maintenance of its leased dark fiber and in certain cases the Company connects its customers to its network under operating lease commitments for fiber. Future minimum annual payments under these arrangements are as follows (in thousands):

For the year ending December 31,	
2009	\$ 37,395
2010	27,652
2011	22,506
2012	18,132
2013	13,655
Thereafter	76,283
	\$ 195,623

Expenses related to these arrangements was \$33.8 million in 2006, \$40.5 million in 2007 and \$44.9 million in 2008. The Company has sublet certain office space and facilities. Future minimum payments under these sub-lease agreements are approximately \$0.1 million, and \$0.1 million, for the years ending December 31, 2009 and December 31, 2010, respectively.

Unconditional purchase obligations

Unconditional purchase obligations for equipment and services totaled approximately \$8.7 million at December 31, 2008 and are expected to be fulfilled within one year. As of December 31, 2008 the Company had committed to additional dark fiber IRU lease agreements totaling approximately \$27.9 million in future payments for fiber lease and maintenance payments to be paid over periods of up to 20 years. These obligations begin when the related fiber is accepted, which is expected to occur in 2009. Future minimum payments under these obligations are approximately, \$6.1 million, \$1.3 million, \$1.3 million, \$1.3 million, and \$1.3 million for the years ending December 31, 2008 to December 31, 2012 and approximately \$16.6 million, thereafter.

Defined contribution plan

The Company sponsors a 401(k) defined contribution plan that, effective in August 2007, provides for a Company match. The Company match for 2007 and 2008 was approximately \$0.1 million and \$0.3 million, respectively and was paid in cash.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

7. Stockholders' equity:

Authorized shares

The Company has 75.0 million of authorized \$0.001 par value common shares and 10,000 authorized but unissued shares of \$0.001 par value preferred stock. The holders of common stock are entitled to one vote per common share and, subject to any rights of any series of preferred stock, dividends may be declared and paid on the common stock when determined by the Company's Board of Directors.

Common Stock Buybacks

In June 2007 the Company used approximately \$50.1 million of the net proceeds from the issuance of its \$200.0 million Convertible Senior Notes to repurchase approximately 1.8 million shares of its common stock. In August 2007, the Company's board of directors approved a \$50.0 million common stock buyback program (the "Buyback Program"). In June 2008, the Company's board of directors approved an additional \$50.0 million of purchases of its common stock under the Buyback Program. The purchases are to occur prior to December 31, 2009. In the years ended December 31, 2007 and 2008, the Company purchased approximately 2.2 million and 4.4 million shares of its common stock, respectively, for approximately \$59.9 million and \$59.3 million, respectively. All purchased common shares were subsequently retired. As of December 31, 2008, there was approximately \$30.8 million remaining under the Buyback Program.

Treasury stock retirement

In September 2006, the Company retired its 61,462 shares of treasury stock. As a result, \$0.1 million of treasury stock was offset against additional paid-in-capital.

Public offering

On June 7, 2006, the Company sold 4.35 million shares of common stock at \$9.00 per share and certain selling shareholders sold 6.0 million shares of common stock at the same price in a public offering. This public offering resulted in net proceeds to the Company, after underwriting, legal, accounting and printing costs of approximately \$36.5 million.

Allied Riser Warrants

In connection with the February 2002 merger with Allied Riser, the Company assumed warrants issued by Allied Riser that convert into approximately 5,200 shares of the Company's common stock. All warrants are exercisable at exercise prices ranging from \$0 to \$230 per share. These warrants were issued in 1999 and 2000 and have terms of ten years. The warrants were valued at the merger date at approximately \$0.8 million using the Black Scholes method of valuation and were recorded as stock purchase warrants in the accompanying balance sheets.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

8. Stock option and award plan:*Incentive Award Plan*

The compensation committee of the board of directors adopted and the stockholders approved, the Company's 2004 Incentive Award Plan, as amended (the "Award Plan"). Stock options granted under the Award Plan generally vest over a four-year period and have a term of ten years. Grants of shares of restricted stock granted under the Award Plan vest over periods ranging from immediate vesting to over a four-year period. Awards with graded vesting terms are recognized on a straight line basis. Certain option and share grants provide for accelerated vesting if there is a change in control, as defined. For grants of restricted stock, when an employee terminates prior to full vesting the employee retains their vested shares and the employees' unvested shares are returned to the plan. For grants of options for common stock, when an employee terminates prior to full vesting the employee may elect to exercise their vested options for a period of ninety days and any unvested options are returned to the plan. Compensation expense for all awards is recognized ratably over the service period. Shares issued to satisfy awards are provided from the Company's authorized shares. As of December 31, 2008, of the 5.8 million authorized shares under the Award Plan there were a total of 233,000 shares available for grant.

The weighted-average per share grant date fair value of options for common stock was \$6.16 in 2006, \$12.27 in 2007 and \$7.20 in 2008. The following assumptions were used for determining the fair value of options granted in the three years ended December 31, 2008:

Black-Scholes Assumptions	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008
Dividend yield	0.0%	0.0%	0.0%
Expected volatility average	58.2%	55.1%	62.1%
Risk-free interest rate average	4.8%	4.5%	2.9%
Expected life of the option term (in years)	5.0	5.9	5.3

Stock option activity under the Company's Award Plan during the period from December 31, 2007 to December 31, 2008, was as follows:

	Number of Options	Weighted- average exercise price
Outstanding at December 31, 2007	1,120,854	\$ 5.75
Granted	123,470	\$ 13.11
Cancelled	(86,139)	\$ 20.18
Exercised intrinsic value \$0.8 million; cash received \$0.1 million	(63,931)	\$ 2.30
Outstanding at December 31, 2008 \$4.1 million intrinsic value and 6.5 years weighted-average remaining contractual term	1,094,254	\$ 5.65
Exercisable at December 31, 2008 \$4.0 million intrinsic value and 5.9 years weighted-average remaining contractual term	873,890	\$ 3.30
Expected to vest \$4.0 million intrinsic value and 6.1 years weighted-average remaining contractual term	938,088	\$ 4.09

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

8. Stock option and award plan: (Continued)

For the years ended December 31, 2006, 2007 and 2008, the Company's employees exercised options for approximately 104,000, 213,000 and 64,000 common shares, respectively. Stock options outstanding and exercisable under the Award Plan by price range at December 31, 2008 were as follows:

Range of Exercise Prices	Number Outstanding 12/31/2008	Weighted Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable As of 12/31/2008	Weighted-Average Exercise Price
\$0.00 to \$0.00 (granted below market value)	580,342	5.69	\$ 0.00	580,342	\$ 0.00
\$4.36 to \$6.00	237,472	6.14	\$ 5.33	194,615	\$ 5.47
\$6.20 to \$25.46	265,228	8.21	\$ 17.29	94,143	\$ 17.82
\$25.65 to \$33.56	11,212	7.51	\$ 29.41	4,790	\$ 29.69
\$0.00 to \$33.56	1,094,254	6.42	\$ 5.65	873,890	\$ 3.30

Compensation expense related to stock options and restricted stock was approximately \$10.5 million, \$10.4 million and \$17.9 million for the years ended December 31, 2006, December 31, 2007 and December 31, 2008, respectively. As of December 31, 2008 there was approximately \$19.4 million of total unrecognized compensation cost related to non-vested equity-based compensation awards. That cost is expected to be recognized over a weighted average period of approximately twenty-eight months.

A summary of the Company's non-vested restricted stock awards as of December 31, 2008 and the changes during the year ended December 31, 2008 is as follows:

Non-vested awards	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2007	1,202,019	\$ 22.64
Granted	715,610	\$ 22.59
Vested	(242,298)	\$ 13.36
Forfeited	(17,594)	\$ 25.46
Non-vested at December 31, 2008	1,657,737	\$ 23.99

The weighted average per share grant date fair value of restricted stock granted to employees was \$18.63 in 2006 (382,500 shares), \$25.08 in 2007 (1,033,404 shares) and \$22.59 in 2008 (715,610 shares). The fair value was determined using the quoted market price of the Company's common stock on the date of grant. The fair value of shares of restricted stock vested in the years ending December 31, 2006, 2007 and 2008 was approximately \$4.1 million, \$4.3 million, and \$3.6 million respectively.

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

9. Related party transactions:*Office lease and equipment purchases*

The Company's headquarters is located in an office building owned by a partnership (6715 Kenilworth Avenue Partnership). The two owners of the partnership are the Company's Chief Executive Officer, who has a 51% interest in the partnership and his wife, who has a 49% interest in the partnership. The Company paid \$0.4 million in 2006, \$0.6 million in 2007 and \$0.6 million in 2008 in rent and related costs (including taxes and utilities) to this partnership under a lease that expires in August 2012. The dollar value of the Company's Chief Executive Officer's interest in the lease payments in 2008 was \$0.3 million. The dollar value of his wife's interest in the lease payment in 2008 was \$0.3 million. If the Company's Chief Executive Officer's interest is combined with that of his wife then the total dollar value of his interest in the lease payments in 2008 was \$0.6 million.

In 2007 and 2008, the Company purchased approximately \$0.2 million and \$0.1 million of equipment from an equipment vendor. One of the Company's directors is also a director of the equipment vendor.

10. Geographic 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 has one operating segment. Below are the Company's net revenues and long lived assets by geographic region (in thousands):

	Years Ended December 31,		
	2006	2007	2008
<i>Service Revenue, net</i>			
North America	\$ 117,475	\$ 144,696	\$ 167,316
Europe	31,596	40,967	48,173
Total	\$ 149,071	\$ 185,663	\$ 215,489

	December 31,	December 31,
	2007	2008
<i>Long lived assets, net</i>		
North America	\$ 198,621	\$ 197,640
Europe	46,964	46,473
Total	\$ 245,585	\$ 244,113

Table of Contents

COGENT COMMUNICATIONS GROUP, INC., AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DECEMBER 31, 2006, 2007 and 2008

11. Quarterly financial information (unaudited):

	March 31, 2007	Three months ended		
		June 30, 2007	September 30, 2007	December 31, 2007
	(in thousands, except share and per share amounts)			
Service revenue, net	\$ 43,621	\$ 45,108	\$ 46,969	\$ 49,965
Network operations, including equity-based compensation expense	21,064	21,502	22,771	22,460
Operating loss	(7,482)	(7,743)	(7,941)	(6,753)
Gains asset sales and lease obligations	13		2,110	82
Net loss	(9,404)	(9,192)	(5,423)	(7,006)
Net loss per common share basic and diluted	(0.19)	(0.19)	(0.12)	(0.15)
Weighted-average number of shares outstanding basic and diluted	48,655,385	48,378,853	47,073,070	46,885,843

	March 31, 2008(1)	Three months ended		
		June 30, 2008	September 30, 2008	December 31, 2008
	(in thousands, except share and per share amounts)			
Service revenue, net	\$ 52,110	\$ 53,859	\$ 54,594	\$ 54,926
Network operations, including equity-based compensation expense	22,043	23,035	24,139	23,838
Operating loss	(8,711)	(3,535)	(5,385)	(4,581)
Gains asset sales, lease obligations and purchases of convertible notes	16	126	9,769	47,835
Net (loss) income	(9,540)	(5,553)	2,073	39,799
Net (loss) income available to common for diluted earnings per share	(9,540)	(5,553)	2,073	40,169
Net (loss) income per common share basic	(0.21)	(0.12)	0.05	0.93
Net (loss) income per common share diluted	(0.21)	(0.12)	0.05	0.88
Weighted-average number of shares outstanding basic	46,265,575	45,397,919	43,593,205	42,799,786
Weighted-average number of shares outstanding diluted	46,265,575	45,397,919	44,276,989	45,823,578

(1)

See Note 2 for discussion of the correction of certain immaterial errors relating to prior periods recorded during the three month period ended March 31, 2008.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), an evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and our principal financial officer, concluded that the design and operation of these disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

**MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

We are responsible for the preparation and integrity of our published financial statements. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts based on judgments and estimates made by our management. We also prepared the other information included in the annual report and are responsible for its accuracy and consistency with the financial statements.

We are responsible for establishing and maintaining a system of internal control over financial reporting, which is intended to provide reasonable assurance to our management and Board of Directors regarding the reliability of our financial statements. The system includes but is not limited to:

a documented organizational structure and division of responsibility;

established policies and procedures, including a code of conduct to foster a strong ethical climate which is communicated throughout the company;

regular reviews of our financial statements by qualified individuals; and

the careful selection, training and development of our people.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Also, the effectiveness of an internal control system may change over time. We have implemented a system of internal control that was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

We have assessed our internal control system in relation to criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon these criteria, we believe that, as of December 31, 2008, our system of internal control over financial reporting was effective.

The independent registered public accounting firm, Ernst & Young LLP, has audited our 2008 financial statements. Ernst & Young LLP was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the Board of Directors and committees of the Board. Ernst & Young LLP has issued an unqualified report on our 2008 financial statements as a result of the audit and also has issued an unqualified report on our internal control over financial reporting which is attached hereto.

Cogent Communications Group, Inc.

March 2, 2009

By: /s/ DAVID SCHAEFFER

David Schaeffer
Chief Executive Officer

/s/ THADDEUS WEED

Thaddeus Weed
Chief Financial Officer

Table of Contents

**Report of Independent Registered Public Accounting Firm
On Internal Control over Financial Reporting**

The Board of Directors and Stockholders of Cogent Communications Group, Inc.

We have audited Cogent Communications Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cogent Communications Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Cogent Communications Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cogent Communications Group, Inc. and subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Cogent Communications Group, Inc. and subsidiaries and our report dated March 2, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, VA
March 2, 2009

Table of Contents

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated in this report by reference to the information set forth under the captions entitled "Election of Directors," "The Board of Directors and Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2009 Proxy Statement for the 2009 Annual Meeting of Stockholders, which is expected to be filed with the Commission within 120 days after the close of our fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated in this report by reference to the information set forth under the captions entitled "The Board of Directors and Committees," "Executive Compensation," "Employment Agreements," "Compensation Committee Report on Executive Compensation," and "Compensation Committee Interlocks and Insider Participation" in the 2009 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is incorporated in this report by reference to the information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2009 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is incorporated in this report by reference to the information set forth under the caption "Certain Transactions" in the 2009 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is incorporated in this report by reference to the information set forth under the caption "Relationship With Independent Public Accountants" in the 2009 Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a)
1. Financial Statements. A list of financial statements included herein is set forth in the Index to Financial Statements appearing in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA."
 2. Financial Statement Schedules. The Financial Statement Schedule described below is filed as part of the report.

Description

Schedule II Valuation and Qualifying Accounts.
All other financial statement schedules are not required under the relevant instructions or are inapplicable and therefore have been omitted.

Table of Contents

(b)

Exhibits

- 2.1 Agreement and Plan of Merger, dated as of January 2, 2004, among Cogent Communications Group, Inc., Lux Merger Sub, Inc. and Symposium Gamma, Inc. (previously filed as Exhibit 2.1 to our Periodic Report on Form 8-K, filed on January 8, 2004, and incorporated herein by reference)
- 2.2 Agreement and Plan of Merger, dated as of March 30, 2004, among Cogent Communications Group, Inc., DE Merger Sub, Inc. and Symposium Omega, Inc. (incorporated by reference to Exhibits 2.6 of our Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 30, 2004)
- 2.3 Agreement and Plan of Merger, dated as of August 12, 2004, among Cogent Communications Group, Inc., Marvin Internet, Inc., and UFO Group, Inc. (previously filed as Exhibit 2.6 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 2.4 Asset Purchase Agreement, dated as of September 15, 2004, between Global Access telecommunications Inc., Symposium Gamma, Inc. and Cogent Communications Group, Inc. (previously filed as Exhibit 2.7 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 2.5 Agreement and Plan of Merger, dated as of October 26, 2004, among Cogent Communications Group, Inc., Cogent Potomac, Inc. and NVA Acquisition, Inc. (previously filed as Exhibit 2.8 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 2.6 Agreement for the Purchase and Sale of Assets, dated December 1, 2004, among Cogent Communications Group, Inc., SFX Acquisition, Inc. and Verio Inc. (previously filed as Exhibit 2.9 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 3.1 Fifth Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 3.2 Amended and Restated Bylaws in effect from September 17, 2007 (previously filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q, filed on November 8, 2007, and incorporated herein by reference)
- 4.1 Indenture related to the Convertible Senior Notes due 2027, dated as June 11, 2007, between Cogent Communications Group, Inc. and Wells Fargo Bank, N.A., as trustee (including form of 1.00% Convertible Senior Notes due 2027) (previously filed as Exhibit 4.1 to our Periodic Report on Form 8-K, filed on June 12, 2007, and incorporated herein by reference)
- 4.2 Form of 1.00% Convertible Senior Notes due 2027 ((previously filed as Exhibit A to the Exhibit 4.1 to our Periodic Report on Form 8-K, filed on June 12, 2007, and incorporated herein by reference)
- 4.3 Registration Rights Agreement, dated as of June 11, 2007, by and among Cogent Communications Group, Inc. and Bear, Stearns & Co. Inc., UBS Securities LLC, RBC Capital Markets Corporation and Cowen and Company, LLC (previously filed as Exhibit 4.3 to our Periodic Report on Form 8-K, filed on June 12, 2007, and incorporated herein by reference)

- 10.1 Seventh Amended and Restated Registration Rights Agreement of Cogent Communications Group, Inc., dated October 26, 2004 (previously filed as Exhibit 10.2 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Table of Contents

- 10.2 Fiber Optic Network Leased Fiber Agreement, dated February 7, 2000, by and between Cogent Communications, Inc. and Metromedia Fiber Network Services, Inc., as amended July 19, 2001 (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-4, Commission File No. 333-71684, filed on October 16, 2001)*
- 10.3 Dark Fiber IRU Agreement, dated April 14, 2000, between WilTel Communications, Inc. and Cogent Communications, Inc., as amended June 27, 2000, December 11, 2000, January 26, 2001, and February 21, 2001 (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-4, Commission File No. 333-71684, filed on October 16, 2001)*
- 10.4 David Schaeffer Employment Agreement with Cogent Communications Group, Inc., dated February 7, 2000 (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form S-4, Commission File No. 333-71684, filed on October 16, 2001)
- 10.5 Form of Restricted Stock Agreement relating to Series H Participating Convertible Preferred Stock (incorporated by reference to Exhibit 10.2 to our Registration Statement on Form S-8, Commission File No. 333-108702, filed on September 11, 2003)
- 10.6 Lease for Headquarters Space by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated September 1, 2000 (incorporated by reference to Exhibit 10.10 to our Registration Statement on Form S-4, Commission File No. 333-71684, filed on October 16, 2001)
- 10.7 Renewal of Lease for Headquarters Space, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated August 5, 2003 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed on November 14, 2003)
- 10.8 The Amended and Restated Cogent Communications Group, Inc. 2000 Equity Plan (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form S-4, Commission File No. 333-71684, filed on October 16, 2001)
- 10.9 2003 Incentive Award Plan of Cogent Communications Group, Inc. (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-8, Commission File No. 333-108702, filed on September 11, 2003)
- 10.10 2004 Incentive Award Plan of Cogent Communications Group, Inc. (as amended and restated through June 20, 2007) (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K, filed on February 27, 2008)
- 10.11 Dark Fiber Lease Agreement dated November 21, 2001, by and between Cogent Communications, Inc. and Qwest Communications Corporation (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form S-4, as amended by a Form S-4/A (Amendment No. 2), Commission File No. 333-71684, filed on December 7, 2001)
- 10.12 Robert N. Beury, Jr. Employment Agreement with Cogent Communications Group, Inc., dated June 15, 2000 (incorporated by reference to Exhibit 10.20 to our Annual Report on Form 10-K, filed on March 31, 2003)
- 10.13 Mark Schleifer Employment Agreement with Cogent Communications Group, Inc., dated September 18, 2000 (incorporated by reference to Exhibit 10.21 to our Annual Report on Form 10-K, filed on March 31, 2003)
- 10.14 R. Reed Harrison Employment Agreement with Cogent Communications Group, Inc., dated July 1, 2004 (incorporated by reference to Exhibit 10.3 to our Quarterly Report on

Edgar Filing: COGENT COMMUNICATIONS GROUP INC - Form 10-K

Table of Contents

- 10.15 Brad Kummer Employment Agreement with Cogent Communications Group, Inc., dated January 11, 2000, (incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1, Commission File No. 333-122821, filed on February 14, 2005)
- 10.16 Extension of Lease for Headquarters Space, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated February 3, 2005 (previously filed as Exhibit 10.27 to our Annual Report on Form 10-K, filed on March 31, 2005, and incorporated herein by reference)
- 10.17 Notice of Grant, dated November 4, 2005, made to David Schaeffer (previously filed as Exhibit 10.1 to our Periodic Report on Form 8-K, filed on November 7, 2005, and incorporated herein by reference)
- 10.18 Extension of Lease for Headquarters Space to August 31, 2006, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated July 21, 2005 (previously filed as Exhibit 10.1 to our Quarterly Report on Form 10-K, filed on August 15, 2005, and incorporated herein by reference)
- 10.19 Option for extension of Lease for Headquarters Space to August 31, 2007, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated July 21, 2005 (previously filed as Exhibit 10.2 to our Quarterly Report on Form 10-K, filed on August 15, 2005, and incorporated herein by reference)
- 10.20 Extension of Lease for headquarters space to August 31, 2010, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated June 20, 2006 (previously filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed on August 8, 2006, and incorporated herein by reference)
- 10.21 Jeffery S. Karnes Employment Agreement with Cogent Communications Group, Inc., dated May 17, 2004 (previously filed as Exhibit 10.25 to our Annual Report on Form 10-K, filed on March 14, 2007, and incorporated herein by reference)
- 10.22 David Schaeffer Amendment No. 2 to Employment Agreement with Cogent Communications Group, Inc., dated as of March 12, 2007 (previously filed as Exhibit 10.26 to our Annual Report on Form 10-K, filed on March 14, 2007, and incorporated herein by reference)
- 10.23 Robert N. Beury, Jr. Employment Agreement with Cogent Communications Group, Inc., dated as of March 12, 2007 (previously filed as Exhibit 10.27 to our Annual Report on Form 10-K, filed on March 14, 2007, and incorporated herein by reference)
- 10.24 Thaddeus G. Weed Employment Agreements, dated September 25, 2003 through October 26, 2006 (previously filed as Exhibit 10.28 to our Annual Report on Form 10-K, filed on March 14, 2007, and incorporated herein by reference)
- 10.25 Amendment No. 3 to Employment Agreement of Dave Schaeffer, dated as of August 7, 2007 (previously filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed on August 8, 2007, and incorporated herein by reference)
- 10.26 Form of Restricted Stock Agreement made to Vice Presidents and certain other employees on January 1, 2008) (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K, filed on February 27, 2008)
- 10.27 Form of Restricted Stock Agreement made to Mr. Schaeffer on January 1, 2008) (incorporated by reference to Exhibit 10.27 to our Annual Report on Form 10-K, filed on February 27, 2008)

Table of Contents

- 10.28 Extension of Lease for headquarters space to August 31, 2012 and addition of 3rd floor office space, by and between 6715 Kenilworth Avenue Partnership and Cogent Communications Group, Inc., dated as of August 7, 2008 (previously filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed on August 8, 2008, and incorporated herein by reference)
 - 21.1 Subsidiaries (filed herewith)
 - 23.1 Consent of Ernst & Young LLP (filed herewith)
 - 31.1 Certification of Chief Executive Officer (filed herewith)
 - 31.2 Certification of Chief Financial Officer (filed herewith)
 - 32.1 Certification of Chief Executive Officer (filed herewith)
 - 32.2 Certification of Chief Financial Officer (filed herewith)
-

* Confidential treatment requested and obtained as to certain portions. Portions have been omitted pursuant to this request where indicated by an asterisk.

Table of Contents

Schedule II

COGENT COMMUNICATIONS GROUP, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses(a)	Deductions	Balance at End of Period
<i>Allowance for doubtful accounts (deducted from accounts receivable)</i>				
Year ended December 31, 2006	\$ 1,437	\$ 3,410	\$ 3,614	\$ 1,233
Year ended December 31, 2007	\$ 1,233	\$ 2,705	\$ 2,779	\$ 1,159
Year ended December 31, 2008	\$ 1,159	\$ 5,677	\$ 4,922	\$ 1,914
<i>Allowance for Unfulfilled Customer Purchase Obligations (deducted from accounts receivable)</i>				
Year ended December 31, 2006	\$ 405	\$ 1,585	\$ 1,406	\$ 584
Year ended December 31, 2007	\$ 584	\$ 2,134	\$ 1,611	\$ 1,107
Year ended December 31, 2008	\$ 1,107	\$ 24,481	\$ 24,257	\$ 1,331
<i>Lease restructuring accrual</i>				
Year ended December 31, 2006	\$ 1,552	\$ 114	\$ 1,273	\$ 393
Year ended December 31, 2007	\$ 393	\$ 7	\$ 400	\$

- (a) Bad debt expense, net of recoveries, was approximately \$2.6 million for the year ended December 31, 2006, \$2.0 million for the year ended December 31, 2007 and \$4.6 million for the year ended December 31, 2008.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGENT COMMUNICATIONS GROUP, INC.

Dated: March 2, 2009

By: /s/ DAVID SCHAEFFER

Name: David Schaeffer
Title: *Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ DAVID SCHAEFFER</u> David Schaeffer	Chairman and Chief Executive Officer (Principal Executive Officer)	March 2, 2009
<u>/s/ THADDEUS G. WEED</u> Thaddeus G. Weed	Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2009
<u>/s/ EREL MARGALIT</u> Erel Margalit	Director	March 2, 2009
<u>/s/ TIMOTHY WEINGARTEN</u> Timothy Weingarten	Director	March 2, 2009
<u>/s/ STEVEN BROOKS</u> Steven Brooks	Director	March 2, 2009
<u>/s/ RICHARD T. LIEBHABER</u> Richard T. Liebhaber	Director	March 2, 2009
<u>/s/ DAVID BLAKE BATH</u> David Blake Bath	Director	March 2, 2009
<u>/s/ LEWIS H. FERGUSON III</u> Lewis H. Ferguson III	Director	March 2, 2009